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PRESENTATION

Operator

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

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

Thank you, Paula. Good morning, and thank you for joining us today for our first quarter earnings call. I'm joined today by our CEO, Steve Hasker; and our CFO, Mike Eastwood, who 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 before currency as well as on an organic basis. We believe this provides the best basis to measure the underlying performance of the business.

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

Let me now 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. I'll start by reviewing our Q1 highlights.

Solid momentum continued in the first quarter with revenue and margins meeting our expectations. Total company organic revenues rose 6%, driven by 6% recurring revenue growth. The Big 3 segments grew 7% organically. We continue to see strong momentum from many areas in our business. Westlaw Precision's fast start continues with more than 1,400 sales to date. The SurePrep acquisition is going well and remains positioned to deliver revenue growth in excess of 20%.

Our international businesses had a strong quarter with Latin America, Asia and emerging markets and Canada all delivering double-digit organic growth. And many of our other products remain double-digit growers, including Confirmation, HighQ and Practical Law. Despite this optimism, the macroeconomic backdrop remains highly uncertain. And we continue to closely monitor our customer sales activity.

The sales cycle lengthening that we have seen in recent quarters continues and has broadened out slightly but not enough to impact our 2023 outlook. We are maintaining our full year 2023 outlook, including for organic revenue growth and adjusted EBITDA margins. The one adjustment is to lower total revenue growth to incorporate the pending sale of the majority stake in Elite, which we expect to close in the second quarter. Mike will discuss this in more detail later in the call.

Our capital capacity and liquidity remain a key asset that we are focused on deploying to create shareholder value. And we made good progress on this during the first quarter. We repurchased approximately \$700 million of our shares, completing the \$2 billion share buyback program we announced in June 2022. We closed on the \$500 million acquisition of SurePrep in early January. And we sold approximately 24.5 million shares of London Stock Exchange Group, or LSEG, across 2 transactions in the quarter, generating gross proceeds of \$2.3 billion.

Looking forward, we remain committed to a balanced capital allocation approach that includes annual dividend growth, strategic M&A and returning capital to shareholders. As we announced last quarter, we plan to execute a \$2.2 billion return of capital transaction with the concurrent share consolidation in June 2023. We also continue to assess inorganic opportunities and are optimistic we will be able to execute additional strategic transactions in the next 12 to 18 months.

Now to the results for the quarter. First quarter organic revenues grew 6%. Organic recurring revenue also grew 6% with transactional revenue growing 11%. Reported revenue grew 4% with currency and recent divestitures each a 1% drag. Adjusted EBITDA increased to \$677 million, reflecting a 300 basis point margin improvement to 38.8%. Adjusted earnings per share grew 24% from the prior year period to \$0.82.

Turning to the first quarter results by segment. The Big 3 businesses achieved organic revenue growth of 7%. Legal organic revenues grew 5% with recurring growth of 6% and slightly lower transactional revenue. Demand for our key offerings remains healthy, led by Westlaw, Practical Law and HighQ. We continue to expect growth to reaccelerate to 6% in the second half of 2023.

Corporates delivered another quarter of solid growth with revenue up 8%. Recurring and transactional revenue grew 7% and 11%, respectively. Practical Law, Confirmation, CLEAR and HighQ were key drivers. Tax & Accounting organic revenue rose 11% with recurring revenue up 6% and transactional revenue up 19%, boosted by the SurePrep acquisition, which is predominantly transactional revenue.

Our Latin America operations, Confirmation and SurePrep each contributed meaningfully to growth. As expected, Reuters News organic revenues rose 1%. A lower price increase than in 2022 on the news agreement with the Data & Analytics business of LSEG, seasonally light events calendar and a weaker digital revenue impacted growth.

Lastly, Global Print organic revenues were flat year-over-year, again better than expected, due to improved retention, better third-party print revenue and timing benefits that we expect to normalize in the remainder of 2023. In summary, we're pleased with our results and the solid momentum in the business.

Now let me spend a few minutes discussing artificial intelligence at TR. Generative AI and large language models, or LLMs, have created a lot of buzz in recent months. And we are very excited about the potential to harness this emerging technology across our businesses. Before I go into more detail about our generative AI approach and why we believe we are well positioned, let me start with three key takeaways.

First, we have a long history as a leader in leveraging AI and machine learning. Second, we see a clear path to enhance value for our customers across legal, tax and risk markets by integrating generative AI into our offerings. And third, generative AI provides us with an opportunity to extend our leadership in legal research more deeply into the fast-growing subsegment of workflow software as they will become increasingly indistinguishable.

On the first point, Thomson Reuters has long been a leader in leveraging new technologies, including machine learning and AI. In fact, AI already plays a critical role at TR today as it is embedded in how we create, enhance, connect and deliver trusted information and software to our customers. In fact, in the 1990s, we were amongst the earliest commercial applications for natural language processing search. And since then, we have leveraged increasingly sophisticated AI and ML capabilities to improve search and expand analytics through a series of product advances, including WestlawNext, Westlaw Edge, Practical Law Dynamic, and most recently, Westlaw Precision.

Acquisitions have also bolstered our AI capabilities and talent. The ThoughtTrace purchase last spring brought leading AI contract analysis capabilities that power our legal document intelligence offerings. And the SurePrep acquisition earlier this year brought AI-driven automated document ingestion capabilities that provide meaningful workflow automation benefits to our customers in our tax business. These advancements, coupled with our proprietary content and editorial expertise, deliver comprehensive, accurate and trusted insights that power the performance of professionals in the legal, tax, risk and compliance fields.

Shifting to generative AI. We see great promise in this emerging technology, which we believe has applications across many of our key offerings. We have been working with and testing large language models for a number of years. And we expect to incorporate these capabilities into several key franchises in the second half of 2023.

For our research offerings including Westlaw, Practical Law and Checkpoint, we will leverage large language models to offer chat-based conversational interfaces that will simplify search and make it easier for users to find the trusted content they need. We believe this can offer meaningful time savings to our customers in addition to a significantly improved user experience.

We also see applications of generative AI to enhance our workflow solutions with a more conversational experience and intuitive automation. For example, document drafting is one opportunity that we are pursuing. And we see generative AI driving an acceleration of integration between our research and our workflow offerings. This has long been a focus of ours. And we believe generative AI will help us deliver this vision to the market.

For example, consider a future legal drafting tool that automatically leverages Practical Law to incorporate valid legal clauses in Westlaw for key citations. Given our leadership in legal research, we see this blended insights and workflow software as a significant opportunity for Thomson Reuters.

While the technology showed tremendous potential, it still has big issues with accuracy. And for our customers pursuing high-stakes litigation, needing to understand the latest regulations and statutes or involved with tax determination, accuracy is of critical importance. As a result, we are working to leverage our existing strengths and unique content to improve upon these accuracy issues while delivering the benefits of generative AI.

At this point, we bring several key advantages that give us confidence we can be a leader in leveraging generative AI for the benefit of our customers. This includes the breadth of our proprietary content and legal and tax research expertise, which we can bring to bear to train and improve AI models. In addition, our advanced search capabilities and significant data science and AI software engineering talent through TR Labs are key advantages.

Given that our key solutions are deeply embedded into our customers' workflows, we also bring a strong starting point from which to incorporate new capabilities. In our early testing, using Westlaw content and search capabilities, along with large language models, yielded significant accuracy benefits versus LLMs alone, as we would expect.

We are focused on further driving AI's leadership and plan to invest more than \$100 million per year in the next few years on further integrating AI capabilities into our offerings. We've also made several key investments in AI through our TR Ventures fund. And we're on track to incorporate generative AI capabilities into Westlaw Precision and Practical Law Dynamic in the second half of this year.

So in summary, while we remain vigilant about the challenges posed by technological change, our history of leveraging cutting-edge technology and significant competitive advantages we possess and our focus and heavy investment on further harnessing AI leave us excited and confident on our ability to lead the way forward for the benefit of our customers and our shareholders.

And now let me turn it over to Mike.

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 first quarter revenue performance of our Big 3 segments. Total revenues grew 6% with organic revenue growth of 7% for the first quarter. This marks the eighth consecutive quarter our Big 3 segments in aggregate have grown 6% or better.

Legal Professionals organic revenues increased 5%, driven by 6% organic recurring revenue. Westlaw, Practical Law, HighQ and our international businesses were key drivers. In our Corporates segment, organic revenues increased 8% for the quarter. Recurring revenues grew 7%, driven by Practical Law, CLEAR and our Latin America business. Transactional revenues grew 11%, driven by Confirmation, SurePrep and Trust. As a reminder, approximately 20% of SurePrep revenue is in Corporates with the remainder in Tax & Accounting.

Lastly, Tax & Accounting had a good quarter growing 11% organically. Recurring revenues slowed to 6% with a small nonrecurring reserve, the primary driver. Our Latin America business remains a key driver. Transaction revenues grew 19% organically driven by Confirmation and SurePrep with the latter adding 2.6% to total segment organic growth in the quarter.

As a reminder, SurePrep is highly seasonal with approximately half of its annual revenues occurring in Q1. As a result, we expect its contribution to growth to moderate in the next few quarters. For the full year, we are comfortable with our Tax & Accounting business in total growing above 8%, which was the high end of the range we provided for 2023 at our March 2021 Investor Day.

Moving to Reuters News. Organic revenues rose 1% as expected. Deceleration from 2022 growth rates resulted from a lighter seasonal events calendar, lower digital revenue and a lower annual contractual price increase in 2023 versus 2022 for the news agreement with the Data & Analytics business of LSEG. We expect improved growth at Reuters in the remainder of 2023.

Finally, Global Print beat expectations once more with revenues flat on an organic basis. Upside was driven by higher year-over-year retention, rolling third-party print revenue, strong international performance and timing benefits that we expect to normalize in the remainder of 2023. On a consolidated basis, organic revenues increased 6% for the first quarter.

Turning to our profitability. Adjusted EBITDA for the Big 3 segments was \$621 million, up 6% from the prior year period with a 43.1% margin. Segment margins rose nicely at Legal and TAP, though Corporates was impacted by the timing of expenses. We expect this to largely normalize next quarter.

Moving to Reuters News. Adjusted EBITDA was \$29 million with a 16.6% margin. The year-over-year margin decline resulted from select investments and the impact of slower revenue growth. Global Print's adjusted EBITDA was \$50 million with a margin of 36.5%. In aggregate, total company

adjusted EBITDA was \$677 million, a 13% increase versus Q1 2022. Excluding costs related to the Change Program from the prior period, adjusted EBITDA increased 7%.

Turning to earnings per share. Adjusted EPS was \$0.82 for the quarter, up from \$0.66 from the prior year period. The increase was mainly driven by higher adjusted EBITDA and completion of the Change Program during 2022. Currency had no impact on adjusted EPS in the quarter.

Let me now turn to our free cash flow performance for the first quarter. Reported free cash flow was \$133 million, up 58% from \$86 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 inflows from the discontinued operations component of our free cash flow was \$2 million, a \$61 million improvement from the first quarter of 2022, which included payments to the U.K. tax authority. Also in the current quarter, we made \$63 million of Change Program payments as compared to \$114 million in the prior year period. If you adjust for these items, comparable free cash flow from continuing operations was \$194 million, \$65 million lower than the prior year period due largely to working capital timing impacts.

Now I would like to quickly address the topic of return on invested capital as we have fielded a number of investor questions on this topic in recent months. We recently published our 2022 annual report, which includes our return on invested capital calculation. Prior to the F&R/Refinitiv separation in 2018, our return on invested capital hovered around our weighted average cost of capital.

Following the F&R separation and the significant progress made in recent years at improving profitability and streamlining and modernizing our infrastructure, our returns have improved meaningfully. For 2022, we calculated a return on invested capital of nearly 15% when excluding nonrecurring Change Program cost. This is nearly double our weighted average cost of capital, which we believe indicates strong shareholder value creation. We believe there is room for further return on invested capital improvement in the future.

Next, I will provide several updates on our London Stock Exchange Group holding. As we discussed last quarter, we sold 10.5 million shares to Microsoft in late January. Subsequently, on March 8, we sold an additional 13.6 million shares in a public market transaction. We also sold just under 0.5 million shares by participating in LSEG's share repurchase program. Across these transactions, we sold 24.5 million shares, receiving \$2.3 billion in gross proceeds. As of March 31, we had 47.5 million shares remaining with just over 17 million of those eligible for sale this year.

Two other quick points. First, our tax basis on the remaining 47.5 million shares is \$2.3 billion. For your math, we would assume a 25% capital gains tax rate on gains above the \$2.3 billion. Second, the value of the foreign exchange hedges we hold against our LSEG stake were in the money as of March 31 by \$144 million. We currently have approximately 80% of our remaining LSEG position hedged.

Last quarter, we announced our intention to use proceeds from our LSEG share sales to fund a \$2 billion or larger return of capital transaction with a concurrent share consolidation. On April 4, we issued a press release. And last week, we issued our proxy filing. These documents provide additional details on the timing and terms of the transaction. Pending shareholder approval at our Annual Meeting and court approval, we plan to issue a \$2.2 billion or \$4.67 per share cash distribution in late June.

We will execute a concurrent share consolidation or reverse stock split on a basis that is proportional to the cash distribution, which is expected to lead our share price unchanged. The proposed distribution is expected to be tax-free for our Canadian shareholders. Shareholders who are taxable in the jurisdiction outside of Canada will be able to opt out of the transaction as the tax consequences of not participating may be preferable to those associated with participating in the transaction.

Slide 19 shows an illustrative example of how the mechanics of the proposed transaction for both participating and nonparticipating shareholders. Note the actual price and share consolidation ratio will be determined by the volume-weighted average trading price in the 5 days immediately prior to the return of capital becoming effective.

Taking a step back, we believe a key advantage of the return of capital versus a more typical share buyback is the speed of execution as the shares are retired immediately upon the close of the transaction. Given liquidity rules with NCIB buyback programs, it would take several quarters at a minimum to return a similar amount of capital through a share repurchase program.

Let me conclude with our updated 2023 outlook. As Steve outlined, we are largely maintaining our full year 2023 guidance. We continue to expect organic revenue growth of 5.5% to 6% and our adjusted EBITDA margin to be approximately 39%. The one update to our outlook is for total revenue growth, which we are adjusting down to include the impact of the pending sale of majority stake in our Elite legal ERP business.

As a reminder, we announced in early April, we executed an agreement to sell a majority stake in Elite to TPG in a transaction valuing Elite at a firm value of \$500 million. We expect to receive proceeds of approximately \$400 million and will retain a 19.9% stake in Elite. For modeling purposes, we expect Elite to generate annualized revenue and adjusted EBITDA of approximately \$185 million and \$50 million, respectively.

Elite remains in our results until the transaction closes, which we expect to occur in the second quarter. To account for this transaction, we are reducing our total revenue growth outlook by approximately 150 basis points to a range of 3% to 3.5% and for the Big 3 by approximately 200 basis points to 3.5% to 4%. There are no other changes in our 2023 outlook.

For the second quarter of 2023, we see organic revenue growth at the low end of the full year 5.5% to 6% range, driven by an expected return to moderate declines at our print segment. We expect Big 3 revenue to be largely consistent with Q1. We see a Q2 adjusted EBITDA margin of approximately 38%.

Let me now turn it back to Gary for questions.

Gary Elftman Bisbee - Thomson Reuters Corporation - Head of IR

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And first, we'll go to Drew McReynolds with RBC Capital.

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

Steve, thanks for the rundown on generative AI, very, very much appreciated. A follow-up on that one. As you kind of continue to digest the evolution here on it, did you see any change to your M&A strategy or things you would look at? And with respect to kind of levels of CapEx overall going forward, do you expect any of this to change, what you previously communicated to the market?

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

Yes, thanks, Drew. So in terms of the M&A, the M&A outlook in our pipeline, I mean, if you look at the last sort of three or four deals, they've been entirely AI-driven, so SurePrep, PLX and Pondera and ThoughtTrace, all of which are AI-driven solutions for specific client needs. We will continue on that path.

So we don't see any sort of dramatic U-turn or change in the pipeline that we're currently sort of working our way through. If anything, we'll be a little bit more assertive in terms of making sure that the tech stack of acquisition opportunities is pristine and that the AI is world-class. And that's certainly been the case with the likes of SurePrep and ThoughtTrace.

In terms of the increased investment, we think we can absorb that within our existing CapEx and OpEx envelopes. So we don't see any marked change. It will require some reprioritization. But certainly, that's within our existing stated capacity.

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

Super. And just a quick follow-up on kind of the same dynamic, and I know this is a loaded question. But just at a high level from a legal industry perspective as you work through kind of your customer set, there is what looks to be some major changes within the legal industry due to generative AI. Have you thought through what that means for your addressable market within Legal in terms of how legal firms will evolve with this technology over time?

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

Yes, we have. Drew, I've been pleased and impressed and energized by the speed with which we're sort of attacking this opportunity and the excitement across particularly our product and our engineering and our go-to-market teams. We think it expands our addressable market in meaningful ways because it will accelerate the transformation that we've been speaking with you about for a number of years now. So we really see it as a big opportunity for us. And we're very focused on getting our product road map and our investment profile aligned against that opportunity.

Operator

Moving on, we'll go to Kevin McVeigh with Credit Suisse.

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

Just not to belabor this but just really, really good detail, I guess, Steve or Mike -- and it's -- obviously, the TTI started a couple of years ago. Was AI factored into that? Or does it kind of enhance the TTI? And I know it's early. But is there any way to think about the potential margin impact of what it can mean? And then I'd imagine it impacts Legal versus Corporate versus Tax differently. Just maybe some incremental thoughts around that.

Michael Eastwood - Thomson Reuters Corporation - CFO

Kevin, just for the benefit of the audience, your reference to TTI, do you want to expand on that?

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

Just the technology transformation, Mike, that you went through, right? Because we're kind of 3 years through it, and you've really enhanced the tech stack over the last 3 years. As we're coming out of that, I'd imagine AI was a factor of that.

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

Yes. Kevin, thank you, and thanks for the explanation. So the Change Program that was largely completed by the end of last year, I mean, we look at it and say, okay, it's made a very meaningful sort of step-up for us in a couple of different ways. Firstly, it has prepared us for choppier economic times. I mean, we've done a lot of the hard work that you see sort of many tech companies now are wading their way through.

And then secondly, and I think equally importantly, the shift to the cloud and the end-to-end modernization of our tech stack and the development of digital and data capabilities at the front end of our customer proposition, all of those things, we think, equip us well to make investments in and around the generative AI trends that we're now seeing. So having done that work and gotten ourselves in good shape, we now think we're poised to invest against those trends and benefit from them.

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

Helpful. And then you reaffirm the guidance despite kind of, it sounds like, a little bit more lengthening sales cycle. Were there any offsets there in terms of maybe some businesses that came in a little bit stronger that allowed you to do that?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. I'd say, Kevin, at all points in time, we've all got puts and takes, given the size of our portfolio. But we remain confident in regards to our full year guidance for all the items, except for the one that I mentioned in regards to, certainly, as I mentioned, the print business had a really good quarter. Jennifer Prescott really did a great job in '22. That continues in 2023, very pleased with the overall performance of the portfolio, Kevin.

Operator

Moving on, we'll go to Aravinda Galappathige with Canaccord Genuity.

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

I guess, connected two questions. With respect to sort of the pace of innovation, Steve, I think it's something that you've talked about culturally, you wanted to kind of pick up the pace at Thomson earlier on. Maybe just talk to where things are right now, particularly beyond Precision as you look to sort of further add features and enhancements to your products, how you see that pace trending. Are you satisfied with that? Is there more upside?

And then connected to that, I wanted to talk about price growth going forward, how that can contribute to revenue growth, organic growth and so forth. As you sort of add these features, as you bring in more products and maybe ties into the conversation on AI as well, as those enhancements come in, the extent to which you can sort of really leverage price to drive the type of top line growth that you're looking for. I'll just leave it there.

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

Yes. Thanks, Aravinda. Great questions. So we very actively monitor the speed of product release and the quality of the product releases, similar to world-class tech companies. David Wong and Shawn Malhotra, Head of Product and Engineering, are exhaustively focused on this. And what we've seen, particularly over the last 12 months, is an acceleration of the speed and the quality of release.

And we're just going to keep focusing on that and keep getting better and better each quarter. It's a real focus. We want to be the leading innovator in the business information services sector. And we've started that journey, we're by no means complete. And it is something that we focus on. And as a team, we constantly measure and monitor it and hold ourselves accountable to it.

In terms of pricing, I've said a couple of times that -- and Mike, I think, has been very transparent over time as to the sort of portion of our growth that comes from price. We enjoy very strong positions within sort of stable and growing end markets. And I think if you look at the price increases that we've traditionally driven within those end markets, they've been relatively modest compared to that market position.

And the real benefit of increasing the speed and the quality of our innovation and our product releases, adding new features and functionalities, entirely new versions of existing products and new products is it will allow us to demand more price as we go. And we think that's a healthy balance.

Where our customers are seeing tremendous value from our innovations, we think it's more than justified to capture some of that value in price. And we prefer to pursue that path than just ratcheting up prices because we've got a good market position. So we're going to stay very focused on the innovation story, Aravinda, which was the underpinnings of your question.

Operator

Moving on, we'll go to Heather Balsky with Bank of America.

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

I wanted to ask about the comment you made earlier in the call regarding lengthening sales cycles, broadening out a bit. I'm just curious what you're seeing there. You also said that despite that, you still feel good about your guidance. So I'm just curious what you're seeing and how we should think about the reiteration of your sales guide.

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

Yes. I'll start, and I'm sure Michael will supplement. Heather, thanks for the question. So we've said it now for a couple of quarters. We monitor the pipelines very, very closely and provide as much support as we can to the segment presidents and their sales teams in terms of generating opportunities and closing and converting those.

And what we've seen is -- we're not seeing deals fall out of the pipeline. But we have seen them sort of move from 1 quarter to the next. And that continues. So we don't see any sort of a marked deterioration. We do -- we're very confident we'll be able to meet or exceed our guidance for this year, notwithstanding that backdrop. But it's not getting better in terms of those deals getting pushed from 1 quarter to the next. Anything to add, Mike?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, Heather, I would add that the strongest point of evidence I could provide for you is what we refer to internally as book of business. You might refer to it as bookings or annual contract value. Our Q1 book of business or net recurring sales was spot-on plan, what we had forecasted, which parallels the guidance for the full year.

So I think, Heather, that's what gives me and us confidence just in regards to the traction coming out of Q1. We'll continue to monitor the book of business and recurring net sales each week, each month. But for Q1, we were spot-on what we forecasted to be, which I think is a very positive signal.

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

Great. And the guide for the sales is modestly back half-weighted. I guess, when you compare the second half to the first half, what drives that slight acceleration?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes. The book of business, the timing -- if you look at our book of business, which parallels the sales quotas for our sales force, our sales quotas ramp up in Q3, Q4 each year, just given the timing. We have many multiyear contracts. I think, Heather, as you're aware, 60% of the contracts in Legal are multiyear, 40% within Corporates. So part of that is the timing of when contracts come up when renewal, so we have the opportunity to up-sell, cross-sell there. So our book of business accelerates as we go through the year, which parallels the corresponding revenue uptick.

Operator

And moving on, we'll go to Manav Patnaik with Barclays.

Manav Shiv Patnaik - Barclays Bank PLC, Research Division - Director & Lead Research Analyst

Mike, I was just hoping the 38% margin you're expecting for 2Q, if you could just help us by segment because I know there is some seasonality between some of those segments.

Michael Eastwood - Thomson Reuters Corporation - CFO

Sure, great question there. Our Tax & Accounting Professional business is the most seasonal of all of our businesses. That's the biggest contributor in regards to Q2. Q1 and Q4 continue to be our higher-margin quarters with Q2 and Q3 being lower. And the Tax & Accounting business is the key driver there, Manav.

Manav Shiv Patnaik - Barclays Bank PLC, Research Division - Director & Lead Research Analyst

Got it. And then just a broader question, we've heard some other companies talk about maybe valuations getting a little bit more attractive, et cetera. So I just wanted to see your latest thoughts in terms of your pipeline of deals. I know you talked about AI and some of those things, but just broadly what the appetite and activity look like.

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

Yes. Manav, I would say we're optimistic that our timing is right. And what I mean by that is we've been very focused for the last 3 years on the internal transformation and capability building through the Change Program. And we're focused this year on hitting or exceeding the guidance we provided all the way back at the start of 2021. And as a result, our M&A activity has been relatively light, so with SurePrep and PLX and ThoughtTrace and Pondera case lines in my time at the company.

So a relatively small number of relatively small deals. Looking forward, we think that the sort of valuation climate and the opportunities for us will expand over time. Having said that, quality businesses will always demand high valuations. So that's part of the balance and part of the work that we do whenever we assess a potential opportunity.

Operator

And next, we'll go to Scott Fletcher with CIBC.

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

I wanted to go back quickly just to the generative AI topic. I'm wondering, obviously, there's a lot of engineering talent required to take advantage of these -- of the new developments. Do you feel comfortable with what you have in-house? Or is a lot of that investment going towards attracting talent in what I assume is a competitive market?

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

Yes, Scott. So one of the things that I personally have been really excited about over the last couple of months is the way in which the new talent that came with a couple of the acquisitions, Dave Wyle and his team from SurePrep; Nick Vandivere, Joel Hron and their teams from ThoughtTrace as examples, how those folks have gelled with some of our longer-tenured engineers and product executives.

And I think there's a bit of magic that's being created there by putting together some new thinking with some deep expertise around our content, our editorial and our insights in terms of advanced search. And we'll make -- we'll start making announcements in this space over the next couple of months. And I hope that you'll see the sort of results of that talent coming together.

Now to your question, we're always in the market looking for great talent. And the purpose work that we launched at the very start of last year has helped us attract, retain, develop great talent. And we certainly met or exceeded our expectations in terms of the kinds of people we're bringing into the company and the kinds of people we're retaining. And we'll just keep working like that.

So open-minded about attracting new talent, but we don't sit here today and say we've got sort of yawning gaps in and around generative AI that we need to go into the marketplace and overinvest. So some portion of that investment number will be dedicated to continuing to replenish our talent. But it's not something that we view as a yawning gap that's going to take a disproportionate amount of that spend.

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

Great. That's helpful and good to hear. I just also want to ask one quick clarification question. On the -- you mentioned in the prepared remarks that SurePrep contributed to the organic growth portion. Is that just over and above what they did in the prior year in addition to sort of what they added on an inorganic basis?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

That's correct, Scott. In regards to how we treat the organic growth, we assume that we had owned the business before and look at it on a year-over-year basis. So that would be truly incremental to what they had done from prior years, Scott, and that's very consistent with how we calculate organic growth for all of our acquisition and divestiture activity.

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

Okay, that's helpful. I'll pass the line.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

And then Scott, just to clarify, the reference there to 2.6%, that was for Tax & Accounting Professional with the 11% organic growth. So just for clarity, about 11%, the 2.6% is the component of that 11%.

Operator

And next, we'll hear from Vince Valentini with TD Cowen.

Vince Valentini - *TD Securities Equity Research - Analyst*

A two-pronged question on the guidance as well, probably for Mike. The Corporates expense that you talked about normalizing, that looked like it was about \$10 million to \$15 million above the normal run rate in the first quarter. So by normalizing, does that mean we get a double swing in that amount in Q2? And I assume that's factored into the 38% margin you're talking about.

And the second, just to clarify, almost a reverse of the SurePrep question is just the Elite, just to clarify here. That is a lower growth business, I think, maybe even very low single-digit revenue growth. So backing that out of your organic numbers, I assume is a slight tailwind to being able to meet the guidance for the year despite the other headwinds you've talked about?

Michael Eastwood - Thomson Reuters Corporation - CFO

Let me address each of those, Vince. In regards to the Corporates segment margin for Q1, two factors. One was some timing items that you referenced. We also had some severance expense. If we go back to our February 9 earnings call, we foreshadowed that we would have some severance expense in Q1. That definitely happened within the Corporates segment.

So if we look at the full year for the Corporates segment, we forecast that the EBITDA margin will increase year-over-year for the Corporates segment, so truly just a downward shift in regards to Q1. But that will increase as we go through Q2 to Q4. And once again, we'll see an increase year-over-year for the Corporates segment.

In regards to your second question, once the Elite transaction closes, that will provide a small amount of accretion to organic growth and will be a tailwind for us for the full year, Vince.

Vince Valentini - TD Securities Equity Research - Analyst

Would it be like less than 0.25% or any sense of the magnitude?

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, less than a 0.25%, Vince. So it's a small amount of accretion for the full year, but it is a small tailwind but less than 0.25%.

Operator

Moving on, we'll go to Maher Yaghi with Scotiabank.

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

I wanted to follow on Vince's question regarding the guidance. You evidently removed like about \$100 million from your top line guidance. However, the free cash flow and EBITDA line remains unchanged. It seems like you had some cushion there in the guidance. Can you talk a little bit how much cushion you have related to the guidance if economic activity changes?

And how much should we think about in terms of economic weakness before we can think that, that could affect your guidance for the year? And just a follow-up on -- like in terms of your holding on LSEG, you still have quite a bit of investment there. Can you remind us what your plans are to do with the remaining amount of cash as you divest of that business?

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, Maher, several questions there. First, in regards to economic weakness, if there were increased headwinds, there were four areas that we have consistently stated that we would most likely see those. First, in regards to our transactional business, which is about 10% of our revenue, remind everyone that about 1/3 of our transactional revenue is what we call recurring transactional, meaning it's repeat business. The second area of potential headwinds which incur is print. Jen Prescott, as I mentioned, has done a great job in '22, great Q1 there for us.

The other two areas relate to our Reuters business: first, in regards to the events business, which had done well in 2022, thus far in 2023; and then digital, we have a very small amount of digital revenue, less than 1% of our total. So those are the four areas of revenue in the event that there were stronger headwinds from an economic weakness scenario that you referenced.

In regards to LSEG, we intend to be very prudent, very diligent in regards to our monetization. We have roughly 17 million shares that we can yet monetize this year. If the conditions are right, we would proceed at the right time with monetizing this year. Related to that, with the monetizations that have happened earlier this year, we'll use those proceeds to complete the return of capital transaction in June if it's approved by shareholders at our AGM here. So hopefully, Maher, I addressed each of your points.

Operator

And next, we'll go to Andrew Steiner with JPMorgan.

Andrew Charles Steiner - *JPMorgan Chase & Co, Research Division - MD*

I have two questions. The first one has to do with the Government business and federal funding. I remember on the fourth quarter call, you mentioned the Government business, which is the piece within Legal Professional Services, was getting held back by some federal government funding. How did that go in the first quarter? What are the assumptions on that business as we move forward?

And then the second one is just a little bit more on the prepared remark today that legal information services organic revenue growth will accelerate to second half, 6%. You referenced healthy demand from Westlaw, Practical Law and HighQ. My question is, is the acceleration that those three products will accelerate in the second half of the year? And what's driving that? Or is it really kind of the whole book of business in Legal accelerate and those are some of the strongest growth?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Yes, let me tackle those, Andrew. First, in regards to the Government business, with 5% organic growth in Q1, we see that continuing to accelerate Q2, especially in Q3, Q4. Steve and I were actually in Washington, D.C. last week with Steve Rubley, who runs the Government business. We remain optimistic with the pipeline that Steve and his team -- Steve Rubley and his team has in Government that we'll continue to see an uptick throughout the remainder of '23.

That is one of the contributing factors, Andrew, that gives us confidence that the overall Legal Professionals organic growth rate will continue to tick up in the second half of 2023. So Government is a factor. But the continued performance of Westlaw Precision and the adoption thereof, the Practical Law, HighQ. But we have confidence in the overall portfolio that Paul Fischer, our Legal President, is driving there. But we do see the Government business continuing to perform well for the remainder of the year based on the current pipeline.

Operator

And moving on, we'll go to Toni Kaplan with Morgan Stanley.

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

Wanted to ask maybe a longer-term question. Now that the Change Program is over, I think you've sort of built this nice platform for product innovation. You've gotten a lot of good talent into the organization. I guess, talk about growth sustainability even when you're not investing as much. I know you're set up for a good -- in a good position. But maybe just from an external perspective, just tell us how we should be thinking about it long term.

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

Yes. And Toni, I'll make some qualitative comments and then Mike might want to sort of add to it. We think there's a pretty significant tailwind that is sort of developing and strengthening behind us. And that's this idea of sort of increasing complexity of compliance. The compliance sort of needs, rules, regulations that our customers face in legal, in tax and in risk are all becoming more and more complicated. And adding bodies and dealing with that increased complexity through sort of -- adding heads and just muscling through it is not an option for corporations or their advisers.

Our content-driven technology provides the solutions for many of the issues. And our product road map is geared to address the emerging issues, particularly in the risk space in places like ESG but also in legal and tax. And so we think that there's a fundamental tailwind that's going to see us grow higher in the out-years, provided we get our investments right and we get our product road maps right. We've certainly built the underlying capabilities to be poised to do that.

So as to sort of how high those growth rates can get and when, I think, will depend upon things like the sort of speed of digital adoption amongst our customers. And it will depend on some of the investments that we extend and make into areas like risk quality compliance. But that's the basis of our confidence that sort of guides us for the next 3-or-so years. Mike, do you want to add anything to that?

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, Toni, I would mention one item, which I think we've talked about at least briefly with you in the past, which is the retention rate. Our overall retention rate today is around 91%. If we benchmark that to some of the other business information services peer group and just look at our internal performance, we feel like we have opportunities to continue to expand at least 100 to 200 basis points over the time horizon as we continue those investments and continue our customer experience and the work that Shawn and David are doing with the user experience and continued investments in our products. So I think that's an additional -- if you look over that long-term horizon, quite optimistic we can continue to sequentially increase our retention rates for our businesses, Toni.

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

Great. Wanted to also ask, I think a number of years ago, you called out sort of the mid-sized, small-sized customer segment as being an area of opportunity. I guess, right now, how are -- how is that part of the market? And also, does that turn into maybe more of a risk in a tougher environment? Or are you still seeing really strong growth there?

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, we remain -- I think your initial comments there, Toni, in regards to an opportunity, for example, we had Liz Zimick, who joined us about 7 months ago, to lead what we call the mid-sized or mid-firms within Legal Professionals. Liz is off to a great start there. So we remain quite optimistic with our small-, mid-sized throughout each of our segments, Legal, Tax and Corporates.

So we continue to view it as an opportunity. Steve just mentioned the digital evolution. As we continue to progress with digital, that's an enhancer for us. Andrew Pearce and our team is leading that charge for us with our business segment presidents, but definitely an opportunity for us, Toni.

Operator

And next, we'll go to George Tong with Goldman Sachs.

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

You talked about seeing good traction with Westlaw Precision sales in the quarter. Can you give us an update on the client penetration of Precision and your latest thoughts on where that should go and how much of a lift to Legal organic revenue growth that will provide?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure, George. As Steve referenced in the prepared remarks, over 1,400 sales across all of our segments. We also have 17 of our -- the state courts have adopted Westlaw Precision, which is a key barometer to us. Based on discussions last week in D.C. with our Government team, we think by July 1, we'll have between 25 to 30 of the state courts with Westlaw Precision. We're continuing to partner with the federal courts there in the second semester of 2023.

But the penetration is slightly ahead of what we have predicted. If you go back to September, beginning in the second quarter earnings call, we'll begin to provide the penetration percentage for Precision, similar to what we did with Westlaw Edge. We just want to ensure that we get enough quarters behind us across all of our segments so that's Legal Professionals, Corporates and Government that sell and renew Westlaw Precision but very pleased with the progress thus far.

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

Got it. That's helpful. And you mentioned Tax & Accounting should grow above 8% organically this year. Transaction revenue was a big tailwind to growth in 1Q. What transaction revenue performance would be needed to achieve the full year guide? And what recurring revenue drivers do you expect to be a driver of the performance for the full year?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Certainly, recurring and transaction will be a component. We have high confidence in being in excess of 8% that I mentioned in the prepared remarks. Just as a reminder, in the first quarter, SurePrep, which is predominantly, if not all transactional, and Confirmation, those are two very seasonal businesses that contributed to the high growth in Q1.

That will be tempered as we go through the remainder of the year, George. And it will be a better balance on recurring and transactional. But based on our existing book of business and the recurring component of transactional, we're quite confident in exceeding 8% for the full year. But just as a reminder, there's very seasonal aspects of SurePrep and Confirmation.

Operator

That will come from Doug Arthur with Huber Research.

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

Yes, I'm pretty covered. Mike, it seems like SurePrep, obviously, you noted the transaction impact in Q1. It seems like overall, it was a better-than-expected contributor in Q1. I know you had sort of hedged guide for Q1 based on SurePrep. But it seems like it came in better than expected. Is that fair?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

We're very pleased, Doug, with Dave Wyle, CEO, Founder of SurePrep, very pleased with Q1 and very optimistic with the full year as we look at SurePrep. So slightly better than we anticipated with SurePrep, but really pleased with Dave Wyle and his team.

Gary Elftman Bisbee - Thomson Reuters Corporation - Head of IR

Yes, I think we'll leave it there. Thanks, everybody, for your time. And the Investor Relations team is around if there are any follow-up questions. Thank you.

Operator

Thank you. And that does conclude today's call. We'd like to thank everyone for their participation. You may now disconnect.

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