

Thomson Reuters

TRI's Investor Day will focus on the "how" not the "what"

Maintain Rating: BUY | PO: 180.00 USD | Price: 157.48 USD

The four things we are focused on at the Investor Day

TRI is hosting an Investor Day on 3/12 in New York. We expect investors' confidence in its strategy to determine the stock price reaction, because management already outlined its 2025-26 financial targets (below) on its 4Q23 call. We're most interested in: 1) its GenAI product roadmap; 2) the drivers of its accelerating Big 3 segments' (Legal, Tax & Accounting, Corporate) sales growth; 3) how it plans to balance investments in growth and margin expansion; and 4) its capital allocation priorities. We maintain our Buy rating.

Mid-term financial outlook old news

On its 4Q call, TRI guided to 6.5-8.0% 2025 and 2026 organic sales growth. This includes an acceleration in Big 3 organic sales growth from 7% in 2022 and 2023 to 8-9% in 2025 and 2026. It's also targeting 75bp and 50bp+ of 2025 and 2026 margin expansion, respectively, and \$2.0-2.1bn of 2026 free cash flow.

We're most excited for TRI's GenAI product roadmap

TRI is the first Info Services company to monetize GenAI and we are eager for more details on its product roadmap. TRI plans to integrate GenAI tech across its portfolio, but is currently focused on Legal. It's invested both organically and via M&A (CoCounsel), and plans to spend \$100mn+ annually on GenAI. TRI has integrated GenAI into Westlaw Precision, enabling it to take an additional price increase. It's also launched CoCounsel Core, a bundle of legal workflow tools delivered via an AI assistant, in the US, Australia, and Canada, and partnered with Microsoft Copilot to develop a legal drafting solution.

Will be gauging possibility for free cash flow upside

Our main gripe is that TRI's targeted free cash flow growth isn't as robust as we hoped. We're interested in seeing where TRI may have opportunity for upside to its 2026 target, which implies only ~10% cumulative growth from 2023 levels. Still, TRI has significant cash for M&A and capital returns, including ~\$1bn of cash (net of 1Q24's Pagero deal), \$1.8bn+ of annual FCF, and \$1.7bn of London Stock Exchange shares (a portion it's selling this week). TRI has deployed \$2.1bn on M&A since 2023, and we think strong growth across these assets will contribute to organic sales acceleration. We expect M&A to remain a priority and new deals to be incremental to its organic sales targets.

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	4.89	5.40	5.97
DPS (YTRI - C\$)	2.32	2.64	2.93	3.13	3.34
Valuation (Dec)					
P/E	60.1x	45.0x	43.7x	39.6x	35.8x
GAAP P/E	54.9x	27.6x	48.9x	43.7x	39.1x
Dividend Yield	1.1%	1.2%	1.4%	1.5%	1.6%
EV / EBITDA*	32.3x	28.1x	27.0x	24.7x	22.7x
Free Cash Flow Yield*	1.9%	2.5%	2.5%	2.6%	2.9%

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

07 March 2024

Equity

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Stock Data

Price (NYS / TOR)	157.48 USD / 212.75 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	117.46 USD - 161.58 USD
Market Value (mn)	71,681 USD
Free Float	30.7%
Average Daily Value	49.07 USD
Shares Outstanding (mn)	455.2 / 455.2
BofA Ticker / Exchange	TRI / NYS
BofA Ticker / Exchange	YTRI / TOR
Bloomberg / Reuters	TRI US / TRI.N
ROE (2024E)	15.8%
Net Dbt to Eqty (Dec-2023A)	17.9%
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: 07 March 2024 12:30AM 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	311,591
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

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
	APi Group	APG	APG US	Heather Balsky
	Aramark	ARMK	ARMK US	Heather Balsky
	Cintas	CTAS	CTAS US	Heather Balsky
	CoStar Group	CSGP	CSGP US	Heather Balsky
	Driven Brands	DRVN	DRVN US	Robert F. Ohmes, CFA
	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
	Petco	WOOF	WOOF US	Kendall Toscano
	Rollins Inc.	ROL	ROL 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				
	AutoZone Inc.	AZO	AZO US	Robert F. Ohmes, CFA
	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

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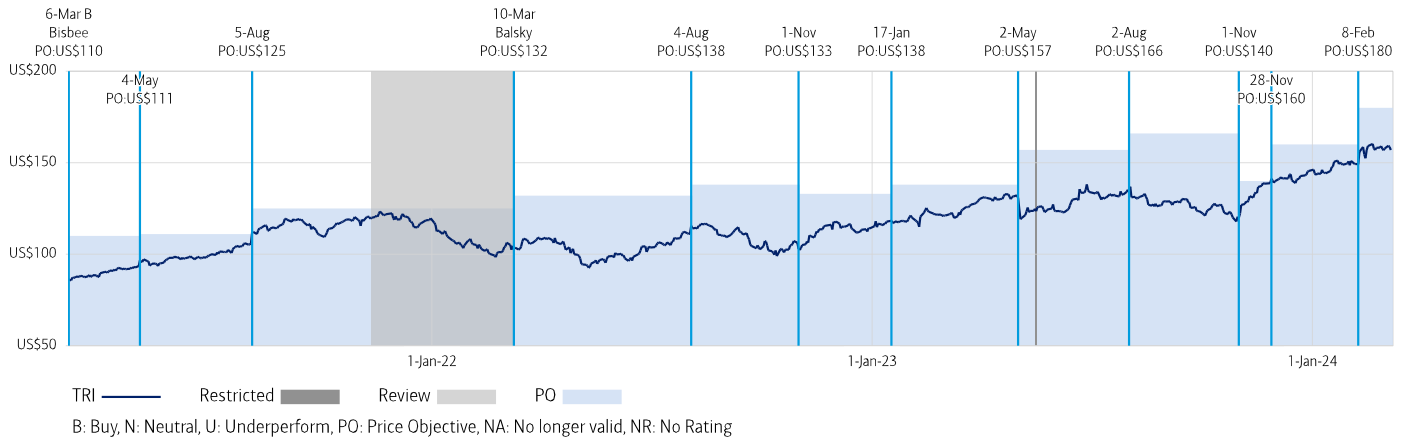
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Disclosures

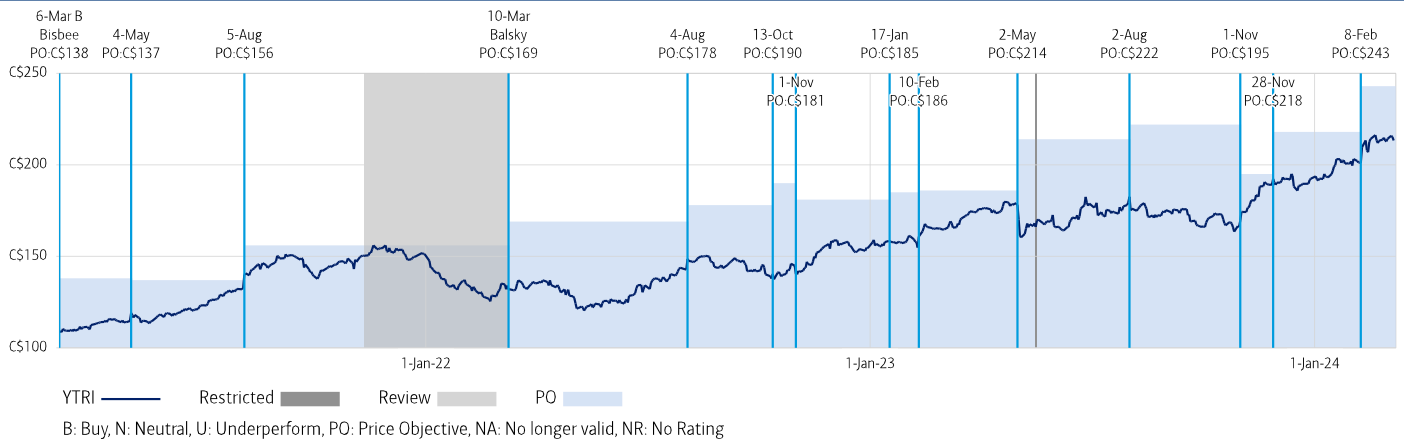
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Thomson Reuters (TRI) Price Chart



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 ^{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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