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CORPORATE PARTICIPANTS

David Wong *Thomson Reuters Corporation - Chief Product Officer*

Gary Elftman Bisbee *Thomson Reuters Corporation - Head of IR*

Michael Eastwood *Thomson Reuters Corporation - CFO*

Stephen John Hasker *Thomson Reuters Corporation - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Aravinda Suranimala Galappatthige *Canaccord Genuity Corp., Research Division - MD*

Drew McReynolds *RBC Capital Markets, Research Division - MD of Canadian Telecommunications & Media Research and Analyst*

Heather Nicole Balsky *BofA Securities, Research Division - VP*

Keen Fai Tong *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Kevin Damien McVeigh *Crédit Suisse AG, Research Division - MD*

Maher Yaghi *Scotiabank Global Banking and Markets, Research Division - Analyst*

Manav Shiv Patnaik *Barclays Bank PLC, Research Division - MD, Business & Information Services Equity Research Analyst.*

Scott Fletcher *CIBC Capital Markets, Research Division - Research Analyst*

Stephanie L. Yee *JPMorgan Chase & Co, Research Division - Analyst*

Toni Michele Kaplan *Morgan Stanley, Research Division - Senior Analyst*

Vince Valentini *TD Securities Equity Research - Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Thomson Reuters Second Quarter Earnings Conference Call. Today's conference is being recorded. (Operator Instructions)

To get us started with opening remarks and introductions, I am pleased to turn the floor to Head of Investor Relations, Mr. Gary Bisbee. Please go ahead, sir.

Gary Elftman Bisbee - *Thomson Reuters Corporation - Head of IR*

Thank you, Jim. Good morning, everyone, and thank you for joining us today for our second quarter 2023 earnings call. I'm joined today by our CEO, Steve Hasker; and CFO, Mike Eastwood, each of whom will discuss our results and take your questions following their remarks. David Wong, our Chief Product Officer, is also available for the Q&A. (Operator Instructions)

Throughout today's presentation, when we compare performance period-on-period, we discuss revenue growth before currency as well as on an organic basis. We believe this provides the best basis to measure the underlying performance of the business.

Today's presentation contains forward-looking statements and non-IFRS financial measures. Actual results may differ materially due to a number of risks and uncertainties discussed in reports and filings that we provide to regulatory agencies. You may access these documents on our website or by contacting our Investor Relations department.

Let me now hand it over to Steve Hasker.

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Thank you, Gary, and thanks to all of you for joining us today. I'll start by reviewing our Q2 highlights. Solid momentum continued in the second quarter with revenue largely in line and margins ahead of our expectations, although the latter was driven primarily by expense timing. Total company organic revenues grew 5%, driven by 6% recurring revenue growth. The Big 3 segments grew 7% organically.

Amid an uncertain macro backdrop, we continue to see good momentum from many areas in our business. Westlaw Precision's strong start continues with more than 2,000 sales to date. And it contributed to Legal Professionals' organic revenue growth, returning to 6% in the quarter. The SurePrep acquisition is going extremely well. Our international businesses again all grew by better than 10%. And many of our key products remain double-digit growers, including Practical Law, Confirmation and HighQ.

These areas of strength are tempered somewhat by the impact of tighter customary -- customer discretionary budgets in a few pockets of our business. For example, the sales cycle lengthening we have mentioned in recent quarters has led to a modest slowdown in revenue growth at our Corporates segment. And growth in the events business and digital advertising revenue at Reuters News have softened. All in, we are largely maintaining our full year 2023 outlook, including for organic revenue growth, adjusted EBITDA margins and free cash flow. Mike will discuss several tweaks to other guidance items in a few minutes.

Looking forward, our confidence around the generative AI opportunity continues to strengthen. We made good progress against our build, partner, buy approach in the second quarter with organic builds progressing and announcements of both an intelligent drafting solution with Microsoft and our intention to acquire Casetext. Since discussing AI on our Q1 call, our conviction around our opportunity to leverage generative AI has strengthened. As a result, we're accelerating our investment in the short term as we work to leverage these exciting capabilities for the benefit of our professional markets.

Our capital capacity and liquidity remain a key asset that we are focused on deploying to create shareholder value. And we made good progress on this during the second quarter. In addition to announcing our intention to acquire Casetext, we monetized an additional $1.6 billion of our LSEG stake in May; completed the sale of a majority stake in Elite; and executed the previously announced $2 billion return of capital and concurrent share consolidation, which reduced our share count by approximately 3.5%. We remain committed to a balanced capital allocation approach and continue to assess additional inorganic opportunities.

Now to the results for the quarter. Second quarter organic revenues grew 5%. Organic recurring and transactional revenue both grew 6% while print revenue declined modestly. Reported revenue grew 2% with currency having little impact and net divestitures, a 3% drag. Adjusted EBITDA increased 18% to $662 million, reflecting a 540 basis point margin improvement to 40%, benefiting in part from expense timing that will normalize in the second half. Mike will discuss this in more detail. Adjusted earnings per share grew 40% from the prior year period to $0.84.

Turning to the second quarter results by segment. The Big 3 businesses achieved organic revenue growth of 7%. Legal organic revenue growth returned to 6%, driven by continued Westlaw Precision momentum and the Elite divestiture. Demand for our key offerings remains healthy, led by Westlaw, Practical Law and HighQ. And customer interest in our AI-driven offerings and product road map remains very encouraging. We expect the 6% growth pace to continue in the second half of 2023.

Corporates organic revenue growth slowed sequentially to 7% as the sales cycle lengthening we have mentioned in recent quarters has impacted our book of business growth. Recurring revenue grew 8% while transactional revenue was slightly lower. Practical Law, Confirmation, CLEAR and our Latin America business remained healthy drivers. We expect second half growth to approximate the Q2 level. Tax & Accounting organic revenue rose 10% with recurring revenue up 9% and transactional up 12%. Our Latin America operations, Confirmation and SurePrep, each contributed meaningfully to growth.

Reuters News organic revenues rose 1%, which was modestly below our expectations. In addition to a lower price increase than in 2022 on the news agreement with the Data & Analytics business of LSEG, Reuters Events growth softened amid tighter corporate discretionary budgets, and digital advertising revenue continued the recent weaker trend. We believe both are due to the uneven macro environment and see subdued growth from Reuters as likely in the next few quarters. Lastly, Global Print organic revenues met our expectations, declining 4% year-over-year. So in summary, we're pleased with our results and the solid momentum in the business.

Before I turn it over to Mike, I thought it would be worthwhile to recap the exciting progress we have made on the generative AI front during the second quarter. I'll also discuss TR Labs, our internal data science and innovation group that is playing a key role in our generative AI efforts.

On our first quarter earnings call in May, we discussed the significant potential we see from incorporating generative AI across our product portfolio. We also reviewed our significant competitive advantages, including the depth of our proprietary content and legal and tax expertise. We made commitments to invest more than $100 million annually on AI technologies and to bring these capabilities to key franchises, including Westlaw Precision, by year-end. We recently began to pilot our Ask Westlaw generative AI capability with select customers. And initial feedback is very encouraging.

Later in May, we announced an intelligent drafting solution that will be offered through integration with Microsoft 365 Copilot. Legal professionals will be able to leverage Thomson Reuters content and AI solutions seamlessly when drafting documents in Microsoft Word through both a Copilot plug-in and our Office plug-in.

And in June, we announced our intention to acquire Casetext, a leading provider of generative AI-powered tech solutions through its legal AI assistant offering, CoCounsel. We see a number of key benefits from this purchase, including accelerating our generative AI road map, adding new capabilities and helping us drive new value for the legal industry through the merging of insights and workflow tools.

We remain confident that our build, partner, buy investment approach positions us to take a leadership role in bringing generative AI capabilities for the benefit of our markets. In fact, our conviction in the long-term opportunity and the competitive advantage we bring to bear is rising. We'll remain disciplined in our investment approach, but we won't hesitate to make high ROI investments to capture this evolving market opportunity.

And now a few words on TR Labs. Last quarter, we discussed Thomson Reuters' rich history as a leader in leveraging new technologies, including machine learning and AI. That history stretches back more than 30 years to 1991, when an R&D group was formed within West Publishing to accelerate the capabilities of online legal research.

In the decade since then, technological advancements in processing power, data storage and network bandwidth have expanded the potential for AI and ML capabilities. Our Labs group has been at the forefront, driving thought leadership, contributing to commercial success and being an engine for innovation for both internal and client-facing applications.

Currently, we have approximately 300 AI and ML practitioners within Thomson Reuters, just under half of which are in our TR Labs group. 1/4 of our Labs' workforce have PhDs and half hold a master's degree. We have Labs teams based primarily in five global cities: Toronto, Minneapolis-Saint Paul, London, Zug and Bangalore.

Our team is a good mix of long-tenured AI subject matter experts with additions through a number of AI-driven acquisitions in recent years. This includes Joel Hron, who joined our company through the early 2022 acquisition of ThoughtTrace, a legal AI contract analysis provider. Joel was recently appointed the new Head of TR Labs and brings significant AI experience as well as a start-up mentality to our efforts.

In addition to talent, TR Labs has a history of thought leadership. Labs is an active member of the entrepreneurial and research ecosystems, partnering with universities, businesses and customers. We are a founding sponsor of the Vector Institute, Canada's premier AI think tank and research center.

We have sponsored a number of key industry events related to technology in our professional markets, including a recent hackathon with Stanford University focused on generative AI and the law. Since 2020, our Labs group has been awarded 29 patents, bringing its total to date to more than 100. And the team regularly publishes well-received external research papers.

While talent and thought leadership are important, contributing to commercial success is really the key. And from the early days, our Labs group has made many contributions. You may remember this slide from our discussion last quarter of the legacy of AI at Thomson Reuters. What we didn't say last quarter was that our TR Labs group was key in delivering most of these advancements.

A few examples. In 1992, based on statistical ranking, Westlaw is Natural was launched, becoming the first natural language search engine of industrial scale. For perspective, this was several years before Google was founded. In the early 2000s, the team delivered a machine learning-based classification and recommendation engine called CaRE that has been used across the company to classify legal, tax, news and finance documents to large taxonomies.

Advances have continued through WestlawNext in 2010, Westlaw Edge in 2018 and Westlaw Precision in 2022, which all bought successively more advanced machine learning and AI capabilities. Successes have included Quick Check, Litigation Analytics, KeyCite Overruled in Part, among others. Outside of Westlaw, Labs has played a key role in the launch of Checkpoint Edge, Practical Law Dynamic Search and Legal Tracker.

Looking forward, our Labs talent is an important asset that has been refocused heavily on our generative AI road map. Working with our AI government -- governance and AI platform teams, our Labs talent is key to upskilling and enabling our broader engineering and product efforts to deliver compelling AI-driven capabilities for our customers in a responsible and ethical way. We are actively hiring to expand Labs beyond -- across our global footprint and have seen very strong applicant response and demand to our recent recruiting efforts.

And now I'll turn it over to Mike to review our financial performance.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Thanks, Steve. Thanks again for joining us today. As a reminder, I will talk to revenue growth before currency and on an organic basis. Let me start by discussing the second quarter revenue performance of our Big 3 segments.

Organic revenue grew 7% for the second quarter, continuing the trend of 6% or better Big 3 growth that began in the second quarter of 2021. Total revenue rose 3%, including the impact of divestitures. Legal Professionals organic revenue growth returned to 6%, driven by continued Westlaw Precision momentum and the Elite divestiture. Key drivers from a product perspective remain Westlaw, Practical Law, HighQ and our international businesses. We expect the 6% growth trend to continue in the second half.

On Westlaw Precision, I am happy to report penetration trends continue to go well. After 10 months, Precision is at 10% penetration and is 8% ahead of Edge on a dollar basis. In our Corporates segment, organic revenue growth slowed slightly to 7%. The sales cycle lengthening we have mentioned in recent quarters has softened our book of business growth. Looking forward, we expect second half growth to approximate the Q2 level. Tax & Accounting had another good quarter, growing 10% organically. Recurring and transactional revenue grew 9% and 12%, respectively.

Moving to Reuters News. Organic revenues rose 1%, which fell modestly below our expectations. Finally, Global Print revenues decreased 4% on an organic basis, in line with our expectations. On a consolidated basis, organic revenues increased 5% for the second quarter.

Turning to our profitability. Adjusted EBITDA for the Big 3 segments was $597 million, up 14% from the prior year period with a 44.9% margin. Segment margins rose nicely across all Big 3 segments, though I would caution expense timing drove much of the Q2 upside versus expectations. We expect this to normalize in the second half, especially amid investments in gen AI and higher SurePrep integration expenses.

Moving to Reuters News. Adjusted EBITDA was $45 million with a 23.1% margin. Global Print's adjusted EBITDA was $53 million with a margin of 39.7%. Margins rose 430 basis points year-over-year, though this was largely due to expense timing related to material sourcing and labor. We expect this to normalize in Q3.

In aggregate, total company adjusted EBITDA was $662 million, an 18% increase versus Q2 2022. Excluding costs related to the Change Program from the prior period, adjusted EBITDA increased 12%.

Turning to earnings per share. Adjusted EPS was $0.84 for the quarter, up from $0.60 from the prior year period. The increase was mainly driven by higher adjusted EBITDA with a lower tax rate and last 12-month share repurchases also contributing. Our effective tax rate on adjusted earnings of 15.5% benefited from the settlement of a tax audit, which added $0.06 to adjusted EPS in the quarter. Currency had no impact on adjusted EPS in the quarter.

Let me now turn to our free cash flow performance for the first half. Reported free cash flow was $729 million versus $428 million in the prior year period. Consistent with previous quarters, this slide removes the distorting factors impacting our free cash flow.

Working from the bottom of the page upwards, the cash inflow from discontinued operations was $1 million, which is a $72 million improvement from the prior year period. Also, in the first half, we made $74 million of Change Program payments as compared to $186 million in the prior year period. If you adjust for these items, comparable free cash flow from continuing operations was $802 million, $117 million higher than the prior year period due largely to higher EBITDA.

Next, I will provide an update on our London Stock Exchange Group holding. During May, we sold an additional 15.3 million shares in a public market transaction. We have now sold 40.1 million shares year-to-date and have 31.9 million shares remaining, of which 2 million shares are eligible to be sold in 2023.

Two other quick updates. First, our tax basis on the remaining 31.9 million shares is $1.3 billion. For your math, we would assume a 25% capital gains tax rate on gains above $1.3 billion. Second, the value of foreign exchange hedges held against our LSEG stake were $49 million as of June 30. We currently have approximately 68% of our remaining LSEG position hedged.

Let me conclude with our updated 2023 outlook. As Steve outlined, we are largely maintaining our full year 2023 guidance. We continue to expect organic revenue growth of 5.5% to 6%; adjusted EBITDA margin of approximately 39%; and free cash flow of approximately $1.8 billion. We are adjusting the outlook for three line items: our effective tax rate, interest expense and CapEx.

We now forecast our 2023 effective tax rate at approximately 17%, down from the prior approximately 18% when incorporating the Q2 benefit from the settlement of a tax audit as I mentioned earlier. We are narrowing our interest expense forecast to approximately $190 million, which is the low end of the prior $190 million to $210 million range. This incorporates the accelerated pace of LSEG monetization as well as the benefit from higher interest rates on our cash balances.

Lastly, on CapEx, we now forecast full year accrued CapEx as a percentage of revenue of approximately 8%. This compares to our prior view of approximately 7% plus $30 million for nonrecurring real estate spend related to exiting 2 owned facilities. We continue to expect real estate spend within the new 8% target but also incorporate accelerating investment in gen AI-focused growth strategies. As Steve mentioned, we are increasingly bullish about the potential to leverage gen AI to deliver meaningful value for our professional markets and are investing to deliver to this opportunity.

Looking ahead to the third quarter. We expect organic revenue growth to be on the high end of our full year 5.5% to 6% range, driven by the continued momentum of Westlaw, improvement in Government and the divestiture of Elite. We expect our third quarter EBITDA margin to be approximately 36%. This incorporates the normal seasonal low point in our profitability, much of the cost timing that benefited Q2 margins normalizing and also higher SurePrep integration expenses. As is our typical seasonal pattern, we expect Q4 margins to be sharply ahead of the Q3 level, yielding the full year 2023 adjusted EBITDA margin of approximately 39%.

Let me now turn it back to Gary for questions.

Gary Elftman Bisbee - *Thomson Reuters Corporation - Head of IR*

Thanks, Mike. Jim, we're ready to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll hear first today from Drew McReynolds at RBC Capital.

Drew McReynolds - *RBC Capital Markets, Research Division - MD of Canadian Telecommunications & Media Research and Analyst*

Two for me. First, just with respect to the uptick in CapEx intensity, I think we're all eyes wide open to the incremental investments you're making in AI. Just wondering more broadly what kind of sustainable CapEx intensity you see for the overall business. Has that changed versus that 6% you talked a couple of years ago?

And then second, just on the sales cycle, no surprise there. Just wondering what you saw through the quarter and up until -- through July and August. Is the rate of change here in terms of deterioration accelerating? Just any granularity there would be helpful.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, Drew, in regards to your first question on CapEx or capital intensity, as I refer to it, I think as we move forward, we'll see rates more closely to the 2023 level. That's driven largely by what we see as opportunities to invest in areas that will generate strong returns for us. Certainly, gen AI is one aspect there. But I think we'll also see additional opportunities for investments. So I think we'll be closer to the current rate in 2024.

But as we work through the 2024 plan process, as always, we'll keep you updated with the November earnings call and then certainly in February. Because I think that's what we see with capital. I think we're working very closely with all of our teams in regards to the opportunities. But the opportunities that we see will really be the key factor in driving the CapEx intensity. But we'll ensure that all of those opportunities drive strong returns for shareholders.

Second item before I pass to Steve for his thoughts on the sales cycle, I'll break it down into two components, Drew. First, in regards to Legal Professionals and Tax & Accounting Professionals, we remain quite optimistic. We have not seen any noticeable change in those two segments or lines of businesses.

In the Corporates segment, very consistent with prior quarters, we have seen that elongated sales cycle happening for net sales and also renewals. That's what drove that slightly lower 7% this quarter versus 8%. And the second area where we've seen it is within the Reuters business. But we are quite optimistic overall. And especially within Legal and Tax, we have not seen any noticeable change. But Steve, your thoughts?

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Yes, just to add, Drew, on the generative AI opportunity, I think since we last checked in with you all, we've seen a couple of things which give us more excitement and more optimism about the opportunity in and around generative AI for us. So the first is, I think, a growing and a very resolute consensus. But the differentiator in this environment will accrue to those who own unique proprietary datasets. And that's us. And so that view really has crystallized over the last couple of months and I think continues to strengthen by the day.

And the second is even greater customer interest in our product road maps and are leading both in terms of integrating generative AI into our existing flagship products but also exploring new areas with our customers. And our customers have given us a very clear steer, particularly in Legal but increasingly in Tax & Accounting as well, that they expect us to lead in these spaces. And they're certainly looking forward to us doing that. So with that in mind, our build, partner, buy strategy, the Microsoft announcement, the $100 million investment and the intention to acquire Casetext have all been well received by customers.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

And Drew, if I could just add one more point in regards to the sales cycle, the January acquisition of SurePrep led by Dave Wyle, that's really gone well for us for the first 6 months of the year. We expect that to continue. That SurePrep acquisition, very similar to -- if you go back a few years ago with Practical Law, we have the same level of optimism with SurePrep as some of the prior acquisitions.

Operator

Our next question comes from the line of Aravinda Galappatthige at Canaccord Genuity.

Aravinda Suranimala Galappatthige - *Canaccord Genuity Corp., Research Division - MD*

I wanted to have a single question and a follow-up. Can you maybe talk a little bit more about the opportunity on the, I guess, the workflow side of Legal, the contract drafting now that you've sort of have a greater grip of Casetext and the opportunities coming out of there?

I know that, that's a space that's already encumbered by some players. How do you sort of see Thomson's ability to exploit that and sort of the pathway to that? And then really quickly, the follow-up for Mike, can you just remind us for the second half, sort of the puts and takes to EBITDA from the divestitures and the acquisitions?

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Yes. Aravinda, it's Steve. I'll start and then ask David to supplement on the first question and Mike can take the second. So with regard to the Legal workflow and specifically drafting, I think it's worth noting today that we don't play in a very significant way. So that is one of many new use cases and new addressable markets for us in large part.

And one of the reasons we were so interested in Casetext is that they have, in quick time, harnessed access to ChatGPT-4 with their own expertise and content to create what they call skills or particular use cases. Most of those are new to us. So we see it as a new market opportunity as much as anything else, firstly. Having said that, we haven't closed that deal yet. So more to come once we close that deal and have a chance to work with Jake and his team. So David, before handing to Mike, anything to add there?

David Wong - *Thomson Reuters Corporation - Chief Product Officer*

Yes, I think I would add a couple of other things. Number one is that as we've been exploring the drafting use case with our customers, one of the biggest questions they always ask and the problem that they have is a starting point. And that's where Steve's point around proprietary content really comes to play. Practical Law has thousands of standard clauses, which serves as a starting point for drafting.

Right now, when you use Practical Law, you click Open in Word and then you do the drafting. We're looking to try to complete that workflow for customers by incorporating gen AI through both our own plug-ins as well as the Microsoft Copilot -- 365 Copilot rather, plug-ins for drafting. So again, we see a big opportunity in providing not only the AI tech but also the content to be able to provide a starting point for so many lawyers that are doing drafting.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. Aravinda, in regards to your second question on puts and takes and the impact on EBITDA margin from acquisitions and divestitures, our policy is that we update and incorporate the impact of acquisitions, divestitures when they close. So that means the divestiture of Elite in May 31, I should say we sold approximately 80%, that has been incorporated with that.

The Casetext acquisition that is pending closure, we would provide a further financial update upon closing hopefully later in the second half of 2023. But we update our guidance and provide updates to all of you when the acquisition actually closes. But we do -- looking at Casetext, I would see some near-term dilution there as expected normally from acquisitions of this nature. But we would provide a more fulsome update upon closing.

Operator

Heather Balsky at Bank of America.

Heather Nicole Balsky - *BofA Securities, Research Division - VP*

With regards to the sales environment, you talk about not seeing any material change in Legal. But there's been a lot of, we actually got some today, headlines around law firm layoffs. I'm just curious if you can talk to, amidst all of this, your ability to upsell law firm clients on some of your new tools. Is there increased demand for these tools in an environment where headcount is being reduced? Is there any change in sales cycles? Any color would be helpful.

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Heather, it's Steve. I think it's a little bit too early to tell to be able to sort of prescribe, in a sense, an equation between sort of headcount to spend on technology and the extent to which one will be reduced and the other one will be increased. I think we're very confident that over time, law firms will spend less on real estate and more on technology.

That's a trend that really sort of appeared at the start in terms of the -- our dialogue with customers at start of the pandemic and has continued and if anything, strengthened. So we see that the broad market opportunity is increasing. We have noted some layoffs in certain pockets of the industry. But exactly what that relationship looks like, I think, is a little bit too early to tell.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Heather, I would just add, Steve and I just completed some business reviews with Paul Fischer and the Legal team within the last week. We talked quite a bit about Westlaw Precision. But Practical Law, led by Emily Colbert, continues to be quite well received. And we continue to do quite well with HighQ. So the overall portfolio in Legal is doing well, Heather.

Operator

Now we'll hear from Scott Fletcher at CIBC.

Scott Fletcher - *CIBC Capital Markets, Research Division - Research Analyst*

I'm just wondering now with the larger return of capital transaction complete, can we get an update on near-term capital allocation plans and priorities?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure, Scott. We remain in a very, very strong position. We continue to estimate approximately $10 billion of capital capacity through 2025, which gives us ample capacity to continue our three-pronged approach, which is what I refer to continuously as the [AND] formula, which will allow us to continue to deliver dividend growth.

I would anticipate another 10% increase in 2024, Scott, there for our annual dividend; secondly, allow us to continue to do strategic M&A; and then lastly, allow us to continue additional returns to shareholders, whether that be in the form of another return of capital like we did in June, an NCIB or other forms. So in a very strong position, Scott. And I think it will be a combination of all three as we move forward.

Just as a reminder, we have the 32 million shares left in the LSEG stake, coupled with very strong cash flow from the business and a very low leverage. We're at 1.2x. So those three factors drive that $10 billion of capital capacity through 2025.

Scott Fletcher - *CIBC Capital Markets, Research Division - Research Analyst*

Okay. And then a follow-up on the M&A front. I'm just -- I'm wondering if -- obviously, there's still a lot of sort of startups and legal companies that are focusing on generative AI. Is there an appetite on your end to continue looking at more of both, something similar to the vein of Casetext? Or is the lens a little broader than that?

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Yes. I mean, Scott, the lens is broader. I'd say a couple of things with regard to our sort of M&A approach. The first is we have the same sort of set of criteria across all acquisitions, so whether that's Casetext or SurePrep, anything else we're looking at. We have a very high bar for these acquisitions, and we think we're very rigorous about making sure that the value accrues to our shareholders and our customers. That's the first thing. And we'll keep looking at those kinds of deals, be they in various flavors of AI or specifically generative AI.

The other area where we're, I think, seeing great benefit is in our TR Ventures fund run by Tamara Steffens. And basically, what she's been able to do is make a pretty significant number of acquisitions in and around the AI area on the periphery of our core Big 3 segments. And that, I think, has enabled us to open our aperture to the ecosystem and the innovations they are in and also have the core benefit accrue to the Big 3 segments and our teams within those segments. So that's really our approach. And we don't see any deviation from that over the next number of quarters.

Operator

Vince Valentini at TD Cowen.

Vince Valentini - *TD Securities Equity Research - Analyst*

Related to the timing benefits on operating costs, just trying to get a bit more granularity on that, Mike. Two things, first, on the first quarter call, you said you expected margins to be 38% in the second quarter. And you obviously did a lot better than that at just over 40%. So it just seems like this timing benefit happened just in the last couple of months and was a bit of a surprise. So why was that? And was it -- it looks like it's about $30 million, if you can sort of clarify that. And is that going to all reverse in the third quarter? Or is it spread evenly over Q3 and Q4?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, Vince, all fair questions. Your estimate of $30 million is very close. Let me give a little bit of granularity there, Vince. A few areas, the SurePrep integration was truly in regards to -- all these are timing-related. As I mentioned, Dave Wyle and team are working very well with Elizabeth Beastrom there. So first area is SurePrep integration costs.

Second area relates to marketing costs led by Dave Carrel and our team. Within technology, we have some cloud-related costs that were timing. Also in technology, we had some software maintenance-related items. And then the last item I would mention, as I referenced in our prepared remarks, within our Global Print business led by Jen Prescott, we had some materials and labor items. So those were five tangible areas.

Majority of that would be in Q3 with a little carrying over into Q4 but majority Q3, which is driving that 36% EBITDA margin estimate for Q3, along with that normally being our low point. The largest of those dollars were in Legal and in our Tax & Accounting segments, along with the print that was specific there. Hopefully, that color is helpful, Vince.

Operator

And now we'll hear from the line of Toni Kaplan at Morgan Stanley.

Toni Michele Kaplan - *Morgan Stanley, Research Division - Senior Analyst*

Wanted to just ask about margin versus growth. You reset the cost base from the Change Program. Now there is this opportunity to invest in AI. Just trying to hear your updated thoughts on growth versus margin dynamics over the next few years.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, happy to start with that, Toni. It's something that we talk about quite a bit internally. In regards to the growth, I'll mention two vectors both organic and inorganic. I think I referenced this a second ago. We certainly are very comfortable reinvesting where we think there are opportunities. And I think that's in the form of both organic and inorganic.

We now talk a lot about gen AI. But our opportunities for growth go far beyond gen AI. So we'll continue to be prepared to make those investments near term even if there's a little bit of margin pressure or margin dilution near term both organically and inorganically. I think over the time horizon, it's important for us to continue to build upon our current roughly 6% organic growth as we look at '24, '25, '26. So we're going to be very balanced and prudent. And we'll continue to invest both organically and inorganically.

And with those investments, there's full recognition that margin expansion could be tempered as we make those investments in gen AI and other organic areas and also by acquisitions. But if you focus on our margins and free cash flow over the time horizon, given our operating leverage, we have confidence that over the time horizon, we'll be able to continue to build upon our margins. But near term, it could be tempered as a result of acquisitions and organic investments.

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

And Toni, I'd just add to that, I think we obviously ran the Change Program intensively in '21 and '22. And we always position that, I think, correctly as a platform for accelerated growth as we go forward. And as you point out, along comes generative AI. And I think that from our -- brings that accelerated growth, I think, makes it more tangible, potentially a little bit more exciting for us and our shareholders.

And so the way I think about this is the Change Program has positioned us well to take advantage of generative AI growth. Had we not done that, I think we'd -- it would be much more difficult for us to adapt in terms of our customer service support capabilities, our ops and tech stack and our talent base. So one will feed into the other, I hope, in a fairly natural way.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. And Toni, maybe I'll just supplement maybe just one live example. Once again, the SurePrep acquisition that closed in January, that's one that is helping us fuel growth in TAP this year and beyond. But we do have some margin dilution in calendar year '23 from a very intentional decision for us to make that acquisition and to invest. So I think that's a live example as to how we kind of balance and do the trade-offs between growth and margins and capital intensity.

Toni Michele Kaplan - *Morgan Stanley, Research Division - Senior Analyst*

Great. And then I wanted to ask about the go-to-market strategy that you're developing for Casetext. Do you see that product as more of a stand-alone offering or you're planning on bringing the content into Westlaw or Practical Law? And just in terms of technology, how do you integrate the large language model that Casetext is using with what you've already developed for Westlaw?

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Toni, we've obviously done a lot of thinking around that. But we haven't -- because the deal hasn't closed, we haven't had all the interactions that we need to make those calls with the Casetext team. So as soon as we close that deal, we'll have a chance to come back to you with those kinds of questions.

But we do see this as offensive in two ways: one, supplementing, accelerating our own internal efforts by adding more capacity in various ways; and the second is enabling us to access new addressable market areas along the lines of the skills that they've developed. So it will be a combination of those things. But the precise weighting, we'll have to wait until we close the deal and integrate it.

Operator

Next, we'll hear from Kevin McVeigh at Credit Suisse.

Kevin Damien McVeigh - *Crédit Suisse AG, Research Division - MD*

I wonder if you could just update us on how we're thinking about pricing and then ultimately retention, given what's clearly going to be deeper, I would call, kind of modules and even more innovative product as a result of the generative AI, kind of where the retention is today. And I know you've seen some success on that. But how should we think about that going forward? And then maybe if you could weave some context around pricing as well.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. Sure, Kevin. Let me start with that. I'm sure, Kevin -- Steve will want to supplement there. I think, Kevin, let me start with the foundational piece that we've shared before the multiyear contracts. We've worked through those in 2022. We continue to work through those in '23. I think the premium that's associated with Westlaw Precision continues to materialize as we anticipated.

So I think the price lift in 2023, slightly higher than in 2022. The one that we are working through, Kevin, with full transparency is the impact of gen AI on pricing and also the related cost there. So we're probably a quarter or so away from having a robust conversation with you on that. But I'll say pricing is slightly higher this year than in 2022.

In regards to retention, we're up about 30 basis points in 2023. That's measuring retention based on revenue dollars. So we're slightly over 91% on a weighted average basis across total TR as I've shared before. That's a wide distribution with our smaller customers having lower retention and our largest customers having very high. And it also varies by product with Westlaw being the highest. So I think we're pleased with the momentum on both pricing and retention. We need additional time on the gen AI piece.

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Yes. I mean, as we start to frame up the gen AI opportunity, we do see it as being helpful and additive along at least three dimensions. I think the first is, as you've said, Kevin, pricing. The second, to Mike's point about retention, we think that gen AI, and particularly integrated across our different products, will enable us to be stickier and increase our retention.

And the third, as I've said a couple of times this morning, is just accessing new pools of spend. And whether that be around automating tasks that are otherwise performed by human beings or whether it be enabling firms to do more and add more value, I think that's to be determined more broadly across the industries we serve. But that's really where we've pointed our product development efforts.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Kevin, just a final point on that retention question and Net Promoter Score, we have additional opportunity to improve there. I think as we continue to improve our customer experience and Net Promoter Score, that should yield higher retentions over the time horizon.

Operator

Our next question today comes from the line of Manav Patnaik at Barclays.

Manav Shiv Patnaik - *Barclays Bank PLC, Research Division - MD, Business & Information Services Equity Research Analyst.*

I had a question -- and all the focus has obviously been on gen AI, which it probably should be, but -- and the Legal business. But just curious on the tax side and also tied to capital allocation, that's obviously been a very fast-growing business for you guys, a great business. But it is a smaller piece of the puzzle. So just curious if -- any thoughts around capital allocation and what can be done to maybe make tax bigger.

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Yes, I'll start. I'm sure Mike will add, Manav. Thanks for the question. We are very excited about our Tax & Accounting Professionals business under Elizabeth Beastrom's leadership. I think it's an incredible franchise and one that we're very keen to invest against, firstly. Secondly, the sort of strategy that Elizabeth with Piritta van Rijn and the team have laid out really is to automate and streamline the entire end-to-end tax return process all the way to advisory services.

We're doing -- we're running some experiments in Latin America around our Dominio asset to well and truly extend that for the benefit of Tax & Accounting Professionals and the SMBs they serve. SurePrep is a very significant addition to that process because, of course, it automates the document and information-ingesting process in the front end of a tax return. As Mike said in his remarks, we're very happy with that. I think Dave Wyle and the team are doing a wonderful job since coming across on January 3.

So the strategy is very much in service of Tax & Accounting Professionals to make their lives easier and more efficient. There is a -- the number of returns goes up, the complexity of those returns goes up and the need for advisory services from Tax & Accounting Professionals to their customers goes up. So the demand within -- the underlying demand within that segment continues to grow at a very healthy clip.

However, there just aren't enough young people coming through with tax and accounting degrees when he's joined the profession. So there's a real need for the automation and technology to streamline that process. We think we can play an important role in that. And our strategy will be very much to sort of take that end-to-end process, automate and streamline as much as possible to drive productivity and efficiency through the industry. That's where we're trying to go.

In terms of specific capital allocation -- sorry, Manav, I don't have anything specific on the -- we put this in the same category as under the generative AI. We think there's opportunities for us to integrate generative AI into products like Checkpoint. That will require some CapEx spend. And if we -- as we see that ROI opportunity, we're not going to miss it.

Manav Shiv Patnaik - *Barclays Bank PLC, Research Division - MD, Business & Information Services Equity Research Analyst.*

Understood. And then just one technical question, I guess, on the 22 million of LSEG shares available for sale in '24. Is that a similar kind of like March time frame when they're available? Just trying to think about if you can pull that forward, should you need to, in terms of capital allocation.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, Manav, in regards to when the respective tranches, the lockup periods expire, it's in Q1 of each year, so Q1 '24 and then also Q1 '25. It doesn't mean that we have to monetize in Q1 of each year. But that's the earliest time period upon which we can monetize.

Operator

George Tong with Goldman Sachs.

Keen Fai Tong - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

You talked about the elongated sales cycles in Corporates. Can you discuss why sales cycles are currently more resilient in Legal and Tax & Accounting and assess the likelihood that sales cycles could at some point elongate in those segments?

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

I think the sort of broader corporate enterprise software environment has softened a bit. I think we see that across the different points. And so we're more sensitive to that environment than we are the law firms. I mean, now we think our content and our software is must-have across all the segments.

But certainly, Corporates for us is the newest of those segments. And therefore, the degree to which it is truly embedded, a little bit less. And so those have been elongated and we've seen a little bit of softness. We don't see it getting any worse, George, within Corporates. And we don't see the same kind of trends in Tax & Accounting or Legal eventuating.

Keen Fai Tong - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. That's helpful. And then you reiterated your EBITDA margin expectations of 39% for this year, which would imply about 400 bps of expansion from 2022. Where do you see most opportunity for EBITDA margin expansion by segment based on your investment requirements and efficiency gains again at the segment level?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. I think, George, as we look over the time horizon, and I emphasize the time horizon, I think we see opportunities to continue to expand margins in each of the segments. The timing and the quantum of margin expansion will be influenced, as I mentioned earlier, by the timing of acquisitions and also the timing of organic investments, whether it be gen AI, Risk, Fraud & Compliance or other items there. So we see opportunities across the segments. But I would just kind of temper the level and timing based on the timing and sequencing of acquisitions and organic investments.

Keen Fai Tong - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. Any comments on specifics for the segments this year? Where do you see most opportunity?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

I think this year, in calendar year 2023, Legal has experienced the largest amount of margin expansion in calendar year '23. I think Corporates will experience the lower amount of margin expansion in calendar year '23, George. And then as I mentioned earlier, the Tax & Accounting -- just as a reminder, when you look at Tax & Accounting Professionals year-over-year, you need to consider the impact of the SurePrep acquisition, which I think, Gary, during our February earnings call, we provided directional estimate on its impact for the full year.

So just maybe refresh you there. And then also Gary can do a follow-up, George, if it's helpful there. So Tax & Accounting, if you look at it sequentially year-over-year, you do need to do a pro forma just in regards to the dilutive impact of SurePrep in calendar year '23.

Operator

Andrew Steinerman at JPMorgan.

Stephanie L. Yee - *JPMorgan Chase & Co, Research Division - Analyst*

This is Stephanie Yee stepping in for Andrew. I'll just ask one question. Can you provide a little bit more color on the Government business? I think the funding is going through now. But just any color on the end market and also how you are doing in that area.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure, Stephanie. I'm happy to start there. We spent quite a bit of time with Steve Rubley, Scott Smothers, Pat Eveland on the Government team. As we look at the pipeline for Q3, Q4, it is very optimistic. I think, Stephanie, as we go into the November call, we'll be able to provide you with more granular detail. Just given the federal government cycle, fiscal year cycle of September 30, we have a number of opportunities in the pipeline that we believe will close during Q3, which will lead to higher revenue growth in Q3, Q4.

If you look sequentially, the Government revenue increased in Q2 versus Q1. And we forecast that continuing to increase in Q3 and Q4. Pipelines are very optimistic, Stephanie. We just need to close those in Q3. And Steve and team -- Steve Rubley and team are working hard there. And as you know, CLEAR Risk, Fraud & Compliance is a key component there, too, along with TRSS. But a reason for a lot of optimism, but we do have to close the pipeline opportunities, Stephanie.

Operator

And we'll hear from Maher Yaghi at Scotiabank.

Maher Yaghi - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Lots of excitement in AI for sure. And a few parts of the hardware markets have seen a significant uptick in revenue generation already due to AI. But on the software side, and as you probably are aware, lots of investments being made, but -- and we have many case studies that are clearly present. But we're still waiting for an uptick in revenue.

So I guess, my question is, and what I'd like to hear from you, is when do you expect to see meaningful contribution from gen AI to help and grow your organic growth rate beyond what it's already at, i.e., is 2024 too early to see an uptick in your 5.5% to 6% growth rate that you're seeing in 2023? Or it's a couple of years out that we'll start to see that meaningful contribution kick in?

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Thanks for the question. Yes, look, we are excited about it. And we're excited about it because of the frequency, nature, volume of interest from our customers. And we don't think it's an opportunity that's sort of limited to the United States, not limited to any particular geography or any particular product. So that's really why we're excited. That's why we're upping our investment. We won't -- we will be launching products this year.

David Wong has sort of put forth our product road map and started to discuss that with -- directly with our customers. We won't see any meaningful revenue uptick, just given the size of our base business this year. I think we'll start to see it next year. The degree, the extent and the sort of nature of that growth curve, we're yet to define. So as soon as we sort of have more clarity on that as to how much is coming from the three drivers that I referred to in answer to Kevin's earlier question, we'll come back to you.

Operator

And that was our final Q from our audience today. Mr. Bisbee, I'd like to turn it back to you, sir, for any additional or closing remarks that you have.

Gary Elftman Bisbee - *Thomson Reuters Corporation - Head of IR*

Thanks, Jim, and thanks, everybody, for joining us today. We're around today if we can help, so feel free to reach out to the IR team. Thank you.

Stephen John Hasker - *Thomson Reuters Corporation - President, CEO & Director*

Thanks, everybody.

Operator

Ladies and gentlemen, this does conclude today's meeting, and we thank you for your participation. You may now disconnect your lines.
