

## Focus Stock Report

August 31, 2007

# The Thomson Corporation

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### COMPANY DESCRIPTION

Headquartered in Stamford, Connecticut, with operations in 37 countries, **the Thomson Corporation (Thomson)** is a global leader in providing electronic workflow solutions to information intensive knowledge workers. Thomson provides value-added information with software tools and applications that assist users to make better decisions faster. The company serves professionals in the fields of law, tax, accounting, financial services, scientific research and healthcare.

Thomson is organized into five business units: **North American Legal, Financial, Scientific, International Legal & Regulatory, Tax & Accounting, and Healthcare.** Thomson derives approximately 80% of its total revenues from electronic products, software and services; and 82% of total revenues are derived from subscription-based products and services (prior to the disposition of the Learning business).

#### Thomson (excluding Reuters) Operation Details

Division	% of 2006 Revenues	Markets	Major Brands
Legal	46%	Legal, intellectual property, professional & government.	Westlaw, FindLaw, Elite, Carswell, Sweet & Maxwell
Financial	30%	Financial professionals, investment bankers, stock brokers, portfolio managers & corporate officers.	Thomson One, Aut Ex, TradeWeb, Datastream, StreetEvents.
Tax & Accounting	9%	Tax, accounting, compliance, professional & government.	RIA, PPC, Fast-Tax, Creative Solutions, Checkpoint.
Scientific	9%	Researchers, scientists, professional, academic & government.	Thomson Pharma, ISI Web of Knowledge, Delphion.
Healthcare	6%	Researchers, Healthcare professional, academic & government.	Micromedex, Medstat, PDR, Solucient.

Source: Company reports.

#### The Thomson Corporation (TOC-TSX & NYSE)

Rating: 1-Sector Outperform

Risk: Low

#### Summary Data

<b>US\$</b>		
Price (August 28/2007):	\$40.85	Fiscal Year-End: December
12-Month Target:	\$52.00	Dividend: \$0.98
24-Month Target:	\$59.00	Yield: 2.4%
Total Return:	29.7%	52-Week Low: \$38.45
52-Week High:	\$44.15	Market Value (\$mil) \$34,726.6

#### Financial Analysis (Per Share)

Annual	2004A	2005A	2006A	2007E	2008E
Earnings	\$1.23	\$1.43	\$1.43	\$1.78	\$2.26
Price/Earnings	33.2x	28.6x	28.6x	22.9x	18.1x
Cash Flow	\$2.55	\$2.90	\$3.37	\$2.88	\$3.63
Price/Cash Flow	16.0x	14.1x	12.1x	14.2x	11.3x

#### Other Statistics

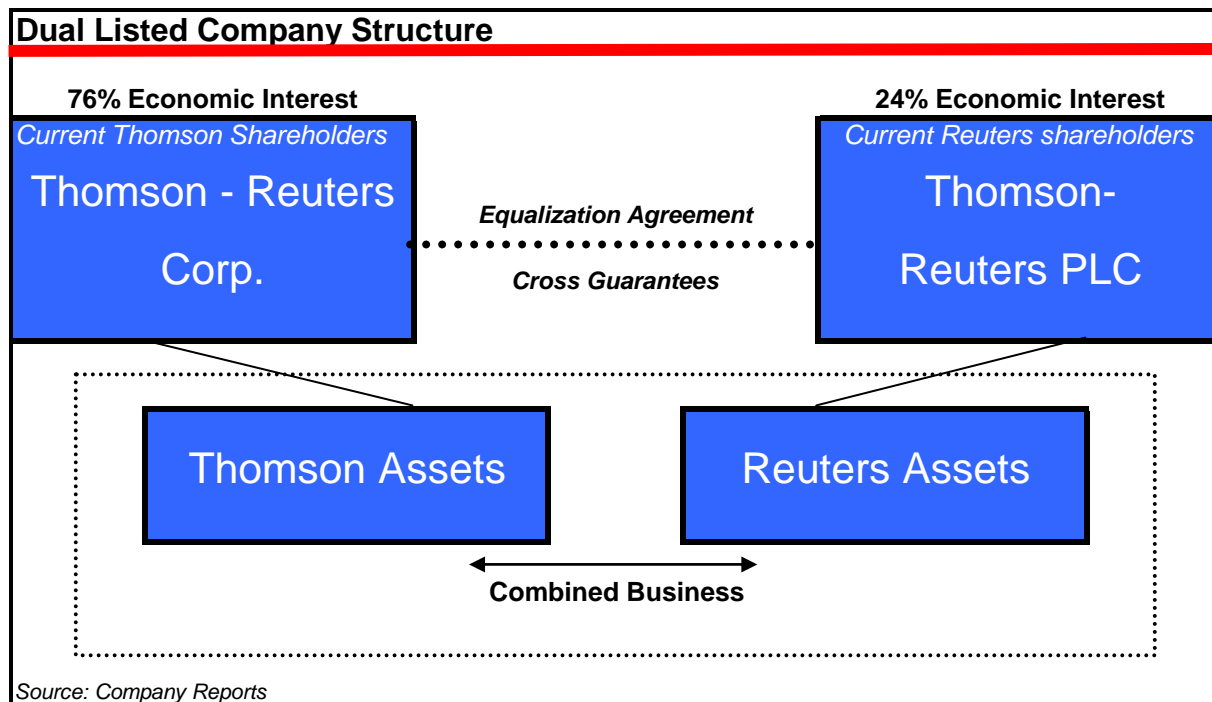
Dividends	\$0.76	\$0.79	\$0.90	\$0.98	\$0.99
Dividend Payout	61.8%	55.2%	62.9%	55.1%	43.8%

## TRANSACTION WITH REUTERS

**Reuters Group PLC (Reuters)** will be acquired by a newly formed UK holding company, **Thomson-Reuters PLC**, in which each Reuter share will be entitled to 352.5 pence cash and 0.16 Thomson-Reuters PLC shares. Each Thomson-Reuters PLC share will be equivalent to one Thomson-Reuters Corporation share. Based on the closing Thomson share price of C\$48.46 on the Toronto Stock Exchange on Thursday May 3, 2007, the day before the initial announcement by Reuters (and at an exchange rate £1: C\$2.19795), this would value each share at approximately 705 pence. The transaction is expected to close sometime during the last quarter of 2007 and the first quarter of 2008.

Based on current issued share capital, 201 million shares in Thomson-Reuters PLC will be issued to Reuters shareholders in the transaction upon completion. Woodbridge (Woodbridge is the Thomson family holding company which currently controls approximately 70% of Thomson) will own approximately 53% of the combined business, other Thomson shareholders will own approximately 23% and Reuters shareholders approximately 24%.

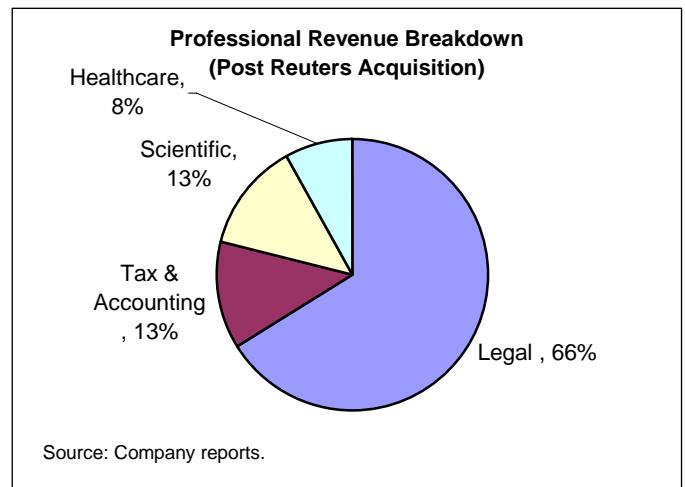
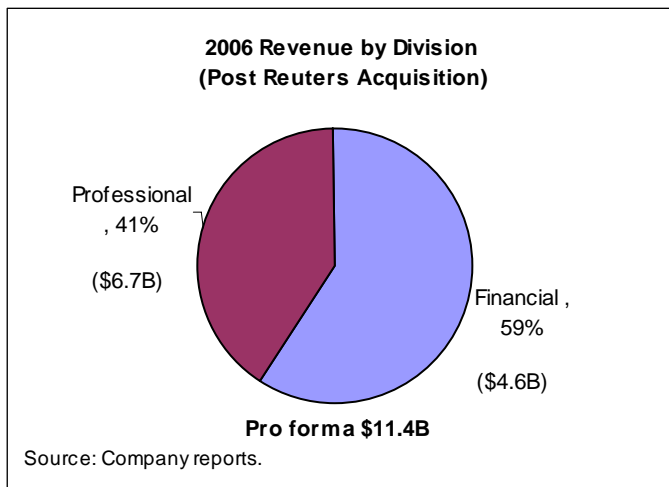
The combination will be achieved through a dual listed company structure. The companies will be separate legal entities but will be managed and operated as if they were a single economic enterprise. The boards of the two companies will be identical and the combined business will be managed by a single senior executive management team. **Thomson will be renamed Thomson-Reuters Corporation.**



## REASONS TO BUY

### Acquisition of Reuters is positive

The acquisition of Reuters creates a global leader in electronic information services, trading systems and news for professionals in knowledge based industries.



- Strong market position.**

Following the Reuters transaction, Thomson's scale and competitive positioning in the financial services segment improves as the company's market share in the segment will increase to approximately 21% from 9% and it will closely edge Bloomberg for the lead. This new scale in financial data is positive considering geography is not a barrier to value and/or exportability. Further, globalization of the financial markets continues to stimulate demand for global market data. It is anticipated that Thomson-Reuters will start with a strong market position, a commanding lead in workstations, a compelling and competitive content offering, and substantial headroom on pricing since Bloomberg is the only other major competitor for primary workstations.

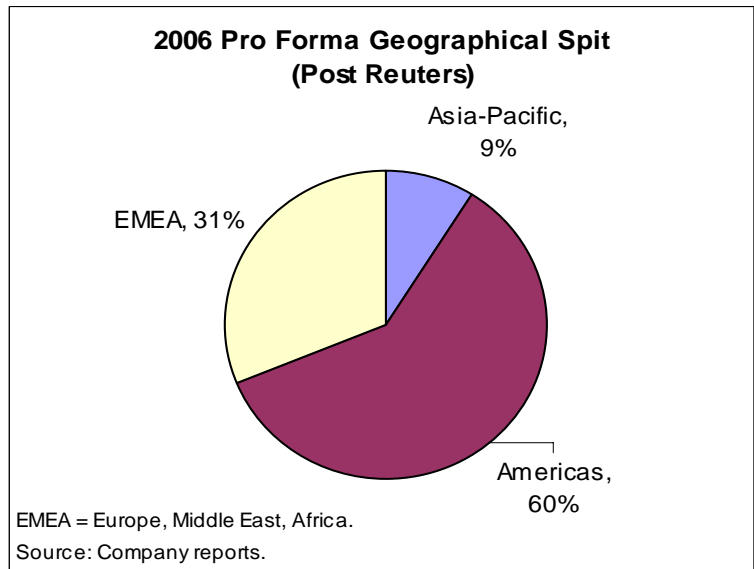
### Complementary Portfolio Strengths

	Reuters	Thomson
<b>Geography</b>	Europe & Asia	North America
<b>Customer</b>	Sell side	Buy side/corporate
<b>Content</b>	News/real time	Historical/analytical data
<b>Electronic Trading</b>	FX/Cross-asset	Fixed income
<b>Enterprise Platforms</b>	Trading rooms Risk management	Portfolio management Equity settlement

Source: Company reports.

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- Complementary operations.** From both a geographic and strategic view point, the combination of Thomson and Reuters is complementary. Geographically, the Americas (83%) represented the largest region of Thomson's 2006 consolidated revenue, followed by Europe (14%) and Asian Pacific (3%). In comparison, Europe, Middle East, and Africa, in combination, represent Reuters' largest geographical region (54% of 2006 revenues), followed by Americas (28%) and Asia (18%).
- Large deliverable Synergies.** Following the combination, synergies at an annual run rate in excess of \$500 million are expected by the end of the third year after closing. Synergies are expected to be derived from efficiencies and rationalization of shared technology platforms, distribution, third party content, and corporate services.



- Strong cash flows and balance sheet strength.** Thomson has been exceeding Scotia Capital's expectations and transforming itself into an exceptional free cash flow generator. Pro forma for the Reuters acquisition, 2008 combined sales will be US\$13.4 billion with 18-20% of each dollar of sales potentially converted to free cash flow. Assuming global financial markets growth remains strong through the balance of the decade, Scotia Capital believes that the Reuters transaction will only accentuate Thomson's free cash flow story. Further, despite paying cash for half of the Reuters transaction, Thomson is expected to maintain a relatively healthy balance sheet.

<b>Financial Highlights</b>			
	<u>Thomson</u>	<u>Reuters</u>	<u>Thomson-Reuters</u>
<b>2006 Pro Forma Key Metrics</b>			
<b>Market Capitalization</b>	\$26.9B	\$17.2B	\$35.0B
<b>Net Debt</b>	(\$2.5B)	\$0.7B	\$7.3B
<b>Net Debt/2006 EBITDA</b>	(1.3x)	0.8x	2.6x
<b>2006 Free Cash Flow</b>	\$1,081M	\$414M	\$1,495M
<b>2006 Pro Forma Financial Overview</b>			
<b>Revenues</b>	\$6,622M	\$4,721M	\$11,343M
<b>EBITDA Margin</b>	29.20%	18.30%	24.70%
<b>EBITA Margin</b>	22.60%	13.70%	18.90%

Source: Company reports.

### Thomson successfully disposes its weakest division

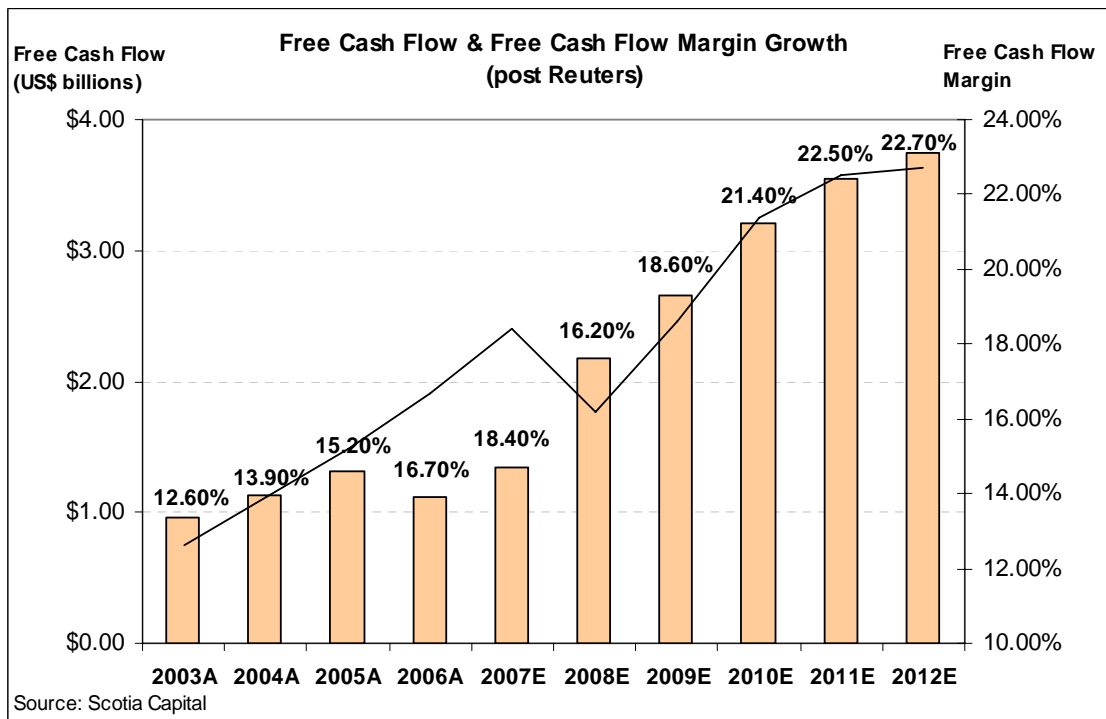
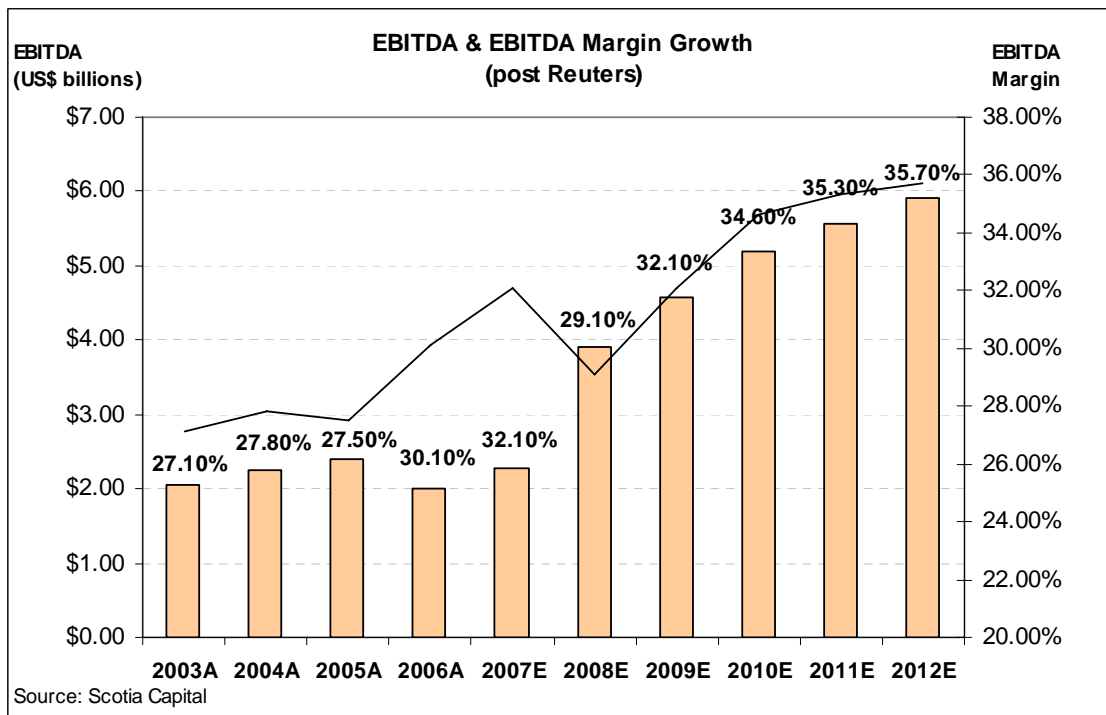
As part of an organizational realignment announced in October 2006, Thomson announced its intention to divest the entirety of its Thomson Learning business, including those businesses serving the higher education, careers, library reference, and corporate e-learning and e-testing markets. On May 11, 2007, Thomson announced that it has agreed to sell Thomson Learning for US\$7.75 billion in cash to Apax Partners, a London-based buyout firm, and the Ontario Municipal Employees Retirement System. The sale was completed on July 5, 2007. The sale price which is significantly higher than analysts' expectation is expected to fund almost the entire planned cash portion of the Reuters transaction. Specifically, Thomson's Learning assets were probably characterized internally and externally as the company's worst acquisitions in terms of value creation and free cash flow growth, and the proceeds have been redeployed faster than the market expected. The removal of this lower margin business improves corporate margins overall.

### Even without Reuters, we like Thomson

**Defensive and predictable.** Thomson's operations, excluding Reuters, are defensive in nature. However, as discussed below in the risk section, with the growth of the financial division following the transaction, operations will become more cyclical. The company also enjoys a predictable subscription-based revenue model, considering roughly 82% of total revenues are derived from subscription-based products and services.

**Thomson the free cash flow machine.** Thomson is a tremendous free cash flow growth story that will potentially support further dividend growth. EBITDA and free cash flow margins are forecasted to grow significantly through the end of the decade. Specially, Thomson's EBITDA margin is far superior than its peer group. Thomson's EBITDA margin for fiscal year 2007 is estimated to come in at 31.2% vs. 24.6% for its peers; and 29.1% vs. 24.9% for fiscal 2008. Additionally, the company recently raised its dividend by 11% (effective Q1/07) to US\$0.98 per share, and the stock now provides investors with an attractive 2.5% dividend yield.

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### RISKS

#### Anti-trust hurdles

The Thomson Reuters transaction is subject to anti-trust approval. However, both companies are confident in securing approval. According to Scotia Capital analyst Andrew Mitchell, Thomson can make the argument that a Thomson-Reuters combination would not have a dominate share in any one market with their largest combined market position being a 31% share of the investment banking market. However, it is also possible that the European Union may consider the risk that the combination creates a Bloomberg-Reuters duopoly with significant scale, breadth, and in turn, pricing power over their nearest competitors.

#### Rising cyclical and foreign exposure

Following the Reuters transaction, Financial will be the largest division, representing 59% of 2006 revenues on a pro forma basis, which acts to increase cyclical exposure. Accordingly, the company may be adversely affected during times of economic downturn and prolonged weakness of capital markets. Further, the transaction causes Thomson to enter new foreign markets, which increases the company's exposure to currency movements.

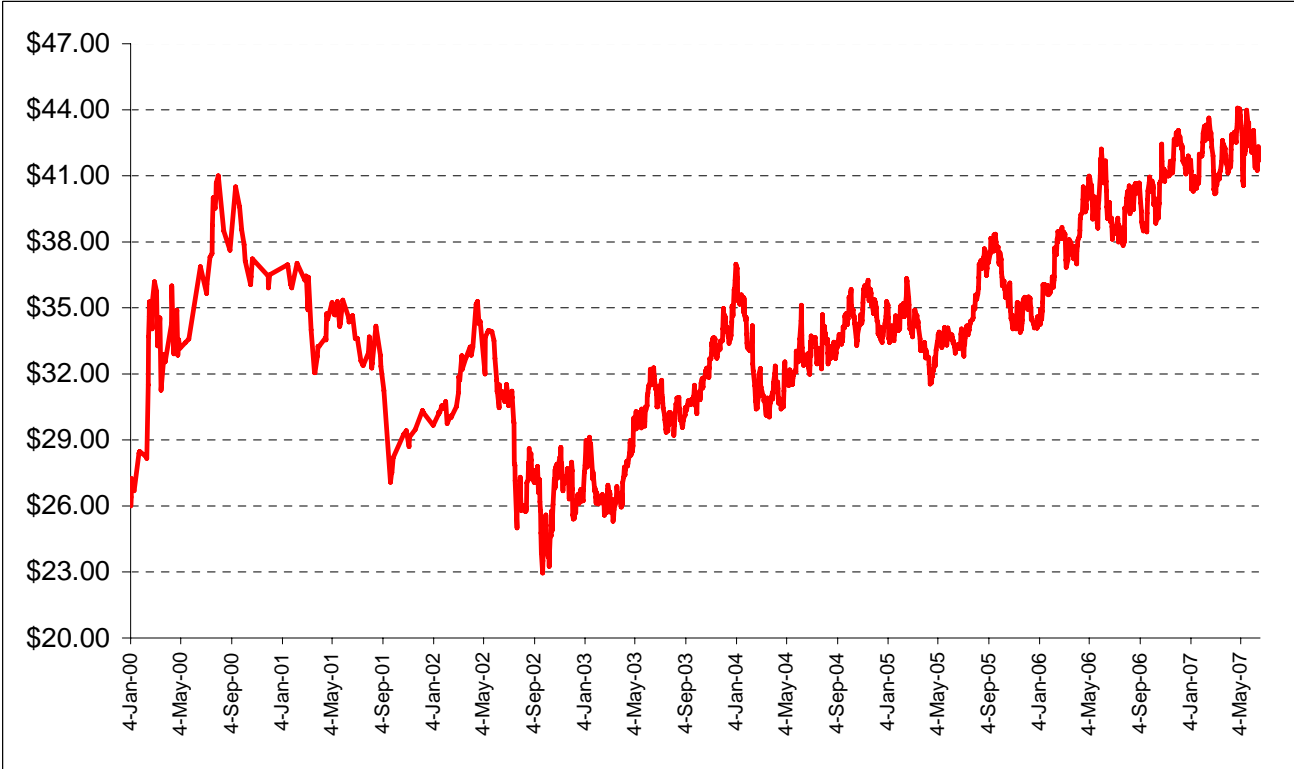
#### Possibility of near-term softness in financial results and stock performance

The Reuters acquisition could potentially act as a drag on near-term results considering heavy integration costs. Following the transaction, Thomson will probably spend much of 2008 on integrating operations, which may adversely impact financial results and share price performance. The risk/reward scenario very appealing for investors that are willing to opportunistically position themselves for an attractive 2008/2009 play.

### RECENT WEAKNESS IN TSX LISTED SHARES DUE TO FOREIGN EXCHANGE

Thomson is a global company that is headquartered in the U.S., and its earnings are primarily denominated in U.S. dollar. In fact, prior to the Reuters deal, substantially less than 10% of revenue & profits were earned in Canadian dollars. This is especially important to underscore in a climate of upward volatility on the Canadian dollar. As a result, the primary reason Thomson has been an underperformer on the TSX is due to the strengthening Canadian dollar and the fact that the company's earnings are in U.S. dollar.

### The Thomson Corporation Price Chart (US\$)



Source: Bloomberg.

## Focus Stock Report

### Definition of Scotia Capital Equity Research Ratings & Risk Rankings

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

#### Ratings

##### 1-Sector Outperform

The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

##### 2-Sector Perform

The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

##### 3-Sector Underperform

The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

#### Other Ratings

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

#### Risk Rankings

##### Low

Low financial and operational risk, high predictability of financial results, low stock volatility.

##### Medium

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

##### High

High financial and/or operational risk, low predictability of financial results, high stock volatility.

##### Caution Warranted

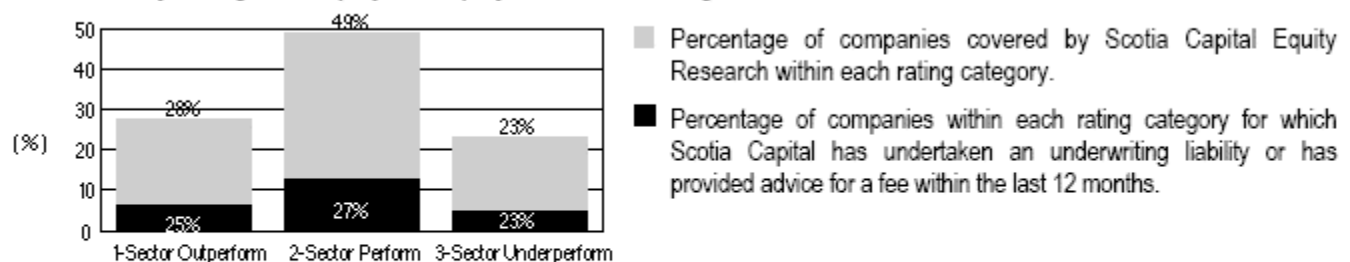
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

##### Venture

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

### Scotia Capital Equity Research Ratings Distribution\*

#### Distribution by Ratings and Equity and Equity-Related Financings\*



\*As at January 31, 2007.

Source: Scotia Capital.

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None.

The supervisors of the Portfolio Advisory Group own securities of the following companies.  
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