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TRI.TO - Q2 2024 Thomson Reuters Corp Earnings Call

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## PRESENTATION

**Operator**

Good day, everyone, and welcome to the Thomson Reuters Second Quarter Earnings Call. Today's conference is being recorded. At this time, I'd like to turn the call over to Gary Bisbee, Head of Investor Relations. Please go ahead.

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

Thank you, Melinda. Good morning and thank you, everybody, for joining us today for our second quarter 2024 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. To enable us to get through as many questions as possible, we would appreciate it if you'd limit yourself to one question and one follow-up each when we open the phone lines.

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 our 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 reported 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 turn it over to Steve Hasker.

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**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Thank you, Gary and thanks to all of you for joining us today. Good momentum continued in the second quarter, with revenue in line and margins modestly ahead of our expectations. Total company organic revenues rose 6% with the Big 3 segments growing by 8%.



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As we predicted, the pace of organic and inorganic investments picked up in the second quarter as we work to position the company for faster revenue growth in 2025 and beyond. To incorporate a strong first half, we are raising our full year 2024 revenue outlook to the high end of the prior ranges and now see organic growth of approximately 6.5%, including approximately 8% for the Big 3 segments.

We continue to see growing momentum from many areas in our portfolio. This includes double-digit growth from key products, including Practical Law, Confirmation, SurePrep, Pagero, Indirect Tax and our international businesses.

Interest in our Generative AI offerings remain strong with Westlaw Precision and CoCounsel momentum continuing. Our second annual future professionals report supports this narrative as it indicates that knowledge workers are optimistic about significant boost to productivity with AI poised to redefine workflows, drive innovation and unlock new opportunities for growth.

Our 2024 investment plans are on track as we execute against the ambitious product road map we discussed at our March Investor Day. To this point, we recently launched two additional GenAI capabilities. The first is CoCounsel Drafting, a new legal drafting solution that works in Microsoft Word and leverages Practical Law content as well as a customer's own documents.

The second is Checkpoint Edge with CoCounsel, which brings better, faster answers to complex tax research questions through a chat-based search experience. This is the first launch of GenAI capabilities into our tax & accounting portfolio. Customer feedback on both of these offerings has been strong, and we continue to work towards delivering additional enhancements and launches over the next few quarters.

Our capital capacity and liquidity remain a key asset that we are focused on deploying to create shareholder value, and we've made good progress on this during the second quarter. We completed the monetization of our stake in London Stock Exchange Group, bringing gross proceeds to date to $8.3 billion. We also completed the $1 billion share repurchase program launched last November.

On the M&A front, Pagero integration efforts are underway, and we continue to assess additional inorganic opportunities. As a reminder, we estimate $8 billion of capital capacity through 2026. Now to the results for the quarter. Second-quarter organic revenues grew 6%, in line with our expectations. Organic recurring and transactional revenue grew 8% and 5%, respectively, while print revenue declined 7%.

Reported revenue grew 6%. Adjusted EBITDA fell 2% to $646 million, reflecting a 300 basis point margin decline to 37.1%. This lower profitability was expected and results from organic and inorganic investments we are making in 2024 to position the company for accelerating profitable revenue growth.

Turning to the second-quarter results by segment. The Big 3 businesses delivered 8% organic revenue growth. Legal organic revenue grew 7% driven by continued momentum from Westlaw Precision and CoCounsel. Demand for our key offerings remains healthy led by Westlaw, Practical Law, CoCounsel and strong performance in our international businesses. FindLaw remains a headwind to the segment growth rate.

Corporates organic revenue grew 8%. Practical Law, Indirect Tax, CLEAR, Pagero and our international businesses were key growth drivers in the second quarter. tax & accounting organic revenues grew 10%. Our Latin American business, SurePrep and Audit, were all key contributors.

Reuters News organic revenues rose 4% driven by our agency business and the news agreement with the Data & Analytics business of LSEG. And lastly, Global Print organic revenues met our expectations, declining 7% year-on-year, impacted by the migration of customers from a Global Print product to Westlaw, which we discussed on our Q4 earnings call.

In summary, we're pleased with our results. Let me close my prepared remarks with a few thoughts on Thomson Reuters Ventures, our in-house venture fund. As background, in October of 2021, we announced the creation of a $100 million venture fund to support and accelerate our innovation efforts. We subsequently hired a team led by Tamara Steffens, an experienced corporate venture investor.

The team is tasked with understanding and investing in emerging companies that are building differentiated technologies in the end markets we serve while also bringing important insight and intelligence for Thomson Reuters.



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The fund invests in early-stage companies with a focus on Series A fundraising and has a global mandate. AI and emerging technologies are a focus as are workflow automation and other themes that align with the strategic priorities of our Big 3 segments. Since the inception of the fund, the team has invested approximately $50 million in 18 companies. While we expect the team to deliver attractive financial returns, there are greater benefits to Thomson Reuters from the Ventures team and fund.

First, they bring significant insight and understanding about our markets, emerging technologies and start-up players and activity. This knowledge has been built up through meetings with more than 1,500 start-ups since the fund's inception.

The team facilitates introductions and product demonstrations for TR leaders and leverages TR's broader product and engineering talent to help vet potential investments. In addition to insight, the Ventures team contributes to our growth strategy by surfacing opportunities for select product integrations and go-to-market partnerships.

To date, this has yielded several agreements with many others in development. We also see the Ventures portfolio as a pipeline for potential future M&A candidates. We highlight on the slide the fund's investments by end market and capability. I'll quickly mention two investments to illustrate some of the opportunities that the portfolio brings to Thomson Reuters.

First, I'll highlight Neo.Tax, which uses Generative AI to automate research and development tax credit preparation. Their product is highly complementary to our Direct Tax offering, and we have a commercial partnership where our sales force can sell Neo.Tax offerings with ONESOURCE Direct Tax. I'd also note that our internal tax team is adopting Neo.Tax's solution after being introduced to the company by our Ventures team.

And second, I'll mention Field Guide, which provides next-generation AI-based audit workflow technology. We are working to formalize a partnership, and we see its offerings as complementary to our audit methodology content. With that, I'll now turn it over to Mike to review our financial performance.

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**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 for our Big 3 segments. Organic revenue grew 8% for the second quarter, the third consecutive quarter the Big 3 has grown 8% or better. Including the impact of acquisitions and divestitures, revenues rose 8%.

Legal Professionals organic revenue grew 7%, consistent with the first quarter. Key drivers from a product perspective remain Westlaw, Practical Law, CoCounsel and our international businesses. Government grew 7% in the quarter, while FindLaw remains a headwind to the segment growth rate. Legal Professionals revenue growth continues to benefit from the migration of customers from a Global Print product to Westlaw. This added just under $5 million to year-over-year revenue growth in the quarter.

In our Corporates segment, organic revenues grew 8%. Recurring revenue grew 10%, while transactional rose 1%. As expected, growth moderated from the Q1 level, which had benefited from strength in seasonal tax-related offerings. Pagero, Practical Law, CLEAR, Indirect Tax and our international businesses were key contributors. tax & accounting delivered a net strong quarter with organic growth of 10%. Recurring and transactional revenues grew 10% and 11%, respectively. Our Latin American business, SurePrep and audit products, were key drivers.

Moving to Reuters News. Organic revenue rose 4% for the quarter driven by the agency business and the news agreement with the Data & Analytics business of LSEG. Finally, Global Print revenues decreased 7% on an organic basis. Excluding the impact from the revenue shift to Legal Professionals, which I mentioned earlier, Global Print declined 5%. On a consolidated basis, second quarter organic revenues increased 6%.

Turning to our profitability. Adjusted EBITDA for the Big 3 segments was $581 million, down 3% from the prior year period with a 41% margin. The lower profitability results from organic and inorganic investments we're making in 2024 to position the company for improving profitable revenue growth in 2025 and beyond. We expect the higher level of investments to continue in the second half.



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Moving to Reuters News. Adjusted (inaudible) is $51 million with a margin of 24.8%. Global Print's adjusted EBITDA was $43 million with a margin of 35.2%. In aggregate, total company adjusted EBITDA was $646 million, a 2% decline versus Q2 2023. Turning to earnings per share. Adjusted EPS was $0.85 for the quarter versus $0.88 in the prior year period. Currency had a $0.01 positive impact on adjusted EPS in the quarter.

Let me now turn to our free cash flow. You will see a change in presentation for this slide from the past few years. Our formal presentation of comparable free cash flow provided more clarity into the underlying performance when excluding Change Program payments and the impact of the 2018 divestiture of our former Refinitiv segment.

With those now largely in the past, we have shifted to the free cash flow schedule shown in our earnings press releases, which we believe provides a more insightful view. For the first half of 2024, our free cash flow was $812 million, up 11% from $729 million in the prior year period. Higher EBITDA was the largest driver of the increase.

I am pleased to announce we completed the monetization of our LSEG stake, selling $5.9 million shares in the second quarter for gross proceeds of $610 million. This brings the total gross proceeds to date to approximately $8.3 billion, a significant return from the $3 billion at which our equity stake in Refinitiv was valued in the fall of 2018.

In the second quarter, we also completed the $1 billion NCIB, or share repurchase program launched last November. And given the strength of our capital position, we plan to use cash on hand to repay the small bond issues scheduled to mature this September. From a capital allocation perspective, strategic M&A remains a key focus within our broader balanced capital allocation approach. This includes annual dividend growth, strategic M&A and shareholder returns.

I will conclude with our updated 2024 outlook. As Steve outlined, we are raising our 2024 outlooks for total and organic revenue growth for TR and Big 3 to the high end of the prior ranges to incorporate a strong first half. We now see total revenue growth of approximately 7%, up from the prior 6.5% to 7%; organic revenue growth of approximately 6.5%, up from 6% to 6.5%; total Big 3 revenue growth of approximately 8.5%, up from 8% to 8.5%; and organic Big 3 revenue growth of approximately 8%, up from 7.5% to 8%.

In addition to revenue, we're also adjusting two other guidance metrics. While the total outlook for depreciation and amortization of computer software remains unchanged, we are shifting $15 million from D&A of internally developed software to amortization of acquired software. This reflects updated purchase price accounting allocations for the Pagero acquisition.

We are also reducing our outlook for interest expense to $125 million to $145 million from $150 million to $170 million previously. This reduction results from an earlier-than-expected completion of our LSEG monetization and the impact of higher interest rates on our cash balances.

For the third quarter of 2024, we see organic revenue growth of approximately 6% and an adjusted EBITDA margin of approximately 34%. We expect the third quarter margin to be the low point for the year as our investment spending increases during the seasonally lowest revenue quarter of the year. Let me now turn it back to Gary for questions.

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

Thank you. Melinda, we're happy to begin the Q&A session.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions)

Drew McReynolds, RBC.



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**Drew McReynolds** - *RBC Capital Markets - Analyst*

Yes, thanks very much and good morning and nice to see the momentum continue here. I think three relatively quick ones for me. Just on the M&A environment, you've made it pretty clear, it is your kind of priority focus. Just if you can provide us an update on -- at a high level, how the pipeline is progressing and what you're seeing in terms of dynamics.

Secondly, good granularity on the TR Ventures, so much appreciated. Just would love an update on the competitive environment just with respect to the start-up activity, particularly around AI and GenAI. And then lastly, on the CoCounsel pricing strategy, just as you launch here, just kind of remind us how you're monetizing that out of the gate here. Thank you.

**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Yeah. Drew, it's Steve. I'll start, and I'm sure Mike will add to my comments. So on the M&A pipeline, we have a new Head of Corp Dev and Strategy, Taneli Ruda. He's been with TR for many years, but he stepped into that role in the last six months and brought a fresh perspective to our pipeline.

So we're excited about where that pipeline is, and we're assessing a number of different opportunities. Nothing to announce today. And I think everything we do will be consistent with our playbook of taking products that are showing real value to our customers that we can push through our distribution and take advantage of that footprint and our customer relationships. So that's on the M&A front.

With regard to Ventures and the competitive environment, we do see an uptick in competitive activity, both from our traditional competitors and from a relatively small number to date but a number of start-ups. And we view this as a good thing insofar as I think it speaks to the opportunity to use Generative AI to transform the professions that we serve. So it suggests to us that we're on the right track. It suggests to us that the kind of TAM expansions that we had alluded to on our March 12 Investor Day are, in fact, very likely to eventuate over the fullness of time.

And as I said in my remarks, the response to each and every one of our new product launches to date, which have been numerous and I think unprecedented in the history of TR, has been uniformly positive from our customers and from prospects. So we're sort of very respectful of our existing and new competitors, but increasingly confident of our outlook and our trajectory in this environment.

In terms of CoCounsel pricing, one of the things that we've done -- I think like everyone, we've been testing and learning in terms of generative AI pricing. Mike's team have done, I think, a tremendous amount of work to sort of understand the cost structure of these new products and make sure that they provide value to our customers first and foremost, and they're priced to reflect that value; and secondly, that they more than adequately cover our costs and protect our margin profile.

What we try to avoid is per-seat pricing. We prefer the sort of enterprise-wide model where we can drive that, because we think these products are going to drive significant efficiencies within our customer base. So we want to be a beneficiary of that alongside our customers rather than on the wrong side of that trade, so to speak.

Let me stop there, Drew, and turn it to Mike for any other thoughts.

**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

That's a great summary, Steve.

**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Thanks, Drew.



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**Drew McReynolds** - *RBC Capital Markets - Analyst*

Thank you.

**Operator**

Scott Fletcher, CIBC.

**Scott Fletcher** - *CIBC Capital Markets - Analyst*

Good morning. I might follow up on one of your answers there, Steve, just regarding efficiencies that you think you're going to drive for your customers. Are you starting to get a better sense of what the magnitude of those efficiencies might look like and subsequently being able to price a little more accurately based on that?

**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Yeah. It's a great question, Scott. Look, I think it's early days for us and for everyone. But if you had a chance to read our Future of Professionals Report that we put out a few weeks ago, we quantified the impact this year from applying our CoCounsel legal AI assistant four hours per week per lawyer, and we think that will grow to something like 12 hours per week in a couple of years' time. And when you play that out across a sizable general counsel's office or a law firm of any size, it's pretty significant. So that's really what our pricing team has been focused on aligning with. And I would say, so far, so good.

**Scott Fletcher** - *CIBC Capital Markets - Analyst*

Okay. Thanks. And then secondly, another sort of follow-up on the earlier question in terms of looking for enterprise-wide deals and sort of that approach. Are you finding the customers as it stands, are more -- are looking for more targeted initial deals and sort of like in certain areas of the business and then hoping to expand? Is that sort of the approach at the moment? Or are you able to go in with the full enterprise-wide license right off the bat?

**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Yeah. I would say we see a pretty normal distribution here, Scott, insofar as there are a number of customers who are -- particularly law firms but also general counsels who are very forward-looking and very aggressive. So they've basically gone through the test of our products and said, okay, let's go all in and move forward.

I would say you've then got the sort of bulk of customers who, for example, as a partnership group have decided that they need to adopt Generative AI, that it's going to be transformative, but they're really in test-and-learn phase. So they're evaluating their products, they're evaluating others. They're doing trials and looking to move forward.

And then, of course, there's always those that would prefer to go wind the clock back a couple of years. And with them, what we're trying to do is just make the products available in test form and get them more and more comfortable with Generative AI as a concept and as a set of tools, and we're confident that they'll sort of move through that cycle. So long way of saying I think we're seeing a bit of everything. And our teams under Raghu and Laura, I think, are doing a great job of ensuring that each of those different customer personas has been catered to.





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**Scott Fletcher** - *CIBC Capital Markets - Analyst*

Great. Thanks.

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**Operator**

(Operator Instructions)

Manav Patnaik, Barclays.

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**Manav Shiv Patnaik** - *Barclays Bank PLC - Analyst*

Thank you. Hi, Steve. I just had a question on -- it sounds like the PR machines that your firm and the competitor is obviously rolling with all the different rollouts of AI and GenAI and offerings. Just in your discussions with your clients, is there a potential for share shifts given who rolls out the better product? Or is this everyone kind of also just reestablishing their current market dynamics, which have been pretty consistent over the years?

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**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Manav, I think -- it's a great question. I think it's too early to tell how this is going to play out. I mean we are, as I said earlier, respectful about sort of existing and emerging competitors, but we're very focused on our customers and serving them in new and improved ways and creating more value for them and driving more profit for them. And that's a shift for us in terms of our selling motion.

Traditionally, we've been focused on accuracy, completeness of information, efficient use of our software tools and embedded in the workflow. And we're expanding that proposition and the sort of ROI story we tell. I think it's too early to tell as to sort of whether there will be share shifts. But as I say, I hope you can tell we're respectful of competition, but very confident as to where we sit in the investments that we've made so far and the investments we have planned for the back end of this year and into next.

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**Manav Shiv Patnaik** - *Barclays Bank PLC - Analyst*

Thank you.

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**Operator**

Heather Balsky, Bank of America.

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**Heather Nicole Balsky** - *BofA Securities - Analyst*

Hi, thanks for taking my question. I just had a question on legal, the legal segment during the quarter just because there's some moving pieces with those sales coming from the print business. When you look at the organic growth kind of ex the print shift, how are the organic sales trending sequentially?

Are you seeing the modest sequential improvement that's kind of baked into your longer-term outlook? And also just now that you're a couple of quarters into this, kind of what has been the biggest learnings with regards to the GenAI rollout? And how have you been kind of adjusting your strategy as you go? Thanks.

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**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

Sure, Heather. I'll start with that. In regards to Legal Professionals organic growth rate, Q2 2024 was stable with Q1 of 2024. However, when you compare it with Q2 of 2023, it's nearly 200 basis points higher. What you would see, given that we round -- we provide rounding not to the decimal on a rounding basis is 6 versus 7. But given I have visibility into the decimal, it's about 200 basis points higher than Q2 of 2023.

Your question focused on the sequential performance of the business. So once again, stable in Q2. As we look at Q3, Q4, we see a modest improvement step up in the second half of this year, which is a result of the performance of not just the GenAI products, but the products overall for legal that include Westlaw, Practical Law, CoCounsel, our international businesses, along with Drafting and HighQ.

I mentioned during the call today that the government business was 7% in Q2, which was a slight uptick in Q2 versus Q1. The business that continues to provide some headwinds is the FindLaw business, which I've now mentioned, I think, for three, four quarters consecutively. The growth rate for FindLaw is slower than the other portions of the business, which creates some suppression. As we go into the second half of this year, we do see a modest step-up, Heather, in the legal -- the total Legal Professionals organic growth rate.

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**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

And then, Heather, on -- with regard to your second part of your question on learnings. Look, I think there have been many and varied. I'd point to three in particular.

So the first is that lawyers and tax and accounting professionals, auditors are leaning into Generative AI. And I think as it pertains to particularly the legal profession, I think it's certainly against where I thought they'd be. I think they are more open-minded about it and certainly pressing for solutions and to test and learn and adopt. The legal profession, depending on how you define it, is 350 or 400 years old, and it's been characterized as sort of moving very slowly. That is not what we are seeing here. So I think that's the first learning.

The second learning is a real drumbeat around the importance of trusted information and content to train and tune large language models and the need for the provider of these tools to be a responsible and ethical arbiter of Generative AI. And those themes are in every conversation to sort of need to assure our customers that the output of these products can be relied upon.

And I think the third one, which is slightly different, is the interest in demand has been just as large from the smallest customers as the very large global firms. And that's been really interesting to see. Typically, when we put out a new version of Practical Law or Westlaw, it's typically the biggest firms with the deepest pockets who sign up, whereas what we've seen is really good uptake within Aaron Rademacher's business, which is our small law firms and also Liz Zimick's which is mid law. Just the sort of uptake in demand has been just as strong within those segments as it has within Steve Assie's global large law segment.

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**Heather Nicole Balsky** - *BofA Securities - Analyst*

Thank you, both, very much.

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**Operator**

(Operator Instructions)

Andrew Steinerman, JPMorgan.

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**Stephanie L. Yee** - *JPMorgan Chase & Co - Analyst*

Hi. Good morning, this is Stephanie Yee stepping in for Andrew. The corporates organic revenue growth was a little bit faster than we were expecting. Would you say that you've seen a pickup in sales activity? And I know you called out a few products, but would you attribute the growth as primarily driven by legal products or tax products?

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**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

Yeah. Stephanie, happy to start there. We're pleased with the corporates segment. I know we're focusing today on the second quarter. But for the first half of this year, it's a 10% organic growth for the total corporates segment.

And if you look at the underlying net sales of book of business, we had comparable growth, Stephanie, which gives us confidence as we go into Q3 and Q4. We have called out in prior quarters elongated sales cycles for the corporates sales team. We're cautiously optimistic with the performance that we see right now. And once we go into Q3 and get another quarter behind us, I think we'll be able to provide further visibility, but certainly incredibly pleased.

In regards to the products right now, we're seeing really strong performance from all that I mentioned, Practical Law, CLEAR, Indirect Tax and our international businesses. As a reminder, when we reference Indirect Tax, that includes the Pagero acquisition from Q1 of this year, which includes e-invoicing. So we've had really strong performance from the overall portfolio in corporates thus far.

As we look at our sales pipeline for Q3, Q4, we remain optimistic that we just have to continue to earn it each day, Stephanie, but off to a really good track there. That 10% organic growth for the first half is -- that's 300 basis points higher than full year 2023, so look forward to providing a further update on Q3, but good traction thus far. I would say a key point, Stephanie, is execution by Laura Clayton McDonnell and our full team there.

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**Stephanie L. Yee** - *JPMorgan Chase & Co - Analyst*

Okay. Great. Thank you very much.

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**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

Sure.

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**Operator**

Toni Kaplan, Morgan Stanley.

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**Toni Michele Kaplan** - *Morgan Stanley - Analyst*

Thanks so much. Wanted to go back to TR Ventures. Looks like you still have about half the capital left to invest. But I guess, looking ahead, is this an area that you would look to put additional investment dollars in? And Mike, how are you thinking about ROI on this? Because I feel like there's a lot of innovation benefits, and that's maybe hard to measure contribution. So I guess just talk about how you think about ROI with related to the Ventures.

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**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

Sure, Toni. We have ongoing discussions with Tamara, who Steve mentioned in his prepared remarks. Given that we have roughly half the capital, still a fair amount this year. But as we go into 2025 and beyond, we are prepared to make additional investments in these areas. We're pleased with the investments that we've made thus far, Toni. You mentioned the financial return is important, but also the strategic return importance to the company in regards to the innovation and really fueling our product pipeline.

But we apply similar financial metrics and rigor to Ventures as we do to other parts of our business. And I went into pretty lengthy detail during the March 12 Investor Day in regards to the financial metrics that we apply, Toni. But we are committed to incremental investments as we go forward in '25 and beyond, Toni.

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**Toni Michele Kaplan** - *Morgan Stanley - Analyst*

Terrific. And then as a follow-up, I guess the first half EBITDA margin increased about 50 basis points year-over-year. If I look at the full-year guide, that would imply a pretty steep deceleration in the back half year over year. Is there seasonality or acquisition dilution that we should be thinking about? Or what would maybe drive ---or maybe it's just conservatism? So I guess what would sort of drive that implied margin decel in the second half? Thanks.

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**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

Sure. We -- Toni, we remain committed to achieving our full-year EBITDA margin guidance of 38%, approximately 38% that we provided back in February. We reaffirmed on that today. We've been very consistent in the last nine months, stating that 2024 is a year of investment, both in organic investments and inorganic. By inorganic, I mean the integration-related costs that we have with the acquisitions we've done in the last 12 to 15 months.

If you look at Q3 specifically, Toni, I would call out the convergence of four factors that contribute to that 34% margin guidance. Number one, Q3 will be the lowest revenue quarter due to the seasonality of our [TAM] business. So in absolute dollar terms, you have the lowest revenue in Q3. Second item, we have organic investments that we committed to making. If you go back to the March 12 Investor Day, I went into lengthy detail there in regards to product innovation, infrastructure, go-to-market and customer experience initiatives, including partnerships.

The third item that is incremental investments for us in Q3, Q4 is the inorganic investments that you referenced, specifically integration work related to Pagero, SurePrep, Casetext and other acquisitions. And fourth item, which is to a lesser extent, we did have higher incentive compensation expense in Q3, Q4 due to us exceeding our revenue expectations, which aligns with us improving our guidance on today's call.

So those four items really converge, Toni, in regards to the margin expectations for Q3, Q4. But once again, full year, we're committed to the approximately 38%, and we remain committed to the expansion in '25, '26. So we are proceeding as we planned at the beginning of the year with these investments. And given the ebbs and flows of our absolute revenue and the timing of the investments, those converge to the 34% margin.

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**Toni Michele Kaplan** - *Morgan Stanley - Analyst*

Super. Thanks, Mike.

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**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

Indeed.

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**Operator**

Maher Yaghi, Scotiabank.

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**Maher Yaghi** - *Scotiabank - Analyst*

Great. Thank you for taking my question. I wanted to just understand the puts and takes in your guidance. As we finish the first half of the year, the Big 3 revenue organic growth rate was 9%, and your guidance is calling for 8%, so basically, at 7% in the back half or 7.5%, something like that, so some deceleration.

You discussed that corporate might see some deceleration in the back half. I'm trying think about -- just put that into context with your forward-looking statement about acceleration of revenue growth in '25, '26. So I'm trying to figure out why the deceleration happening in the second half and how we're going to move to an acceleration in '25, '26. Thank you.

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**Michael Eastwood** - *Thomson Reuters Corporation - CFO*

Sure, Maher. Happy to start there. First, just remind you, in the first semester for total TR in Q1, we had $25 million worth of orders GenAI licensing deal, which we stated was transactional onetime. We had a similar $18 million in Q4 of 2023. So that $25 million of orders GenAI licensing deals was a strong contributor to Q1 and H1.

Second item I would mention is that we spent quite a bit of time during our Q1 earnings call explaining that we had some seasonal benefit in the first quarter in our corporates business and also in our tax & accounting professionals. Just a reminder that if you look at our tax & accounting professional business and in the corporates business, we are impacted by seasonality in regards to when the tax professionals will regenerate the revenue from our tax products, which were both in tax and also in our corporates segment.

Next factor I would mention, as you look at year-over-year comparability in Q4 of 2023, we had that $18 million of GenAI. That creates about 100 basis points of organic growth dilution when you do comps year over year. So those are some of the factors, Maher, that relate to the puts and takes this year. But we are very confident in achieving the 6.5% organic growth for total TR, the 8% for the Big 3, and we remain confident in further acceleration into 2025.

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**Maher Yaghi** - *Scotiabank - Analyst*

Thanks, Mike. And just a follow-up on your AI initiative on the -- in legal. Now in addition to the potential cost savings to lawyers and law firms, is there a potential revenue augmentation for these firms as they adopt AI? Or cutting cost is going to be the main focus for them by adopting these products, i.e., can they turn around and with the lower time used by lawyers, can -- is there a potential for them to get revenues upside? Or the market is so mature that the focus is mainly on cost savings? Thank you.

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**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Maher, it's Steve. I would say it's probably too early to sort of declare one way or another. But what we're seeing from customers is a focus on both in the early going. So on the revenue side, we have a number of particularly innovative customers who are starting to use our products combined with their own internal capabilities to experiment with new lines of business. And this is very early, but to say the least, very interesting. So we'll see how that plays out. But it's definitely an area of focus. It's not entirely cost.

And on the cost side, I'd point to the experience for the history of the application of e-discovery tools within the legal profession. Before the e-discovery tools were rolled out, the profession -- a large firm may have several hundred people doing largely discovery-type tasks, and they were charging that out by the billable hour. And then e-discovery tools were rolled out. That -- those couple of hundred people were no longer required to do e-discovery and yet the size of the firms grew, and the revenues grew.



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So in other words, the firms did two things successfully. Firstly, they migrated that talent to different tasks. And secondly, they were able to adopt value-based billing or other revenue-generation techniques to overcome the sort of decline in hours on that particular task. So history is not a perfect predictor of the future. But certainly, that is one example, I think, that points to where the firms will try to go and they're increasingly experimenting with at the moment. I hope that answers your question.

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**Maher Yaghi** - *Scotiabank - Analyst*

Yes. Thank you, Steve.

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**Operator**

Sami Kassab, BNP Paribas.

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**Sami Kassab** - *BNP Paribas Exane - Analyst*

Thank you very much and good morning, everyone. Can you please comment on the feedback from CoCounsel early adopters, especially on reliability, given the context of the Stanford University study? In other words, are we seeing early adopters broaden their pilots to include a larger number of professionals within the firm? Or is it too early to tell? Thank you, Steve.

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**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

So Sami, the feedback on CoCounsel from its early days when it was part of Casetext under Jake Heller's leadership all the way to today with the significant investments that we've made in it under the ownership of TR has been very positive. So we're excited -- increasingly excited about that acquisition, not only for the legal AI assistant and the skills therein, but also in the application of those skills across all of our products.

And the launch of Checkpoint with CoCounsel is the first of many examples of that. And if you like a sort of a broader explanation as to where we're going, please go back to our Investor Day and David Wong's presentation of the sort of integrated product set from March 12.

The -- you mentioned the Stanford study. The Stanford study did not cover CoCounsel. Initially, it focused on Practical Law and incorrectly (inaudible) on Practical Law and then Westlaw. And just to be really clear on this, we disagree with the findings of the Stanford study. Our internal testing of Westlaw Precision AI-assisted research shows an accuracy rate of 90%. And that's what our customer testing is bearing out. So the short answer is we don't agree with the Stanford study. And we'll welcome as we go forward more robust independent research efforts, which will inevitably occur.

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**Sami Kassab** - *BNP Paribas Exane - Analyst*

And is it too early to say whether the pilots are more being broadened to more lawyers and members of the firm? Or are we seeing that trend happening now?

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**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

We're seeing that. That process is starting. So typically, a firm will apply the product to a portion of their population, and then in success, they'll broaden it out.

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**Sami Kassab** - *BNP Paribas Exane - Analyst*

Excellent. Good news. Thank you.



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**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Thanks, Sami.

**Operator**

And we have no further questions at this time.

**Stephen John Hasker Hasker** - *Thompson Reuters Corporation - CEO & Director*

Thanks, everyone, for the time this morning.

**Operator**

Thank you. This does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time.

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