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PRESENTATION

Operator

Good day, everyone, and welcome to the Q2 2022 earnings call hosted by Gary Bisbee, Head of Investor Relations. My name is Nica, and I'm your operator today. (Operator Instructions) I would like to advise all parties that this conference is being recorded for replay purposes.

And with that, I'd like to hand the floor to Gary. Please go ahead.

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

Thank you. Good morning, everyone, and thank you for joining us today for Thomson Reuters' Second Quarter 2022 Earnings Call. I'm joined today by our CEO, Steve Hasker; and our CFO, Mike Eastwood, each of whom will discuss our results and take your questions following their remarks. (Operator Instructions)

Throughout today's presentation, when we compare performance period-on-period, we discuss revenue growth rates 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 from time to time to regulatory agencies. You may access these documents on our website or by contacting our Investor Relations department.

Let me now turn 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. Thanks.

Now on to our Q2 highlights. I'm pleased to report the momentum that has been building in our businesses continued in the second quarter with healthy sales and revenue ahead of our expectations. 4 of our 5 business segments again recorded organic revenue growth of 6% or greater, and total company organic revenues rose 7%. Our Big 3 business segments also grew 7% organically.

We see internal and external drivers of our improving momentum. Solid execution and efforts to better prioritize investments toward our best opportunities have contributed. And we're starting to benefit from meaningful tailwinds driven by a step change in complexity of regulation and compliance in our Legal, Tax and risk-related markets. We believe these tailwinds are in the early innings and position us well to continue our recent momentum over the next few years.

Due to the Q2 revenue strength and healthy book of business or annual contract value growth, we are raising our full year revenue outlook. We now expect to see total revenue rising by 6% and Big 3 revenue by 7%, up from our prior views of 5.5% and 6.5%, respectively. We maintain our margin outlook as we continue to invest in our businesses and also absorb heightened inflationary pressures.

Overall, the strong first half provides confidence that we're on the right path to achieve our 2022 and 2023 targets. While market concerns around slowing economic growth and inflation have increased, our business is well positioned. Our momentum through Q2 was strong, and leading indicators remain healthy. And we're blessed with a resilient business.

80% of our revenue is recurring, and we operate in historically stable and growing end markets. We also benefit from our Change Program efforts, which will significantly boost our margins, cash flow and earnings in 2023.

Our capital capacity and liquidity remain a key asset that we are focused on reinvesting to create shareholder value. We took an important step in early June with the announcement of a $2 billion share repurchase program. Through July 31, we've purchased $394 million of our shares, and we look to complete the program within 10 months.

We also continue to assess inorganic opportunities and expect to have ample capacity for both buybacks and strategic M&A. As a reminder, our acquisition focus includes workflow software and automation in our Legal and Tax markets and Risk, Fraud & Compliance and targeted international expansion.

For example, in Legal Professionals, we see a sizable opportunity to play a critical role in the tech-driven transformation of the legal profession. We are uniquely positioned to provide customers with a smarter, seamless experience through the combination of our highly differentiated research content and expertise with workflow software. The AI-driven contract analysis capabilities we gained through the recent ThoughtTrace acquisition is a step in this direction and builds upon unique capabilities like Practical Law and HighQ.

We continue to assess both organic and inorganic opportunities to further expand our capabilities and integrate our leading content with workflow solutions that drive automation and better outcomes for our customers, particularly around legal documents and contract drafting.

Now to the results for the quarter. Second quarter reported revenues grew 5% with organic revenues up 7%. Organic recurring revenue again grew 7% with organic transactional revenue up a robust 13%, aided by a calendar shift and the return to in-person events at our Reuters Events business. While we expect transactional revenue growth to moderate in the second half, we see recurring revenue momentum continuing.

Adjusted EBITDA increased to $561 million, reflecting 200 basis points margin improvement to 34.7%. Excluding costs related to the Change Program, the adjusted EBITDA margin was 36.6%. This strong performance resulted in adjusted earnings per share of $0.60, up from $0.48 in the prior year period.

Turning to the second quarter results by segments. The Big 3 businesses achieved organic revenue growth of 7%, reflecting broad strength. Legal continued its recent momentum, delivering a fifth consecutive quarter of 6% organic growth. The Legal market remains healthy across all key segments: small, mid- and large-sized U.S. firms, government customers and in key overseas markets.

For example, Westlaw Edge adoption continues to drive revenue, and we continue to expect annual contract value penetration to approach 75% by year-end from 65% at the end of 2021. Second, Practical Law, which contributes to growth in both Corporates and Legal segments, continued a strong performance with a quarter of double-digit revenue growth. And third, our Government business grew 8% organically, and we see acceleration as likely in the balance of the year.

Turning to Corporates. Organic growth momentum continued with revenue up 9%. Recurring revenue rose a robust 9%, and transactional revenue again exceeded our expectations in writing 8%. I will discuss our Corporates business in more detail shortly.

Tax & Accounting had another strong quarter with organic revenue growth of 9%. Our Latin America business called Dominio grew nearly 30% in the quarter and remains a key growth driver. Reuters News organic revenues increased 12% in Q2. Growth occurred across all lines of Reuters business. Events, in particular, was a key driver.

And finally, Global Print organic revenues declined 1%, which was better than expected, due to higher third-party print revenues and timing benefits that we expect to normalize in the remainder of 2022. In summary, we're very pleased with these results, and we're excited about the momentum that's building within our businesses.

Now let me take a few minutes to discuss our Corporates segment and our Risk, Fraud & Compliance businesses and why we are confident in the growth prospects of both. As we did last quarter, I'd like to provide some incremental transparency around our portfolio with a brief discussion of our Corporates segment and our Risk, Fraud & Compliance or RFC businesses.

Beginning with Corporates, some brief background may be useful. The segment was formed in the fourth quarter of 2018 to better serve, innovate for and penetrate corporate users for our key Legal, Tax and RFC offerings. Corporates is the #1 provider of both legal and tax solutions for corporations in the United States and serves all of the Fortune 100.

Momentum has built nicely over the last year with Corporates organic revenue growth accelerating from 4% in the first half of 2021 to 6% in the second half and 8% in the first half of this year. For full year 2022, we are confident in achieving the 7% to 9% organic growth target we previously set for 2023.

So what's driving this momentum? We see strong growth from a range of offerings across all 3 product areas. Key double-digit growers, which are circled in green on the slide, include Indirect Tax and Confirmation from our Tax portfolio, Practical Law and HighQ from Legal and CLEAR from RFC, amongst others. In total, double-digit growers in our Corporates product portfolio comprise 39% of segment revenue and are growing at a mid-teens year-over-year rate.

As we described last quarter for our Legal Professionals segment, a healthy mix shift toward these more rapidly growing offerings is contributing to our Corporates momentum. Looking forward, we remain confident in the long-term growth potential for the segment driven by our building momentum, a healthy product portfolio and corporate demand for actionable insights and efficiency-driven workflow tools, combined with significant addressable market and white-space penetration opportunities.

Building upon this Corporates discussion, I'll expand on our Risk, Fraud & Compliance businesses. We have historically discussed RFC as part of our Legal Professionals Government subsegment, which also includes our legal offerings sold into government and court system customers. However, our RFC businesses are also an important driver for Corporates, which generates a bit over 40% of our RFC revenue.

We have several businesses that make up our RFC franchise, led by CLEAR, a leading public record solution. This is complemented by Thomson Reuters Special Services or TRSS and Pondera. TRSS provides a combination of information, technology and security-cleared analysts to support government customers in mitigating global risk and improving public safety. Pondera provides a cloud solution that leverages advanced algorithms to help detect fraud in government entitlement programs. Both TRSS and Pondera leverage CLEAR data, adding insight and decisioning capabilities that extend our value add.

Our RFC businesses have contributed nicely to growth with total RFC revenue expanding by a 16% compound annual growth rate over the last 5 years and CLEAR growing by double digits in every year since it was acquired in 2008. There have been several key drivers of this growth, including an expanding number of use cases across government and corporate customers; enhanced functionality that has bolstered usage and pricing; and growth of access through APIs, which has also boosted our partnership efforts.

Looking forward, we believe that our RFC businesses are well positioned to deliver revenue growth in the teens over the next few years. We also believe our current position is a strong platform from which to consider future M&A in the RFC space.

Let me go a little bit deeper on CLEAR, which makes up approximately 2/3 of our RFC revenue. CLEAR is a leading public records database and analytics solution powered by proprietary technology and a highly unique data set. It brings billions of data points from public records and third-party databases together to deliver insights for investigative, compliance, risk mitigation and fraud prevention purposes.

Historically, CLEAR has focused on building an aggregated data set that enables investigators to perform a single search across multiple sources to uncover connections and identify risk-related information aided by customizable and easy-to-navigate dashboards. This enhanced due diligence use case remains an important revenue growth -- revenue and growth driver today.

In recent years, we've added decisioning tools and configurable analytics around identity verification and entity risk indicators and scoring. We've also added incremental content, including sanctions lists and business beneficial ownership data. These additions have resulted in a more robust offering that has expanded customary pricing, and they are adding to our growth runway and our customers' success.

We believe CLEAR is a market leader with several advantages, including robust identity resolution technology, comprehensive content, real-time data connections, strong data source transparency and a compelling analytics-driven dashboard. Our CLEAR product NPS scores for both government and corporate users are among the highest in the company, which speaks to the value customers see in this important offering.

The graphic on Slide 12 illustrates how CLEAR can help customers prevent, detect and investigate risk and fraud by answering key questions about their potential customers or counterparties. These questions demonstrate the critical need for a deep understanding of entities, both people and companies, relevant for government and corporate customers across numerous use cases, ranging from criminal investigations to identifying human trafficking networks to KYC and AML compliance as well as others.

To bring our RFC efforts to life, let me close with a real-world example from our Government business. During the initial pandemic period, unemployment insurance claims skyrocketed and, unfortunately, so did fraud-related activity. The State of California processed more claims than any other state and initially struggled to process claims while minimizing fraud.

It turned to a combination of our solutions using Pondera's algorithms and AI in combination with CLEAR and the state's own data to identify and verify legitimate claims and highlight potential fraudulent claims. This solution helped the state work through a backlog of 9.7 million claims in a 2-week period while accelerating payments to qualified recipients and denying fraudulent claims.

Since implementation, Thomson Reuters has been a key partner in helping California to stop $125 billion of fraudulent claims. We're proud of the work done by our Risk, Fraud & Compliance teams, which help support safe communities, uphold the integrity of government entitlement programs and support robust compliance efforts.

Now let me turn it over to Mike, who will provide more detail on the second quarter results.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Thank you, Steve, and thanks 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. Revenues rose 7% organically and at constant currency for the quarter. This marks the fifth consecutive quarter our Big 3 segments have grown at least 6%.

Legal Professionals organic revenues increased 6%. This also marks the fifth consecutive quarter of 6% growth for Legal Professionals. Organic growth was driven by Practical Law, FindLaw and our Government business. Westlaw Edge continues to add about 100 basis points to Legal's organic growth rate. It is maintaining a healthy premium and is expected to continue to contribute at a similar level going forward, supported by the planned release of Westlaw Edge 2.0 later this year.

In our Corporates segment, organic revenues increased 9% for the quarter driven by recurring revenue growth of 9% and transactional revenue growth of 8%. CLEAR, Practical Law and Indirect Tax were key drivers of the recurring revenue. The transactional revenue growth benefited from volumes that are seasonal in nature and is unlikely to continue at that level in the second half of the year. However, we see recurring revenue growth momentum continuing.

And finally, Tax & Accounting's organic revenues grew 9% driven by recurring revenue growth of 11%. Organic growth was driven by Ultra Tax, audit products and the segment's businesses in Latin America.

Moving to Reuters News. Total and organic revenues increased 12%, exceeding expectations due to strength in our Professionals business. In particular, Reuters Events drove the growth as it benefited from both a favorable event calendar shift into Q2 and also the return of in-person events. We expect more moderate growth from Reuters News in the second half of the year.

Lastly, Global Print total and organic revenues declined 1% in the second quarter, ahead of expectations. Higher third-party revenues for printing services and timing of new sales drove the outperformance. So we expect both to normalize in the remainder of 2022. On a consolidated basis, second quarter organic revenues increased by 7%.

Turning to our profitability. Adjusted EBITDA for the Big 3 segments was $524 million, up 8% from the prior year period with a 40.7% margin rising 80 basis points. Improvement over prior year period was due to higher revenues and Change Program savings. As a reminder, the Change Program operating costs are recorded at the corporate level.

Moving to Reuters News. Adjusted EBITDA was $44 million, up $9 million from the prior year period with a margin of 23.3%, up 310 basis points. Revenue growth and higher events mix drove margins. Global Print's adjusted EBITDA was $50 million with a margin of 35.4%, a decline of 250 basis points due to the decrease in revenues and the dilutive impact of lower-margin third-party Print revenue.

In aggregate, total company adjusted EBITDA was $561 million, a 12% increase versus Q2 2021. Excluding costs related to the Change Program in both periods, adjusted EBITDA increased 9%. The second quarter's adjusted EBITDA margin was 34.7% or 36.6% on an underlying basis, excluding costs related to the Change Program.

Turning to earnings per share. Second quarter adjusted EPS was $0.60, up from $0.48 in the prior year period. The increase was mainly driven by higher adjusted EBITDA. Currency had a $0.01 positive 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 $428 million versus $618 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 outflows from the discontinued operations component of our free cash flow was $25 million more than the prior year period. This was due to payments to the U.K. tax authority related to the operations of our former Refinitiv business. Also in the first half, we made $186 million of Change Program payments as compared to $28 million in the prior year period.

If you adjust for these items, comparable free cash flow from continuing operations was $685 million, $7 million lower than the prior year period, primarily due to higher annual incentive plan bonuses. We reaffirm our 2022 full year free cash flow outlook of approximately $1.3 billion.

I will now provide an update on the progress related to our Change Program. In the second quarter, we achieved $64 million of annual run rate operating expense savings. This brings the cumulative annual run rate Change Program operating expense savings to $369 million. This increases our confidence in reaching approximately $500 million of annualized savings by year-end and $600 million gross operating expense savings by

2023. As a reminder, we anticipate reinvesting $200 million of the projected $600 million of savings back into the business for a net savings of $400 million.

Now an update on our Change Program costs for the second quarter and the remainder of 2022. Let me start by saying none of the annual estimates have changed from what we provided last quarter. Spend during the second quarter was $67 million, comprised of $30 million of OpEx and $37 million of CapEx. We anticipate $175 million of total spend in the second half of 2022.

For the full year, we continue to expect $305 million of Change Program investments, which would bring total 2021 and 2022 cumulative investments to approximately $600 million. We also continue to anticipate a split of roughly 60% OpEx and 40% CapEx.

Let me conclude with our outlook for 2022 and 2023. As Steve outlined, we have increased our full year 2022 outlook for total TR and Big 3 revenue growth. We now forecast total organic revenue growth of approximately 6% and Big 3 organic revenue of approximately 7%, up from the prior 5.5% and 6.5%, respectively.

We are maintaining our adjusted EBITDA margin outlook of approximately 35% as we continue to monitor inflationary impacts and assess investment opportunities to drive continued revenue momentum. There is no change to other 2022 outlook items, and we reaffirm our 2023 targets.

Looking to the third quarter, we expect revenue growth to be 50 to 100 basis points below the updated full year forecast due to lower transactional revenue and more normalized growth rates for Reuters News and Global Print. However, we expect fourth quarter revenue growth to improve from Q3. We expect recurring revenue to expand by 7% for the full year.

We expect our third quarter adjusted EBITDA margin to decline 300 basis points sequentially from Q2 due to normal seasonality, timing of Reuters Events and the cadence of Change Program investments. We expect Q4 margins to be the high watermark of the year, aided by seasonal strength from our Tax Professionals segment and scaling Change Program savings. We see our effective tax rate likely at the midpoint of our 19% to 21% full year range.

In summary, we remain confident in achieving our 2022 and 2023 targets, supported by the strong first half and healthy underlying momentum in our key businesses and markets. Over time, we continue to believe we can achieve faster revenue growth, higher profitability and significantly higher free cash flow as we benefit from transforming to a content-driven technology company.

Let me now turn it back to Gary for questions.

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

Thank you, Mike and Steve. Nica, we're ready to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We have received a couple of questions, and the first one is coming from Toni Kaplan of Morgan Stanley.

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

You raised the '22 organic growth guidance by 50 basis points, which is great to have a few quarters in a row of raising the guidance there, so congrats on that. I noticed you didn't raise '23. Is that conservatism or concern about potential recession in '23? Or do you just need to go through your in-depth planning process first? Just what drove sort of the decision not to raise '23?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, it's more of the latter, Toni. We certainly remain very confident in delivering on our 2022 updated guidance. We remain confident in delivering on our 2023 targets as we provided. We're very confident in our team. We're very confident in our execution. But we think it's very prudent, given the various macro factors, to wait to complete our full year planning process in the next few months. And we look forward to providing an update on our 2023 guidance in February.

But based on the first half of the year, the strength of our underlying book of business and the execution of our sales and go-to-market team, the execution against our Change Program, confidence is very high. But it's more what you mentioned, Toni, in regards to going through the planning process and being very prudent in assessing the macro factors, but all signals are very positive.

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

Yes. Toni, it's Steve. Just adding to that. So Mike and Dave Larson conduct our QBR, quarterly business review process, and that comes in late September, October. And as you know, we have -- 80% of our revenue is recurring. We have a very high percentage of multiyear contracts across our Big 3 segments. So we've got good visibility, but we want to get through that process and be very diligent about it before we make any sort of further predictions.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Just one additional point there, Toni, in regards to that, getting through the plan process, so you mentioned also, as we complete the year, the visibility, to Steve's point, at 80% is recurring in nature. Our book of business will have good line of sight as we complete Q3 and Q4, which will give us a good visibility as we go into the February earnings call.

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

Great. And hoping you could sort of talk about, has the macro changed to have any client conversation?

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

Toni, thanks for the question. So as you know, we like to spend an enormous amount of time with customers and getting a deeper and deeper understanding of their businesses. I think based on my conversations with the heads of small, medium, large law firms, tax and accounting firms and some of our corporate and government customers, I would say that to date, their results have been pretty solid. I mean the law firms had record results in 2021. And so far, in 2022, they've seen pretty robust demand through their litigation practices through their restructuring.

The corporate practices are a bit soft, fewer IPOs, fewer debt issuance. But I think the -- our customer base has the same stance that we have, which is sort of proud of results to date, but I think a bit of healthy paranoia as to what might come next and just watching very, very carefully for some early signs of softness. But we haven't seen it yet, and most of our customers haven't seen it yet either.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. Toni, I would supplement with 2 additional points that we monitor, our renewal rates or retention rates. Retention rates are slightly higher in 2022 thus far than 2021. As a reminder, we have a lot of multiyear contracts. And also on the pricing front, our pricing is slightly higher in 2022 versus 2021. And then the third quantitative measure is our sales pipelines that we monitor with all of our segments, subsegments and regions.

Do we have a second question?

Operator

Yes, we do, and that is coming from the line of Tim Casey of BMO.

Tim Casey - *BMO Capital Markets Equity Research - Equity Research Analyst*

Yes, 2 for me. Just quickly, I know it looks like you did an acquisition in the quarter. Could you just talk a little bit about what happened there?

And Steve, a question for you, just a recurring one really. Just wondering if you can give us an update on your assessment of the, I guess, the progress you've made and the shortcomings to date of your initiative to improve really the customer experience. I know that's been a primary focus on things like customer interfaces and whatnot. How -- what's your assessment of where you are on that journey?

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

Yes. Thanks, Tim. Great question. So our most recent acquisition was of a business called ThoughtTrace, which is based in Houston, Texas, run by a very talented executive by the name of Nick Vandivere. ThoughtTrace, we think, is the leading AI-driven contract analysis tool.

Nick and his team are focused today on oil and gas, particularly oil and gas leasing contract. But we've done a lot of work with them prior to the closing of the acquisition and, as you can imagine, an awful lot more since closing the acquisition as to how we can extend that capability into a broader set of commercial verticals. So whether that's financial services or pharmaceutical or you name it, we're looking at it.

And so it's a small acquisition for us. It's very much at the cutting edge in the application of AI and machine learning to our unique content, but we like to look at that. And Emily Colbert and Kriti Sharma from our teams, amongst others, have been focused on building that out.

The second part of your question with relation to the Change Program, look, it's a complicated program with many moving parts, as you know, Tim, but we have spent a good chunk of the $600 million onetime investment. Mike talked about the run rate savings that are accruing from that and how it positions us for 2023. So from a financial standpoint, the Change Program is in great shape, and it's delivering what we expected it to.

I think the sort of components that are going -- amongst a number of the components that are going very well would be our cloud conversion, firstly. Secondly, the progress that Jason Escaravage, our cyber leader, has made in terms of addressing our strengths around cyber fraud and compliance. Thirdly, digital assist. So the idea that a customer will have a whole series of digital sales support and renewal capabilities, they have been well received and are very popular. And then last but not least, we've done a lot of work on our location strategy and where we want our go-to-market talent, where we want our product and engineering talent and so on and so forth. And that's being led by Kirsty and her teams and is doing well, too.

I would say we still have a lot to get done through the balance of this year and into next. And mainly, it's converting these investments and capabilities into customer satisfaction. I think there are pockets where the customers are really starting to see it and there are other customers where they're not yet. And so we're laser-focused on that conversion.

And I'd call out our go-to-market leaders for navigating their way through this environment with the backdrop of the pandemic, the backdrop of inflation and increasingly, economic unease, an enormous amount of change and disruption being driven by the Change Program. And yet, our price has gone up a little bit, our renewal has gone up a little bit and our organic growth is headed in the right direction, notwithstanding all of the disruptions and turmoil that we've imposed on ourselves. So I'd say the punchline, Tim, is so far so good on the Change Program with lots of work left to do.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. Tim, I'll just add one additional data point in regards to the cloud migration. We provided back in February that we had 37% of our revenue available in the cloud at the end of 2021. At the end of June, we were 47%. We forecast to be at 60% by the end of '22. And we remain confident in being at 90% by the end of 2023, which is consistent with our prior estimates.

Operator

The next question is coming from the line of Kevin McVeigh of Credit Suisse.

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

Congratulations on the results. I guess, Steve or Mike, the 50 basis point boost to the organic growth guidance, was that pricing, retention, a little bit of everything? Or I guess, what gave you the confidence to do that? Number one. And then can you talk about retention just a little finer in terms of maybe upmarket versus down versus mid? And are you starting to see any initial benefits from the Change Program around retention?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure, Kevin. Let me focus on the guidance question first. The increase in 50 basis points for total TR and the Big 3 was really driven by the underlying performance and health of the business. Price is included therein, but price is up only slightly, Kevin, in 2022 versus 2021. That will continue to increase as we progress in '22 and '23, given the multiyear contracts, as I mentioned earlier in regards to Toni's question there, so primarily the underlying health of the business. The book of business that we have, Kevin, at June 30, coupled with the pipeline for the remainder of the year, were really the drivers for us increasing our guidance by the 50 basis points.

In regards to retention, we're seeing slight increases across the firm. But we still have significant opportunity on a weighted average basis using revenue as the benchmark, not number of customers. But based on revenue, we're slightly over 91%. So we continue to have a lot of opportunity to improve our retention and the time horizon as we continue to address the underlying customer expense -- experience items that Tim addressed during his questions there. So a little bit of improvement in price, a little improvement in retention, but we continue to have opportunity in retention.

And just a reminder, Kevin, our recurring revenue growth rate, we're forecasting at 7% for the full year. Each quarter is roughly 7% rounded. So a couple of quarters a little higher, a couple of quarters a little lower. As we go into Q3, Q4, the comps are a little higher. So hopefully, that's helpful, Kevin.

Operator

And next, we have a question from Aravinda Galappatthige of Canaccord Genuity.

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

Steve, when you talked about the M&A criteria, you touched on the legal software and workflow space. Can you just sort of revisit the size of that market? I know that it's encumbered right now seemingly by some mid-tier companies. Are you kind of looking at that space as sort of simply just being large enough and you being positioned to kind of take share there? Or do you even look at sort of the industry participants as relatively weaker, and that kind of gives TRI even maybe some incremental opportunity? Just wanted to get your sort of expanded thoughts there.

And then secondly, just with respect to 2023, maybe for Mike, when you think about inflation, I mean, obviously, you have a significant labor component. Can you just talk about how that changes the puts and takes there, recognizing, of course, that there may be some opportunities to sort of move rates around as well on the recurring -- on the subscription front? Any color would be helpful there.

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

Yes. Thanks, Aravinda. Let me quickly address the first point. So as you know, we've got a pretty robust pipeline of M&A that we're looking at. We're optimistic that the valuations are coming our way versus the other way around. But we'll be very rigorous, very disciplined and patient about going after them.

Focused on automation, workflow automation tools that drive efficiency and take many hours out of key tasks for our Legal, Tax & Accounting and Risk, Fraud & Compliance and Government customers. That's really the sort of area of focus, also with an eye to some selected international expansions.

Within Legal, yes, look, we're very bullish. What we see is an industry that is at the start of a transformation, and it's an information- and tech-driven transformation. So for many years, the legal profession has been reasonably slow to move and slow to adopt technologies. And we've seen that change pretty markedly coming out of the pandemic. So every head of a law firm is asking us the questions around how can our tools, how can our research content and our tools combined help them be less reliant on hiring new lawyers or additional lawyers to drive growth. So they want to create a different set of economics and a different vibe within their firm. And we're one of the few players that's well positioned to take advantage of that.

So as we look at the life cycle management, document management, further workflow tools, we see a pretty big opportunity. And the TAM is growing in a meaningful way because traditionally, it's a profession that's underspent on information and technology and arguably overspent on real estate. And that is being addressed pretty aggressively by the leading firms. We think it provides a pretty big opportunity. So that's a few thoughts on the first part of your question.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. Aravinda, on the second part of the question in regards to 2023 and inflation, I would say both for 2022 and for our 2023 guidance, based on how we see inflation of the top line and bottom line, we have fully incorporated our current view into '22 and '23 guidance. To your point there on labor, we certainly provided higher merit increases in 2022. We're working very closely with our HR team, Chief People Officer in regards to 2023 there. But we think we factored in the appropriate increases for the labor cost.

The other element of inflation that we monitor with Jennifer Prescott leading the Print businesses, paper print and postage, we've certainly received -- incurred some inflationary increases on the cost there, but we've been able to offset majority of that with our pricing. So managing pricing, coupled with the increased labor cost and other costs, we think we're managing all of those aspects very well. As you mentioned, there are a lot of puts and takes. But with those puts and takes, we think we've fully incorporated them into our guidance for '22 and '23.

Operator

The next question is coming from the line of Heather Balsky of Bank of America.

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

I was curious if you can just talk about some of the sort of incremental areas you're investing in. You talked about on the margin keeping kind of guidance the same for opportunity to invest. What are the organic opportunities you're most excited about?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, I'll start with that, Heather. First, I would say that we're continuing to invest in our Change Program where we've centered that on improving our customer experience. I think Steve itemized a number of items earlier that involved the Change Program. So I'd say, first, we're continuing to execute that. A lot of lifting still in Q3, Q4. But I think the team has a very good glide path to work on the Change Program items.

In regards to other areas of investment, I would highlight our product and engineering. First, our Westlaw Edge 2.0, which will be released later this year within Legal, that's an important area for us. Practical Law that we highlighted during our May 3 earnings call, Practical Law helps both our law firm customers and also our general counsel customers within Corporates.

Risk, Fraud & Compliance, as Steve discussed today, impacts both our government customers and also our corporate customers is another area. Steve referenced Kriti earlier. Certainly HighQ that we acquired back in July of 2019 is a key area for us. Over within our Tax & Accounting Professionals business, Ultra Tax that I referenced during the prepared remarks today. Confirmation that we acquired in July of 2019 continues to perform incredibly well under Elizabeth Beastrom's leadership. We also have leverage there within our corporate customers.

So outside of our Change Program, Heather, the key focus for us is in regards to investing in our products to help our customers there. And it's very balanced across our portfolio, including within our Latin America region and also Asia and emerging markets.

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

Yes, I mean, it's -- if you go back to our Investor Day presentations at the start of last year, we talked about 7 growth initiatives. We continue to invest behind those because we're seeing good results, and we're excited about where they can take us.

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

Helpful. And as a follow-up, when you think of 2023, if there is a downturn, if you were to see some sort of sales impact on the margin side, you have the benefit of the cost cutting with Change Program. But more broadly, how are you thinking about margins and the things you can control?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. I think, Heather, for '23, we remain confident in achieving our guidance of 39% to 40%. In regards to any revenue headwinds, where we would potentially see those first would be in transactional revenue, which includes our Reuters Events. I'd say Reuters Events is having an incredibly good year, over $20 million of revenue in Q2 for us there. Transactional certainly did well in the first half of the year. As I mentioned, we expect it to normalize in the second half for us.

But for margin, 39% to 40%, back to Aravinda's point, we have lots of puts and takes that we can manage and pull. And we feel confident in delivering 39% to 40% in 2023. And we have enough levers to effectively manage through while supporting our employees and our customers.

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

Yes, not -- Heather, not to be flippant about it, but should we head into a recession, be it a broad and deep one or a relatively shallow one, we view it as an opportunity, an unequivocal opportunity to emerge stronger relative to our customers and be better able to -- relative to our competitors and better able to serve our customers. We have #1 and #2 positions in just about every market in which we operate. And we think a more difficult economic backdrop will provide us with an opportunity to further those leads, which, should it happen, we'll be looking forward to.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. Heather, back to your first questions on areas of investment, I think the areas of investments just intentionally make us stronger as we go through '22 and certainly position us, to Steve's point, for '23. So we think they go hand in hand.

Operator

Next, we have a question from the line of Drew McReynolds of RBC.

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

Late coming on to the call, so I apologize if you've covered this off. Maybe Mike, just an update on Westlaw Edge 2.0, if that's still on track for some launch in the back half of this year.

And maybe a bigger-picture question, it's my understanding in terms of Thomson's internal AI and machine learning capabilities, you went down that path many, many years ago. And obviously, you're leveraging it into products like Westlaw Edge. Just wondering, as the AI and machine learning markets have evolved over the last 5 or 6 years, could you speak to your internal capabilities to keep pace with that kind of innovation versus your M&A strategy where you look to different companies with these capabilities perhaps to backfill your own internal kind of innovation machine? So sorry for the kind of broad motherhood big-picture question, but just curious just in light of what you just acquired in the quarter.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Drew, great questions. Let me tackle Westlaw Edge 2.0. Drew, we confirm that we will launch Westlaw Edge 2.0 in the second half of this year. Steve and I have had multiple sessions, demos from Andy Martens, Mike Dahn, Paul Fischer, David Wong, in the last few weeks. I think you'll be incredibly pleased. More importantly, our customers will be super pleased when we launch it later this year. So fully on target there.

In the meantime, Drew, the team, our go-to-market team within Legal Professionals and Corporates, they continue to work with our customers on Westlaw Edge 1.0. We're approaching 70% penetration with Westlaw Edge 1.0, but 2.0 will definitely launch later this year, Drew. And look forward to sharing it with all of you and our customers.

I think Steve will address the AI, ML question.

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

Yes. So we have a couple of hundred AI and ML and world-class experts in our TR Labs. And so those folks are spread throughout the world. There's quite a number of them here in Toronto. There are a number in London, in New York into -- and in other operating centers like MSP and Ann Arbor and Dallas. And we're very proud of the work they do. They have been instrumental in Westlaw Edge 1.0 and have been, I think, even more influential as we think about the launch of 2.0.

So the proof is there. I think we are keeping up with a changing environment, if not outrunning it, which is obviously no mean feat. And the opportunity for us is to, in along the lines of being a content-driven technology company, is to increasingly add AI and machine learning to our unique content and best-of-breed software. We've done more of that in the Legal Professionals area, but we are starting to ramp those efforts up across the portfolio, including in Tax & Accounting and Risk, Fraud & Compliance, amongst others.

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

Super. And maybe one last quick one. Back to you, Steve, just you spoke about taking advantage of your #1, #2 positions in a downturn. Just before we get to that phase, as your kind of peers coming out of COVID and not that these are only your peers, but Wolters Kluwer and RELX, are you seeing any change in their capabilities, their ability to execute on all the things they're trying to capitalize on post-COVID? Just any change in the competitive dynamic, that would be great.

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

No, Drew. As you know, we have towering respect for our traditional competitors and the new and emerging competitors. So we don't take it lightly. And without -- of doing it, we do keep abreast of what they're up to. I don't discern any meaningful change in competitive intensity or rate of innovation from our customers at the moment, but we'll stay on top of that.

Operator

Next, we have a question from Andrew Steinerman of JPMorgan.

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

It's Stephanie stepping in for Andrew. Thanks for all the color you provided on the Corporates segment. I was wondering if you can talk about your positioning in Indirect Tax relative to competitors in the marketplace. Is Thomson gaining market share in that area?

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

Yes. Thanks, Stephanie. So our Indirect Tax proposition, I would say, in terms of its size is not a #1 or #2 to the earlier points made, but it's closer to 3 or 4. So we tend to compete at the high end of the market with Vertex. And I think we're holding our own or a bit better there. It is 1 of the 7 -- so 1 of our 7 growth verticals that we announced at Investor Day last year. So we've been investing in it and building the capability and the team, and we're proud of the efforts.

Avalara in a different territory. They've come from the SMB space, but they're trying to move up the scales there. And of course, Sovos, which is private equity owned, have a pretty robust portfolio. It's a somewhat fragmented portfolio, but a robust portfolio.

So I think this is an area where we're seeing robust growth -- industry growth in the mid-teens. We're matching that, but we'd like to -- we'd certainly like to have a bigger, more robust presence and move into a #1 or #2 position over time. And we'll be sort of thoughtful and rigorous about how we might get there.

Operator

And so the next question is coming from the line of Scott Fletcher of CIBC.

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

I just have a question on the sales cycle and the impact of macro headwinds and your comments around sort of that healthy paranoia and whether it's extending sales cycles given some more scrutiny on or different levels of review as you go through the new sales cycle.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, Scott, thank you. In regards to the sales cycle, we're not -- we're watching it, as you can imagine, incredibly closely with all of our segment leaders and subsegment leaders there. We're not seeing any noticeable change right now in the length of our sales cycle.

The one that's probably the trickiest for us is within our Government business, and it's really nothing new. But just given the government procurement process, it's a little bit more variable in nature, a little bit less predictable than our other businesses right now. But we're not seeing any significant change right now in the sales cycle or length thereof.

I do credit, Scott, our sales teams for that, both our direct sales reps, but also account managers, client managers, customer success managers, all the different resources that we apply to supporting our customers there. But that's one that we're watching closely, and we'll keep you updated in future quarters.

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

Yes. And the other thing to note is that we're investing in our growth initiatives, particularly around tools that drive efficiency. The conversations remain very healthy with customers where they can see a tangible, measurable increase in their own efficiency. So fewer hours required to achieve core tasks, fewer bodies required to achieve core tasks, that's really a big area of focus. And that embraces Westlaw and Practical Law, HighQ, ThoughtTrace and extends into our Tax & Accounting propositions.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, Scott, 2 additional points I would mention. Just in the last 2.5 years, I think our teams, the sales go-to-market teams have done a hell of a job adjusting in this hybrid environment, virtual environment, supporting our customers that way. We do have our annual meeting with our sales leaders coming up in mid-August. That will give us additional time to get direct impact. But right now, we're not seeing any significant change, Scott.

Operator

We have a question from Manav Patnaik of Barclays.

Unidentified Analyst

This is [Brendan] on for Manav. Just wanted to ask real quick on the guidance. Obviously, revenue is up 50 bps, twice over the last 2 guidance increases. You kept margin at 35%. Just want to -- is there bias there or simply just a bit higher costs from inflation or investments? Or how should we think about that?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, 3 items I would mention, [Brendan]. First is certainly we have made incremental investments. You're specifically focused on margin, but we've made incremental investments in both OpEx and CapEx as we see opportunities to sustain and accelerate our organic revenue. Secondly, to your point, Brendan , certainly, inflation. Here, I think we're doing a good job managing the puts and takes, as I've discussed earlier, but certainly inflationary pressures is one that we're watching very closely. And then thirdly, I would mention, we're very -- being very prudent, eyes wide open on macro factors just during the remainder of the year.

So I think the convergence of those 3 items that we're closely monitoring and investing in are the reasons why we maintained the margin at approximately 35% for the full year. But we're confident in delivering on that, Brendan .

Operator

And the last question is coming from the line of Douglas Arthur of Huber.

Douglas Middleton Arthur - *Huber Research Partners, LLC - MD & Research Analyst*

Steve, just a sort of big-picture question. When you talk about technology work solution adoption at the big law firms, among others, is that enhanced by sort of a generational change in the leadership? I mean I think of some of the old-time law partners that I know, and if you walk into their office and started talking about AI and cloud-based solutions, they'd look at you blankly. So -- but there does seem to be a younger group of managers, and I'm wondering if that's sort of accelerating adoption.

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

Yes, Doug, it is for sure. I mean if you sort of looked at our business 5 or 10 years ago, you'd see on the research side a knowledge -- Chief Knowledge Officer or a librarian who was very much the sort of gatekeeper and curator of the research content for the practicing attorneys. Now more and more, the attorneys themselves would look direct into our products, and they're very adept at doing so and providing us feedback. And we do our best to incorporate that feedback into subsequent releases. So I think that is very much the trend.

The other thing that occurred during COVID amongst the senior-most, longest-tenured lawyers, including managing partners, because they went to work from home for the first time in their careers. And as one of them joked with me, he said, I've become my own IT guy, right? So I didn't have a clue how to do any of the stuff before the pandemic, and now I have no choice.

And I think -- so even the longest-tenured folks are starting to adopt technologies and getting much more comfortable with directly using our products. And that's a really healthy dynamic for our business because the more users are directly exposed to the experience and as we invest behind Charlie Claxton and our UX and design teams to improve that, we think the stickiness of those products goes up and that the chances of renewal at healthy price increments goes up, too.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

I think, Nica, I think that's the last question. We really appreciate everyone's time today.

Operator

Thank you very much, everyone. That concludes your conference call for today. You may now disconnect. Thank you for joining, and enjoy the rest of your day.

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

Thank you.