

Thomson Reuters

Raising the bar on sales growth

Reiterate Rating: BUY | PO: 180.00 USD | Price: 149.09 USD

Let's go! Mid-term outlook points to acceleration

We were pleasantly surprised by TRI's 4Q EPS and guide. The Big 3's (Legal, Accounting, Corporate) 4Q organic sales rose 8%, helped by acceleration in legal (+7% vs. 6% in 2Q/3Q). To date, TRI is the only company we cover that's monetizing GenAI in a substantive way. We think secular trends are driving accelerated adoption in Legal and that bodes well for the company over the mid-term. TRI provided guidance for ~7.5% 2024 (~7.1% ex a shift of sales from Global Print) and ~8-9% 2025-26 Big 3 organic sales growth. We previewed that we thought Big 3 organic could reach 9% by 2026.

4Q EPS beats; guidance in line with buyside expectations

We expect TRI's compounding growth story and accelerating sales to drive stock price upside. We raise our PO to \$180 (C\$243) (from \$160 (C\$218)) as we roll forward our outlook to 2025 estimates and raising our multiple to 41x P/FCF (vs. 37.5x prior). Our higher multiple factors the company's accelerating sales growth story and margins and FCF that are temporarily depressed. 4Q's \$0.98 EPS beat our \$0.91E on higher sales (organic +7% vs. our 5.5%E) and higher EBITDA margin (39.0% vs. our 37.8%E).

2024 guide looks achievable with room for beats

2024 guidance is for ~6/7.5% total/Big 3 organic growth and ~38% EBITDA margins. The Big 3 outlook was a little shy of our forecast when adjusting out the benefit from a shift of \$22mn Global Print revenues into Legal, but roughly in line with where we think the buyside expected the guide. We think there is room for upside as TRI's new products gain traction. We estimate Big 3 organic growth at +7.9%.

We do need to pick on the free cash flow

TRI's free cash flow (FCF) guidance was disappointing. TRI is guiding to \$1.8bn 2024 FCF, below 2023's ~\$1.871bn. Higher cash taxes, M&A-related capex, and a lower LSEG (London Stock Exchange Group) dividend have a \$250mn negative impact to y/y FCF (12% to y/y growth). FCF y/y is also negatively impacted by pressure on margins from GenAI investments and recent M&A. TRI is guiding to mid-teens% FCF growth for 2024-26 (to \$2.0-2.1bn) driven by sales and margin expansion (guide is for +75bp in 2025 & +50bp+ in 2025), partly offset higher cash taxes. Capex will moderate to ~8% of sales in 2025-26 from ~8.8% in 2024.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.62	3.50	3.60	3.98	4.40
GAAP EPS	2.87	5.70	3.22	3.60	4.03
EPS Change (YoY)	29.7%	33.6%	2.9%	10.6%	10.6%
DPS	1.78	1.96	2.16	2.31	2.46
EPS (YTRI - C\$)	3.41	4.72	4.85	5.36	5.93
DPS (YTRI - C\$)	2.32	2.64	2.90	3.11	3.32
Valuation (Dec)					
P/E	56.9x	42.6x	41.4x	37.5x	33.9x
GAAP P/E	51.9x	26.2x	46.3x	41.4x	37.0x
Dividend Yield	1.2%	1.3%	1.4%	1.5%	1.7%
EV / EBITDA*	30.7x	26.7x	25.6x	23.5x	21.5x
Free Cash Flow Yield*	2.0%	2.6%	2.6%	2.8%	3.0%

* For full definitions of *IQmethod*SM measures, see page 4.

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	160.00	180.00
2024E Rev (m)	7,249.8	7,246.6
2025E Rev (m)	7,747.7	7,752.5
2026E Rev (m)	8,328.3	8,335.4
2024E EPS	3.73	3.60
2025E EPS	4.16	3.98
2026E EPS	4.61	4.40

Heather Balsky
Research Analyst
BofAS
+1 646 855 1497
heather.balsky@bofa.com

Wahid Amin
Research Analyst
BofAS
wahid.amin@bofa.com

Stock Data

Price (NYS / TOR)	149.09 USD / 200.99 CAD
Price Objective	180.00 USD / 243.00 CAD
Date Established	8-Feb-2024 / 8-Feb-2024
Investment Opinion	A-1-7 / A-1-7
52-Week Range	112.87 USD - 152.46 USD
Market Value (mn)	67,862 USD
Free Float	30.7%
Average Daily Value	39.09 USD
Shares Outstanding (mn)	455.2 / 455.2
BofA Ticker / Exchange	TRI / NYS
BofA Ticker / Exchange	YTRI / TOR
Bloomberg / Reuters	TRI US / TRI.LN
ROE (2024E)	15.8%
Net Dbt to Eqty (Dec-2023A)	17.9%
ESGMeter TM	High

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Timestamp: 08 February 2024 01:07PM EST

iQprofileSM Thomson Reuters

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.0%	11.3%	11.2%	13.0%	14.4%
Return on Equity	9.8%	14.1%	15.8%	19.1%	21.3%
Operating Margin	27.7%	34.3%	26.9%	27.8%	29.0%
Free Cash Flow	1,387	1,783	1,777	1,881	2,046

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.6x	1.4x	1.5x	1.4x	1.4x
Asset Replacement Ratio	4.3x	4.7x	4.7x	4.1x	4.2x
Tax Rate	12.4%	21.0%	19.0%	21.0%	22.0%
Net Debt-to-Equity Ratio	30.9%	17.9%	21.1%	25.7%	20.0%
Interest Cover	9.4x	15.3x	13.0x	14.7x	14.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	6,627	6,794	7,247	7,753	8,335
% Change	4.4%	2.5%	6.7%	7.0%	7.5%
Gross Profit	2,347	2,660	2,788	3,043	3,315
% Change	18.7%	13.3%	4.8%	9.2%	8.9%
EBITDA	2,329	2,678	2,788	3,043	3,315
% Change	18.2%	15.0%	4.1%	9.2%	8.9%
Net Interest & Other Income	248	(344)	(150)	(147)	(163)
Net Income (Adjusted)	1,269	1,624	1,629	1,756	1,920
% Change	27.2%	28.0%	0.3%	7.8%	9.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,380	1,885	968	1,019	1,098
Depreciation & Amortization	724	725	835	885	900
Change in Working Capital	8	457	73	(4)	13
Deferred Taxation Charge	(144)	(388)	44	32	27
Other Adjustments, Net	14	(352)	492	570	658
Capital Expenditure	(595)	(544)	(635)	(620)	(650)
Free Cash Flow	1,387	1,783	1,777	1,881	2,046
% Change	2.4%	28.6%	-0.3%	5.9%	8.8%
Share / Issue Repurchase	(1,282)	(1,079)	(1,039)	(1,750)	(500)
Cost of Dividends Paid	(837)	(892)	(980)	(1,021)	(1,078)
Change in Debt	993	(1,599)	(157)	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,069	1,298	1,115	833	1,301
Trade Receivables	1,069	1,122	1,167	1,280	1,405
Other Current Assets	673	501	530	594	657
Property, Plant & Equipment	1,336	1,683	1,579	1,413	1,261
Other Non-Current Assets	17,564	14,080	12,754	12,656	12,557
Total Assets	21,711	18,684	17,145	16,775	17,181
Short-Term Debt	1,647	372	372	372	372
Other Current Liabilities	3,244	2,861	3,001	3,147	3,316
Long-Term Debt	3,114	2,905	2,748	2,748	2,748
Other Non-Current Liabilities	1,757	1,482	1,532	1,591	1,650
Total Liabilities	9,762	7,620	7,653	7,859	8,086
Total Equity	11,949	11,064	9,491	8,916	9,095
Total Equity & Liabilities	21,711	18,684	17,145	16,775	17,181

* For full definitions of iQmethodSM 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	262,175
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	0.84A	0.98E
Q2	0.87A	0.86E
Q3	0.82A	0.81E
Q4	0.98A	0.95E

Key Changes

(C\$)	Previous	Current
Price Obj.	218.00	243.00
2024E EPS	5.02	4.85
2025E EPS	5.60	5.36
2026E EPS	6.21	5.93

Price objective basis & risk

Thomson Reuters (TRI / YTRI)

Our \$180 price objective (C\$243) is based on 41x CY25E P/FCF (vs. 37.5x CY24E P/FCF prior). 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.

US - Business, Education & Professional Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alight Inc	ALIT	ALIT US	Heather Balsky
	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
NEUTRAL				
	FactSet Research Systems Inc	FDS	FDS US	Heather Balsky
	First Advantage Corporation	FA	FA US	Heather Balsky
	Verisk Analytics	VRSK	VRSK US	Heather Balsky
UNDERPERFORM				
	ASGN Inc.	ASGN	ASGN US	Heather Balsky
	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



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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

EV / EBITDA

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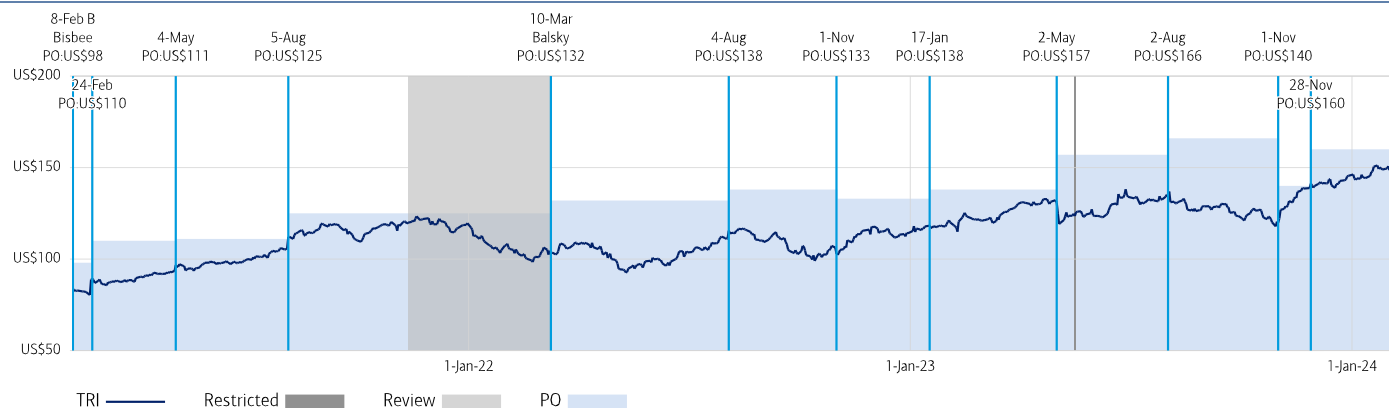
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Important Disclosures

Thomson Reuters (TRI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

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.

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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