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2008 DEALS OF THE YEAR

MEDIA DEAL OF THE YEAR

Big News

The merger of Thomson and Reuters created a financial-news powerhouse, but didn't come without obstacles

BY TOM GRANAHAN

Throughout history there have been many notable marriages. **Exxon** and **Mobil**. **Pfizer** and **Warner Lambert**. **AOL** and **Time Warner**. Brad and Angelina.

But few combinations have had the impact within their universe as **Thomson** and **Reuters**, who got together last April in a $17 billion deal that rattled the media space. The deal was orchestrated with the help of **Perella Weinberg Partners** and **Morgan Stanley**, among others.

It was a merger that, as some of the bankers on the deal say, had long been thought of but one that required many stars to align, not necessarily surprising when you're attempting to create the world's largest financial-news organization. But once concerns over timing, valuation, "social issues" such as succession, and a few other things came together, it was almost a no-brainer.

"It was a great fit product-wise and from a geographic standpoint, and both sides could argue in their boardrooms that it was necessary to compete in an increasingly challenging landscape," said one of the bankers involved.

Terms of the deal called for Reuters holders to be paid $6.99 in cash and 0.16 share of the combined entity. Of course, any transaction of this magnitude was going to bring with it complications, but joining these two behemoths carried extra hurdles in addition to just sheer size. One of those issues was the makeup of Thomson, which had been cobbled together since its founding by **Roy Thomson** in 1934.

"It was a very complicated deal," said the banker, who did not want to be identified. "Thomson Financial was the result of a whole slew of acquisitions and the technological integration of Reuters was one area that concerned some folks."

There was also no shortage of regulatory issues to contend with. Some officials were worried that the combined company would wield too much power over the lucrative financial-data industry which, with the glaring exception of **Bloomberg**, is made up of a patchwork of smaller players. In the end, however, both the US Department of Justice and the European Commission gave the green light to the deal, with only minor divestitures.

Then there was the issue of the Reuters Trust, which stated that "Reuters shall at no time pass into the hands of any one interest, group or faction." When the provision was waived in order to allow the Thomson deal to go through, journalists at the company were up in arms, worried that the nearly-160-year-old news organization was going to be able to maintain its high standards, integrity and freedom.

But business realities trumped those concerns. **Pehr Gyllenhammar**, at the time the chairman of the Reuters Founders Share Company, said the rule was waived as a result of the difficult financial situation Reuters was in. "The future of Reuters takes precedence over the principles. If Reuters were not strong enough to continue on its own, the principles would have no meaning."

Finally, there was the matter of Thomson feeling more comfortable with the financing of the deal. According to bankers who worked on the deal, it was the company's success unloading Thomson Learning that may have cinched the Reuters buy.

"It was the sale of Thomson Learning that really took what were lukewarm conversations at the time to white-hot conversations, because the proceeds were probably a billion-dollars-plus in excess of what Thomson was expecting," said the banker. Indeed, the $8 billion sale of Thomson Learning to **Apax Partners** and **Omers Capital Partners** was essentially the equivalent of what Thomson would have to shell out on the cash side of its bid for Reuters. With those extra funds, the creation of the mammoth news and data company was essentially a done deal.

Of course, whether the deal will ultimately bring the synergies hoped for is still up in the air. At the time the merger was announced, the companies were eyeing $500 million in cost savings over a three-year period, some of which has already come to fruition. "Management at both companies feels the cost cutting has been easier to achieve than they thought, but by their own admission they also concede it's been the easier stuff that's been cut," said the banker. Interestingly, he points out that in a perverse way, the market turmoil over the past year has actually made some of the integration easier.

As one executive involved in a separate integration told that same banker, "it's a lot harder to change the tires when the car is going 60 miles per hour than when it's stopped."

thomas.granahan@sourcemedia.com