

Thomson Reuters

(Bidding) war and taxes: TRI bids on Pagero

Maintain Rating: BUY | PO: 160.00 USD | Price: 144.19 USD

TRI tries to make its move on a seemingly quality asset

Yesterday, TRI announced a ~\$625mn tender bid offer for Pagero Group AB, a Swedish provider of global e-invoicing and indirect tax software solutions. VAT and sales taxes are types of indirect taxes. The bid values Pagero's shares at SEK 40, topping software company Vertex's offer for SEK 36/share (see our software team's [Dec. 13 note](#)). We believe this asset could fit nicely into TRI's portfolio. TRI said it likes the company because its growing sales by double-digits, and on the cusp of benefitting from a wave of regulatory-driven demand. TRI also has additional use cases beyond indirect taxes for Pagero's invoicing network and growing base (currently 14mn) of customers. We reiterate our Buy rating on TRI.

This could possibly play out a few ways

Pagero's Bid Committee had already recommended its investors accept Vertex's offer. Vertex has up to five business days to match / outmatch TRI's bid. However, according to our software team, the deal is already fairly dilutive for Vertex. Still, there's risk that TRI gets priced out or enters an extended bidding . If Vertex does not counterbid, TRI has until Feb. 9th to tender for 90% of Pagero's shares.

Transaction modestly dilutive before any synergies

Using Street estimates for Pagero's 24/25 financials, we estimate that the potential acquisition would add 1.4/1.6% to TRI's 2024/25 TRI sales, but be 65/40bp dilutive to 2024/2025 EBITDA margins and 5.5/2% dilutive to EPS. (This assumes \$12mn (BofAE) of 2024 integration costs, factors in \$23-25mn of lost int. income, and doesn't account for synergies). Pagero has grown organic sales 15%+ annually since 2021 and generates ~87% gross margins. However, EBITDA has been negative as it has invested in new countries ahead of new regulatory indirect tax invoicing/reporting requirements that according to TRI are favorable to its business. Notably, the Street is modeling positive 2024/25 Pagero EBITDA (and Pagero is targeting +20% 2025E EBITA margins).

Pagero has high recurring revenues

Pagero helps buyers and sellers exchange digital orders, invoices, and other business documents through a digital business communication network. According to the company filings It has ~87% recurring revenue (much of which is paid upfront). TRI has held a strategic partnership with Pagero since February 2023, but has partnered with the company for longer.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.02	2.62	3.43	3.70	4.11
GAAP EPS	11.51	3.00	5.10	3.34	3.75
EPS Change (YoY)	9.2%	29.7%	30.9%	7.9%	11.1%
DPS	1.62	1.78	1.96	2.16	2.31
EPS (YTRI - C\$)	2.53	3.41	4.61	4.97	5.52
DPS (YTRI - C\$)	2.03	2.32	2.63	2.90	3.10
Valuation (Dec)					
P/E	71.4x	55.0x	42.0x	39.0x	35.1x
GAAP P/E	12.5x	48.1x	28.3x	43.2x	38.5x
Dividend Yield	1.1%	1.2%	1.4%	1.5%	1.6%
EV / EBITDA*	35.2x	29.8x	26.1x	25.1x	23.5x
Free Cash Flow Yield*	2.1%	2.1%	2.7%	2.6%	3.0%

* For full definitions of *IQmethod*SM measures, see page 6.

12 January 2024

Equity

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Stock Data

Price (NYS / TOR)	144.19 USD / 193.10 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 - 146.71 USD
Market Value (mn)	65,760 USD
Free Float	31.1%
Average Daily Value	39.28 USD
Shares Outstanding (mn)	456.1 / 456.1
BofA Ticker / Exchange	TRI / NYS
BofA Ticker / Exchange	YTRI / TOR
Bloomberg / Reuters	TRI US / TRI.N
ROE (2023E)	13.9%
Net Dbt to Eqty (Dec-2022A)	30.9%
ESGMeter TM	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: 12 January 2024 08:37AM EST

iQprofileSM Thomson Reuters

iQmethodSM – 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%	16.5%	19.5%
Operating Margin	19.6%	27.7%	33.3%	28.0%	28.8%
Free Cash Flow	1,354	1,387	1,788	1,693	1,951

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.8x	1.6x	1.5x	1.3x	1.4x
Asset Replacement Ratio	2.8x	4.3x	4.6x	4.7x	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%	15.0%	14.9%
Interest Cover	6.3x	9.4x	13.4x	14.4x	14.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	6,348	6,627	6,831	7,182	7,628
% Change	6.1%	4.4%	3.1%	5.1%	6.2%
Gross Profit	1,978	2,347	2,649	2,763	2,955
% Change	-0.4%	18.7%	12.9%	4.3%	7.0%
EBITDA	1,970	2,329	2,663	2,763	2,955
% Change	-0.3%	18.2%	14.3%	3.8%	7.0%
Net Interest & Other Income	(188)	248	(245)	(140)	(149)
Net Income (Adjusted)	998	1,269	1,591	1,683	1,819
% Change	8.4%	27.2%	25.4%	5.7%	8.1%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	3,892	1,508	1,644	1,021	1,122
Depreciation & Amortization	770	724	726	750	757
Change in Working Capital	832	8	658	(76)	40
Deferred Taxation Charge	662	(144)	(369)	76	66
Other Adjustments, Net	(4,315)	(114)	(322)	496	538
Capital Expenditure	(487)	(595)	(549)	(575)	(572)
Free Cash Flow	1,354	1,387	1,788	1,693	1,951
% Change	7.6%	2.4%	28.9%	-5.3%	15.3%
Share / Issue Repurchase	(1,400)	(1,282)	(993)	(800)	(1,750)
Cost of Dividends Paid	(775)	(837)	(900)	(983)	(1,023)
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	1,151	1,699	1,748
Trade Receivables	1,057	1,069	1,083	1,119	1,194
Other Current Assets	618	673	601	626	668
Property, Plant & Equipment	1,324	1,336	1,622	1,538	1,436
Other Non-Current Assets	18,372	17,564	13,730	11,837	11,754
Total Assets	22,149	21,711	18,186	16,819	16,800
Short-Term Debt	0	1,647	1,480	1,480	1,480
Other Current Liabilities	2,581	3,244	2,541	2,497	2,605
Long-Term Debt	3,786	3,114	1,640	1,640	1,640
Other Non-Current Liabilities	1,948	1,757	1,645	1,749	1,864
Total Liabilities	8,315	9,762	7,305	7,366	7,589
Total Equity	13,834	11,949	10,881	9,453	9,211
Total Equity & Liabilities	22,149	21,711	18,186	16,819	16,800

* For full definitions of iQmethodSM measures, see page 6.

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	272,895
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

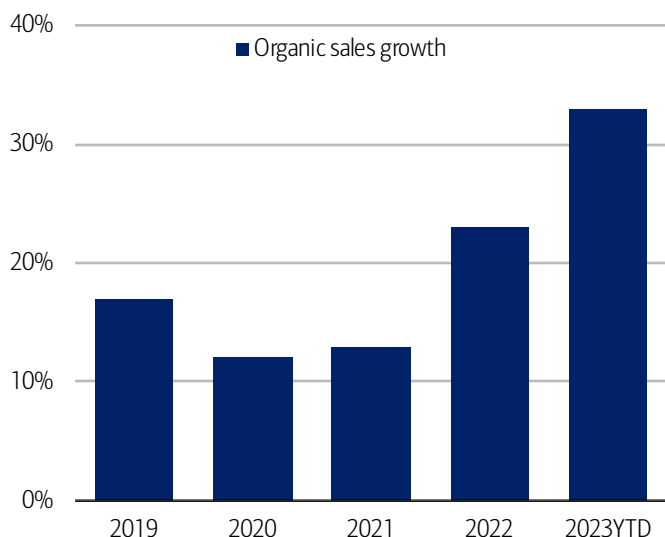
	2022	2023
Q1	0.67A	0.84A
Q2	0.62A	0.87A
Q3	0.57A	0.82A
Q4	0.75A	0.91E

Pagero overview

Below are a few key stats and charts that provide an overview if the company.

Exhibit 1: Organic sales growth

Organic sales growth averaged 16% between 2019 and 2022

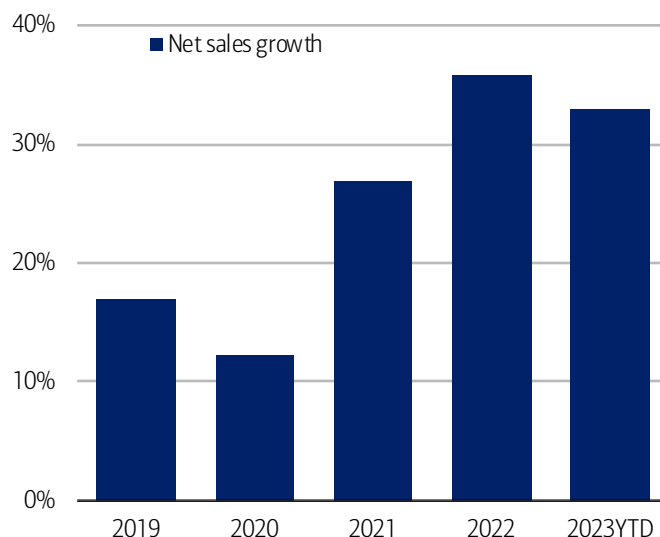


Source: Company reports

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Exhibit 2: Net sales growth

Net sales growth averaged 23% between 2019 and 2022

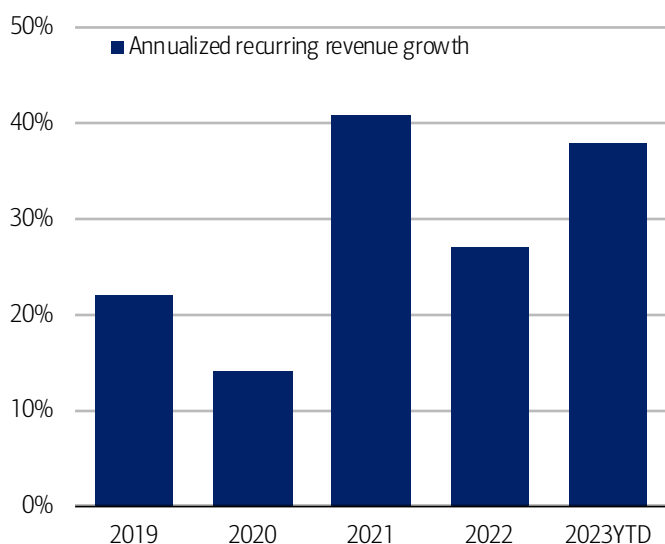


Source: Company reports

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Exhibit 3: Annualized recurring revenue growth

Annualized recurring revenue growth averaged 26% in 2019-2022

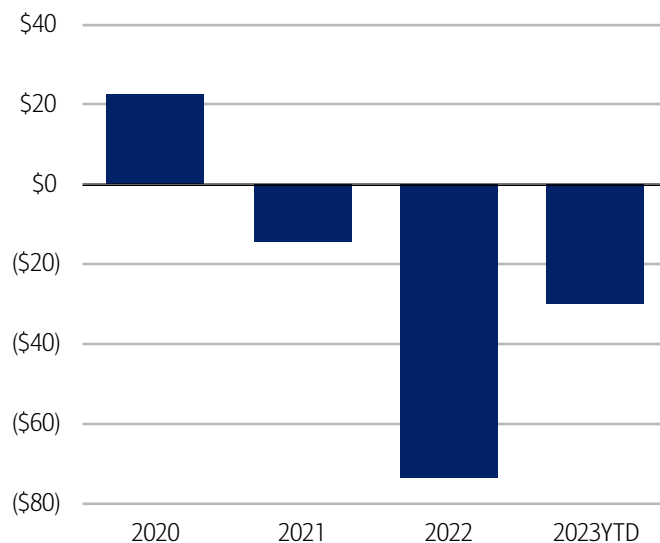


Source: Company reports

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Exhibit 4: EBITDA (in SEK)

Pagero's EBITDA has been negative the last three years as it has invested in new market entry



Source: Company reports

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Other key Pagero stats

- In 2022, ~87% of Pagero's 600mn SEK sales were recurring. Of total sales, 46% of were recurring license revenues and 54% were recurring transaction-based revenues (tied to document flows). The 13% of which were non-recurring included mostly one-time costs from implementation services.

- In 2022, 87% of net sales came from established markets where sales grew 18% and EBITDA margins were 35%. Established markets included the Nordic region, Central Europe, and select LatAm countries. The remaining 13% of sales were in investment markets where sales grew 88%, but EBITDA margins were -330% due to investments in building up the markets. Investment markets include the US and the UK, where 2022 sales grew 128% and 51%, respectively.

Overview of regulatory tailwinds

- According to Pagero, communication between corporate business partners is still largely manual and analogue. Digital documents in business systems such as orders, delivery notes and invoices are printed or exported to PDF by one party, and then manually keyed in by the other party. Pagero is working to modernize communication by building a digital business network.
- Many countries are introducing legal requirements for companies to send and receive digital invoices. By the end of 2022, 80+ countries had announced or introduced requirements for e-invoicing and digital tax reporting. As of the end of 2022, 35+ countries had implemented legal requirements for electronic invoicing and/or tax reporting, and 40+ countries were in the planning and/or implementation phase.

Price objective basis & risk

Thomson Reuters (TRI / YTRI)

Our \$160 price objective (C\$218) is based on 37.5x CY24E P/FCF (vs. 33x 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

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 & 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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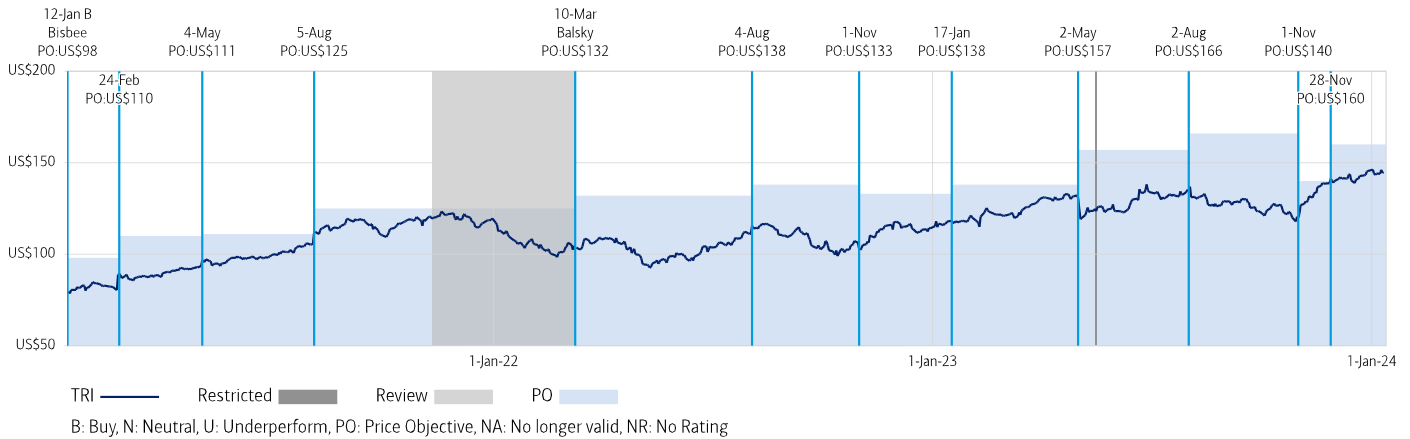
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Disclosures

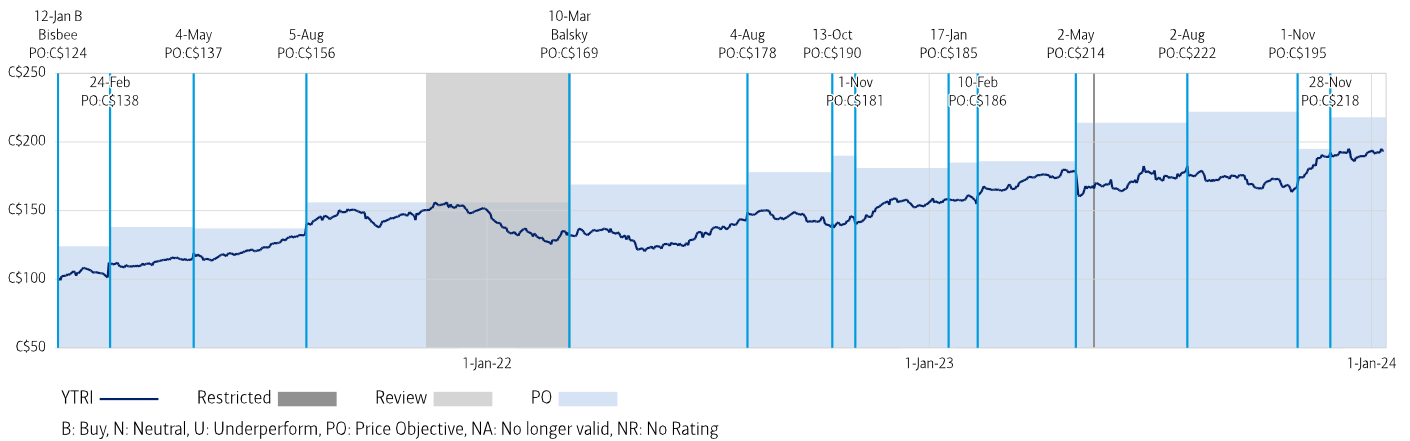
Important Disclosures

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



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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