

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

TRI.TO - Q1 2024 Thomson Reuters Corp Earnings Call

EVENT DATE/TIME: MAY 02, 2024 / 1:00PM GMT

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

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

**Kevin Damien McVeigh** *UBS Investment Bank, Research Division - Analyst*

**Manav Shiv Patnaik** *Barclays Bank PLC, Research Division - MD, Business & Information Services Equity Research Analyst.*

**Sami Kassab** *BNP Paribas Exane, Research Division - Media Research Director, Co-Head of the European Media Team & Analyst of Media*

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

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

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

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

**Vince Valentini** *TD Cowen, Research Division - MD*

## PRESENTATION

### Operator

Good day, and welcome to the Thomson Reuters First Quarter Earnings Call. As a reminder, today's call is being recorded.

At this time, I'd like to turn the call over to Mr. Gary Bisbee, Head of Investor Relations. Please go ahead.

---

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

Thank you, Maddie. Good morning, and thank you all for joining us today for our first quarter 2024 earnings call. I'm joined today by our CEO, Steve Hasker; and our CFO, Mike Eastwood, each of whom will discuss our results and take your questions following their remarks.

To enable us to get to as many questions as possible, we appreciate it if you'd limit yourself to one question and one follow up each when we open the phone lines.

Throughout today's presentation, when we compare performance period-on-period, we discuss revenue growth rates before currency as well as on an organic basis. We believe this provides the best basis to measure the underlying performance of our business.

Today's presentation contains forward-looking statements and non-IFRS financial measures. Actual results may differ materially due to a number of risks and uncertainties discussed in 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. With many of you having spent several hours with us at our Investor Day in March, we plan to keep our remarks today concise and focused on our first quarter results.

2024 has started out on a strong note, with revenue and profits exceeding our expectations. Total company organic revenues rose 9% with the Big 3 segments growing by 10%. In addition, strong revenue flow through boosted margins, driving a healthy profit beat.

To incorporate the Q1 upside, we are raising our full year 2024 revenue outlook and now see organic growth in a range of 6% to 6.5%, including 7.5% to 8% for the Big 3 segments, up from our prior outlook of approximately 6% and 7.5%, respectively.

While we are pleased with the strong start to the year, I would caution that the revenue upside was driven largely by transactional revenue and strength from seasonal offerings, which are unlikely to recur at this level through the remainder of the year. Mike will provide additional detail on our outlook in a few minutes.

At our March 12 Investor Day, we discussed our innovation focus and why we are confident in our outlook for future revenue growth acceleration. As part of that discussion, we highlighted 2 important market dynamics that are providing what we expect to be long-term demand tailwinds for our business.

The first is the rising complexity of regulatory compliance, and the second is generative AI. We believe our portfolio is uniquely positioned for these tailwinds, and we continue to invest heavily in innovation and our product road map as we seek to play a larger role in the success of our customers.

These efforts are contributing to the growing product momentum we see from many areas in our business. Our capital capacity and liquidity remain a key asset that we are focused on deploying to create shareholder value, and we have made good progress on this during the first quarter.

In February, we raised our 2024 annual dividend by 10% to \$2.16, we successfully acquired Pagero for approximately \$800 million, and we repurchased approximately \$350 million of our shares. Year-to-date, we have also sold approximately 11.7 million shares of the London Stock Exchange Group, or LSEG, generating gross proceeds of \$1.4 billion. Looking forward, we remain committed to a balanced capital allocation approach, and we continue to assess additional inorganic opportunities.

Now to the results for the quarter. Our first quarter organic revenues grew 9%, improving from 7% in the fourth quarter of 2023. Organic recurring and transactional revenue grew 9% and 22%, respectively, while print revenue declined 10%, in line with our expectations. Reported revenue grew 8%.

Adjusted EBITDA increased 19% to \$806 million, reflecting a 390 basis point margin improvement to 42.7%. The margin expansion was driven by strong revenue growth and the timing of certain expenses. Adjusted earnings per share grew 30% from the prior year period to \$1.11.

Turning to the first quarter results by segment. The Big 3 businesses delivered 10% organic revenue growth, an all-time high and up from 8% in the fourth quarter of 2023. Legal organic revenue grew 7%, driven by continued gen AI momentum in Westlaw Precision and CoCounsel.

Demand for our key offerings remains healthy, led by Westlaw, Practical Law, CoCounsel, HighQ, and strong performance in our international markets, partially offset by lower growth at FindLaw.

Corporate's organic revenue growth was 12%, up from 7% in the fourth quarter and well ahead of our expectations. Organic recurring and transactional revenue grew 11% and 16%, respectively. Very strong seasonal revenues were a key driver, with the inclusion of Pagero also boosting growth. Trust, Indirect Tax, Practical Law and our international markets were key growth drivers in the first quarter.

Tax & Accounting organic revenues grew 14%, driven by recurring and transactional growth of 14% and 15%, respectively, strong seasonal demand for tax and audit products and an (inaudible) comparison boosted growth. And our Latin American operations, UltraTax, SurePrep and Confirmation were all key contributors.

Reuters News organic revenues rose 17%, driven as expected by generative AI-related content licensing revenue that was largely transactional in nature. Excluding this, Reuters revenue grew modestly, driven primarily by the news agreement with the Data & Analytics business of LSEG.

Lastly, Global Print organic revenues met our expectations, declining 10% year-over-year, impacted by the migration of customers from a Global Print product to Westlaw, which we discussed last quarter. And in summary, we're very pleased with the strong start to the year.

Let me now hand it over to Mike to review our financial performance.

---

**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 for our Big 3 segments. Organic revenues improved sequentially from 8% to 10% in the first quarter, a new high watermark for the Big 3. Total revenue rose 9%, including the impact of acquisitions and divestitures.

Legal Professionals organic revenue grew 7%. Key drivers from a product perspective remain Westlaw, CoCounsel, Practical Law, HighQ and our international businesses. Government grew 6% in the quarter, while FindLaw remains a headwind to the segment growth rate. Legal Professionals revenue growth also included a benefit of \$4 million due to migrating customers from a Global Print product to Westlaw, as I previewed last quarter.

In our Corporate segment, organic revenues grew 12%, improving sharply from 7% in recent [years]. Recurring revenue grew 11%, while transactional was up (inaudible) 16% year-over-year.

Several factors drove the improvement. Seasonal offerings contributed significantly, especially ONESOURCE tax information reporting within Trust and to a lesser extent, Confirmation. The inclusion of Pagero added roughly 30 basis points to organic growth. And Indirect Tax, Practical Law and our international segments all delivered strong growth.

While this was clearly an encouraging result, there was a bit more than 2.5% contribution from items we see as unlikely to recur beyond Q1, including outsized tax information reporting revenue and select comparison favorability versus first quarter of 2023. For Q2, we expect a return to growth rates closer to the 2023 trend than the first quarter level.

Tax & Accounting also had a very strong quarter, growing 14% organically. Recurring and transactional revenue grew 14% and 15%, respectively. Seasonal revenue strength from SurePrep and Confirmation, along with continued robust growth from our Latin America businesses, were key drivers.

In addition, we faced an easier comparison, as Q1 of 2023 included a minor revenue reserve that we called out last year. This benefited the segment revenue growth rate by nearly 2% this quarter.

Moving to Reuters News. Organic revenue increased 17% for the quarter, driven primarily by transactional revenue from additional generative AI content licensing agreements as we had previewed last quarter. Excluding this revenue, Reuters organic revenue increased approximately 3%.

Lastly, Global Print organic revenues declined 10%, or 6% when excluding the impact from the revenue shift to Legal Professionals I mentioned earlier. This was in line with our expectations. On a consolidated basis, first quarter organic revenues grew by 9%.

In total, the seasonal strength, which is unlikely to recur beyond Q1, along with the Reuters transactional content licensing revenue and select comparability items I mentioned, contributed approximately 2% to Q1 revenue growth.

Turning to our profitability. Adjusted EBITDA for the Big 3 segments was \$716 million, up 15% from the prior year period with a 45.8% margin. Segment margins rose nicely across all Big 3 segments, driven primarily by strong revenue growth and the timing of expenses. We expect technology, product and acquisition integration spending to increase in the second quarter versus the Q1 spend level and persist at a higher level through the remainder of the year.

Moving to Reuters News. Adjusted EBITDA was \$60 million with a 28.3% margin. The significant profit increase from the prior year period is largely attributable to the revenue flow through from the aforementioned generative AI content licensing deals. We expect margins to return to more typical historical levels for the remainder of the year.

Global Print's adjusted EBITDA was \$47 million with a margin of 38.2%. In aggregate, total company adjusted EBITDA was \$806 million, a 19% increase versus Q1 2023.

Turning to earnings per share. Adjusted EPS was \$1.11 for the quarter, up 32% from \$0.84 in the prior year period. The increase was mainly driven by higher adjusted EBITDA and a lower share count. 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 \$271 million, up 101% from \$133 million in the prior year period. Consistent with previous quarters, this slide removes the distorting factors impacting our free cash flow.

If you adjust for the discontinued operations component of our free cash flow and change program payments of \$63 million in the prior year period, comparable free cash flow from continuing operations was \$272 million, up \$78 million year-over-year, primarily due to higher EBITDA.

We continue to successfully monetize our stake in the London Stock Exchange Group. In the first quarter, we sold 10.1 million shares for \$1.2 billion of gross proceeds. This includes 7.5 million shares sold in a March block trade and 2.6 million shares sold through exercised call options. Yesterday, we sold an additional 1.6 million shares to LSEG for gross proceeds of approximately \$175 million. Following these sales, our remaining stake is 4.3 million shares, which are eligible for sale in Q1 2025.

Our tax basis on the remaining shares is approximately \$100 million. For your math, we would assume a 25% capital gains tax rate on gains above \$100 million.

I will conclude with our updated 2024 outlook. As Steve outlined, we are increasing our 2024 total and organic revenue growth outlooks for TR and the Big 3 to incorporate the first quarter upside.

We now see total revenue growth of 6.5% to 7%, up from approximately 6.5%; organic revenue growth of 6% to 6.5%, up from approximately 6%; total Big 3 revenue growth of 8% to 8.5%, up from approximately 8%; and organic Big 3 revenue growth of 7.5% to 8%, up from approximately 7.5%. We are maintaining other 2024 guidance metrics, including adjusted EBITDA margins of approximately 38% and free cash flow of approximately \$1.8 billion.

I would note, our full year effective tax rate outlook remains approximately 18%, despite the first quarter coming in at 19.1%. We expect tax developments later in the year will bring the full year rate down to 18%.

For the second quarter of 2024, we see organic revenue growth of approximately 6%, with the growth rates for our Corporates, Tax & Accounting and Reuters segments moderating as the Q1 seasonal strength wanes and above-trend transactional growth rates return to more typical levels.

We see a Q2 adjusted EBITDA margin of approximately 36%, reflecting a pickup in the pace of investments we are making in product, infrastructure and acquisition integration.

Let me now turn it back to Gary for questions.

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

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

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We will take our first question from Drew McReynolds with RBC.

---

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

So obviously, a very strong quarter, one of the strongest I can ever recall. And obviously, Steve and Mike, in your comments, you're careful not to kind of indicate this is recurring clearly. But certainly, there's a lot of good things happening here.

So I guess, the question, as you look out for the remainder of the year, when you think about the underlying business, excluding the year-over-year comps, the seasonality, the Reuters News impact, et cetera, relative to where you were a couple of months ago, where are you a little bit more optimistic on the trajectory of the Big 3 in the core business? And where are there still some kind of sources for caution?

---

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

Drew, thanks for the question. It's Steve. Look, I think the headline for me is cautious optimism. We're pleased with the start to the year. I think it sets us up to continue our investment program and look for opportunities to better serve our customers. But it is only one quarter. And so we're pleased with the start, but we're not going to sort of declare victory just yet.

---

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

Drew, I'll add a few additional items. As a reminder for everyone, Q1 is our smallest sales quota for the year, with Q4 being the largest, which reflects kind of tempering our level of enthusiasm after the first quarter.

It's a question, kind of, Drew, is what do you have to believe for continued strong revenue performance. Very consistent with the Investor Day, I would highlight four items.

Number one is our gen AI acceleration, which we've consistently stated we expect to accelerate in the second semester of '24 and then as we go into 2025. I think about that gen AI acceleration as pace acceleration in the sequencing given the upcoming product releases we have with gen AI.

The second area is retention. We continue to be approximately 91% for total TR.

Third area that we're focused on is in regards to the recent M&A. We're very pleased where we are today. But if you think about sustaining the pace of organic growth and accelerating over the time horizon, M&A is a key factor.

And then thirdly -- fourth area would be pricing. So I think those were the four areas, Drew, that we continue to focus on as we look over the time horizon.

**Operator**

We will take our next question from Aravinda Galappaththige with Canaccord Genuity.

---

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

One thing that obviously jumped out, including on Investor Day, was sort of the breadth of your new product development pipeline. Maybe, Steve, it would be helpful to sort of focus us on sort of the main new initiatives on that front that we should be thinking about in terms of what can sort of really materially push the organic number up.

I mean, is it sort of the Drafting product? Is it sort of the CoCounsel sort of going across to the other professions? Maybe just sort of help focus that, so that we know what exactly to be watching more closely.

---

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

Yes. Aravinda, thanks for the question. I think as you know, we've got an ambitious product development and innovation road map for this year and beyond. I think, certainly for us, as a company, we've turned a new page in terms of our aspirations and, I hope, our capability to put new products in the hands of our customers and make their professional lives easier and more productive and ultimately more successful.

The answer to your question is it's pretty balanced across the product. So I know that doesn't make things easier for you. But we've -- the biggest area of focus to date has been in Legal with Westlaw gen AI, with Practical Law gen AI and the extensions to come in intelligent drafting and also, of course, not only the sort of investment in the CoCounsel skills, but also the announcement that we're going to have CoCounsel run as our AI capability across all of our products. So the sort of starting point for us, which has been very much customer and market-driven, has been in Legal.

But having said that, we've got an aggressive program in accounting, audit and tax as well with Checkpoint Edge, AI assistant research, with integrating ONESOURCE and Pagero and modernizing and updating UltraTax and Virtual Office, in addition to a series of investments under Elizabeth Beastron and Dave Wyle in the audit space.

And then lastly, we'll migrate CLEAR to the cloud and modernize that and get it FedRAMP compliant.

So it's going to be a very busy year. And I think the good news, in a sense, is that we're not overly dependent on any one of these products hitting the ball out of the park. We think that all of them will add value to our customer sets. All of them are getting positive responses, and those that have been launched more so. And so it's a pretty diversified story.

Mike, anything to add there?

---

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

That's a great summary, Steve.

---

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

A quick follow-up for Mike. I know that in the prior calls, Mike, you've sort of clarified that the weighted average price increase was about 3.5%. We're still -- I just wanted to confirm we're looking at a similar level this year. Is that correct?

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

Yes. Aravinda, very consistent in that range of 3.5%, maybe slightly higher as we progress during the year, but that's a good estimate.

---

**Operator**

We will take our next question from Manav Patnaik with Barclays.

---

**Manav Shiv Patnaik** - Barclays Bank PLC, Research Division - MD, Business & Information Services Equity Research Analyst.

I guess, I just have more of a capital allocation refresher question, if you call it. But you've -- I think you've done most of the buybacks that you were kind of authorized to. You've raised the dividend. So the first part is just what should we expect on those two fronts?

And then the second part is on M&A, and it's -- I know you have the capital. I was just curious how you think about whether your team has the capacity to keep doing more deals and in what time frame.

---

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

Yes. Happy to start with that, Manav. Just as a reminder for everyone, we did increase our dividends by 10% in Q1 of 2024. That was the third consecutive year. We take it one year at a time, but I would anticipate, Manav, that we would increase it -- dividends by another 10% in Q1 of 2025, just to manage expectations.

Second, from a buyback perspective, the \$1 billion NCIB share buyback that we announced in November of 2023, we are close to \$850 million on that. So we'll definitely complete it by June 30, as previously discussed.

And then that leads us to the big item, which is M&A. Certainly, with \$8 billion of capital capacity between now and 2026, our near-term focus will be on identifying strategic M&A, just to continue to strengthen our portfolio and meet customer needs. So if you look across the Big 3, we're optimistic with our pipeline there, but we'll continue to be very rigorous, very diligent, maintain a high bar.

On your question on capacity for M&A, we certainly have that. If you look over the last 3 years, we have added capacity resources across our team. So financial capacity, not a concern. And then from a resource bandwidth, not a concern. It's something that we continuously assess, but we feel like we're in good shape there.

---

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

Yes. Just to add to that. Manav, thanks for the question. I mean, if you look at the last 18 months and the \$2 billion and a bit we've spent, it's been pretty evenly spread, and we certainly didn't set out to do that. It's not a democratic process by any means in terms of how we prosecute M&A opportunities.

But SurePrep within Tax & Accounting, and Dave Wyle and his team have been a great addition to our Tax & Accounting team. Obviously, Pagero is in the corporate space and invoicing Indirect Tax and Casetext. Jake Heller and the team are focused -- have been focused initially on their product set on the Legal Professional. Though, as I said, we see real opportunity to take that set of capabilities and skills across all of the Big 3 and potentially even leverage it in the newsroom under Alessandra's leadership.

So -- and then, of course, Imagen, the insurer, we're focused on Reuters, and Westlaw Japan is an international asset. So it's been pretty well spread. And Kirsty Roth and her operations and technology team has shown tremendous capacity to onboard and integrate these acquisitions.

So I think as we sit here today, we'll continue, as Mike said, to hold the bar very high for acquisitions. We're not going to get deal fever or anything like that, but we're confident that the teams are primed and ready should we see the right assets.

---

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

Just one final comment, Manav. I think we've discussed this in the past with Adrian Fognini, who leads Latin America now more broadly, our international assets, we remain keen to expand our international footprint from approximately 20% of revenue today. And Adrian will lead the charge on that for us internationally.

---

**Operator**

We will take our next question from Vince Valentini with TD Cowen.

---

**Vince Valentini** - TD Cowen, Research Division - MD

Mike, can I make sure we -- or I understand the seasonal nonrecurring boosts and how they impact things this quarter and going forward? So am I right to think, if there's 250 basis points of boost in the corporate sector, 200 basis points of tax, the revenue increment there would be pretty a high flow-through to EBITDA, and that may be part of the reason why the margins were so strong in this quarter and so much better than what the full year guidance implies? I'll leave that as part A of the question and pause.

---

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

Yes. I just -- maybe if I could just take these one at a time as you go through them. Vince, your summary is spot on. It's a good insight. It's good summary there.

---

**Vince Valentini** - TD Cowen, Research Division - MD

Okay. So then the go-forward question, I'm just -- no criticism at all, the results are strong. I just want to make sure I understand it. Is the -- do you expect these timing benefits to wash out by the end of this year?

So that -- you've already sort of given Q2 guidance. It seems like some of the margin benefit will wash out as early as Q2. But for the revenue, will it all normalize by the end of the year? Or is this just setting up a more difficult comparison for year-over-year growth in 2025?

---

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

Yes. I think, Vince, as we progress during the course of the year, I provided the Q2 guidance for you, both on revenue and EBITDA. I think we remain quite optimistic. As we progress during the year, I'll provide some additional insights here.

I think one of the items that we -- we're very pleased with the Corporates performance certainly in Q1, but we're continuing to monitor the sales pipeline for the Corporates. We had mentioned in prior quarters some elongation of sales cycles there. We saw some improvements in Corporates in Q1. We're cautiously optimistic that, that will progress during the course of the year.

Certainly, we'll keep you posted on the revenue front each quarter. And we've maintained our EBITDA margin there. We think we continue to have opportunities to make investments there.

As a reminder, as we progress during the year, Q4 of 2023 included \$18 million of generative AI revenue from Reuters. So that creates a stronger -- or more difficult year-over-year comparison. So there are some additional puts and takes to consider, events, as we progress during the remainder of the year.

---

**Operator**

We will take our next question from Heather Balsky with Bank of America.

---

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

I was hoping you could just help us understand the sequencing for Legal, both thinking about how you performed in 4Q into 1Q and how we should think about trends for the rest of the year and if there's any seasonality there.

You posted, I think, a 6% organic, ex the print shift. Last quarter was 7%. I know there tends to be some noise just because of how you round the number. So I imagine that, potentially, the basis point delta is a little bit different than how it looks on paper.

But can you help us understand the trends there? Was there any seasonality? Was FindLaw a bigger drag? And then the follow-up question there is specific to FindLaw, that's been a drag for some time. Anything you can do there to help accelerate that growth?

---

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

Sure. Heather, I'm going to start and then Steve will supplement. If you go back to Q4 2023 versus Q1 '24 for Legal Professionals, organic growth each rounded to 7%. However, Heather, we don't report on the decimal level, but if you look at the 7%, Q1 2024 is a stronger 7% in Q1 '24 than Q4 '23. I think that's a really important point.

Then, Heather, just as a reminder, if you dissect our Legal Professionals, I won't go through every category of business, but we talk a lot about Westlaw, Practical Law, CoCounsel, HighQ and then we get to Government and FindLaw. As we discussed today, Government was 6% in Q1 of '24, which is fairly consistent with recent quarters, which gets to the heart of your question on FindLaw.

As a reminder, FindLaw is the leading provider of marketing solutions, lead generations for attorneys and law firms. This focuses, Heather, more on solo or single attorney firms and small wall firms. It's about \$300 million in annual revenue led by Mark Haddad there.

It's quite different than our core research offerings of Westlaw and Practical Law. Mark and the team have done a solid job in Q1. We're optimistic as we go into Q2, Q3, we'll see continued progression. But the reason we're very transparent on FindLaw, if you look at our optimism in regards to the legal research offerings with Westlaw and Practical Law, the acceleration for total is just suppressed a little bit by FindLaw. So that's why we're calling it out, but we are seeing some solid progression with FindLaw. It's just lower than what we're seeing with the growth overall, Heather, for Westlaw and Practical Law. So hopefully, that gives you context.

And then as we go into Q2, Q4 -- through Q4, we're optimistic that we'll see incremental step-ups in Legal Professionals overall. But that rounding, once again, is a key factor that Q1 is certainly a stronger 7% than Q4 of '23.

Steve?

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

Yes. Heather, the only thing I'd add is we mentioned at the Investor Day, I'm sure you've heard this, we sort of said, look, we firmly believe that this increase in complexity associated with regulatory compliance and, equally importantly, generative AI give us the opportunity over a few years to play a larger role in the success of our customers. Everything we see today reinforces that.

But we also said that the sort of magnitude of that expanded role and the timing of getting there remains unclear at this point. And I think it still remains unclear a quarter or so on.

So as you can imagine, our Legal Professionals business run by Raghu and -- with Ryan Kessler as a finance and also the general counsel focus, which is included in Corporates under Laura Clayton McDonnell and Erin Brown, I mean, they're very focused on the quarterly progress, as you can imagine, as is Steve Rubley and Pat Eveland in the Government space and application to courts and government department.

But the customer reaction has been very strong. But it's also the customers, I think, will behave differently, and they'll pick up at different paces. So what we're focused on is that quarterly progression but, more importantly, is getting as fast as we can to that broader destination of playing a bigger role in the success of our customers using these gen AI-fueled products in and beyond legal.

And so it's an exciting journey, but likely to be a multiyear journey before we get to where we want to.

---

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

Yes. Heather, just a couple of additional points in case it's helpful to round out the discussion on Legal. I didn't mention it in my prepared remarks, but the Westlaw Precision ACV penetration is about slightly over 30% at the end of Q1.

And one of the things that we'll do in a subsequent quarter, certainly by year-end, is an additional kind of operating metric that will help you in regards to our progression on gen AI and Legal and across the board. But that's 30% ACV penetration for Precision.

---

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

One, we love more metrics. And two, so it sounds like the 6% was for Government, I'm sorry I misheard that, so I appreciate the clarification.

---

**Operator**

We will take our next question from Scott Fletcher with CIBC.

---

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

Sort of following on some of the comments on adoption there, I'm curious, as you're rolling out the gen AI enhancements to products like Westlaw or Practical Law, where there's use cases in Legal and in Corporates, are -- is there any difference in the adoption rate or the early intention to, I guess, pay up for the new products, maybe between the law firms and the corporate?

---

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

Scott, it's a great question. I think it's a little early to tell. I mean, we're certainly seeing tremendous appetite for the products, and we're getting very favorable reactions to our products and favorable comparisons to the sort of various other offerings in the marketplace. So for us, reasons for optimism.

The -- we have a much larger business serving law firms than we do general counsels. But I think the pricing is holding up in both so far, but it's early days. So I think as the quarters roll on, we'll have more to say on that. But today, the pricing that we're asking for is holding up quite well in both the general counsel's selling process, so that into a law firm's large, medium and small.

---

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

Okay. That's helpful. And then just a second question. I'm just curious if there's been any changes to that \$100 million internal investment target for the AI investments, whether that's \$100 million doesn't go as far in AI, given any cost increases or if there's more opportunity to spend more, just looking forward.

---

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

Yes. Certainly, Scott, that \$100 million that we discussed throughout calendar year '23 has increased. So if you look at calendar year '24, it's in excess of the \$100 million that we discussed last year. And it's one that we work with our team on constantly to ensure that we are deploying investments optimally there. But it's in excess of \$100 million this year, Scott, which is baked into our guidance.

---

**Operator**

We will take our next question from Kevin McVeigh with UBS.

---

**Kevin Damien McVeigh** - *UBS Investment Bank, Research Division - Analyst*

Going back to the EBITDA a little bit. Is there any way to think about how much of the overperformance was on the revenue as opposed to the timing of some expenses? Maybe, Mike, we could start there.

---

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

Yes. Certainly, it's a combination, Kevin. I didn't break that down in the prepared remarks. But certainly, given our business model and the operating leverage that we have, given that 60%, 65% of our costs are fixed in nature, given the level of organic revenue growth that we achieved this year, that creates higher operating leverage in Q1 than you would have seen historically.

So that's a factor. I think I previously discussed at 6% organic growth, you see about 75 basis points of flow-through on an annual basis. So at the 9%, you'll see a higher flow through in Q1 of 2024.

Certainly, on the timing of expenses, I mentioned as we go into Q2 and the remainder of the year, we'll see a step-up in areas like technology, product and the integration for the recent M&A there.

Also a reminder, Kevin, in regards to flow-through, if you look at the Reuters generative AI, the flow-through on that is actually larger, when you think about operating leverage, but it's actually the flow-through on those Reuters generative AI content licensing deals would be even higher than what you would see normally on an incremental dollar of revenue.

Then once again, as a reminder, as you get into Q4 this year, we're going to have a tougher comp because we had that \$18 million generative AI deals from Reuters in Q4 of 2023.

**Kevin Damien McVeigh** - UBS Investment Bank, Research Division - Analyst

That's helpful. And then appreciating that there's a certain amount of transactional revenue, right? 10% is still, as far as I can go back, as high as it's ever been. I mean, clearly, there's a structural component to that.

And I think you did a nice job framing out the kind of four variables on that, the gen AI, retention, M&A, pricing, so on and so forth. Is there any -- when you think about that Q1, that delta -- because, again, there's clearly a structural step-up in the organic growth. Any way to frame across those four levers, what drove that? Appreciating that it's going to decelerate or what drove that...

---

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

Yes, I think -- right. Yes, the four items that you just mentioned, I framed that on Drew's initial question. I framed that under the context of what do you have to believe for sustained stronger revenue as we go forward.

If I go back to Q1 of 2024, I would just emphasize four items that really contributed to the really strong organic growth performance. Number one, the Reuters AI licensing revenue, which was \$25 million of absolute revenue.

Number two, the seasonal tax offerings, tax and audit offerings, that occurred in both in Tax & Accounting Professionals and in Corporates.

The third, we did have some timing items quarter-by-quarter.

And then fourth, we did have some easier year-over-year comps. So those were the four items, Kevin, if you look strictly at Q1 2024. When I addressed Drew's initial question, I was thinking more respectively on what you have to believe for accelerated organic growth. Hopefully, that's helpful, Kevin.

---

**Operator**

We will take our next question from Tim Casey with BMO.

---

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

Steve, could you talk a little bit how the international strategy is evolving with -- now that Pagero in the fold? And maybe I was hoping you could unpack it in terms of what your aspirations are there.

And in that context, how much of it is growing with your current clients as they -- customers, as they grow internationally? How much of it is exploiting Pagero beyond what it already does and then if M&A is a meaningful factor in that initiative?

---

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

Sure, Tim. Let me try to tick through those points, and I'm sure Michael will add. So just as a reminder, about a tiny bit shy of 20% of our revenues is -- comes from international markets, so outside of the United States today.

So we think that's a pretty big opportunity. We think we can take many of the capabilities that serve our customers in the United States to those markets. And we've got a very strong starting position in Brazil, a strong starting position in Australia and New Zealand, parts of Europe. So it's not a standing start.

We're certainly focused on the back of the Westlaw Japan acquisition to accelerate there. We're investing in Brazil and Mexico and eyeing up opportunities in Southeast Asia from a sort of a regional standpoint. And Europe remains opportunistic. The -- that's sort of the geographic lens.

From a sort of a product and capability lens, yes, Pagero is a big step forward for us. Pagero, we think, is the only sort of single platform e-invoicing solution that there is. Their competitors respect them, as we do, have cobbled together solutions across different geographies.

So Pagero has a pretty interesting starting point, heavily focused in Europe today, continental Europe, the U.K. and particularly Scandinavia, given its heritage. So the opportunity to take that to Latin America and take that to Southeast Asia as e-invoicing mandates roll out, we think it's a pretty exciting one.

Secondarily, CoCounsel. One of the things that we're most excited, and there are many things that are exciting about the Casetext acquisition for us, but one of the things that's exciting about CoCounsel is it's not geographically bound. And as we launch or introduce the idea of launching CoCounsel in different markets and really providing the TR size and scale behind that set of capabilities, the reaction has been very strong in all the markets that we're talking about. And they're not just common law markets, and they're not just the markets that we've traditionally had, for example, Westlaw or Practical Law. So that's the second part.

I think, thirdly, of course, the Dominio asset in Brazil is very strong, and we're exploring opportunities to sort of extend that because it has a unique set of data and it has a unique customer acquisition engine. And I think Adrian and the team have done a wonderful job of adding new customers on a sustained basis over the years. So we're certainly focused on continuing that.

Lastly, on the customer basis, I think we're just starting to scratch the surface in terms of better serving global customers, whether that's Fortune 500 or Fortune 1000. And Laura Clayton McDonnell has been focused on exploring that opportunity, starting with companies that are headquartered in the United States and Europe. But I think the international opportunity for us will be adding new customers because of our relatively modest starting position.

But Mike, what would you add?

---

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

I wouldn't add any items. I would just double down in regards to the level of optimism and encouragement with Laura's team, Erin Brown, [Raghu] on Pagero e-invoicing and the broader indirect tax and optimistic that we'll have positive achievements to share as -- in future quarters with Indirect Tax overall.

---

**Operator**

We will take our next question from Andrew Steinerman with JPMorgan.

---

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

This is Stephanie Yee stepping in for Andrew. I wanted to ask about the 2024 guide. So you're raising a little bit the revenue growth, but you're keeping the margin guide the same.

So I guess, is the implication that you see additional opportunity to reinvest that flow through? Or have, I guess, costs been going up, and so that's why the margin guide is the same?

---

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

Stephanie, it's the former in regards to the opportunities to invest. We're very encouraged with the road maps that we shared during Investor Day and just the 6 to 8 weeks since Investor Day. Certainly, our teams continue to identify additional opportunities.

So maintaining the EBITDA margin and free cash flow is a reflection of the opportunities that we see to drive our top line in '24, '25 and beyond.

---

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

Okay. That sounds great. And can I just ask about -- can you comment on the competitive landscape? And I'm thinking more so about generative AI, whether you're really just seeing the same incumbents in terms of on the field or whether startups are part of the conversation.

---

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

Yes. Stephanie, I think we're seeing a bit of both. And as I alluded to earlier, we'd like to think we're not overly focused on our competitors. We want to be overly focused on our customers and better serving them. But a lot of respect for both the folks that have been competing with TR for long periods of time and those that are new and emerging.

I think it's a pretty balanced mix, as you'd expect, with a technology that's disruptive and potentially has transformative capabilities in terms of the professions we serve.

And having said all that, we -- I think we've made a good start, if not a very good start, in the generative AI world with both our organic investments and the preexisting talent that we have in and around advanced machine learning and large language models.

And then, of course, the addition of Casetext, I think, was a real -- have been a real boost to us as well. So the job ahead of us is just to continue to accelerate in this area. And if we do that, we'll be very well placed relative to any and all competitors.

---

**Operator**

We will take our next question from Toni Kaplan with Morgan Stanley.

---

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

Earlier, you talked about the improvement in the pipeline and sales trends in corporate. And it also sounded from an earlier answer, Legal was maybe improving as well. Maybe if you could just put a fine point on that. Are you seeing improving trends in the selling environment in Legal? And any changes to the sales cycle or pipelines there?

And maybe just -- it sounds like maybe Corporate -- your -- you saw improvement, but are still a little bit cautious or just watching it to make sure that's sustaining. I guess, what would drive that to really lead you to believe, okay, we're out of the woods on that as well?

---

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

Yes. Toni, look, I think you're right on both fronts. In Corporates, we've talked for the last 5 or 6 quarters about prolonged sales cycles. We saw in Q1 a bit of a reprieve in that, which I think flowed through to our results. It's too early to declare victory there. We'd like to see a few more quarters of that before we come back to you and say there are improved trading conditions within Corporates.

In Legal, we've been picking up steam quarter-on-quarter. We certainly did through 2023, and that continued in '24. So the opportunity ahead of us is just to continue that sort of steady -- that steady improvement. But -- so the trajectories are quite different, and we remain vigilant.

Mike, anything to add?

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

No. I would just double emphasize that, Toni, what give -- what would give us stronger confidence there is just repeat performance in Q2 to Q3 in regards to the Corporates net sales book of business. We have strong confidence in the team, but it's something that we just need to see.

We've spent quite a bit of time with the Corporates team this year, quite encouraged by what we see and hope to report another good Q2, Q3 in Corporates. And that will give us that confidence that you're inquiring about, Toni.

---

**Operator**

We will take our next question from George Tong with Goldman Sachs.

---

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

You've rolled out several products with new generative AI features lately. Can you talk a little bit about traction with how you're monetizing those additional functionalities and how the incremental monetization compares with investments that you're making in generative AI?

---

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

Yes. George, I would say very encouraging early progress both in terms of the overall customer reception to those new products and their comparisons to any sort of competitive offers that might exist and also their propensity to pay.

But it is early, particularly relative to the investments that we've made. I mean, in a sense, we started the investment program with a onetime \$600 million or thereabout spend through the change program. We continued that with \$100 million last year, and as Mike said earlier on this call, a little bit more than that, through this year.

So -- and you add to that \$650 million with the Casetext acquisition. So relative to those -- that order of magnitude, the -- it's early days. But as I said, we're optimistic, and all the early signs are positive. But it is early. So we look forward to coming back and reporting ongoing progress as it occurs.

---

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

George, just in regards to comparison to the investments of our ability to deliver margin and sustaining our guidance for full year '24 given that we expect an uptick in gen AI, I think, is indicative of the return on investment that we're getting on the gen AI.

---

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

Got it. That's helpful. And just a follow-up on the topic of gen AI. Can you talk about the different ways in which you're monetizing? Is it consumption-based? Is it modules, upsell-based? Is it part of the standard package? What are the different ways that you can monetize gen AI?

---

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

George, I think the simplest way to answer that is we've been experimenting with multiple different options. What we're trying to focus on is making it as simple as possible for our customers to adopt these products from a sort of a pricing and proposition standpoint while, at the same time, articulating the value, because we think the value is very significant in terms of time saved, in terms of the overall efficiency and productivity, the quality of work products.

So we're squarely aimed at increasing the profitability of our customers and pricing accordingly. But similar to my earlier answer, early days and lots of experiments -- experimentation going on.

---

**Operator**

We will take our next question from Sami Kassab with BNP Paribas.

---

**Sami Kassab** - *BNP Paribas Exane, Research Division - Media Research Director, Co-Head of the European Media Team & Analyst of Media*

Steve, you said that the increased complexity of regulatory compliance was a driver of growth. In that context, do you see the Corporate Transparency Act as a meaningful driver of your performance this year? Or is it just one out of many examples of complexification?

And secondly, could you please elaborate on the impact of gen AI on your cost efficiency? In the previous call, you said it was too early to quantify the impact, but have the last 3 months perhaps brought any more visibility in terms of the impact of gen AI on your own cost base?

---

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

Yes, yes. Thanks, Sami. Great questions. So I would say with regard to the Corporate Transparency Act, one of many, one of many, many. I think every market in which we operate, every segment in which we operate, we're seeing more and more regulations, more and more rules, whether they'd be laws, whether they'd be various sort of industry professional body guidelines, whether they'd be internal processes, that appears to be a gift which keeps giving.

And as I've said a number of times before, it's not an option for corporations or their advisers to just add more headcounts to cope with that burden. Technology has to play a big role in alleviating that burden. And we're one of -- we think one of the few players who can really meaningfully take advantage of that. So that, I would suggest, Sami, is one of many with regard to that.

In terms of our internal gen AI, Mary Alice Vuicic, our Chief People and Communications Officer; and Kirsty Roth, who, of course, runs operations and technology, they, with their teams, are leading this effort. Early days. Lots of experiments and tests going on. I think cautious optimism as to what that's going to yield for us.

But we're going to be pretty conservative in terms of providing sort of guidance on cost efficiencies. We want to see the benefits, and we want to make sure that it's in best service of our customers before we get out ahead of ourselves in terms of the financial implications. So I'm going to defer to Mike in future quarters to make that call as to when we'll communicate around that. But we're in no hurry.

---

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

And we're at the top of the hour, so Maddie, I think we'll end the call there. But thank you, everyone, for your attention.

---

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

Okay. Thank you.

---

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

Thanks, everybody.

**Operator**

This concludes today's call. Thank you for your participation. You may now disconnect.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.