

## Thomson Reuters

# 4Q23 EPS preview: well along on the path to better, faster, stronger

Reiterate Rating: BUY | PO: 160.00 USD | Price: 149.33 USD

## 2024 organic sales guide: no apparent buyside consensus

TRI will reports 4Q EPS on 2/8 before the open. We're focused on the 2024 sales guide, as this year's margins are generally known (see below). We expect TRI to guide to sequentially improving organic sales growth driven by acceleration in Legal (due to GenAI monetization) growth at recently acquired businesses. Investors we have spoken with model 7-8% Big 3 (Legal, Accounting, Corporate) 2024 organic growth, but their expectations for the guide vary (we've heard 6-7%, 7-7.5%, 7-8%). We model 2024 organic sales +6.1/7.4% for total/Big 3 and think TRI leave some room to beat amidst a still sluggish US economy that can impact transactional sales and Corporate sales cycles. We reiterate our Buy rating given TRI's potential for sales acceleration, compounding EPS growth, and strong cash flow.

## No surprises on margin guide: we expect ~48% in 2024

Into 3Q, investors were concerned about 2024 margins due to TRI's plans to invest in GenAI and the Casetext acquisition. Management cleared the deck on the 3Q call by guiding 2024 margins down an implied 50bp (to ~38.5%). This proved to be a "buy the news" event, as the shares subsequently advanced 22% (vs. the S&P +17%). The Pagero acquisition (see our [Jan 22 note](#)) should also put additional pressure on margins. We think the 2024 margin guidance will be ~38% (BofAe 38.1%). However, we also think this is already largely understood by the Street.

## We're above consensus on 4Q sales

We model \$0.91 4Q EPS, above \$0.89 Visible Alpha consensus, driven by ~5.5/6.2% organic sales growth for TRI/Big 3 and 37.3% EBITDA margins (+140bp). We're in line with 2023 guidance for 5.5-6% 2023 organic sales and 39% margins (BofAe +5.6% and 39.0%). We tweak our 2024 and 2025 estimates slightly higher.

## 4Q call could be a preview for March 12 Investor Day

Thomson's Investor Day is planned for March 12, but we expect a partial preview during the 4Q EPS call. Specifically, we expect management to emphasize that TRI has a path to improving organic sales growth and operating leverage-led margin expansion in 2025+. We also see the potential for further portfolio pruning to boost organic sales. We assume Big 3 organic sales will reach 9% by 2026; we don't think a 9-10% target is out of the question.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.02	2.62	3.43	3.73	4.16
GAAP EPS	11.51	3.00	5.10	3.36	3.80
EPS Change (YoY)	9.2%	29.7%	30.9%	8.7%	11.5%
DPS	1.62	1.78	1.96	2.16	2.32
EPS (YTRI - C\$)	2.53	3.41	4.64	5.05	5.63
DPS (YTRI - C\$)	2.03	2.32	2.65	2.92	3.14
Valuation (Dec)					
P/E	73.9x	57.0x	43.5x	40.0x	35.9x
GAAP P/E	13.0x	49.8x	29.3x	44.4x	39.3x
Dividend Yield	1.1%	1.2%	1.3%	1.4%	1.6%
EV / EBITDA*	36.4x	30.8x	26.9x	26.0x	24.1x
Free Cash Flow Yield*	2.0%	2.0%	2.6%	2.8%	2.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

06 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
2023E Rev (m)	6,831.4	6,830.9
2024E Rev (m)	7,182.2	7,249.8
2025E Rev (m)	7,627.9	7,747.7
2024E EPS	3.70	3.73
2025E EPS	4.11	4.16

**Heather Balsky**  
Research Analyst  
BofAS  
+1 646 855 1497  
[heather.balsky@bofa.com](mailto:heather.balsky@bofa.com)

**Wahid Amin**  
Research Analyst  
BofAS  
[wahid.amin@bofa.com](mailto:wahid.amin@bofa.com)

### Stock Data

Price (NYS / TOR)	149.33 USD / 202.16 CAD
Price Objective	160.00 USD / 218.00 CAD
Date Established	28-Nov-2023 / 28-Nov-2023
Investment Opinion	A-1-7 / A-1-7
52-Week Range	112.87 USD - 152.46 USD
Market Value (mn)	68,104 USD
Free Float	30.7%
Average Daily Value	37.33 USD
Shares Outstanding (mn)	456.1 / 456.1
BofA Ticker / Exchange	TRI / NYS
BofA Ticker / Exchange	YTRI / TOR
Bloomberg / Reuters	TRI US / TRI.LN
ROE (2023E)	13.9%
Net Dbt to Eqty (Dec-2022A)	30.9%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

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Timestamp: 06 February 2024 12:30AM EST

# iQprofile<sup>SM</sup> Thomson Reuters

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	4.3%	9.2%	10.8%	11.5%	13.1%
Return on Equity	8.4%	9.8%	13.9%	16.6%	19.6%
Operating Margin	19.6%	27.7%	33.3%	27.8%	28.6%
Free Cash Flow	1,354	1,387	1,787	1,900	1,987

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.8x	1.6x	1.5x	1.5x	1.4x
Asset Replacement Ratio	2.8x	4.3x	4.6x	4.8x	4.2x
Tax Rate	152.5%	9.4%	23.6%	19.0%	19.0%
Net Debt-to-Equity Ratio	21.7%	30.9%	18.1%	12.5%	11.4%
Interest Cover	6.3x	9.4x	13.4x	16.0x	15.6x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,348	6,627	6,831	7,250	7,748
% Change	6.1%	4.4%	3.1%	6.1%	6.9%
Gross Profit	1,978	2,347	2,647	2,763	2,976
% Change	-0.4%	18.7%	12.8%	4.4%	7.7%
EBITDA	1,970	2,329	2,661	2,763	2,976
% Change	-0.3%	18.2%	14.3%	3.8%	7.7%
Net Interest & Other Income	(188)	248	(245)	(126)	(142)
<b>Net Income (Adjusted)</b>	<b>998</b>	<b>1,269</b>	<b>1,590</b>	<b>1,694</b>	<b>1,840</b>
<b>% Change</b>	<b>8.4%</b>	<b>27.2%</b>	<b>25.3%</b>	<b>6.5%</b>	<b>8.6%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	3,892	1,508	1,643	1,044	1,145
Depreciation & Amortization	770	724	726	750	759
Change in Working Capital	832	8	658	126	62
Deferred Taxation Charge	662	(144)	(369)	76	66
Other Adjustments, Net	(4,315)	(114)	(322)	485	536
Capital Expenditure	(487)	(595)	(549)	(580)	(581)
<b>Free Cash Flow</b>	<b>1,354</b>	<b>1,387</b>	<b>1,787</b>	<b>1,900</b>	<b>1,987</b>
<b>% Change</b>	<b>7.6%</b>	<b>2.4%</b>	<b>28.8%</b>	<b>6.4%</b>	<b>4.6%</b>
Share / Issue Repurchase	(1,400)	(1,282)	(993)	(800)	(1,750)
Cost of Dividends Paid	(775)	(837)	(900)	(983)	(1,027)
Change in Debt	(21)	993	(1,710)	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	778	1,069	1,149	1,936	2,058
Trade Receivables	1,057	1,069	1,083	1,110	1,191
Other Current Assets	618	673	601	611	656
Property, Plant & Equipment	1,324	1,336	1,622	1,544	1,448
Other Non-Current Assets	18,372	17,564	13,730	11,837	11,754
<b>Total Assets</b>	<b>22,149</b>	<b>21,711</b>	<b>18,185</b>	<b>17,037</b>	<b>17,107</b>
Short-Term Debt	0	1,647	1,480	1,480	1,480
Other Current Liabilities	2,581	3,244	2,540	2,665	2,797
Long-Term Debt	3,786	3,114	1,640	1,640	1,640
Other Non-Current Liabilities	1,948	1,757	1,645	1,759	1,881
<b>Total Liabilities</b>	<b>8,315</b>	<b>9,762</b>	<b>7,305</b>	<b>7,544</b>	<b>7,798</b>
<b>Total Equity</b>	<b>13,834</b>	<b>11,949</b>	<b>10,880</b>	<b>9,493</b>	<b>9,309</b>
<b>Total Equity &amp; Liabilities</b>	<b>22,149</b>	<b>21,711</b>	<b>18,185</b>	<b>17,037</b>	<b>17,107</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Business Services

## Company Description

Thomson Reuters is a leading information services provider focused on the legal, tax & accounting, and regulatory end markets. Its deep domain expertise, proprietary data and software and analytics tools are used by roughly 500,000 clients, with roughly 80% recurring revenue. Major brands include Westlaw, Checkpoint, and Reuters News.

## Investment Rationale

We are bullish on Thomson Reuters, which we see as an attractively priced defensive compounder. It is a cleaner story following the Refinitiv sale, has strong positions in attractive/growing markets, and is over-capitalized. The "Change Program" calls for accelerating organic revenue growth and meaningfully higher margins by 2023. We see robust EPS/FCF growth in 2023 and beyond, and believe valuation expansion is likely as TRI proves out its ability to deliver. Buy.

## Stock Data

Average Daily Volume	249,956
Shares / Common - Dual Listed	1.00

## Quarterly Earnings Estimates

	2022	2023
Q1	0.67A	0.84A
Q2	0.62A	0.87A
Q3	0.57A	0.82A
Q4	0.75A	0.91E

## Key Changes

(C\$)	Previous	Current
2024E EPS	5.01	5.05
2025E EPS	5.56	5.63

## Price objective basis & risk

### Thomson Reuters (TRI / YTRI)

Our \$160 price objective (C\$218) is based on 37.5x CY24E P/FCF. This reflects greater confidence in the durability of TRI's sales growth and a premium to peers at 24x. We think a premium is warranted given our view of TRI's resilient business model and margin expansion potential from its Change Program.

Downside risks: 1) failure to deliver revenue acceleration or margin targets associated with the "Change Program" could hurt valuation, 2) drag from Global Print and Reuters News accelerates, and 3) risks associated with Woodbridge's controlling stake. Upside risks: 1) successful execution of go-to-market strategies could accelerate revenue growth, 2) tuck-in M&A and/or share buybacks could boost earnings, and 3) rising value in TRI's LSEG stake.

## Analyst Certification

I, Heather Balsky, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
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	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Dun & Bradstreet Holdings, Inc.	DNB	DNB US	Heather Balsky
	Equifax	EFX	EFX US	Heather Balsky
	Gartner	IT	IT US	Heather Balsky
	Moody's Corp.	MCO	MCO US	Heather Balsky
	S&P Global	SPGI	SPGI US	Heather Balsky
	Strategic Education	STRA	STRA US	Heather Balsky
	Thomson Reuters	YTRI	TRI CN	Heather Balsky
	Thomson Reuters	TRI	TRI US	Heather Balsky
<b>NEUTRAL</b>				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
<b>UNDERPERFORM</b>				
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	Clarivate PLC	CLVT	CLVT US	Heather Balsky
	ManpowerGroup	MAN	MAN US	Heather Balsky
	MSCI Inc	MSCI	MSCI US	Heather Balsky
	Robert Half	RHI	RHI US	Heather Balsky
	TransUnion	TRU	TRU US	Heather Balsky



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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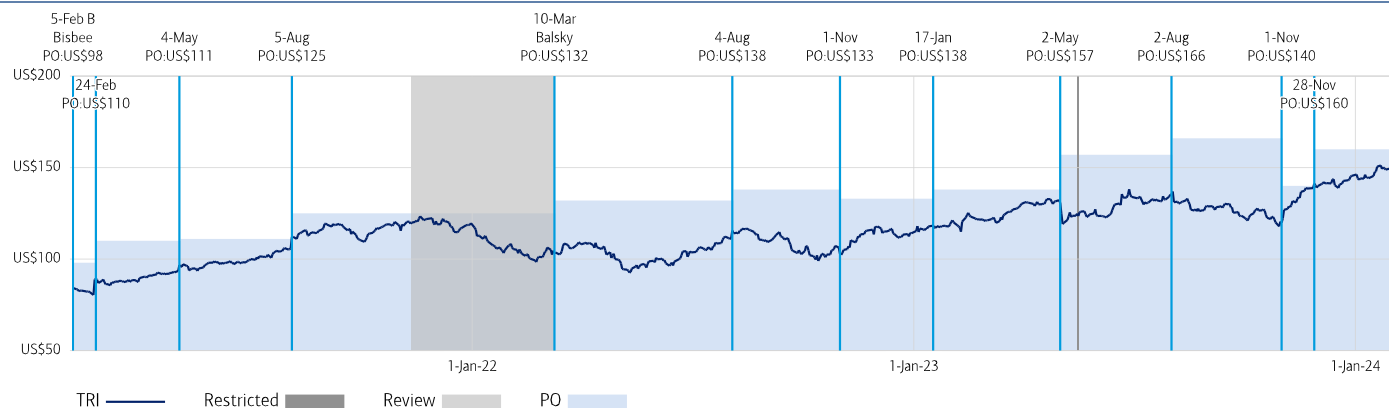
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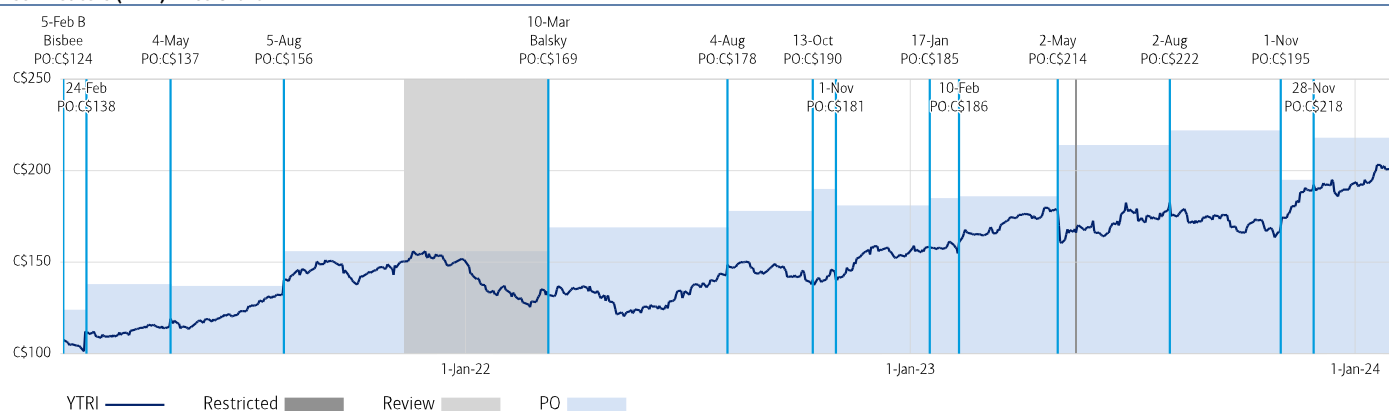
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### Important Disclosures

#### Thomson Reuters (TRI) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Thomson Reuters (YTRI) Price Chart**

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**Equity Investment Rating Distribution: Business Services Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	26	55.32%	Buy	17	65.38%
Hold	8	17.02%	Hold	3	37.50%
Sell	13	27.66%	Sell	11	84.62%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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