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PRESENTATION

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

All right. The clock started running already. So we have 1.5 minutes off to work with. Thank you, everyone, for being here. We have Thomson Reuters management. Steve and Mike, thank you for coming.

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

Thanks for having us.

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

Really appreciate your presence.

QUESTIONS AND ANSWERS

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

I -- maybe to start with, I mean, the stock has been one of the best performers, no wonder, given your track record in recent years, given the changes you've done in the company since you got in. And the performance on the top line and the bottom line are definitely something that investors value.

Maybe I'll start with the question of, how is the business so resilient in economic growth? And now as we look into '23 with the economy slowing down, you still -- you're still looking for strong growth, and you're still looking for continued momentum. Maybe you can start with that understanding.

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

Yes. I'll start, and I'm sure Michael will supplement. I mean from our perspective, without, I hope, any sort of sense of arrogance or overreach, we think we're just getting started. I think to your question, the 2 things that we've sort of done to date, one, is Mike and I inherited an incredible collection of businesses. Stable, growing end markets must have information and software and a very, very long and disbursed list of customers. So the sort of quality of the businesses that we inherited with 80% recurring revenues, very difficult to dislodge. It was as good a starting point as I've ever seen.

In addition to that, in our first 3 years in the role, we've been able to successfully execute a transformation program. And it's breathtaking, and it's sort of -- it's been breathtaking in its sort of depth and breadth.

We've sort of fundamentally rewired our customer experience. We have gone end-to-end and modernized our tech stack. And we've made significant organizational shifts to put the right talent in the right places. And I don't think we've really seen the benefits of that yet. The intent of doing those 3 things as part of our Change Program over a 2-plus-year period has been to equip us with a platform for higher sustainable organic growth. And we think we're just at the start of that.

Now as we look at 2023, and Mike has been, I think, very clear about some lengthening sales cycles within Corporates and I think some signs that we're watching carefully, we're about as resilient to business as you can find. We're not completely immune, for sure, but what we really focused on is using that growth platform to build higher sustained organic growth in '24, '25, '26. And we think that, that is a pretty bright future if we continue to do the right things as a team.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. I mean I would just supplement. We benefit from #1, #2 positions in most of the markets that we participate in. That 80% recurring revenue base that Steve mentioned, we have 7% organic growth each quarter now for -- I think it's 6 consecutive quarters there, which has really helped us with it.

Just to remind everyone, our guidance for 2023 is 5.5% to 6% in regards to total organic growth. And what we refer to as our Big 3 segments of Legal, Corporates and Tax is 6.5% to 7%. And our EBITDA margin for 2023 guidance is approximately 39%.

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

We're going to break down a bit the discussion also on the different segments. But before I do that, maybe we can talk a little bit about the drivers that allow you to get that 7%. If you can break it down in terms of price and subscription. I mean you have a high recurring business. And usually, it's hard to -- and I worked before in companies that have a high subscription basis or high recurrent basis. It's hard to get pricing leverage. Help us understand the pricing and subscriber growth rates for (inaudible) percent?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure. I'll break it down into several pieces. First, with the retention. Overall, it's 91% for total Thomson Reuters. That certainly varies by segment with some lower, some much higher. If you think about the highest retention, our Westlaw product, 95%, 96% retention for us. We have lower retention with our smaller clients, and Steve mentioned the work that we're doing on the end-to-end customer experience. We have a lot of optimism. We can continue to improve our overall retention. 1 percentage point of retention is a little over $50 million of annual revenue for us. So retention is really important.

And in the next 12 months, you'll hear more and more about NRR. We're pivoting from kind of traditional revenue-based retention to NRR. We started with our Corporates segment there.

Second, in regards to pricing, it does vary once again by segment and subsegment. The highest consistent price increases has been within our Tax & Accounting professionals business, historically around 5%. Our Corporates segment, it's been around 3%. Legal in the 2% range. So overall, you're looking at 2.5% to 3% historically on price. As we look at '23, we think we will see a step-up in the price -- overall pricing for total Thomson Reuters and some price lift for each of our segments.

The third item I would mention would be cross-sell and upsell. I think we do a really good job on the upsell. The cross-sell area that you've heard us talk about in prior conferences and earnings calls, we still have a lot of runway in regards to cross-sell.

And then the fourth item is new customers or new logos. The area that we've done the best there is with our Latin America business that you've heard us discuss in regards to Dominio, which is as a tax business. But Steve, anything to add?

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

No, I think we've been prudent over time about price increases. And we've been very deliberate about coupling them with improvement to our products. And one of the things that we set out as part of our sort of objectives of the Change Program and beyond was to become the most innovative company in business information services. So as we think about the sort of peer set that we like to compare ourselves to. We want to make sure that our product and engineering teams are putting out new features, new functionality, brand-new products at a faster rate, more iterative and meeting or exceeding customer needs at every turn, that then flows through to price.

And so as we get better and better at that, it's not traditionally something that TR has been all that good at, but we're starting to see some really positive signs associated with our innovation cycle. And we're optimistic that, that'll lead to stronger and stronger price over time. But we'll continue to be prudent about it.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

And just one last point on price. You've heard us talk about multiyear contracts, normally 3 years in nature for us. Our Legal Professionals business is about 60% multiyear contracts. Corporates is about 40%. Tax & Accounting, about 10%. So now that we're into year 2 in regards to those price increases that we implemented, that's why we think we'll get more lift in 2023 as we go further and further into the cycle for the multiyear contracts.

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

That assumes or underlies the assumption that you feel that you have, not in the past, raised your prices at fast enough to account for the product improvements that you've done to your client.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

That's correct.

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

And now you're catching up to real value of the product base.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes.

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

So on the Legal side, and you've made a strong leadership in Legal, new product introduction as well as -- I'd like you to talk a little bit about if you need to beef up that business somehow, where do you feel your strengths are and where do you think you need to get in to improve the business function there?

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

Well, the first thing I'd say about the legal profession and our service of the legal profession is that it's a profession undergoing profound and accelerating change. I spent a lot of time during the pandemic with the managing partners of legal firms. And each and every one of them told me the same thing in different terms, which was they've sort of realized that we spent too much money on real estate and not enough money on technology -- on information and technology, firstly.

And secondly, the war for talent that rages -- that raged through the pandemic and still to this day is problematic for them in terms of getting -- attracting, retaining, developing the best talent and realize that sort of in order to fuel their growth, to be reliant on hiring more and more young lawyers and pushing them through their apprenticeship system, it's a very difficult model. So that all of those -- I think both of those things lead to an increasing reliance on openness to adopting new technology, firstly.

Secondly, these are private partnerships. So the idea that they're going to sort of have lots and lots of experiments with lots and lots of start-ups and have a very fragmented sort of supplier base, I think, is an illusion. They will come to the players they trust, and they trust us, and they trust 1 or 2 others. So I think there's a big opportunity for us to do both.

Advanced research is better on the back of our launch of Westlaw Precision last September and Practical Law dynamic the year before, but also couple that with our workflow software tools and provide more integrated offerings that fundamentally improve the efficiency and effectiveness of a legal practice. That we view as the opportunity. And I think Westlaw Precision is very heavily AI-driven. So we've sort of been at the forefront of that.

We look at the developments around ChatGPT with great interest. We've certainly tested those. And we're confident that we can sort of stay at the very forefront of that curve, but most importantly, best serve our customers and Legal segment.

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

In terms of AI integration into the legal profession, how much investment do you think you need to make to create a new product that can change the dynamic in the industry? And I'm sure other companies are also trying to do the same.

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

Yes. Look, it's the hottest topic than any of us talking about at the moment. So the first thing I'd say is that Westlaw Precision has a very, very significant amount of AI already in it that builds on both our product teams under Mike Dahn's leadership and also our TR Labs that exist in 4 or 5 different locations around the world. So this has really been a collaboration between those 2 parts of our company to harness AI for the benefit of litigators.

The single biggest place that we applied AI in the development of precision was actually in the attorney editors' work. So the AI-enabled attorney editors who are producing a lot of that fundamental underlying IP to be 5 or 10x more productive because the AI would lead them in the right place as they classified and codified cases. So we will continue the same intensity of investment in AI against that product.

In addition to that, you may have seen over 12 months ago, we acquired a business called ThoughtTrace, which we think is the leader in AI-driven contract analysis. So this is the idea of being able to use AI to analyze hundreds or thousands of contracts in seconds to ensure that they're compliant with the latest change in regulations and their terminology is the most appropriate and the most accurate and compliant with the law. ThoughtTrace had focused on oil and gas leases. So Nick Vandivere and the team had cracked the code on that. And what we did with his permission was test their models on other verticals, financial services, extending beyond into pharmaceuticals and biotech and a number of other health care and other areas. And we saw great results from that. So we think we can play a big role in AI-driven contract analysis.

And then we're looking at areas to up the amount of AI that we put in our Tax & Accounting products and our Risk, Fraud & Compliance products, too. So we're not at all arrogant about this. There is lots of exciting things going on, and this world will change in ways that none of us can anticipate. But we're pretty confident as we sit here today that we're making the right investments behind the right talent in the right places, and it's starting to flow through into our products. And as long as we keep that focus, we'll be just fine.

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

Okay. Great. In terms of your tax business, you mentioned earlier it's one of the lowest contract lengths within the whole Big 3. So how should we look at that business in terms of sustainability or in terms of recurrent basis if those contracts are shorter? What's offsetting the shorter length in the contract to allow you to continue to get that strong growth from that business?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, it's quite sticky, Maher. It's one of our stickiest businesses. Although the multiyear contracts are shorter in nature, as I mentioned, 10%, it has one of our higher retention rates there with our clients -- over 100,000 clients that we have there. That's really, really important for us is the retention and also the stickiness of the product.

I think we also just acquired SurePrep January 3 of this year, which is a nice supplement for us to help with the Tax & Accounting, really automating the full end-to-end workflow there with the data ingestion. So with that additional investment of SurePrep, that was really well received by our customers.

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

With the Tax & Accounting, although many of the contracts have come up for yearly renewal, the retention rates are very high for the simple reason that many of these firms, they literally started their practice on our UltraTax calculation engine, and they've been using it throughout their entire professional lives and all of their customers' returns. And all of that back data is contained within the UltraTax engine.

And so to switch that out for a competitor's product is a very, very time-consuming, difficult task, which means that the relative sort of shares between us and our next biggest competitor are very, very stable, but it speaks to the sort of the switching costs relative to the contract length.

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

Are there areas that you think you need to beef up more in that segment?

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

Yes. We -- I mean we see a profession that's similar to legal is undergoing a pretty -- or it was about to undergo a pretty profound change. So basically, if you step back from the sort of tax and accounting profession, particularly at the sort of small and mid firm that we've been traditionally very focused on, there's a couple of things happening. One is the number of returns is going up. Tax returns is going up. The complexity of those returns is going up, so the complexity of tax compliance just goes up and up. And I'd love to find someone who predicts that's going to change anytime soon in the United States or in Canada or anywhere else.

And then the third part is their end customers are demanding more and more, I should say, in that tax return process and more and more advisory services. So yes, get the tax return down and then help me manage my inventories, help me manage my cash balances, help me make the most of my cash flows. It's sort of fundamental business questions like that, that SMEs are turning to their tax and accounting profession.

So the -- and then the other end of the spectrum, there are fewer and fewer young talent choosing tax and accounting as a profession. So you've got an increase in demand and less talent coming in the bottom of the funnel. And that is going to put a lot of pressure and demand on better and better, more scalable technology. And that's what led us to buy SurePrep because, basically, what SurePrep does is it automates the document ingestion process associated with the tax return. We've all at various times in our life and various times of year done tax returns. One of the most painful thing is taking all those documents that used to be sort of accumulated in a drawer or a shoebox and putting them into the return. And then increasingly, it's got more complicated because we've still got a bunch of physical documents and receipts. And then we've got all these log-ons to different investment accounts or bank accounts or whatever it might be.

What SurePrep does is it automates that process, and it auto-populates the first version of the return. And that's a game changer for tax and accounting professionals because a disproportionate amount of their time was spent just sifting through those documents, organizing them, putting them in a first version of return, making sure that it made sense going back doing corrections, asking questions to their customers. SurePrep does it using AI in the flash of an eye. And so all of a sudden, you've got a first version of the tax return. A professional can say, okay, this is on track. Here are the 3 questions I'm going to ask my customer, and they have chopped out dozens, if not hundreds of hours in that process. So it's that kind of innovation. It's pretty grimy stuff, but it transformed the life of a tax and accounting professional, allows them to do more returns, focus on the increasingly complex issues and get to the advisory services that they -- that many of them aspire to do.

So we see great value in that and SurePrep's relatively low penetration in terms of its usage across the tax and accounting profession in the U.S. We've got the distribution and the relationships with 100,000 firms. So we're optimistic about where that one will go.

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

That's great. I mean if we're not excited already, when you look at Corporate, you had mentioned in the past that Corporate has an addressable market bigger than either Legal or Tax. And we're seeing growth there improving in the last couple of quarters. Can you talk a little bit about why you're so excited?

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

Yes. So when we think about sort of legal professionals, that's serving law firms, small, medium, large. And we sort of, in addition, serve court systems and government agencies through our government business. We think about Tax & Accounting, it's serving the tax and accounting firms.

Corporates really is serving the general counsel, the head of tax and the head of risk, right? And so it's in a sense repurposing some of our pre-existing products and serve those other professionals for the benefit of in-house, the in-house team. And then we've got a number of dedicated products like ONESOURCE that serve those customers. This was swarmed, I think, Mike, 5 -- 4 or 5 years ago.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Was, yes.

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

And so -- and it was a firm with the express purpose of getting us more focused on in-house because the needs are similar but slightly different. And we've been very focused on the service providers versus the in-house professionals.

And I think we've had -- we're just starting to get going. In 2021, this business grew about 5%. Last year was close to double digits. So it's growing at -- it's sort of starting to fulfill its destiny. Part of it is making sure that the voice of those customers are incorporated in our product development. Part of it is making sure we've got dedicated sales teams that are able to cross-sell and upsell within corporations. And it's focusing on particular verticals. And part of it is really doubling down on a relatively small but exciting opportunity for us, which is Risk, Fraud & Compliance within the Corporates segment. So that's using our CLEAR data set, our TRSS analysts and a number of other different products to make sure that businesses understand who they're doing business with, who's in their supply chain, which customers they should be accepting, which they should be rejecting. And that is an enormous business where we're a tiny, tiny player with a really interesting starting point.

So when we put all that together, we're cautiously optimistic that we can meet or exceed the growth targets that Mike set out for Corporates over the next few years.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. Just speaking of those targets, some of you will remember back in February of 2021, we provided 3 years of guidance for 2021 to 2023. At that time, we provided guidance for the Corporates segment of 7% to 9%, which some doubted at the time given we did 5% in 2021. As Steve mentioned, we did 8% in 2022. I think we have the ability to sustain that in 2023. And as we go into '24 and '25, continue to build upon that foundation, as Steve referenced.

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

All right. So you guided for 5.5% to 6% in 2023 on organic growth. Cash is one of the key areas where you don't lack off or you don't lack any capital -- external capital needs. How should we think about M&A that can add on top of the 5.5% to 6% that can boost reported results even further?

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

Yes. I'll start, and I'm sure Michael will add or maybe correct. But we're sort of proud of the fact we've been -- we've held the bar very high. So we're looking at a pretty full and healthy pipeline of potential targets that serve our Big 3 customers, so Legal, Tax, Risk, Corporates. We're looking for businesses that are sort of additive to that customer experience that don't bring a lot of tech debt and that we think a cultural -- a good cultural fit. And we've done a couple, SurePrep being the largest when we closed on January 3 of this year. We've also passed on a lot, right, because they've failed with one of those tests in addition to the usual financial hurdles.

And we're going to continue to be disciplined. We're not -- we don't need to do anything sort of dramatic or untoward in M&A. We do have a very sizable amount of capital to put to work as a result of the cash flow generation from our core business and our LSEG stake that we're starting to monetize. But we won't apologize if we sort of don't do a lot of deals if we can't find them.

We're still seeing -- over the last few months, we've, of course, seen public valuations come down to earth a little bit, particularly the sort of software assets that we're interested in, but we're still seeing some of the private equity firms bid pretty full prices. And so we think that, that's going to come back to sort of where we'd like it to be, but we'll have to wait and see. We certainly can't predict the future.

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

It's good to hear -- for a company with such a big balance sheet power, it's good to hear that you cannot keep that focus on...

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

Yes. I mean one of the things we talk about as a team is how many management teams have successfully deployed this sort of capital as a portion of their total market cap -- the sort of total balance sheet capacity over a period of time, and I think the number is relatively modest in terms of who's done it successfully. And so we're just going to be unapologetic about that discipline. If we stick to that discipline, and we're very clear-eyed about what we're buying and why we're buying it and how we add value, and we've been very successful at buying smaller products and pushing them through our distribution. So Practical Law was a great example of that. HighQ and Confirmation are examples of that. We think that SurePrep and ThoughtTrace will be the next examples.

So as long as we stick to that playbook, we think we're going to be in that short list of companies and teams that have done a really good job in the benefit of -- to the benefit of shareholders of deploying that excess capital. And if we can't find the opportunities, we'll return more to shareholders.

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

You're certainly not apologetic of returning capital to shareholders. You announced a new capital return program on your last conference call -- last results. Can you let us know what drove you to choosing that way of returning capital to shareholders versus the regular way that we usually see in the marketplace, either dividends or large stock buyback? I think that's a particular question I get from our clients.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. I'll break it down into several pieces. Just first for context setting, I think we've been very consistent between now and 2025. We estimate we have about $11 billion worth of capital capacity. That includes about $6 billion on monetizing the London Stock Exchange Group stake. Some of you may have seen yesterday, we did monetize about 13.6 million shares. As we stated on the February earnings call, we had 61.5 million back on February 9. So we closed out yesterday with 47.9 million shares of the London Stock Exchange Group. So that yielded a little over 1.2 billion yesterday in gross proceeds for us.

In regards to your specific question on return of capital, first, we are in the process of completing the $2 billion NCIB share back. We've done a little bit over $1.8 billion. We're on target to complete that by early April, as we indicated on the last earnings call.

On the return of capital, we saw that as an opportunity to have immediate impact in regards to bringing our share count down, providing accretion to EPS, free cash flow per share with -- versus doing it over multiple quarters given the size of capital that we could return. So really, the very efficient nature of just getting it done at one point. And also, it is a very tax-friendly option for us, especially for our Canadian shareholders. Those are 2 primary reasons for us.

You also mentioned dividends. We did increase our dividends 10% again this year, consistent with 2022. And we see that as a trend in '24, '25 to continue with that 10% annual dividend increase. So I think we have the flexibility. It's not or for us. It's and, and, and. We have the financial capacity and wherewithal to do the strategic M&A that Steve just discussed, to do the return of capital, continue with the double-digit dividend increases each year. So a lot of flexibility, optionality for us, but I emphasize it's about and, not about or.

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

Great. Right on time. Thank you both for coming. We appreciate your presence and hope to see you next year.

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

Great. Thanks, Maher.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Thank you.

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

Thank you, everyone.