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PRESENTATION

Operator

Good day, everyone, and welcome to the fourth quarter and full year 2022 earnings call, hosted by Gary Bisbee, Head of Investor Relations. My name is Ben, and I am your event manager. (Operator Instructions) I'd like to advise all parties that this conference is being recorded for replay purposes. And now allow me to hand it over to your host. Gary, the word is yours.

Gary Elftman Bisbee - Thomson Reuters Corporation - Head of IR

Thanks, Ben. Good morning, and thank you, everyone, for joining us today for our fourth quarter and full year 2022 earnings call. I'm joined today by our CEO, Steve Hasker; and our CFO, Mike Eastwood, who will discuss our results and take your questions following their remarks. (Operator Instructions)

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 the 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. 2022 was a year of great change and progress at Thomson Reuters, so let me start by reviewing some of our key accomplishments.



First, we delivered another year of strong financial results, meeting or exceeding our key financial targets. For Q4 and the full year, organic revenue rose 6%, driven by a 7% recurring revenue. The Big 3 segments also grew 7% organically. Despite unprecedented inflationary pressure and continued investments, our full year margins rose 410 basis points to 31 -- 35.1%, and we achieved our free cash flow forecast of \$1.3 billion.

Due to our 2022 performance and continued solid book of business, our full year 2023 outlook for organic revenue and adjusted EBITDA margins are unchanged from our commentary last quarter. Mike will provide more details on our outlook later in the call.

We successfully completed our Change Program at year-end, delivering our financial targets and making significant progress in transforming Thomson Reuters into a more streamlined and scalable business. Importantly, Change Program progress provides a strong foundation for sustainable future growth. I will discuss these benefits in more detail in a minute.

2022 was also a year of progress from an innovation and product perspective. The highlight was the September launch of Westlaw Precision. Beyond Westlaw, 2022 successes range from a continued focus on product stability, performance and user experience improvements to new offerings and capabilities added across our portfolio. We also added a number of new third-party product integrations. Our capital capacity and liquidity remain a key asset that we're focused on deploying to create shareholder value, and we made good progress on this during 2022.

Through year-end, we repurchased \$1.3 billion on the \$2 billion share buyback program we announced in June 2022. We plan to complete the program by early Q2. As Mike will review in more detail, after completing the buyback, we intend to execute a return of capital with a concurrent share consolidation of at least \$2 billion, funded by proceeds from our sales of LSEG shares.

We also made progress on M&A, having closed the \$500 million acquisition of SurePrep on January 3. This follows 3 smaller tuck-ins during 2022. We continue to assess inorganic opportunities, and we are optimistic that we'll be able to execute additional strategic transactions in 2023, while simultaneously completing the \$2 billion share buyback program and \$2 billion return of capital.

Lastly, let me briefly comment on market conditions as we enter 2023. While we acknowledge a challenging and uncertain macroeconomic environment, we're blessed with a highly resilient business. 80% of our revenues are recurring, and we operate in historically stable and growing end markets. We're closely monitoring our customer sales activity and continue to see the sales cycle lengthening in corporates. But as we mentioned last quarter, though activity overall through early Q1 remains on track to deliver our 2023 targets. Regardless of how the macro unfolds, our focus will remain on leveraging our content, our technology and our service for the benefit of customers.

Now for the results for the quarter. Fourth quarter reported revenues grew 3%, including a 2% drag from foreign currency and a 1% from recent divestitures. Organic revenue, which is a constant currency metric, rose 6%. Organic recurring revenue again grew 7%, with transactional revenue growing 5%, in line with our expectations.

Adjusted EBITDA increased to \$633 million, reflecting a 950 basis point margin improvement, to 35.9%. Excluding costs related to the Change Program, the adjusted EBITDA margin was 39.3%. Adjusted earnings per share rose 70% year-over-year to \$0.73.

Turning to fourth quarter results by segment. The Big 3 businesses achieved organic revenue growth of 7%. Legal organic revenue growth moderated to 5% from 6% pace in recent quarters. The slight deceleration was driven by weaker performance in our ELITE and Government businesses, which Mike will cover in more detail later. Apart from this, demand for our legal solutions remains very healthy across all key segments, and we expect to return to the 6% growth trend in the second half of 2023, driven by continued momentum in Westlaw, Practical Law, HighQ and other key offerings.

Turning to Corporates. Organic revenue growth momentum continued, with revenue up 9%. Recurring revenue rose 11%, while transactional revenue softened as expected.

Tax & Accounting had another solid quarter, with organic revenue growth of 8%. Our Latin American business, led by Dominio, grew over 25% in the quarter and remains a key growth driver. Reuters News organic revenues increased 10% in Q4. Growth continued across all lines of business,



especially at Reuters Events. And finally, Global Print organic revenues were down 1%, again, better than expected due to improved retention, better third-party print revenue and timing benefits that we expect to normalize in the first quarter of 2023.

In summary, we're pleased with our results and the solid momentum across our businesses. Full year reported revenues rose 4%, including a nearly 2% foreign exchange drag, and organic revenues grew 6%. Adjusted EBITDA increased 18% to \$2.3 billion, driven by revenue growth and savings associated with the Change Program, resulting in a margin of 35.1%. Excluding Change Program costs, adjusted EBITDA margin was 37.7%, 380 basis points higher than in 2021. Adjusted earnings per share for the year was \$2.56 compared to \$1.95 per share in the prior year.

Let me finish on the financials for the full year by noting that we met or exceeded nearly all of our 2022 guidance metrics. The only exceptions were CapEx, which was slightly higher due to inflationary pressures, and total revenue growth, which was impacted by the Q4 divestitures.

Now I'll spend a few minutes discussing the completion of the Change Program and several growth updates. The end of 2022 brings to a close our Change Program, which was an extraordinary 20 months -- 24 months of effort and progress at Thomson Reuters. As a reminder, the Change Program had 2 overarching goals. First, transitioning from a holding company to an operating company; and second, from a content company to a content-driven technology company. We pursued these 2 goals through dozens of work streams. In total, we invested just shy of \$600 million and have broadly delivered against our financial targets, with \$540 million of run rate savings achieved as of December 31. We highlight a number of key accomplishments on Slide 11.

While there remains work to do, we are very proud of what we've accomplished and how we have transformed the business. Today, we are a more focused and performance-driven company with improved organic revenue growth and profitability and a stronger portfolio. Looking forward, we believe the largest legacy of the Change Program will be the foundation that it provides for improved sustainable growth. This includes a simpler product portfolio with more focused investment on our best opportunities; improved customer-facing capabilities, including digital and self-serve; reimagined customer platforms and user experience and service enhancements; modernized technology, including expanded APIs, our conversion to the cloud, improved cyber resilience and reduced tech debt; and lastly, upgraded talent, with a more flexible footprint [giving] scale, global capability centers and a truly world-class talent across the organization.

The resulting more streamlined and scalable business, along with the success from our product and engineering organizations, provides us with confidence in our ability to organically innovate, which we believe positions us well to sustain our recent healthy organic revenue growth in the future.

Building on that point, I'll mention a few factors that have contributed to our revenue acceleration in recent years. During our March 2021 Investor Day, we discussed the 7 strategic growth priorities shown on Slide 13. We continue to focus our investment on these key businesses, which grew 8% on a combined basis in 2022, up from 6.5% in 2021.

Product and innovation remains an important focus. The launch of Westlaw Precision was a key 2022 highlight. And the good news there continues. To date, we have recorded more than 750 Precision sales across all customer types, including to court systems in 14 states. We remain confident that this momentum will continue in 2023.

Aside from Westlaw, 2022 saw a number of key offerings and key enhancements across the portfolio, including expanded HighQ Contract Lifecycle Management capabilities and a new document intelligence offering in our Legal portfolio; a new Free Trade Agreement Analyzer offering in our Global Trade management area; a new global beneficial ownership solution for CLEAR; and expanded features and capabilities across several products in our Tax portfolio.

Looking to 2023, we have a strong and focused product road map that we expect to deliver continued value for our customers, and growth potential for Thomson Reuters.

In addition to driving organic growth, we're focused on creating shareholder value through the deployment of what we estimate to be \$11 billion of capital capacity between now and 2025. This leaves us in an enviable position to both fund strategic M&A and significant capital returns to shareholders. Mike will cover shareholder returns in his commentary, and I'll briefly discuss our approach to M&A.



As we've stated in the past, we're not looking for transformational deals or to add a new operating segment. Instead, we are focused on acquiring high-quality assets that can strengthen our Big 3 customer segments. We list several areas of interest on Slide 15. We will remain disciplined in our approach, and we will be patient in searching out assets that meet our criteria, including strategic, operational and cultural fit, in addition to meeting our financial hurdles.

While we continue -- while we consider a range of situations, our focus is on purchases that can replicate a tested and successful M&A playbook in which we acquire quality assets in our areas of expertise. We then integrate and invest behind the acquired assets, and leverage our extensive distribution and large customer reach to grow these businesses over a multiyear period. This playbook has been executed many times in the past, and most recently with the 2019 acquisitions of Confirmation and HighQ. In both cases, revenue has doubled during our 3-plus years of ownership, and we continue to see strong potential for both assets. There are many earlier examples of this same playbook, including the 2013 acquisition of Practical Law, among others.

So moving from strategy to execution, we're excited to have closed the acquisition of SurePrep on January 3, and we welcome the SurePrep team to Thomson Reuters. We see SurePrep as a great fit with the acquisition approach and criterial just discussed, and we're focused on executing our acquisition playbook to drive significant growth from this business over time.

SurePrep is a best-in-class provider of tax workflow automation, software and services. Its offerings streamline and automate first-mile pain points for accountants, significantly reducing time and increasing efficiency of tax return workflows. We believe SurePrep's trained AI models are years ahead of the competition, and its automated coverage of tax documents is industry-leading. SurePrep is a compelling strategic fit with our Tax & Accounting business. In combination with our leading research [and] client software, SurePrep's document collection and data extraction technology allow us to offer truly end-to-end automated workflow solutions.

I'll close my comments by noting that we're in a strong position with significant dry powder in what we believe is an increasingly buyer-friendly market. We're optimistic that we can complete other SurePrep-like acquisitions in the next 12 to 18 months that strengthen the proposition of our Big 3 segments.

In closing, I'll leave you with 2 key messages. First, our success in completing the Change Program positions us well to deliver improved, consistent growth in the future. And second, we are making progress in deploying our significant financial capacity and remain focused on doing so in a way that creates shareholder value.

Mike, over to you.

Michael Eastwood - Thomson Reuters Corporation - CFO

Thank you, Steve, and thanks for joining us today. As a reminder, I will talk through revenue growth before currency and on an organic basis. Let me start by discussing the fourth quarter revenue performance of our Big 3 segments.

Revenues rose 7% organically and 5% at constant currency for the quarter. This marks the seventh consecutive quarter our Big 3 segments in aggregate have grown at least 6%. Legal Professionals' organic revenue growth rate moderated slightly to 5%, which I will discuss on the next slide. Organic growth was driven by Westlaw, Practical Law and HighQ.

In our Corporates segment, organic revenues increased 9% for the quarter, driven by recurring revenue growth of 11%, offset by a 5% decline in transactional revenues. Practical Law, CLEAR, Direct Tax and Global Trade were key drivers of recurring revenue growth.

And finally, Tax & Accounting's organic revenues grew 8%, driven by recurring revenue growth of 8% and transactional revenue growth of 10%. Recurring revenue growth was driven by UltraTax and the segment's business in Latin America.



Legal Professionals' organic revenue growth moderated slightly to 5% from the recent 6% pace. Momentum across much of our Legal segment remained strong. However, weaker performance at our ELITE, Legal ERP software and Government businesses led the growth rate down to 5% in O4.

As we show on Slide 19, Government and Elite are a bit less than 25% of our Legal Professionals' revenue. The remaining majority, led by key franchises including Westlaw, Practical Law and HighQ, accelerated throughout 2022, growing by 7% year-over-year in Q4. We expect this level of growth to continue in 2023, bolstered by growing contribution from Westlaw Precision upgrades.

Let me provide some color on Elite and Government. Elite is in the early stages of a transition from legacy on-premise software solutions to a cloud-based SaaS offering. We see this transition as a long-term positive as it will drive stronger recurring revenue and improved margins. However, during the transition, lower professional services revenue associated with the SaaS offerings versus the legacy offerings will be a revenue headwind. This impact is already incorporated in our 2023 outlook. However, it had a somewhat larger-than-expected impact on Q4 results.

Our Government revenue decelerated in the second half and especially Q4. This resulted from 2022 slowdowns in the release of federal funding for and guidance around key benefit programs. The slower flow of funds caused a number of contract delays for our risk, fraud and compliance, or RFC offerings. We do not believe we have lost share with our Government RFC businesses, and we continue to have robust pipelines of future activity. The procurement impediments have largely been resolved, which we expect to result in a return to stronger bookings growth over the next few quarters. It is worth noting approximately 40% of our RFC revenue is in our Corporates segment, which continued to deliver double-digit growth for both Q4 and the full year.

For our Legal Professionals segment in total, we believe 5% growth is likely again in Q1, with a return to the prior 6% trend likely in the second half of 2023, as Government improves and strong growth continues from our Westlaw, Practical Law and HighQ businesses.

Moving to Reuters News. Organic revenues increased 10%. Growth was led by Events and the news agreement with the Data & Analytics business of LSEG. Lastly, Global Print organic revenues declined 1%. The decrease was better than expected due to improved retention, better third-party print revenue and timing benefits, which are expected to normalize in the first quarter of 2023. On a consolidated basis, fourth quarter organic revenues increased by 6%.

Turning to our profitability. Adjusted EBITDA for the Big 3 segments was \$618 million, up 27% from the prior year period, with a 43.9% margin rising 810 basis points. Improvement over prior year was due primarily to higher revenues, Change Program savings and lower annual bonus accruals. As a reminder, the Change Program operating costs are reported at the corporate level.

Moving to Reuters News. Adjusted EBITDA was \$40 million, up \$25 million year-over-year, with a margin of 19.8%, up sharply from the prior year. Events revenue growth and a currency benefit drove margins.

Global Print's adjusted EBITDA was \$59 million with a margin of 36.1%, an increase of 20 basis points. In aggregate, total company adjusted EBITDA was \$633 million, a 40% increase versus Q4 2021. Excluding costs related to the Change Program in both periods, adjusted EBITDA increased 31%. The fourth quarter's adjusted EBITDA margin was 35.9% or 39.3% on an underlying basis, excluding costs related to the Change Program.

Turning to earnings per share. Fourth quarter adjusted EPS was \$0.73, up from \$0.43 in the prior year period. The increase was mainly driven by higher adjusted EBITDA. Currency had a \$0.01 negative impact on adjusted EPS in the quarter.

Let me now turn to our free cash flow performance for the full year. Reported free cash flow was \$1.34 billion, up 7% from \$1.26 billion in the prior year period. Consistent with previous quarters, this slide removes [the] distorting factors impacting our free cash flow. Working from the bottom of the page upwards, the cash outflows from discontinued operations was \$1 million less than the prior year period and reflects payments to the U.K. tax authority related to the operations of our former Refinitiv business. Also in the 12 months, we made \$324 million of Change Program payments as compared to \$166 million in the prior year period. If you adjust for these items, comparable free cash flow from continuing operations was \$1.7 billion, \$241 million higher than the prior year period, primarily due to higher EBITDA.



I will now provide an update on our capital structure and several capital allocation items. As you can see, our capital structure and liquidity position remained strong as we exited 2022, and they have improved with the recent sell of LSEG shares.

We had \$1.1 billion of cash on hand at December 31 and more than \$2 billion as of January 31, with the proceeds received from the sell of LSEG shares to Microsoft. We have an undrawn \$2 billion revolving credit facility, and we also have approximately \$1 billion of availability on our \$2 billion commercial paper program. Note that half of the commercial paper borrowings at year-end were used to fund the SurePrep acquisition, which closed on January 3. Our December 31 leverage ratio was 1.7x, below our 2.5x internal target, as noted in our value-creation model.

Next, I will provide several updates on our London Stock Exchange Group holding. On January 31, we sold 10.5 million shares to Microsoft for approximately \$1 billion of gross proceeds, leaving us with 61.5 million shares valued at approximately \$6 billion, including the value of our FX hedges. In the past, we have discussed our ability to monetize 1/3 of our LSEG shares in each of 2023, 2024 and 2025. Our vesting schedule is actually a bit more front-loaded, allowing us to monetize approximately 31 million shares this year. Combined with the 10.5 million shares sold to Microsoft, this is nearly 60% of the 72 million shares we owned as we entered 2023.

In terms of our 2023 plans, we will take a disciplined approach to our monetization, which we expect to begin in March after LSEG reports their year-end results, subject to market conditions. Given that both TR and Blackstone can monetize shares this year, it would be prudent to assume the sales happen in appropriately measured tranches throughout 2023.

Two other quick points. First, our cost basis on the remaining 61.5 million shares after the Microsoft sell is \$2.6 billion. For your math, we would assume a 25% capital gains tax rate on gains above \$2.6 billion. Lastly, the value of the foreign exchange hedges we hold against our LSEG stake were in the money as of December 31 by \$310 million, down from the \$650 million we mentioned last quarter due to a stronger pound sterling. We currently have nearly 90% of our remaining LSEG acquisition hedged.

From a liquidity and capital structure standpoint, we remain in an enviable position with below target leverage and strong cash flow bolstered by proceeds from the monetization of our LSEG stake. We remain focused on value creation, and we expect to continue with our balanced capital allocation approach that includes annual dividend growth, strategic M&A and capital returns. We have ample capacity to pursue all 3 of these strategies in 2023 and beyond.

Steve touched on our approach to M&A and recent SurePrep acquisition, so I will focus on the other 2 components of our balanced capital allocation approach. We are making strong progress on the \$2 billion NCIB or share buyback we announced last June, having repurchased approximately \$1.5 billion worth of our shares as of the end of January. We anticipate completing the \$2 billion buyback by early April.

Following the completion of the NCIB, we plan to use proceeds from our LSEG dispositions to fund a return of capital in 2023 of at least \$2 billion, which will be combined with a share consolidation or reverse stock split. Assuming the current share price, this transaction would reduce our share count by at least 17 million shares or 3.5%. A key advantage of the return of capital versus a share buyback is the speed of execution, as the shares are retired immediately upon the close of the transaction. Given liquidity rules with NCIB buyback programs, it would take several quarters at a minimum to return a similar amount of capital through a share repurchase program.

And finally, today we announced a 10% increase in our annual dividend to \$1.96 per share, up \$0.18 from \$1.78 in 2022. This marks the 30th consecutive year of annual dividend increases for the company. The increase will be effective with our Q1 dividend payable next month.

I will close this section with a reminder of our value-creation model, which continues to guide our long-term investment approach. As we execute to these principles, we believe Thomson Reuters is positioned to consistently and sustainably drive strong operating and financial performance that builds value for our shareholders over the long term.

Let me conclude with our updated 2023 outlook. As Steve outlined, we are updating our 2023 guidance to incorporate current market conditions, the SurePrep acquisition and the Q4 2022 divestitures. I will discuss our outlook over the next 2 slides.



We continue to project our 2023 organic revenue growing by 5.5% to 6%. Including the divestitures we discussed last quarter and SurePrep, we see total revenue growth rising by 4.5% to 5%. For the Big 3, we continue to expect 6.5% to 7% organic revenue growth, and we see total revenue growth of 5.5% to 6%. As a reminder, both total revenue growth and organic revenue growth are constant currency metrics.

We continue to forecast our adjusted EBITDA margin at approximately 39%, which is healthy expansion from the 2022 margin before Change Program costs of 37.7%. This incorporates the realization of significant Change Program cost savings, tempered somewhat by inflationary cost pressures, investments to drive customer success and fund growth initiatives, and an estimated 50 basis points drag from SurePrep.

We see our effective tax rate at approximately 18%, in line with our prior view. We forecast our accrued CapEx as a percent of revenue at approximately 7%, above our prior expectation for the high end of the 6% to 6.5% range. The slightly higher capital intensity results from inflationary pressures and product investments we discussed last quarter, in addition to the inclusion of SurePrep. We also plan to invest \$30 million in 2023 on real estate optimization projects, which will be incremental to our accrued CapEx outlook.

In 2023, we see M&A as a roughly \$40 million free cash flow drag, resulting from SurePrep integration costs and growth investments at SurePrep and ThoughtTrace. We expect positive free cash flow contributions in 2024 from these acquisitions as integration costs subside and revenue ramps. All in, we forecast free cash flow of \$1.8 billion in 2023, below our prior \$1.9 billion to \$2 billion outlook. This incorporates the updated capital spending outlook, along with acquisition dilution and a \$40 million impact from recent divestitures. Excluding M&A, the divestiture impact and the real estate optimization spend, our free cash flow outlook would have been within the prior range, as is shown on Slide 32.

While these items will weigh modestly on our 2023 free cash flow, we believe they are smart investments that will result in improved growth and profitability in 2024 and beyond.

As we think about our quarterly phasing, please note the following: SurePrep's revenue is highly seasonal, with roughly half occurring in Q1, 1 quarter in Q2 and the remaining quarter split between Q3 and Q4. Costs are more consistent throughout the year, leading to strong profits in Q1, but losses in the second half.

SurePrep will be integrated into our Tax & Accounting Professional segment. However, approximately 23% of revenue is with the Global 7 accounting firms and thus, will be in our Corporates segment. For the full year, we see margin dilution of approximately 250 basis points to our Tax & Accounting segment due to the inclusion of SurePrep. This includes a 300 basis point benefit to Q1, followed by 500 basis point drags in Q3 and Q4.

For the first quarter of 2023, we see organic revenue growth at the low end of the full year 5.5% to 6% range. We expect Big 3 revenue to be consistent with Q4, but see growth moderating somewhat due to slower growth at Reuters News and a larger decline at Print. At Reuters, both a lower contractual price increase related to our LSEG news agreement versus 2022 and a lighter seasonal Events calendar in Q1 impact growth. We see a Q1 adjusted EBITDA margin of approximately 38%. This includes our expectation for \$20 million of severance in Q1, which will be a 120 basis point drag.

Let me now turn it back to Gary for questions.

Gary Elftman Bisbee - Thomson Reuters Corporation - Head of IR

Thank you. Ben, I think we're ready to begin the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Aravinda Galappatthige from Canaccord.



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

Congrats on the quarter and the guidance. I wanted to kind of take a bigger look at '23. Obviously, this -- you've largely maintained revenue and EBITDA guidance, and you described the small variance in free cash flow. So when you look at sort of the macro backdrop, the inflation, can you maybe just talk to how you were able to maintain that? Is it mostly that sort of the top line trends perhaps came in stronger than expected versus maybe when you sort of initiated that guide, I think, almost 2 years ago? And then maybe just expanding from that, can you just talk about how we should think about longer-term margins in that backdrop, the prospect of sort of moving towards sort of that 40% or beyond the 40% mark longer term? I just wanted to -- I'll leave it there.

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

Yes. Thanks, Aravinda. It's Steve. I'll start, and I'm sure Michael will supplement. So look, I think the sort of where we sit today and the signals we're sending for this year speak to 2 things. One, the resilience of our business and our business model, 80% recurring revenues, serving stable and growing end markets with must-have products and solutions. I think that's the first and maybe most important part of it.

I think the second part of it is in 2020, we designed the Change Program. We've executed that in '21 and '22. And the principal sort of objective of that was not only to streamline the company and get us ready for whatever comes in '23 and beyond, but also to build a sustainable platform for higher growth going forward. And so we're very focused on lifting our organic growth rate in a sustainable and meaningful way. And that started with the investment in the 7 growth initiatives that we talked about at Investor Day in 2021, in March of '21. And it's continued with the development of sort of core capabilities like migration to the cloud, APIs, digital and self-serve customer service, a data and — a world-class data and analytics capability to support our salespeople and our products and a real focus on organic product innovation, the likes of which the company hasn't seen before. So that's where it comes from. And we'll say more about this as we move through '23, but the focus is very much on driving a higher rate of organic growth. That organic growth will lead to higher margins, just related to the business model and the fixed nature of our cost base. So we — that's really the areas of focus. Mike, what do you want to add?

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, I'll add a couple of additional points, Aravinda. Let me start with our outlook, which is provided on Page 32. As a reminder to everyone, the total revenue growth guidance is below the organic revenue guidance due to the divestitures that we had in Q4. As a reminder, that was about \$155 million of annual revenue and about \$40 million worth of EBITDA is the first point.

In regards to confidence, the December and Q4 bookings, so you'll hear us refer to it sometimes as ACV, a book of business, that gave us confidence. Given that those bookings fuel our recurring revenue that Steve mentioned, 80% of our total, we achieved 7% recurring growth in that recurring revenue in 2022, gave us confidence there.

To Steve's point on operating leverage, as we sustain 6% -- approximately 6% organic growth longer term and higher, the operating leverage, we have about 65% of our fixed -- of our costs are fixed in nature, which provides the operating leverage. And certainly, we'll continue to make investments to help sustain and fuel that organic growth longer term. So Aravinda, hopefully, we addressed each of your questions.

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

Thanks, Mike. Quick follow-up. Proportion of OpEx from headcount, I was wondering -- I don't know if you can disclose that, but I was curious.

Michael Eastwood - Thomson Reuters Corporation - CFO

Sure. About 65% of our costs are compensation-related, Aravinda. That includes base salary, annual incentive plan, long-term incentive plan commissions, commissions being the variable compensation for our sales force. So about 65% is compensation-related.



Operator

Our second guestion comes from George Tong from Goldman Sachs.

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

I wanted to dive deeper into factors leading to your updated EBITDA margin guidance and free cash flow guidance. Can you discuss the puts and takes behind the updates there, as well as where, from a segment perspective, the changes are happening and contributing within the year?

Michael Eastwood - Thomson Reuters Corporation - CFO

Sure. In regards to the EBITDA margin, George, let me address puts and takes. From a tailwind perspective, certainly the Change Program cost savings, we referenced the \$540 million of annualized savings through December '22, is certainly a tailwind.

In regards to headwinds, I would mention 3, George. Inflationary cost pressure is number one. Second, investments to drive customer success and to fund the growth initiatives. In regards to customer success, that's referring to continuing to improve our end-to-end customer experience that will drive higher Net Promoter Scores and then should drive higher retention. As a reminder, George, our retention rate is about 91% for total TR, but it varies by segment. The third headwind in regards to EBITDA margin is the 50 basis points drag that I mentioned from the SurePrep acquisition for calendar year 2023. So those are the puts and takes for the EBITDA margin.

In regards to free cash flow, which are noted on Page 33, I'll just highlight again the 3 items there. The divestitures that we did in Q4, that's a reduction of absolute free cash flow of \$40 million. And then we are intentionally making investments for the 2 acquisitions we recently completed with SurePrep and ThoughtTrace, which we think is the right thing to do mid to long term. And then lastly, the North America real estate optimization. We own facilities in Minneapolis-St. Paul, in Dallas. We see an opportunity, George, to rightsize those facilities that we own into smaller campuses for us going forward, which would provide a stronger employee experience, a stronger workplace of the future for us. But those are the thoughts, George, on those questions.

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

Got it. Very helpful. You successfully completed your Change Program in the fourth quarter. Can you discuss key product investment and cost initiatives -- cost efficiency initiatives now that you're done with your Change Program as you look forward to 2023?

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

Yes, I'll start, George. It's Steve. So a couple of things. We've -- under the leadership of Matt Keen, who was our Interim President at Reuters for a period of time, we've launched an ongoing productivity initiative. And this is very much looking for opportunities to improve our speed, our efficiency and our effectiveness across the company, all regions, all products, all segments. And we see that -- lots of opportunity there, and we'll just get better and better at doing that on an ongoing basis.

From a product investment standpoint, I'm very pleased with the work that David Wong and Shawn Malhotra and Jason Escaravage have done in terms of getting us focused, not only on the 7 growth initiatives, but particularly on a series of pretty exciting product innovations and launches this year. So we'll continue to invest in Westlaw Precision. We'll migrate HighQ to the cloud. We're making some investments in our Indirect Tax and our Global Trade areas and the ongoing work that Kirsty Roth has launched in content modernization, we think will lead to a platform around some pretty interesting new launches down the track in things like CLEAR. So it's a -- there's a focused list of half a dozen or so areas that we're particularly going to call out through this year, where our customers have told us that there's demand and there's interest. And so we're excited to pursue that.



Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, George, I would just supplement our cloud migration, which we are at roughly 50% of our revenue available in the cloud at the end of December '22. Kirsty's team is driving that to nearly 90s percent by the end of 2023. [In] Elizabeth Beastrom's Tax & Accounting Professionals business, we're continuing to invest in confirmation, virtual office, UltraTax there. And then lastly, to support our sales go-to-market teams, we're making continued sustained investments in our commercial tools and processes to help the sales team be more productive and efficient.

Operator

Our next question comes from Heather Balsky from Bank of America Securities.

Heather Nicole Balsky - BofA Securities, Research Division - VP

There have been some headlines for the legal industry just regarding labor base and some layoffs and just tougher environment for the sector, especially at mid, I guess, lower deals and on the corporate side. I'm just curious kind of what you're seeing with regards to demand from your customers and legal customers' willingness to spend on a new tech going into potentially a tougher year in '23?

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

Yes. Heather, thanks for the question. So a couple of things. As we signaled in our comments, we saw an acceleration in Q4 in our core legal products franchise. So Westlaw, Practical Law, HighQ, products of that nature. We see that continuing. We're not -- our business model is not based on heads. So to the extent that the number of lawyers goes up or down, that doesn't drive -- there's not a direct correlation. Instead, what we see is an acceptance across the legal profession. So large -- global large to mid- to small firms, that they need to significantly up their investment in information and technology in order to be more productive, more profitable. And at the global large, that's being driven by sort of demand from general counsels and all the way through, down to small where they just can't get the talent. The talent sort of shortages continues. And we don't see that changing. So we do see a real tailwind here for our legal business in terms of TR as a key driver of a transformation of the profession to a much more technology-driven independent set of activities across general counsel's offices and law firms. We're pretty excited about playing a huge role in that in the coming years. And we think with Westlaw, Practical Law, HighQ, Contract Express, the acquisition of ThoughtTrace and our Document Intelligence plans, plus our M&A pipeline that we can be a sort of a significant beneficiary of that transformation over the next few years.

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, Heather, I would just add in addition to law firms and general counsel, we also have government, which is a big user of our legal products. Westlaw Precision has now been adopted by 14 states, led by Steve Rubley's team. We expect that to continue to expand in Q1 and Q2, and that's a big draw. Once the states adopt Westlaw Precision, that's a draw for law firms and others to get that.

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

That's the court systems.

Michael Eastwood - Thomson Reuters Corporation - CFO

That's correct.



Heather Nicole Balsky - BofA Securities, Research Division - VP

That's great to hear. And as a follow-up, just it's helpful to hear what's going on the legal market. Could you potentially provide some color on what you're seeing on the consulting side as well? Again, just [admit] all the sort of macro uncertainty.

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

Heather, can you just say a few more words to explain that one? In particular...

Heather Nicole Balsky - BofA Securities, Research Division - VP

Yes. Just kind of where the demand is coming from on the consulting side and what you're hearing from your customers, given some of the economic uncertainty.

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

Yes. So we don't have a big consulting or advisory business. We have some [things to do]...

Heather Nicole Balsky - BofA Securities, Research Division - VP

I apologize. That's my bad. I actually meant accounting. I'm very sorry. I meant accounting. Sorry, yes. Sorry.

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

No, that's okay. So look, on the tax and accounting front, here's what we see is happening. Firstly, the number of returns and the complexity of returns just keeps going up and up and up. And I think it's a bold pundit, as you suggest, that, that's going to reverse anytime soon, particularly in the United States. And so the demand for our software, the fundamental underlying demand for our software goes up, whether that's on the tax return side or the order confirmation side, I think the same is true, firstly.

Secondly, there's a generational shift that's about to happen. A lot of certified practicing accountants are getting toward the end of their careers. And there's not the same number of new graduates coming through at the sort of bottom of that talent funnel. And as a result, the profession is becoming more and more dependent on automated technology-based solutions. And that was really the sort of thesis behind our acquisition of SurePrep.

What SurePrep does is it automates the document [ingestion] process using Al for a tax return. So it takes a lot of the labor and the grunt work out of preparing tax returns. And so this is also -- similar to my comments on legal, tax and accounting group is going to become increasingly dependent on technology that automates that core tax return and audit process. And we think we're making the right investments to be a beneficiary of that going forward. And certainly, our results in recent years in terms of [accounting] give us a cause for optimism there. And the talent that we have leading our tax and accounting franchise and the talent that we're attracting, retaining, developing within that business on both the product engineering [and] go-to-market side reinforces that confidence.

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes, Heather, I would just add 2 points. The recent acquisition of SurePrep and Accounting really further [doubles] down in regards to our confidence in that space. Just a reminder, Heather, the Dominio business in Brazil, that's led by [Adrian Fanini's] team, that business continues to grow about 25%. It's about \$100 million in revenue, now 25% annual growth. And [Macondas] and the team there driving new customers, new logos of about 10% annual increase there. So that's also a fuel for the Tax & Accounting overall growth.



Operator

The following question comes from Vince Valentini from TD Securities.

Vince Valentini - TD Securities Equity Research - Analyst

Steve, am I interpreting your opening remarks properly when you say you want growth to improve? So you're making investments this year to improve growth in future years. Does that mean your bar at least aspirationally is for the Big 3 segments to do better than 6.5% to 7% growth in 2024?

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

Yes. Simple answer, yes. We have very lofty ambitions for our Big 3 growth and profitability, and we think we're just getting started. We see -- to my point, comments to Heather's questions, we see real potential in the legal profession. We see real potential in the tax and accounting profession. We think we can get our Government business well and truly back on track. And we think we've got an opportunity in Corporates, where, as I've talked about before, it's a relatively new area of focus for us as a company. And one of the areas in Corporates, but not the only area, will be an expansion in the risk -- our Risk, Fraud and Compliance franchise.

So across the board, we're pretty excited about the growth prospects. We've got to make the right set of investments in products and in talent. And our track record, I think, is building in those areas. And to George's question around EBITDA margin and free cash flow guidance, for me that's a positive story, because we see opportunities to invest further to drive growth in the out years. And so notwithstanding the economic climate in 2023, we're pretty excited about what we see and the investment opportunities in front of us.

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes. And Vince, just to clarify, those investment opportunities, organic and inorganic, to fuel that Big 3 long-term growth.

Vince Valentini - TD Securities Equity Research - Analyst

Yes. No, for sure. Mike, one quick follow-up for you on a similar topic, different angle, is price increases. You talked previously about a bit of a lag impact where your wage costs and other input costs may have gone up, and it will take a little while to catch up with your rate increases. Is that cycle complete by the end of this year, so that margins in 2024 should not be negatively impacted by that dynamic?

Michael Eastwood - Thomson Reuters Corporation - CFO

Vince, great question. That should largely be completed by the end of 2023. Just given the long-term nature of some of our multiyear contracts, there will be some that would [roll] over into 2024, but substantially complete by the end of '23 as those contracts materialize and mature.

Operator

The following question comes from Drew McReynolds from RBC.



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

Just 2 quick ones for me. Maybe starting with you, Steve. When you laid out the Change Program and when you stepped into your role, you talked about a couple of different phases in what you wanted to do. And cross-selling was one that was more medium term once you had your organization kind of in a position to do more of it. So just what are your latest thoughts on boosting that activity looking forward?

And secondly, on the outlook, I get the question, and maybe this is you're a victim of your own success, going back a couple of years when you provided 3 years of outlook. Just wondering what your latest thoughts are when you think about 2024 and 2025 and the provision of your expectations or guidance for those years?

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

Yes. Drew, let me take the second one first. We're not today providing guidance for '24 and '25. As we get through the year and I think get more confidence and clarity around some of these investments, I think we'll be in a position to come back to you with some more clarity there.

The only thing I'd sort of double down on is the comments I made in reference to Heather's question, we just -- we see lots of opportunities to invest and lots of promise within our core Big 3 franchises. We did, indeed, as you say, call out cross-selling, and it's part of the Change Program. There's a couple of areas where -- there are sort of a few areas where we really saw areas for improvement. The first was in the complexity. The number of products, the number of solutions overly complex when we started this process, and that's where the divestitures have come in. The second is we saw some really soft spots and poor performance in terms of our customer service, both in terms of the upfront sales process, but more importantly, the support and the follow-through. The Change Program has invested heavily against that, and we're starting to see the results in improved NPS, but it's early days. And the third is, as you say, cross-selling. It's not something we do particularly well across the board as a company, or not consistently so across our different segments. And this is where the shift to an operating company is really important, because it ensures that we take best practices and spread them across the entire company. We have an effort that started in Corporates around next-generation customer success that is focused squarely at improving our cross-selling. We'll extend that to our other franchises this year and next. And what I would say, though, is that we're still in the early days in terms of seeing the benefits of that.

Operator

Our next question comes from [Matt Zeng] from CIBC.

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

This is actually Scott Fletcher. I wanted to ask a question on M&A valuations. I'm just wondering if we should look to SurePrep at -- the price you paid for SurePrep, is it a benchmark for what you might be willing to pay for future deals? I mean, obviously, there's more to the price -- the valuation that you pay when it comes to price. But just looking to get a sense of what the amount of acquired revenue might be, given the capital plans you laid out.

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

Yes, Scott, that's a good question. I wish I could sort of predict. I mean, we're in the marketplace in pretty active discussions on a bunch of different targets, as you'd expect us to be. We are -- and Mike and his team are particularly rigorous in terms of the financial hurdles we set. But we're equally, I hope, thoughtful as it pertains to making sure that the proposition that we might acquire is beneficial to our customers. And our segment presidents, and Brian Peccarelli play a very important role in informing that. We want to make sure that the sort of products and technologies there are pristine. We're not interested in acquiring tech debt, having to fix things. And that's where David Wong, John Malhotra and Jason Escaravage, Kirsty Roth really weigh in. So -- and then last but not least, culture. We're always looking to improve ourselves and our culture. And so we're certainly not oblivious to the idea of benefiting, having the entire TR benefit from injection of new talent coming through an acquisition, but Mary-Alice Vuicic keeps us all honest in terms of making sure we can put businesses together in thoughtful ways. And so those are the criteria.



Valuations, they have definitely come down. I'm hopeful that they will stay at reasonable levels through this year and next as we deploy the -- a portion of the \$11 billion in capital on M&A. But in a sense, I think the sort of the playbook that I described in my remarks of taking existing products and using our distribution does afford us the ability to pay a full price and still extract very significant value for our shareholders. And that's really where we're focused rather than sort of trying to find the best and cheapest deal and have to do a turnaround of an acquisition target.

Operator

The following question comes from Andrew Steinerman from JPMorgan.

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

This is actually Stephanie Yee stepping in for Andrew. I'll just ask a question about client retention. I was wondering if you can just comment on what you've seen in 2022 in terms of your client retention rate versus 2021 and whether you've seen any improvement on that front? Maybe from some of the changes that you've made through your Change Program.

Michael Eastwood - Thomson Reuters Corporation - CFO

Sure, Stephanie. In regards to retention for 2022, we saw nearly a 50 basis point improvement overall. As we've discussed before, Stephanie, that varies by segment and subsegment. And for the benefit of the full group, our highest retention is with Neil Sternthal's customers within our global large law firm at 95% plus, if not higher. Also parts of our Government business has very, very high retention.

Where we have the greatest opportunity, Stephanie, is with our smaller firms. And I mentioned during the prepared remarks and in the prior question about continued investments in our customer success, we're quite optimistic as we continue those investments into end-to-end customer experience. We're going to see a direct correlation in the continued improvement. So at roughly 91% overall, we definitely see opportunities to continue to improve retention in '23, '24, '25. We have also embarked on an NRR initiative within our Corporates segment, led by Brian Peccarelli and Maria [there] and others in which we'll be expanding our NRR initiative to Legal [and tax] as we go through '23, '24. So we definitely see continued upside, Stephanie, in retention in the coming years.

Operator

Up next is Manav Patnaik from Barclays.

John Ronan Kennedy - Barclays Bank PLC, Research Division - Research Analyst

This is Ronan Kennedy on for Manav. May I ask, do you provide kind of insight on the organic growth components, I guess, specifically through the Big 3 in terms of pricing, the cross and upsell innovation, et cetera, what they were for the fourth quarter, expectations for first quarter in '23?

Michael Eastwood - Thomson Reuters Corporation - CFO

Roland (sic) [Ronan], we don't go into that level of granularity. And the item that we have consistently shared is in regards to price, whereby price varies by segment and subsegment. What we had shared in the past is that our Tax & Accounting Professional business historically has been about 5% price uplift on an annual basis, with Corporates being about 3% and our Legal business being about 2.5%. Roland (sic) Ronan, what we see as we go into 2023, if I link back to Vince Valentini's question, we do see higher price lift in 2023 versus 2022, to Vince's question with our multiyear contracts, and just that natural extension. So price increases will be a little bit higher than the reference points I just made in 2023. But we don't go into any additional granularity, Roland (sic) Ronan, in regards to the components thereof or organic growth.



John Ronan Kennedy - Barclays Bank PLC, Research Division - Research Analyst

Understood. And then may I just confirm with regards to '23 guidance assumptions, how you flesh out on the mix of what subs, nonsubs revenues will be, the assumptions around the Transactional, Print and Events? And then also, can I confirm quantification of margin impacts from benefits of divestitures and if there's kind of a run rate of the portfolio pruning?

Michael Eastwood - Thomson Reuters Corporation - CFO

Sure. Let me address each of those, Roland (sic) [Ronan]. In regards to 2023, Print, we are -- we had a really strong year in 2022. And based on the factors that I mentioned in the prepared remarks, we would anticipate Print reverting back to more of the historical declines of 4% to 5% in 2023. So 2022 was just an unusually strong year for us there.

In regards to the Events business, we think orders overall will be approximately 5% organic growth in 2023. We had a strong year in '22 from Reuters News for the reasons that I mentioned, including Reuters Events and the News contract with the London Stock Exchange Group there. So Print, roughly minus 5. For modeling purposes, Roland (sic) Ronan, Reuters News overall, about 5%. We did get a strong uptick in Reuters Events in '22, which will be less in 2023. Transactional revenue, I think, will be fairly comparable in '23 versus '22 there.

John Ronan Kennedy - Barclays Bank PLC, Research Division - Research Analyst

And then, sorry, with regards to margin impacts on planned divestitures and a potential run rate, any -- on how to think about that?

Michael Eastwood - Thomson Reuters Corporation - CFO

Yes. In 2022, those divestitures that we did in Q4 was \$155 million, Roland (sic) [Ronan], in annual revenue and \$40 million of annual EBITDA. So with that, you'll see a little bit of benefit from margin accretion as a result of those divestitures, which we have incorporated in our full year guidance.

Gary Elftman Bisbee - Thomson Reuters Corporation - Head of IR

Yes, I think we have time for 1 more question.

Operator

Our final question today comes from Maher Yaghi from Scotiabank.

Maher Yaghi - Scotiabank Global Banking and Markets, Research Division - Analyst

I wanted to ask you, now that you've delivered on and finished your Change Program, can you discuss if there are specific geographies or new areas? You talked about maybe Risk as a potential new area where you want to focus on. Can you discuss a little bit what you are looking to amplify in terms of investments, new areas for investments? And also, when you look at the \$2 billion return program on capital, can you provide some guidepost as to when that program will be initiated and the needed milestones to be achieved in order to begin the process?



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

Yes. I'll take the first part, Mike. I think in terms of the investment, certainly, we'd like to take advantage of opportunities to grow our franchises internationally. And we see opportunities to build on our recent successes in Latin America. We also see opportunities in Southeast and North Asia. And so we'll be looking to sort of develop those plans through this year.

On the -- in terms of the sort of product lines and lines of business, as I said in my remarks, we don't think we need to sort of step too far out beyond our Big 3. We think we've got lots of growth potential in serving customers within and around the Big 3. But the areas like Risk, Fraud and Compliance, we have a really interesting starting position with CLEAR and Pondera and TRSS that we think sort of enables us to play in a much bigger way in that space, particularly expanding beyond our Government franchise and Corporates.

Other areas like ESG, we think we've got a sort of natural right to play. And so we're looking at expansion opportunities in and around that, but it's very much serving the Head of Tax and the General Counsel and the head of Risk with — at ways in which we can help them navigate an increasingly complex regulatory and compliance-related environment. That's what we do well. We're in a company that sort of can help our end customers and their advisers navigate those environments with content-driven technology. And so those are really the areas that we focus on. Mike?

Michael Eastwood - Thomson Reuters Corporation - CFO

In regards to the capital returns, just a point of clarification. The \$2 billion NCIB or share buyback that we began in June of '22, just to reiterate, that will be completed in early April. We're about \$1.5 billion complete with that.

To your direct question on the return of capital, let me share the sequencing. Step 1 in the sequencing is the monetization of our LSEG shares. As I noted in our prepared remarks today, that will be appropriately measured tranches throughout 2023, meaning we'll have a very disciplined approach there. So step 1 is the LSEG monetization. Step 2 is the return of capital. We'll use the proceeds from the LSEG monetization to fund the return of capital. And then third, we'll have the concurrent share consolidation, which will result in about \$17 million reduction in share count based on today's share price there. So the timing will be driven by the timing as to when we complete the LSEG monetizations.

Gary Elftman Bisbee - Thomson Reuters Corporation - Head of IR

Great. I think we'll end the call there. Thanks, everybody, for your time and attention, and feel free to reach out if you have any follow-ups. Have a good day.

Operator

Thank you for joining, everyone. That concludes your conference. You may now disconnect. Please enjoy the rest of your day. Goodbye.

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