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TRI.TO - Q3 2022 Thomson Reuters Corp Earnings Call

EVENT DATE/TIME: NOVEMBER 01, 2022 / 1:00PM GMT

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PRESENTATION

Operator

Good day, everyone, and welcome to the Q3 2022 earnings call hosted by Gary Bisbee, Head of Investor Relations. My name is Anika, and I'm your operator for today. (Operator Instructions) I would like to advise all parties that this conference is being recorded for replay purposes.

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

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

Thank you, Anika. Good morning, everyone, and thank you for joining us today for our third quarter 2022 earnings call. I'm joined 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 Q3 highlights. I'm pleased to report good momentum continued in the third quarter with revenue and margins modestly ahead of our expectations.

Total company organic revenue growth -- rose 6%, driven by 7% recurring revenue growth. Each of our Big 3 segments recorded organic revenue growth of 6% or greater for the fifth straight quarter. Due to the strong year-to-date performance and healthy book of business, we are maintaining our full year 2022 outlook. Mike will provide more details on our outlook later in the call.

While we acknowledge rising market concerns around slowing economic growth, we are blessed with a resilient business. 80% of our revenue is recurring. And we operate in historically stable and growing end markets. Like all companies, we place -- we face inflationary pressures, which we are working diligently to mitigate. We also continue to make investments to support our revenue momentum and our customer success.

To date, we have not seen any significant changes in customer buying patterns, except in a few pockets in our Corporates segment, where sales cycles have lengthened modestly. We believe this is due to both market factors and also sales territories, where we are looking to fill open positions.

I'm excited to discuss an important product development today. In mid-September, we launched a major upgrade to the Westlaw franchise with Westlaw Precision, which we had previously referred to as Edge 2.0. Precision offers meaningful improvement in search accuracy and efficiency. Initial customer response has been strong. And sales are off to a good start.

Westlaw Precision is also a great example of what Thomson Reuters does best, which is to bring together unique content, artificial intelligence and machine learning capabilities with modern software to create significant value for our customers. We simplify the increasingly complex compliance-related environments in which our customers operate. I will expand upon this important product launch momentarily.

Our capital capacity and liquidity remain a key asset that we are focused on reinvesting to create shareholder value. We continue to execute the $2 billion share repurchase program we launched in June, having purchased $855 million worth of our shares through October 28. As a reminder, we plan to complete the $2 billion program by early Q2 2023.

We also continue to assess inorganic opportunities and expect to have ample capacity for both capital returns and strategic M&A. As a reminder, our acquisition focus areas include workflow automation software in our legal and tax markets, risk, fraud and compliance as well as target international expansions.

Now for the results for the quarter. Third quarter reported revenues grew 3%, which includes a 2% foreign currency drag. Organic revenue, which is a constant currency metric, rose 6%. Organic recurring revenue again grew 7% with transactional revenue declining modestly, in line with our expectations. Adjusted EBITDA increased to $535 million, reflecting 400 basis points margin improvement to 34%. Excluding costs related to the Change Program, the adjusted EBITDA margin was 37%. Adjusted earnings per share rose 24% year-over-year to $0.57.

Turning to the third quarter results by segment. The Big 3 businesses achieved organic revenue growth of 6%, reflecting broad strength. Legal continued its recent momentum, delivering a sixth consecutive quarter of 6% organic growth. The legal market remains healthy across all key segments. And we expect to see continued good momentum from Westlaw, Practical Law, HighQ and our other key offerings.

Turning to Corporates. Organic revenue momentum -- growth momentum continued with revenue up 7%. Recurring revenue rose 9% while transactional revenue softened as expected. Tax & Accounting had another strong quarter with organic revenue growth of 9%. Our Latin American business, led by Dominio, grew 25% in the quarter and remains a key growth driver. Reuters News organic revenues increased 5% in Q3. Growth occurred across all lines of business within Reuters.

Finally, Global Print organic revenues was nearly flat, again better than expected, due to improved retention and timing benefits that we expect to normalize in the fourth quarter. In summary, we're pleased with our results and the solid momentum that continues across our businesses.

Now we'll spend a few minutes discussing the recent launch of Westlaw Precision, our new flagship legal offering. Our Westlaw franchise is built on the foundation of more than 140 years of attorney-authored classifications, analysis and editorial enhancement with decades of machine learning and natural language processing technology.

This combination of unique content and advanced technology brings significant value for our customers and provides real competitive advantage for our Westlaw franchise. Westlaw Precision, which launched in mid-September, continues our legacy of customer-driven innovation following the release of WestlawNext in 2010 and Westlaw Edge in 2018. We believe that Precision is the largest step-up in capability in the history of Westlaw.

So what is Westlaw Precision? It's the most advanced legal research system in the market, delivering a more efficient and accurate way to conduct legal research and find on-point cases. It includes six new capabilities, foremost of which is precision research as well as expanded KeyCite functionality and several other tools that, in aggregate, deliver improved research speed and accuracy and significant enhancement to customer workflow.

So let's drill down into the precision research capability. With Westlaw Precision, we're addressing two big issues in legal research. One is that important cases can be missed because they contain different languages than that used by the customer during their search. The other is that irrelevant cases can be brought into the results because search terms can be used in a wide variety of context.

More than 2 years ago, we hired 250 additional attorney editors and have marked up case law at a far more granular level that includes not only the legal issue but also a number of material facts and outcomes related to the case. This more detailed data tagging dramatically reduces irrelevant cases because users can target the context they want. And it reduces the risk of missed cases because our editors classify language variety to common legal issues and fact patterns.

We have also enhanced the search experience by highlighting the most relevant parts of the case in the search results, making it far easier to quickly determine which cases meet the user's criteria. Looking forward, the deeper editorial analysis will be a further foundation in accelerating network effect for our next wave of investment in AI and future capability enhancements for the Westlaw franchise.

To illustrate the superior outcomes, we asked over 100 practicing attorneys to complete legal research sessions with both our market-leading Westlaw Edge offering and the new Westlaw Precision. With Precision, users were able to find the same number of relevant cases in half the time and twice as many in the same time. In addition, 97% of those participating stated that Precision helped them find relevant cases faster while 90% believe they found relevant cases with Precision they would not otherwise have found.

Slide 12 shows a real-world example to further illustrate the new capabilities. With Westlaw research, an attorney can use filters to specify the legal issue, outcome, key fact patterns and motion type. Due to this increased precision, the search for this issue returns just 10 cases instead of hundreds, and they're all highly relevant. As a result, a search can be done in 2 hours instead of 5 with traditional methods.

While it is early days following the mid-September launch, we're very encouraged by the strong customer interest, feedback and initial sales activity. The value proposition is resonating broadly with clients. And our teams are seeing traction in sales across all customer types: global large law firms, mid-sized and small firms, state courts and government agencies and corporate general counsels. We have closed more than 200 sales to date.

While the bulk of these are Edge clients that are upgrading to Precision, we have been pleased to see a number of firms that have double-upgraded from Westlaw Classic to Precision. And we've also seen a few wins from customers previously not using Westlaw. Through the first 6 weeks, our experience with Precision compares favorably to the Edge launch 4 years ago.

Let me close with a few thoughts around our expectations and the financial impact from the launch. The meaningful enhancement in search speed and accuracy, along with a number of workflow improvements, add significant value to users. As a result, Westlaw Precision is priced at a premium, which we expect to be similar to or slightly larger than the premium in which Edge is priced over Westlaw Classic.

We are comfortable targeting a similar penetration curve to the Westlaw Edge rollout, which saw steady contract value penetration growth to approximately 70% by the end of the fourth year after launch. We believe that 25% to 30% penetration by the end of 2023 is realistic. As a result, we're confident that our Westlaw franchise can continue to contribute approximately 1% for Legal Professional segment growth in the next few years as it has in the recent past.

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We look forward to sharing updated color of the launch going forward. To that end, we're planning to host an investor analyst webcast on November 28 to provide a demo and deeper discussion of Westlaw Precision capabilities. Let me now turn it over to Mike, who will provide more detail on the third quarter results.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

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

Revenues rose 6% organically and at constant currency for the quarter. This marks the sixth consecutive quarter our Big 3 segments in aggregate have grown at least 6%. Legal Professionals organic revenues increased 6%. This also marks the sixth consecutive quarter of 6% growth for Legal Professionals. Organic growth was driven by Practical Law, Westlaw, HighQ and our Government business. Historically, Westlaw Edge added about 100 basis points to Legal's organic growth rate. Early Westlaw Precision sales have been encouraging, earning a premium to Edge. We expect Westlaw to continue to contribute at a similar level going forward as the Precision penetration increases.

In our Corporates segment, organic revenues increased 7% for the quarter, driven by recurring revenue growth of 9%, offset by a decline of 7% in transactional revenues. Practical Law, CLEAR, Direct Tax and HighQ were key drivers of recurring revenue growth. And finally, Tax & Accounting's organic revenues grew 9%, driven by recurring revenue growth of 9% and transactional revenue growth of 12%. Recurring revenue growth was driven by UltraTax and the segment's businesses in Latin America.

Moving to Reuters News. Total and organic revenues increased 5%, led by the Agency business and the news agreement with the Refinitiv business of LSEG. All Reuters businesses grew in the quarter. Lastly, Global Print total and organic revenues were flat for the third quarter, ahead of expectations. Improved retention and sales timing benefits drove the outperformance, though the timing is expected to normalize in the fourth quarter. On a consolidated basis, third quarter organic revenues increased by 6%.

Turning to our profitability. Adjusted EBITDA for the Big 3 segments was $530 million, up 13% from the prior year period with a 41.9% margin rising 330 basis points. Improvement over the prior year period was primarily due to higher revenues and Change Program savings. As a reminder, the Change Program operating costs are recorded at the corporate level.

Moving to Reuters News. Adjusted EBITDA was $33 million, up $8 million from the prior year with a margin of 19.7%, up 520 basis points. Revenue growth and a currency benefit drove margins. Global Print's adjusted EBITDA was $50 million with a margin of 34.4%, a decline of 60 basis points due largely to foreign exchange.

In aggregate, total company adjusted EBITDA was $535 million, a 17% increase versus Q3 2021. Excluding costs related to the Change Program in both periods, adjusted EBITDA increased 14%. The third quarter's adjusted EBITDA margin was 34%, or 37% on an underlying basis, excluding costs related to the Change Program.

Turning to earnings per share. Third quarter adjusted EPS was $0.57, up from $0.46 in the prior year period. The increase was mainly driven by higher adjusted EBITDA. Currency had no impact on adjusted EPS in the quarter.

Let me now turn to our free cash flow performance for the first 9 months. Reported free cash flow was $814 million versus $1 billion in the prior year period. Consistent with previous quarters, this slide removes the distorting factors impacting our free cash flow. Working from the bottom of the page upwards, the cash outflows from the discontinued operations component of our free cash flow was $6 million less than the prior year period. Both periods reflect payments to the U.K. tax authority related to the operations of our former Refinitiv business.

Also in the 9 months, we made $275 million of Change Program payments as compared to $94 million in the prior year period. If you adjust for these items, comparable free cash flow from continuing operations was $1.2 billion, $12 million lower than the prior year period, primarily due to higher annual incentive plan bonuses. We maintain our 2022 full year free cash flow outlook of approximately $1.3 billion.

I will now provide an update on the progress related to our Change Program. In the third quarter, we achieved $41 million of annual run rate operating expense savings. This brings the cumulative annual run rate Change Program operating expense savings to $410 million. We continue to expect to reach approximately $500 million of annualized savings by year-end and $600 million of gross operating expense savings by 2023. As a reminder, we anticipate reinvesting $200 million of the projected $600 million of savings back into the business for a net savings of $400 million.

Now an update on our Change Program costs for the third quarter and the remainder of 2022. Let me start by saying none of the annual estimates have changed from what we provided last quarter. Spend during the third quarter was $79 million, comprised of $47 million of OpEx and $32 million of CapEx. We anticipate approximately $95 million of total spend in the fourth quarter of 2022. For the full year, we continue to expect $305 million of Change Program investments, which would bring total 2021 and 2022 cumulative investments to approximately $600 million.

Let me conclude with our outlook and several other updates. As Steve outlined, we are maintaining our 2022 guidance. With 1 quarter remaining in the year, I would like to provide additional insight in how we are progressing versus the 2022 targets.

First, organic revenue growth for the full year is trending slightly above our approximately 6% outlook. Adjusted EBITDA margin is trending slightly below 35%, given investments to drive customer success and revenue momentum as well as continued inflationary cost pressures. For the full year, capital expenditures are likely to be at the upper end of the 7.5% to 8% guidance range while our effective tax rate is trending to the lower end of the 19% to 21% outlook.

For Q4, we see organic revenue growth of approximately 6% and adjusted EBITDA margin of approximately 35%, both in line with the full year outlook. For 2023, we are also maintaining our outlook. As Steve stated, we have not seen any major changes in customer buying patterns to date beyond a few areas in Corporates, where sales cycles have lengthened modestly. And with our 80% recurring revenue mix, our business remains resilient.

However, risk to adjusted EBITDA margins are rising amid heightened inflation and select investments we're making to drive customer success and to fund growth initiatives. As a result, we believe 2023 margins are trending towards the lower end of the current 39% to 40% range. If we see softening in demand due to macro conditions, we will continue to invest for the long term.

For 2023, we believe accrued capital expenditures as a percent of revenue is trending towards the upper end of the current range of 6% to 6.5%. And we expect our 2023 effective tax rate will be approximately consistent with 2022. We intend to revisit our 2023 outlook and provide an update during our Q4 2022 conference call in early February after we complete our annual planning process, assess our Q4 recurring net sales and evaluate macro factors, including inflation. As a reminder, Q4 is our largest bookings quarter of the year.

Let me close with a few updates. During our March 2021 Investor Day, we highlighted increased focus as an important theme and discussed potential for select product rationalization. In line with these strategies, I am pleased to announce we closed two small divestitures during Q3. And we are targeting to close three more in Q4. In total, these non-core businesses contributed approximately $165 million of annualized revenue and approximately $40 million of annualized adjusted EBITDA.

Second, and given recent currency volatility, I wanted to provide an update on our exposures. Year-to-date, 82% of our revenue and 67% of our costs are in U.S. dollars. As a result, while reported revenue has hurt our recent U.S. dollar strength, cost translation benefits our margins and provides a natural hedge to the bottom line. Also, our revenue exposure to the pound is 8%, which is below the 13% U.K. revenue mix noted in our annual report as the LSEG contract is paid in U.S. dollars.

While on the topic of currencies, it is worth noting we have hedged a significant portion of the pound exposure related to our LSEG stake. Currently, approximately 87% of the first tranche and 64% of the total value are hedged. As of September 30, the unrealized gain on our derivative positions was approximately $650 million.

Let me now turn it back to Gary for questions.

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

Thank you. Operator, we're ready to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Kevin McVeigh of Credit Suisse.

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

And congratulations, just a really, really nice outcome in obviously a pretty tough environment. I don't know if this would be for Mike or Steve. But on the divestitures, it sounds like there's probably a revenue impact of about $165 million, EBITDA, $40 million. Was that in the guidance already? Or were you able to reaffirm despite the adjustments?

And I know that's an annualized number. Is there any way -- is that all kind of a Q3 and Q4 impact? And maybe -- and I know there's a lot in here, I apologize. But can you make me understand where that sits? Like is that maybe what segments?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure. Kevin, break that down. With regards to our full year guidance for 2022, we have factored in the divestitures. So I would reconfirm or reaffirm the approximately 6% organic growth and approximately 35%. We're still on target to achieve those despite those divestitures. Certainly, when you look at organic growth versus the total revenue growth, the total revenue growth would be slightly less, just given the impact in Q3, Q4 there. But that would be marginal in nature.

Kevin, I'll ask Gary to do a follow-up with you and the team in regards to the split by segment. But it's pretty evenly across the Big 3, Kevin. But Gary will do a specific follow-up for you and the other analysts there. But it's a good rule of thumb, it's approximately evenly across the Big 3 segments, Kevin. Kevin, just on that topic, just to foreshadow a potential question, as we look at 2023/2024, there could be an opportunity for us to do a few additional divestitures of similar size just as we continue that theme of focus, simplification and prioritization just as we look forward into '23 and to '24.

Operator

The next question is coming from Vince Valentini of TD Securities.

Vince Valentini - *TD Securities Equity Research - Analyst*

I will throw in two. One, just any update on timing on acquisitions as it's been a while now. With valuation seemingly coming down and your balance sheet is very strong, do you think something is maybe imminent by the end of the year or still going to take a little while?

And then the second one, I mean, inflation is a problem for cost. But should there be some sort of offset on the pricing front? Can you give us any sense of pricing increases or maybe a bit above normal that you may be able to take next year to both boost your revenue growth and maybe offset some of the cost pressures you're talking about?

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

It's Steve. I'll take the first part and then -- and Mike can take the second. So on the M&A front, look, we're increasingly optimistic that we'll get the opportunity to do some bolt-on acquisitions, particularly in our Big 3 segments, businesses that are additive to the customer experience and don't bring tech debt and good cultural fits. And that optimism comes from sort of three places. One, we're in the last quarter of the Change Program. And so we think we're -- as a business and as a team, we're in good shape to integrate inorganic acquisitions.

Secondarily, obviously, valuations are more attractive than they were this time last year. They're still robust for high-growth businesses that are cash flow-positive. But nevertheless, things look a bit more attractive than they have for the last couple of years. And then thirdly, of course, our capital position is very strong. And as we approach the first tranche of the lockup expiry with the LSEG stake, that just gets more so. So I'm cautiously optimistic that we'll have some news perhaps later this quarter, if not into '23, on some bolt-on acquisitions. Nothing outlandish in size and certainly nothing beyond the Big 3 at this point.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Vince, in regards to your second question, certainly pricing has been a key lever for us throughout 2022 to help offset inflation. I would just remind everyone that given our base of multiyear contracts, it does take time for these price increases to work their way through our revenue base and become realized, recognized revenue. So given those multiyear contracts, there's not a perfect correlation between the price increase and the cost increases. But we're going to continue to work like hell to ensure our pricing offsets that inflation as we move forward.

So should there be some timing differences given those multiyear contracts, I think the answer is yes there, Vince. So we're going to work diligently on the pricing to help offset that inflation as much as possible. Vince, I would mention that in regards to inflation, inflation certainly impacts the operating expenses or ExBITDA but also the capital. Just as a tidbit for everyone, if you look at our capital expenditures, a heavy portion of that is capitalized labor, capitalized SALT development. And about 85% of our total capital is cap labor, about 50% internal, 50% from external sources. So inflation certainly impacts CapEx, along with operating expenses.

Operator

The next question is coming from Drew McReynolds of RBC Capital Markets.

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

Just Mike, following up on Vince's question on price, are you able to, I guess, first, just provide some commentary in and around how some of those contract renewals are going in real time? And are you able to maybe kind of give a sense of the pricing contribution to 2023 organic revenue growth?

And then just second part here, you did allude to in 2023 margins coming in at the lower end of obviously a very tight range. But you talk about reinvestments, you have inflation, there's operating leverage and then probably some additional cost efficiencies. So just how are you thinking in terms of balancing all of those as we look into 2023?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure. Drew, let me break down each of those, and Steve may want to supplement. First, Drew, in regards to the contract renewals real time, I think our collective segments are making good progress. As a reminder, Drew, the contracts renew throughout the year. Unlike other companies, our contracts do not regroup, all renew on January 1. It's based on when those contracts were initially signed.

So those contract renewals are happening throughout the year. That will continue into '23 and some into '24 just based on the multiyear nature. As a reminder, the Legal Professionals segment has the highest percentage of multiyear contracts at 60% followed by the Corporates segment at 40%. So to your direct question, very pleased thus far, Drew, in regards to the contract renewals. But it's a continual progress as we go into 2023.

Your second question related to 2023 pricing contributions, it will be slightly higher in -- 2022 was slightly higher than '21. 2023 will follow that trend with a slightly higher pricing contribution in '23 versus 2022. In regards to the third question on margins for 2023, I would put it into -- break it down into tailwinds and headwinds, Drew, some of these which you mentioned. The tailwinds, I would mention three.

First, for 2022, we're looking at an underlying margin of 37%. That's excluding the Change Program. So that gives us a nice foundation to work from. The second tailwind would be the Change Program savings that we achieved in '22 that will continue into 2023. And the third tailwind, which you mentioned, is operating leverage. Given that we're roughly 6% organic growth, operating leverage does benefit it. On the opposite side of the ledger in regards to headwinds, the overall macroeconomic situation certainly is a headwind, along with the inflationary pressures.

In regards to investments, Drew, we're keeping the customers front and center. We think we have further opportunity when we talk about customer success. We have opportunities to improve our end-to-end customer experience, thus improve Net Promoter Score, which should correlate to higher retention. Second, I would mention continued investment in digital to help our customers with self-serve. Kirsty Roth and team continue with our content modernization initiatives.

And then lastly, we have identified some additional opportunities, Drew, on the growth side that we'll continue to make some investments. So hopefully, those tailwinds, headwinds, Drew, give you some color in regards to how we are thinking about 2023 and why collectively we think focusing on the lower end of the range of 39% to 40% is reasonable and appropriate at this time. But I'll pause, Steve, if you'd like to supplement.

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

[I will say that].

Operator

The next question, we will take from [Anirudh Reddy] of Bank of America.

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

This is actually Heather Balsky, analyst on the team. Can you just share with us in terms of your plans around cost, if there is a tougher year next year where you have flexibility? And then also with regard to the Change Program, can you remind us of the savings that are going to go through next year and how to think about the phasing of them as we move through the quarters?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure, Heather. I think there are two parts there. First, in regards to flexibility, I think during '21 and '22, Kirsty Roth, Mary-Alice Vuicic, our whole team, has done a nice job further leveraging our capability centers, which we previously referred to as shared service centers. So I think us leveraging the capability centers in India, Manila, Costa Rica, Mexico City, Gdansk, Poland, et cetera, certainly that's progressed very nicely and helps us with our overall cost base as we go into 2023. We see continued opportunities with that. Several executives were recently in India. Kirsty was in Manila last week. So I think our capability centers in those locations provide us with additional opportunities as we think about 2023 and 2024.

In regards to our Change Program savings, the remainder for 2023, I would think about that more evenly spread throughout the year, Heather. It's certainly a multitude of different work streams and initiatives. But if you think about them evenly throughout the year, that would be a reasonable estimate for us. Just on the cost side, certainly for merit, we are assuming a higher merit increase in 2023. We had a slightly higher one in '22 versus

'21, Heather. I think we'll see that trend continue into 2023. But rest assured, we'll pull all the levers that we can. But first and foremost, continuing to support our customers will be priority one.

Operator

The next question is coming from Aravinda Galappatthige of Canaccord Genuity.

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

Maybe just on the M&A side, a question for Steve. I mean, you specifically mentioned that certainly what you would do in the [data] wouldn't be outside of sort of the three big categories. With that said, you're -- clearly, the execution is strong and you're continuing to focus on the quality of product innovation. Certainly, the results from Edge were good evidently and Precision looks prospective as well.

Is there a temptation, given sort of the disciplines that you've developed, to maybe spill over into adjacent professional areas as well? Not to say you're getting -- go back into financial or science, anything like that. But given sort of what you have built, particularly as we look for M&A as well, to be open to some adjacencies there. I just wanted to get your high-level thoughts.

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

Yes. Aravinda, we're certainly open-minded about it. And our strategy group are always sort of looking at broader expansion and growth opportunities. Let me make a couple of comments though. The first is the Change Program was about and is about building a platform for growth. So it's a migration to the cloud, the development of APIs. It's really sort of putting together and scaling up our global capability centers. It's about data and analytics around our products and our customer usage of those products, things of that nature. We think that those things will help us with the Big 3 and will also give us the right to play elsewhere where we decide to. So that's the first thing.

The second thing is areas like ESG is certainly of interest to us. As we look at the evolving ESG landscape, we see a place where there are sort of vast amounts of highly complex rules and regulations and data inputs. And that tends to be an environment in which we thrive, firstly. And secondly, ESG is relevant to the General Counsel, the Head of Tax, the Head of Risk and their respective legal and tax and accounting advisers, all of whom we have relationships with. So I think to the extent we go beyond the Big 3, I think you'll see us sort of extend into areas like ESG versus going broader into HR or areas like that. Back into financial data and back into IP and size, they're off the table.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Aravinda, just on the topic of M&A I've shared with you and the group just in regards to our capital capacity, we are on target to complete the current $2 billion NCIB share buyback by early Q2. Once we complete the current $2 billion, we estimate about $12 billion of capital capacity by 2025. So that will afford us the ability, willingness to continue the double-digit dividend growth. The 10% dividend increase in 2022 is likely to continue or have the ability to mention -- to execute M&A that you just asked about but also additional capital returns. So just wanted to remind the group, Aravinda, in regards to the significant capital capacity over the next 3 to 4 years.

Operator

The next question, we'll take from Toni Kaplan of Morgan Stanley.

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

This actually isn't usually asked. But can you just give us an update on how big your sales force is now and how much it has grown, given your investments over the last couple of years?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure. Happy to start there, Toni. Just a reminder, we do have separate sales forces for each of our customer segments. If you go back 2 years ago when we embarked on the Change Program, one of the areas that we intentionally left really very much aligned with each of our customer segments is the sales force. So if you think about each of those sales forces, I'll use Legal illustratively, it's been further segregated into the size of customer.

So we have a sales force dedicated to the global large law firms. So in Legal, that's Neil Sternthal. Then we have medium-sized firms with Liz Zimick and then small firms with Mark Haddad. And then supplementing those traditional go-to-market teams, we also have our inside sales force that we leverage, along with digital. So think about the sales forces as traditional beat on the street, along with inside sales and also digital.

And that framework that I just described for Legal very much applies to each of our customer segments, whereby we align it to meet our customer needs in the best way. With that said, our work on digital really permeates the organization to ensure that we don't duplicate any efforts there. And certainly, all of our enablement tools, such as Salesforce.com, Gainsight, et cetera, we leverage across the firm. But we have dedicated teams for each of our segments.

Operator

The next question is coming from Tim Casey of BMO CM.

Tim Casey - *BMO Capital Markets Equity Research - Telecom, Media & Cable Analyst*

Mike, could you talk a little bit about the monetization process for the LSEG shares? I believe it's 1/3, 1/3, 1/3 starting January 29. Should we think about that as a -- that the monetization will take place in chunks through the year? Or would it be evenly distributed? And second, how should we think about an after-tax number in terms of -- what's the tax impact on monetization? How should we think about that?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure. Yes. Absolutely, Tim. You're correct. The first tranche does -- the lockup expires January 29 of '23. And then there's a subsequent lockup expiration, January 29 of '24 and '25, as you described, 1/3, 1/3, 1/3. Given that we have a Board seat, Tim, we would not actually start the monetization until March. LSEG will announce their results for 2022 the first week of March. So given that quiet period that we need to honor, we would begin the monetization in March.

Given that us and Blackstone can monetize in 2023, I think it would be prudent, Tim, to assume that the monetization would happen in tranches throughout 2023, just given the size of the total tranche that us and Blackstone has there. But certainly, our interesting goal would be to monetize as quickly as we can. But the practical element is that it will take most likely multiple transactions throughout 2023.

What we'll do, Tim, is keep you posted during each of our calls in regards to the likely timing. But the first ABO, or trade, would likely be sometime in March of 2023. That would be the earliest, given the quiet period, given that we have a Board seat. In regards to the after-tax impact, the quick math is we have a $3 billion tax basis. So if you assume the current value is illustratively about $7 billion, if you take the $3 billion tax basis away, that leaves you $4 billion that's taxable, so 25% on that $4 billion, Tim.

So quick math is about $1 billion of cash taxes would be due on the overall tranche. So if you assume $7 billion, it would be $6 billion after tax. And I'm certainly factoring in, Tim, the gain that we have on our hedge there. As I mentioned in my prepared remarks, we're up about $650 million now on the hedge that we did for our LSEG stake. Let me make sure I address each of your questions there, Tim.

Tim Casey - *BMO Capital Markets Equity Research - Telecom, Media & Cable Analyst*

No, that's excellent. Thank you very much for such a good answer.

Operator

Next question, we'll take from Andrew Steinerman of JPMorgan.

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

It's Andrew. I wanted to just talk a little bit about the Legal Professionals transactional piece. I know it's only 6% of segment revenues. And it was down 7% organically. Could you just go over what's in the transactional segment? Why was it down? And when should it rebound?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure. Andrew, as we mentioned back on the August earnings call, we forecasted, anticipated downdraft in regards to our transactional overall in Q3. I think that's just temporary in nature. I think as we go into Q4, you'll see transactional pick up. So I would not view the downtick in transactional in Q3 as any type of trend. It's just more due to the cyclical nature of our business, which we had forecasted there.

I know you asked about Legal. But if you think about transactional overall, there are seasonal elements to different aspects of our business, especially in tax, that impacts Corporates and also our Tax & Accounting Professionals business. Reuters Events certainly has cyclicality and you'll see an uptick there. So you'll see an uptick in transactional, Andrew, in Q4. If you look at 2023 for the full year, we do assume that transactional revenue will grow at a smaller pace than the recurring revenue. Recurring has consistently grown 7% throughout 2022. So transactional on a long-term basis grows slower than recurring.

Operator

The next question is coming from Manav Patnaik of Barclays.

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

Mike, the $12 billion of capacity that you talked about, that includes the LSEG stake. So I just want to confirm that. And also, with that kind of capacity, I guess, can you talk about again the limitations perhaps on the buyback count, given the family's desire to maintain the ownership stake at a certain level?

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Sure. The $12 billion of capacity that I mentioned following the current completion of the $2 billion, that does include LSEG. So as I just mentioned on Tim's question, roughly $6 billion after tax or roughly 50% of the $12 billion, the residual comes from just natural free cash flow and assuming a 2.5x leverage ratio there.

In regards to your question on additional buybacks or capital returns, given the Woodbridge ownership, Woodbridge ownership today is about 68%. Going forward, I would assume, Manav, that does not exceed 70%, which would assume that Woodbridge would participate on a proportional basis as we move forward. So a key item there is on Woodbridge, assume that their ownership would not assume -- exceed 7% over the time horizon.

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

Got it. And then you talked about the corporate sales cycle lengthening modestly, kind of maybe the first sign of potential impact from all the macro noise we're hearing. I guess, just historically, is that a good leading indicator? Or what indicators do you look for from what you can see in the business that would signal to you that you might have to adjust accordingly?

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

Yes. And I think -- Manav, it's Steve. The leading indicators tend to be the Reuters advertising revenue, the Reuters Events, the transactional side of things and print. Within our business, those are the least bolted-down to give return. And so we watch them carefully. All of those are holding up okay. The Corporates, as I said in my prepared remarks, our book of business is robust and our sales activity is robust. Having said that, the fourth quarter is our biggest quarter.

So we're watching it carefully because we read the same news you do and as part of the sort of broader dialogue about the macroeconomic environment. So it's -- to date, we've seen some minor slippage in terms of -- from third quarter into fourth quarter in the sales activity. And we're watching it carefully. But at this point, it's no more than that. And just a reminder that our projection of revenue growth for Corporates 2023 is 7% to 9%. And we're confident that we'll hit that pretty squarely.

Operator

And we'll take our last question from Douglas Arthur of Huber Research.

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

Just to that point, Steve, is -- as your big customers get -- potentially go into a more stressful period in 2023, is there an argument to be made that the Thomson product offerings are somewhat countercyclical in that they help your customers do more for less, less staff intensity, et cetera, so that as your clients get more stressed, some of your product areas actually could benefit? Is there an argument to be made there?

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

Yes, Doug, there is. I mean, two comments about those products. So if you think about the end market, in tough times, litigation doesn't necessarily slow down. And I think you can look over time and suggest that it actually accelerates in certain pockets in a downturn, firstly. Secondly, tax returns need to be filed. And so that activity doesn't change all that much, if at all. And then the Heads of Risk within Corporates and their advisers typically see sort of fraudulent activity and those kinds of things pick up as the government agencies who are handling benefit entitlements and so forth.

So the fundamental -- our end markets tend to be very stable and actually may see a few opportunities in various places, firstly. And secondly, our products are largely not discretionary. So they are must-have products, which is the reason we think we're pretty well placed headed into a downturn on the revenue side. As Mike said in his prepared remarks, it's really the cost side that we're watching most carefully. Because we see opportunities to invest for long-term growth. And we see opportunities to better serve our customers. And we don't shy away from those things. So we'll be very prudent about where we spend. But we will continue to invest through the cycle as we see the opportunities.

Operator

We have no further questions in the queue.

Michael Eastwood - *Thomson Reuters Corporation - CFO*

Okay. Great. Thanks, everybody.

Operator

I pass it back to Gary.

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

Yes. I think we're good. Thanks, everybody. Me and the IR team are around if you want follow-up discussions. Have a good day. Bye-bye.

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

Thanks, everybody. Bye-bye.
