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TRI.TO - Q2 2025 Thomson Reuters Corp Earnings Call

EVENT DATE/TIME: AUGUST 06, 2025 / 12:30PM GMT

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PRESENTATION

Operator

Good day, everyone, and welcome to the Thomson Reuters second quarter earnings call. Today's conference is being recorded. At this time, I would like to turn the call over to Gary Bisbee, Head of Investor Relations. Please go ahead.

Gary Bisbee - *Thomson Reuters Corp - Head of Investor Relations*

Thank you. Good morning, and thank you for joining us today for our second quarter 2025 earnings call. I'm joined by our CEO, Steve Hasker; our CFO, Mike Eastwood; and our Chief Product Officer, David Wong, who will discuss our results and a number of recent product launches, then take your questions following our remarks.

(Event Instructions).

Throughout today's presentation, when we prepare performance period-on-period, we discuss revenue growth rates for 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 and other supplementary financial measures which are discussed on this special note slide. Actual results may differ materially due to a number of risks and uncertainties discussed in reports and filings 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.

Steve Hasker - Thomson Reuters Corp - President, Chief Executive Officer, Director

Thank you, Gary, and thanks to all of you for joining us today. Good momentum continued in the second quarter with revenue in line and margins modestly ahead of our expectations. Total company organic revenues rose 7% with the Big 3 segments growing by 9%. In addition, healthy revenue flow-through and favorable expense timing boosted margins, driving profit ahead of expectations. We are reaffirming our full year 2025 outlook for organic revenue, adjusted EBITDA margin and free cash flow, while improving our interest expense and depreciation and amortization outlooks.

We continue to see organic revenue growth in the range of 7% to 7.5%, including approximately 9% for the Big 3 segments; and for our margins to rise by 75 basis points year over year to approximately 39%. Good momentum continues from many areas in our portfolio. This includes double-digit organic growth from key products, including CoCounsel, CoCounsel Drafting, SurePrep, SafeSend, Pagero, Indirect Tax and our international businesses.

We continue to invest heavily in innovation and are pleased to have announced several meaningful product launches in recent weeks. As our Chief Product Officer, David Wond, and I will discuss shortly, we are leveraging agentic AI to bring significant new capabilities to our legal and our tax accounting portfolios.

These offerings leverage our authoritative content and deep domain expertise to complete complex multistep work, helping our customers increase efficiency and effectiveness. Our capital capacity and liquidity remain a key asset that we are focused on deploying to create shareholder value.

In the quarter, we repaid a \$1 billion maturing bond issue and remain extremely well capitalized with net leverage of only 0.5 times at quarter end. We remain committed to a balanced capital allocation approach, and we continue to assess additional inorganic opportunities. With our estimated \$10 billion of capital capacity through 2027, we are positioned to be both aggressive and opportunistic.

Now to the results for the quarter. Second quarter organic revenues grew 7%, in line with our expectations. Organic recurring and transactional revenue grew 9% and 7%, respectively, while print revenue declined 7%. Our adjusted EBITDA increased 5% to \$678 million reflecting a 70 basis point margin increase to 37.8% higher than anticipated due to healthy operating leverage and timing of expenses.

Turning to second quarter results by segment. The Big 3 segments delivered 9% organic revenue growth. Legal organic revenue grew 8% for the second consecutive quarter driven by continued momentum from Westlaw and CoCounsel and solid government growth.

On the topic of government, we are pleased to have achieved in-process status for the US FedRAMP program, demonstrating our strong commitment to meeting the rigorous cloud security requirements of US federal agencies. Corporates organic revenue grew 9%, driven by offerings in our Legal, Tax and Risk portfolios and the segment's International Businesses.

Tax & Accounting organic revenues grew 11%, driven by our Latin American and US businesses. Reuters' News organic revenues rose 5% with all major lines of business contributing. And lastly, Global Print organic revenues met our expectations, declining 7% year on year.

In summary, we're pleased with our Q2 results. Let me close my prepared remarks with a few thoughts on the exciting pace of innovation that continues here at Thomson Reuters. We continue to make good progress executing against our product vision as we work to build AI more deeply into our offerings. In recent months, we have taken an important step forward introducing a number of agentic AI offerings across our Legal and Tax and Accounting portfolios.

As David will cover, we are really excited by these agentic offerings, which embed our AI capabilities deeper into customer workflows and more meaningfully leverage our key content assets and deep subject matter expertise. By enabling our solutions to complete more complex tasks, agentic AI creates an opportunity for Thomson Reuters to play a larger role in the success of our customers.

Initial customer feedback on our new offerings is encouraging, and we look forward to providing updates as we continue to deliver against our road maps in the remainder of 2025 and beyond. Now let me hand it over to David to discuss these developments in more detail.

David Wong - Thomson Reuters Corp - Chief Product Officer

Thanks, Steve. I share your excitement over the accelerating pace of innovation. Let me start with a few thoughts on agentic AI, which is a key capability driving the new offerings I'll discuss. There are many variations of agentic. So let me share what we believe are the core characteristics of agentic systems. They use advanced reasoning models supported by an AI assistant that can help orchestrate complex work. They have access to tools and they can use these tools to complete tasks, and they can adapt and respond to new information, changing course as needed to achieve their outcomes.

And due to these capabilities, agentic AI systems can complete complex multistep assignments. Our agentic platforms have been in development for more than a year, and we see them as transformational to our ability to serve our professional markets. We also believe Thomson Reuters is uniquely positioned to deliver professional-grade agentic AI solutions since we bring those four essential capabilities.

First, we offer leading AI assistance with advanced reason capabilities in CoCounsel Legal and CoCounsel for tax audit and accounting.

Second, we have comprehensive proprietary content and insights in Westlaw, Practical Law and Checkpoint.

Third, we have a portfolio of leading workflow software tools and analytics.

And finally, we have substantial domain expertise through our more than 2,500 legal and tax editors and subject matter experts. In our agentic workflows, our agents initially follow predetermined steps and guidelines mapped out by our domain experts, leveraging our content, software, and tools along the way. This approach allows them to deliver on real-world tasks, helping professionals move beyond prompting and start delegating.

I'll now highlight several key recent product launches. In June, we launched CoCounsel for Tax Audit and Accounting, an Agentic AI platform powered by the 2024 acquisition of Materia. CoCounsel for Tax automates a growing number of complex multistep tasks, ranging from client file review, to memo drafting to compliance checks. It leverages training by our subject matter experts and Thomson Reuters authoritative Checkpoint content to eliminate manual work, increase efficiency and improve accuracy, all with the transparency, precision and accountability professionals require.

In mid-July, we announced two exciting new software tools powered by CoCounsel for Tax, Ready to Review and Ready to Advise. Ready to Review is an agentic AI-powered tax preparation solution that automates the creation of the first draft of a tax return. AI agents autonomously work to extract and map data, run that data through our tax engines and diagnose and resolve errors that come up.

This results in a quality first draft return while eliminating significant manual effort in improving accuracy. Ready to Advise is an agentic AI-powered tax planning advisory solution for CPA firms. The solution leverages our tax expertise and authoritative content and analyzes the client's data to identify tax planning strategies tailored to that client, which are ranked by relevance and potential impact.

It provides step-by-step guidance supporting authoritative knowledge and workflow tools that enable CPA firms to take a scalable approach to tax advisory services, generating incremental revenue for their businesses. Used together, accountants can save time through ready to review automation, which can be redirected to the delivery of higher value services, including revenue-generating advisory work with the help (technical difficulty). Ready to Advise is in the market today and Ready to Review is currently in beta with a commercial launch scheduled for the fourth quarter.

Yesterday, we announced a series of exciting new capabilities for a law firm and general counsel customers with the launch of CoCounsel Legal, a next-generation AI offering that combines a new Westlaw experience, Practical Law, CoCounsel Core and CoCounsel Drafting into a single unified solution.

With this new offering, CoCounsel orchestrates complex workflows leveraging our Westlaw and Practical Law content and tools to deliver unique and valuable outcomes across litigation, transactional work and regulatory analysis. And in addition to deeper product integration there is significant incremental capability and innovation in CoCounsel Legal, including Deep Research and guided workflows, which I'll briefly explain.

Deep Research, which is integrated into CoCounsel Legal and is also available through the new Westlaw Advantage product. It is our latest and largest step change in legal research capabilities. Deep Research is the legal industry's first professional-grade agentic AI research capability built to mimic the work of experienced legal researchers. Planning, reviewing, and adapting when encountering new information during a research process.

This is not just generic AI layered on top of legal content. We've built something fundamentally more advanced. AI agents trained, equipped, and trusted to use Westlaw's exclusive research tool set with the curated and up-to-date content of Westlaw and Practical Law to move through complex legal research workflows with unprecedented speed and precision.

With Westlaw Advantage, what used to take hours now takes minutes and what used to be manual is now orchestrated AI agents designed specifically for the legal domain. The resulting outputs are highly structured and detailed legal research reports that outperform other AI research capabilities and set a new standard when compared to our market-leading AI-assisted research tool in Westlaw Precision.

A second significant advancement is the introduction of our agentic guided workflows to CoCounsel. These new workflows leverage our AI agents to execute multistep tasks scripted by our experts, drawing on Westlaw and Practical Law knowledge.

In the third quarter, we plan to launch more than 15 of these guided workflows expanding both litigation and transactional law and including a number of practice areas. We believe they will resonate strongly with law firms, in-house legal teams, courts, and district attorneys.

Let me share an example of a new guided workflow. The analyzed merger control filing requirements workflow streamlines complex multistep compliance obligations for M&A transactions by analyzing deal information against Practical Law's local content to then identify potential risks and requirements, generate automated filing checklists and provide actual insights.

I'll now turn it over to Mike to review our financial performance.

Michael Eastwood - Thomson Reuters Corp - Chief Financial Officer

Thanks, David. Thanks again for joining us today. As a reminder, I will talk to revenue growth before currency and on an organic basis. Let me start by discussing the second quarter revenue performance for our Big 3 segments. Organic revenue grew 9% in the second quarter, stable with the first quarter and continuing the strong trend from recent periods.

Legal Professionals organic revenue grew 8% for the second consecutive quarter, driven by Westlaw, CoCounsel, CoCounsel Drafting, Lear and our International Businesses. Government grew 7%. In our Corporate segment, organic revenues grew 9%, recurring revenue grew 9%, while transactional rose 4%. Direct and Indirect Tax, Practical Law, Pagero and our International Businesses were key contributors.

Tax & Accounting delivered another strong quarter with organic growth of 11%. Recurring and transactional revenues grew 9% and 14%, respectively. Our Latin America business SafeSend, UltraTax and SurePrep were key drivers.

Moving to Reuters News. Organic revenue rose 5% for the quarter driven by growth at the professional and agency businesses and from the news agreement with the data and analytics business of LSAG. Finally, Global Print revenues decreased 7% on an organic basis. On a consolidated basis, second quarter organic revenues increased 7%.

At the end of Q2, the percent of our annualized contract value, or ACV, from products that are Gen AI-enabled was 22%, up from 20% last quarter. As a reminder, we began to provide this metric with our Q3 2024 results as a way to help you assess our success at bringing GenAI capabilities to our portfolio.

With Westlaw Advantage now in market and in recognition of the growing number of AI-driven revenue drivers, we no longer plan to comment on Westlaw Precision penetration and will instead focus on the GenAI ACV metric. Turning to our profitability. Adjusted EBITDA for the Big 3 segments was \$621 million, up 7% from the prior year period with the margin rising 130 basis points to 42.3%.

Moving to Reuters News. Adjusted EBITDA was \$45 million with a margin of 20.8%. Global Print's adjusted EBITDA was \$41 million with a margin of 36%. In aggregate, total company adjusted EBITDA was \$678 million, a 5% increase versus Q2 2024, reflecting a 70 basis point margin increase, 37.8%.

Turning to earnings per share. Adjusted EPS was \$0.87 for the quarter versus \$0.85 in the prior year period. Currency had no impact on adjusted EPS in the quarter. Let me now turn to our free cash flow. For the first half of 2025, our free cash flow was \$843 million, up 4% from \$812 million in the prior year period. Higher EBITDA was the largest driver of the increase.

I will conclude with an updated 2025 outlook. As Steve outlined, we are largely reaffirming our full year 2025 guidance. We continue to expect organic revenue growth of 7% to 7.5%, with the Big 3 growing approximately 9%. We see a 2025 adjusted EBITDA margin of approximately 39%, up 75 basis points versus 2024, and we expect free cash flow of approximately \$1.9 billion.

We are updating two guidance line items. We now see slightly lower depreciation and amortization of computer software of \$825 million to \$835 million with \$625 million to \$635 million related to internally developed software. We expect net interest expense to be approximately \$130 million, below our previous guidance of approximately \$150 million due to higher than previously forecast interest rates benefiting interest income.

Turning to the third quarter. We expect organic revenue growth of approximately 7%, and our adjusted EBITDA margin to be approximately 36%. Looking forward, we remain confident in the previously provided 2026 financial framework and organic revenue growth targets for our Big 3 segments, all for 8% to 9% growth at least Professionals, 9% to 11% at Corporates and 11% to 13% at Tax & Accounting professionals.

Let me now turn it back to Gary for questions.

QUESTIONS AND ANSWERS

Gary Bisbee - Thomson Reuters Corp - Head of Investor Relations

Thank you. Ruth, we're ready to go ahead with the Q&A.

Operator

(Operator Instructions) Drew McReynolds, RBC.

Drew McReynolds - RBC Capital Markets Inc - Equity Analyst

Yes. I appreciate the agentic AI deep dive from David, that's definitely helpful. And on that topic, I guess two questions. One, can you give us a sense as of today, and I know it's the early innings, the percentage of workflow that's currently being automated versus kind of what could be theoretically automated end-to-end?

And just a follow-up, maybe for you, Steve, just in terms of the TAMs that you outlined back in the March 2024 Investor Day related to GenAI. Just how should we think about the evolution of those TAMs as we embed kind of the agentic AI offerings into the equation?

Steve Hasker - Thomson Reuters Corp - President, Chief Executive Officer, Director

Yes. Thanks, Drew. Great questions. Look, in terms of the amount of automation today, I think I'd make two comments. The first is that in the overall scheme of things, it's still relatively modest, particularly in Legal, less so in Tax & Accounting.

And the second is to that point, it does vary by profession. So if you look at the sort of the life of the tax professional, our tax calculation engines have traditionally, they are lightning fast. They have been in place for many years, and they're very effective in terms of producing the calculations.

What we're doing with Ready to Review and Ready to Advise and the application of CoCounsel to tax and accounting and orders, is automating a lot of the sort of shoulder tasks and the ancillary task that take an awful lot of time.

So this is, for example, all of the sort of document ingesting in preparation to produce the first version of a tax return, the e-filing process and the follow-up and then the advisory services that are queued off of that tax return cycle.

And so I would say tax and accounting is -- there are large portions that are automated today, but it really is some very time-consuming ancillary and important tasks that are being automated as part of this end-to-end Ready to Review, Ready to Advise cycle.

The Legal profession is different. I think Legal profession is by some counts 350 years old in its current form. And other than e-discovery and word processing and a number of other tools that have been implemented over time, the process is still fairly similar and has been for centuries.

And so we think that generative AI and agentic AI hold promise to fundamentally automate large portions of the first draft process in preparation and that's what we mean when we talk about the ability for TR to be performing more and more complex tasks and to play a larger role in the success of our customers.

Now what we haven't done since Investor Day early last year is update our TAM. So I think we talked about a 20% increase in the TAM at that time. We're certainly, we believe, on track for that. We haven't sort of externally updated those since we sized them in the 2024 Investor Day. But we're going to remain sort of vigilant here.

And as we execute on our product vision and our road maps, and we make progress, build confidence internally with our customers, we'll be in a position, I think, to revise those as we head through 2026. David, anything to add?

David Wong - Thomson Reuters Corp - Chief Product Officer

No, I would just add that I think our approach, when thinking about our agentic investments, is to start with the customer and really ask them what is the most value for us to be able to automate, provide a solution? And Ready to Review and Ready to Advise are perfect examples of that, where when we talk with our customers, they've always said the tax preparation process is time-consuming, very labor-intensive and where they want support.

And agentic AI just happens to be, I think, one of the unique and perfect technologies to help those customers to get efficiencies because the technology can problem solve, it can use tools and it also can address the big gap, which is numerously in AI systems. So instead of having to teach the AI, how to do math, we've taught instead how to use a calculator, taught it how to use our tax engine.

And that's allowed us to be able to deliver the solution, which, again, helps the customer. So again, I agree with everything you said since, Steve, but again, I would say the way that we approach, again, identifying the opportunities for where we invest with the agentic AI is starting with the customer and what their demands are.

Operator

Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Services Corp - Analyst*

I guess, a lot of the product innovation is obviously a great thing to see from you guys. But I was hoping you could help us just frame your solution set versus the competition out there? Obviously, one of your main competitors just had a partnership with one of the legal tech competitors of yours. What the internal law firms are doing themselves. Just trying to understand like how ahead of the curve, I mean, you are perhaps with all these innovations?

Steve Hasker - *Thomson Reuters Corp - President, Chief Executive Officer, Director*

Yes. Thanks, Manav. Again, I'll start, and I'm sure David, Mike may add. So I think as I read the landscape in tax and accounting and order, I think we're -- with our Ready to Review and Ready to Advise and CoCounsel announcements, I would say we're ahead of competitors in terms of the announcements that they may or may not have made.

In Legal, I think to your question, what we're seeing is a sort of new era of competition with a bunch of start-ups, particularly in the sort of legal AI assistance space and a number of our traditional competitors sort of making announcements and putting new offerings in the marketplace.

I think where we are differentiated and where our confidence is, if anything growing is, first and foremost, in our content as a differentiator. So the depth and breadth of Westlaw and Practical Law, and the deep expertise of our subject matter experts, 2,500 or more in total, gives us, we think, a differentiation, and it's a durable one.

Secondly, we believe that having a single integrated solution that includes content and a best-of-breed AI assistant is a winning strategy, and it gives us sort of a single strategic play and puts us, we think, on a faster innovation and development road map. And I think some of the moves we've seen from competitors is a response to that single integrated solution, and therefore, it helps build our confidence.

David Wong - *Thomson Reuters Corp - Chief Product Officer*

Yes. I agree with you, Steve there. Again, I would say that, again, in tax and accounting, I think we are ahead of the competition with CoCounsel for Tax Audit and Accounting as well as Ready to Review and Ready to Advise and I think that they are unique solutions to the market.

On the legal side, I would just highlight one additional thing, which is Deep Research in Westlaw. We believe that this is setting a new standard in the marketplace for legal research. And if you compare and contrast our deep research capability versus those available from others in the market, ours is the only one which is a legal deep research agent technology, where we have trained, built and taught these AI agents to perform research like a legal researcher.

And that's an important distinction because the general solutions from an OpenAI or a Gemini or what have you, they perform generic research like doing a college book report or something like that. What we've built with Westlaw Deep Research is a researcher which has been trained like an experienced lawyer to explore the law, to look at arguments and counterarguments and to be able to consider and explore issues, which will be related to how you might prepare for a litigation, and that's something which I think we're one of the only in the market that have actually created.

So we're really proud of the work we've done there that we have set a new standard for research with this technology.

Operator

Scott Fletcher, CIBC.

Scott Fletcher - *CIBC World Markets Inc - Equity Analyst*

Another good quarter for you guys. I was wondering if you could dig into the margin performance in the quarter. And what some of the drivers were there? And then what's guidance unchanged, why that might not be flowing through to the rest of the year?

Michael Eastwood - *Thomson Reuters Corp - Chief Financial Officer*

Sure, Scott. I'll break that down by second quarter and then also for the full year. If you look at our second quarter margin performance, we were very pleased with the three key factors for Q2, Scott.

First, we had good operating leverage. As I've shared in the past, at a roughly 7% to 7.5% organic revenue growth range, we are generating about 110 basis points of operating leverage, so good leverage in Q2.

Second, we did have some timing of expenses in Q2 that will reverse during the second half of the year.

And third benefit in the second quarter was revenue mix, including some of our Print products. If I now go into the third quarter, EBITDA margin at 36% is less than Q2. Three factors that I would mention there. We have the normal seasonality of our Tax & Accounting Professional business in Q3 that we experienced each year.

Second item, some of the timing benefit that we experienced in Q2 and the first half of the year will reverse, including some integration costs associated with SafeSend and other recent acquisitions.

The third item is in regards to the tough comp at Reuters given that Q3 2024 did include some onetime GenAI revenue that has significantly high profitability and revenue flow through.

To your question in regards to not increasing our full year guidance, most importantly, I would say, we remain very confident in delivering our full year guidance of approximately 39%. And we are not raising it for the three reasons in regard to the favorable revenue mix in the first half of the year, we do not anticipate that continuing.

The timing of expenses will reverse in the second half of the year, including those integration expenses. But I and we do have good line of sight, Scott, into Q3, Q4 EBITDA margin. And once again, we're very confident in delivering to the guidance of approximately 39%.

Just on the topic of margin, I'll take it into 2026. We have committed, which I reaffirmed today, for 2026, we said margin will expand by at least 50 basis points. We remain confident in delivering on the 2026 margin expansion also.

Scott Fletcher - *CIBC World Markets Inc - Equity Analyst*

Okay. Great color there. And then as a follow-up, maybe potentially for David. Can you touch on the expense profile of some of the newer products like something like a Deep Research? And if there is a potential impact to margin if adoption of those does meet or exceed targets?

Michael Eastwood - *Thomson Reuters Corp - Chief Financial Officer*

Scott, I'll start there. We have certainly contemplated all of the costs, both operating expense and capital, for all of the launches that David and capabilities that David discussed today. We remain very confident with our capital intensity, which is roughly 8% for calendar year 2025.

And then also, if you look at our investments in GenAI of approximately \$200 million-plus. If you look at all of the products today, including Deep Research, we have all of those costs, OpEx and CapEx, built into our forecast and into our guidance, and we remain very confident. David?

David Wong - Thomson Reuters Corp - Chief Product Officer

Yes. I think that's well said, Mike. I think the only other thing is Mike keeps us very diligent on managing our pricing and profitability for new product offerings. And so we are also confident that we're able to provide this additional value to our customers, price effectively and earn price for it and continue to earn healthy margin. But we generally don't comment about what the cost profile looks like for those new features.

Michael Eastwood - Thomson Reuters Corp - Chief Financial Officer

Yes, Scott, David makes a really excellent point in regards to if you look at the variable costs, we're doing a terrific job in regards to managing the flow-through associated there with including the cloud costs.

Operator

Vince Valentini, TD Cowen.

Vince Valentini - TD Cowen - Analyst

First, I misunderstood Drew's question, but I'm going to ask it the way I thought he asked it in a different way. What percentage of your internal workflows are automated with AI or something equivalent at this point? And where is the opportunity set there over the next couple of years to actually just make your own margin better and become more efficient? Question one.

Question two, just to tag on the last one on margins. Just to be clear, Steve, or sorry, Mike, your margins not changing for this year is just those factors you laid out, you're not putting in any sort of buffer for maybe there's some macro weakness or maybe there's some weakness in pricing from what competitors are doing or maybe there's another acquisition that comes with a bit of integration cost and drag on margin. Those are not factors in why you're staying with the margin guidance, it's only the ones you cited?

Steve Hasker - Thomson Reuters Corp - President, Chief Executive Officer, Director

Yes, Vince, it's Steve. I'll start, and then I'm sure Michael will answer the second part of your question. So with regard to the internal application of GenAI, I can't give you -- referring back to Drew's question, I can't give you the sort of percentage of tasks that have performed across the company that are being automated by GenAI.

What I can say is that we have been very aggressive in making a set of internal AI tools available to every single one of our colleagues, and we're very pleased with the uptake on a daily basis by the majority of our colleagues. We -- in that spirit, we continue to pilot many proof of concepts and in terms of the application of GenAI across go-to-market, across the support functions, across product and engineering and so forth.

And we're optimistic about the future potential to drive increased speed, higher quality, and productivity from our operations. I'm not going to give you a quantification of the benefits today because I think it's a little bit too early, but we are seeing some early successes, particularly, for example, within our software engineering team and in our customer support application. So there's some upside there, Vince, but how much and over what period of time, I think it's a bit too early to give you a guide on that. Mike?

Michael Eastwood - Thomson Reuters Corp - Chief Financial Officer

Vince, in regard to your second question, my response to Scott's questions on EBITDA margin, I think you touched on the key drivers there. Your direct question, there are no weaknesses in pricing that we have assumed to David's point earlier, we're confident in regard to our pricing and the related flow-through.

Operator

Tim Casey, BMO.

Tim Casey - *BMO Capital Markets - Analyst*

Just you continue to generate strong free cash flow and your balance sheet is relatively under-levered. I wonder how you're thinking about excess capital. I mean given the valuation on your shares, I assume share buybacks are not a priority. But Mike, maybe if you could update us on how you're thinking on a potential return of capital transaction before Q2 next year?

And then, Steve, given your free cash flow profile, you do have the option to turn up the CapEx intensity to drive growth or also maybe an update on the M&A environment given the balance sheet?

Michael Eastwood - *Thomson Reuters Corp - Chief Financial Officer*

Sure, Tim. I'll start. Just to frame everything, the \$10 billion of capital capacity by the end of 2027, whole certainly, if you were to go into 2028, which were not today, that \$10 billion would further increase. As you referenced, Tim, balance sheet remains very strong, net leverage of 0.5 times.

In regard to the potential deployment of that \$10 billion of capital capacity, first priority remains strategic M&A. We think the strategic M&A has the highest return potential from our lens. We remain very focused on our existing Big 3 and bolstering those similar to what we've done in the last 2.5 years, I think we have deployed about \$2.6 billion of capital via acquisitions in the last 2.5 years there.

We do not see a need for a fourth leg, but we remain very interested in expanding our areas such as risk-rating compliance, growing our indirect tax business and also growing our international business. So strategic M&A is top priority.

With that said, we will, I believe, continue to grow our dividends in the out years. We have four consecutive years of dividend growth at 10%. The next cycle will be our January Board meeting. So I'll hold any speculation on what that increase might be until then.

In regards to share buybacks, we made a commitment at the March 2024 Investor Day to return 75% of our free cash flow. Our dividends cover about 55% of that. That would leave about \$400 million that would need at 75%. When I provided that 75% framework, that was over a time horizon there.

For calendar year 2025, would we consider an NCIB share buyback? Potentially we have our next Board meeting in September. We have our annual capital strategy discussion with the Board in September, that is a topic. So could there be an NCIB yet this year? Potentially if so, I think it would be within that \$400 million to \$500 million range.

And I think you also asked about NCIB share buybacks into 2026. My response there would be, I think that 75% return of free cash flow is a good framework for both '25, '26. So that would indicate, Tim. We would need roughly \$400 million to \$500 million of share buybacks in the calendar year to achieve that.

Steve Hasker - *Thomson Reuters Corp - President, Chief Executive Officer, Director*

And then, Tim, with regard to capital intensity and M&A. So capital intensity, as you can imagine, we have some pretty vigorous debates internally on both the absolute number and the way we quantify it, the way Mike thinks about it as percentage of revenue and also the efficiency, in other words, the bang for the buck we're getting and particularly how much of that capital is being spent on new innovations and build versus keeping the lights on and service health remediation-type activities.

I would say the biggest sort of cap or throttle on that absolute number is the availability of top-flight engineering talent because a lot of it is capitalized software development. And so we're always looking to expand our talent in that area. But I'd say that's one cap that sort of prevents it getting too far out and too large.

And then Jason Escaravage has done a great job of improving the efficiency of our KTLO and service health remediation work. And Joel Herron, our Head of Engineering continues to attract, retain, develop great talent. So -- but it's a vigorous, I think, healthy and ongoing debate as to what the right level is and how much should go to new versus remediation and so forth.

On M&A, I used the language we can be both aggressive and opportunistic, and that is our stance. We're looking for acquisitions that better serve our -- enhance our proposition to customers in the Big 3. I would point particularly to areas like risk AI further forays into the sort of generative and agentic AI area and also in indirect tax.

We're starting to see, I think, some signs that we're outgrowing some of the some of the competition on the back of the Pagero acquisition. So those are a few of the areas we'll be both aggressive and opportunistic and just make sure that it's very much in our Big 3 customers interest anything we do.

Michael Eastwood - Thomson Reuters Corp - Chief Financial Officer

Tim, just to round this out. For 2026, capital intensity, I would assume 8%, we will have capital intensity for 2025 of approximately 8. We just completed what we call our enterprise prioritization committee, which is our prioritization process for '26, which is ongoing, but we spend a lot of time on '26 this time of the year. Very comfortable saying that it will be approximately 8% capital intensity for 2026, and we'll continuously assess the level of AI, GenAI investment, which is \$200 million-plus this year.

Operator

Andrew Steinerman, JPMorgan.

Andrew Steinerman - JPMorgan Chase & Co - Analyst

Two questions on Westlaw Advantage. Is Westlaw Advantage a separate module for precision, meaning you have to buy the agentic deep research capabilities in addition to precision, so there will be a penetration story there?

And then second question, this is for you, David. Is there -- not just with Advantage, but broadly this year with the product upgrade, a better integrated user interface across the whole Westlaw CoCounsel suite? I ask because I was at a demo of the Westlaw CoCounsel products earlier this year and I just felt like separate modules with separate user log-ins at the various kiosks at that time.

David Wong - Thomson Reuters Corp - Chief Product Officer

Yes. Thanks for the question. On the first, Westlaw Advantage is a new subscription tier for Westlaw. So we've also had some coverage about how it's also the final Westlaw tier. You do need to upgrade, you need to adopt Westlaw Advantage to get the deep research capabilities. So Westlaw Advantage includes a number of new innovations and new AI features.

Deep Research is the sort of the crown jewel in the selection of new features, which are included in Westlaw Advantage. So -- but you do need to ascribe to Westlaw Advantage to get access to Deep Research. So -- that's -- just to clarify that on your first question.

On the experience interface. This is a priority for us, which is to continue to improve and to enhance the user experience for our customers. With the launch of CoCounsel Legal, which we just announced this week, we are introducing a much more integrated offering where CoCounsel, Westlaw

and Practical Law are more seamlessly integrated into a single experience and the capabilities of Westlaw are available via CoCounsel and vice versa.

So I think if you were to see a demo or to visit us at Ulta, for example, you'd probably see a much more integrated experience. And we're going to continue to iterate and to improve that experience over the next quarters. But it is a top priority for us to continue to improve and enhance the user experience for both CoCounsel and Westlaw.

Operator

Aravinda Galappathige, Canaccord Genuity.

Aravinda Galappathige - *Canaccord Genuity LLC - Analyst*

On Tax & Accounting, obviously, very strong EBITDA growth yet again similar to what we saw in Q1. Perhaps for Mike, is that predominantly sort of that timing benefit or the timing of the integration cost with respect to SafeSend that you were referring to or was there another component to that probably deserve to be called out?

Maybe that's sort of my quick follow-up. And more generally, perhaps for Steve, can you just talk to what your client cohorts look like? I mean when you think of the density of the new product innovations, I'm sort of wondering what proportion of the clients are sort of open to quickly sort of gravitating towards the latest product and perhaps being up for it?

And I assume there is a cohort that probably more of a laggard from that perspective. I was wondering if you can give us a sort of high-level description on that front as well.

Michael Eastwood - *Thomson Reuters Corp - Chief Financial Officer*

Yes. Aravinda, I'll start with your question in regards to Tax & Accounting Professionals EBITDA. You are correct in your assumption in regards to Q2 EBITDA margin is the timing of the SafeSend integration. Those integration expenses that were initially planned for Q2 will now occur in the second half of the year.

With that said, Tax & Accounting Professionals on a full year basis, along with Legal Professionals will continue to have very strong full year EBITDA margins fairly comparable within 1% or 2% of each other on a full year basis. But your core question, SafeSend integration expenses flipped into the second half of the year.

Steve Hasker - *Thomson Reuters Corp - President, Chief Executive Officer, Director*

And then Aravinda, thanks for the question with regard to the sort of customer cohorts. Look, it does vary between Legal and Tax & Accounting audit and risk customers. What I would say, though, is that it's very rare to find a customer who is not interested in our AI offerings. So almost all want to hear about those offerings, want to test, kick the tires on those offerings. And what we see is lots and lots of proof-of-concept trials, comparison with some of the competitive products and so on and so forth and we're happy with the way we show up through that process.

I would say 20% to 30% of, for example, law firms are looking to aggressively lean into AI as a means to differentiate that firm in various ways and that's firms of all different shapes and sizes, whereas the rest of the firms have accepted that they need to adopt AI that they need to provide the best tools to their talent and to their lawyers and are going through various waves of adoption, and that's sort of starting to pick up.

It's still pretty early days, but that's, I think, where we sit. And it's a similar picture in the Tax & Accounting and Audit where it's very rare to find a firm large, medium, or small that isn't interested and isn't sort of thinking through and adopting. But probably a minority of firms are really aggressively moving at this stage.

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley & Co. LLC - Analyst*

You mentioned the percent of ASV from products that are GenAI-enabled was 22% this quarter. I was wondering if there was a way to break that into Legal, Tax & Accounting and Corporates? If you don't want to sort of give the specific numbers just, I guess, directionally, have you seen more adoption and specific areas versus others?

And then maybe just as a follow-on, we talked so much about Legal AI products, but I know that you see a big opportunity in the Tax & Accounting side as well, maybe as big, if not bigger. And so just wondering what you think unlocks that value in the Tax & Accounting space? So two separate questions there.

Steve Hasker - *Thomson Reuters Corp - President, Chief Executive Officer, Director*

Let me start. It's worth stating, I think, Toni, you've heard this from us before, there's a particular sort of characteristic within the Tax & Accounting and Audit spaces, which is an acute talent shortage. So as the number of audits goes up and the complexity of audits goes up, the number of tax returns goes up and the complexity of those returns goes up, there is not the supply of young talent coming through undergraduate and graduate programs who want to become CPAs.

And so the profession faces a very significant challenge, and that is talent shortages. And the technology, therefore, has a really important role to play in addressing that fundamental issue. And so if anything, we see more interest and potentially more uptake, I think it's too early to call it, but uptake from our Tax & Accounting and Audit customers than we do in the other professions we serve. So Mike, over to you.

Michael Eastwood - *Thomson Reuters Corp - Chief Financial Officer*

Yes. Toni, on your first question, we don't break down externally that 22% of GenAI-enabled. I would say to date, the larger portion of that 22% is legal. I don't think you'll be surprised because of the Westlaw precision that was GenAI-enabled and so we had a really great start with that.

As we progress now going forward, I think you're going to see an increase in each of the three segments, Legal, Corporates and just given the number of product launches in Q3 of this year. With that said, all the Corporates will increase with CoCounsel for Corporates and other products and will increase while the products that David discussed today.

Legal over the time horizon will continue to have a larger portion of that just because of the scale of legal, the scale of Westlaw Advantage. And as we go forward, we're going to be talking more and more about the suite of products, not just about Westlaw Advantage, Westlaw CoCounsel, Practical Law kind of all in. Hopefully, that's helpful, Toni.

Operator

Maher Yaghi, Scotiabank.

Maher Yaghi - *Scotiabank GBM - Analyst*

I wanted to ask you a question on free cash flow. As we roll into the second half, so far you generated close to \$840 million. Your guidance is 1.9. Could you give -- provide us some puts and takes on working cap and the payments and lower payments, I guess that you will have less to pay maybe taxes that we should be aware of in order to model the back half.

And also on the guidance again. So far this year, you have, in the first half, your revenue growth has been 2%, your guidance is 3% to 3.5%. Can you maybe just help us understand what's going to accelerate in the back half to close that GAAP? Thank you.

Michael Eastwood - *Thomson Reuters Corp - Chief Financial Officer*

Sure, Maher. In regards to free cash flow, I'll start with full year. Our guidance is approximately \$1.9 billion. We're very confident in achieving the \$1.9 billion. There are some variance between H1 and H2. In March of each calendar year, we pay our annual incentive plan bonuses, which is a drag on free cash flow in Q1 in the first half of the year.

If you look at individual items that impact our working capital, that is the single largest item. But I have strong confidence in the full year on the \$1.9 billion. If I take free cash flow one step further to 2026, our guidance is \$2 billion to \$2.1 billion, I have strong confidence also in delivering on the 2026 free cash flow.

In regards to your question on revenue, you referenced percentages associated with total revenue growth. I want to focus on organic growth. Once again, for the full year, 7% to 7.5%, 9% for the Big 3, which we have confidence in delivering.

From my chair, if I look at the second half of the year and the bookings that we incurred for the first semester, I have strong confidence in regards to the revenue for Q3, Q4 also with the healthy pipelines that we have in Q3, Q4, a very strong confidence. Another key factor is in H2, we have significantly easier comps for both the Reuters business and Tax & Accounting Professionals. You'll remember in the second half of 2024, we had some significant Reuters GenAI revenue and we also had some factors with TAP that makes it an easier comp this year.

So those are some of the key items that we have as we look at the second half of the year revenue and the full year but we have strong confidence on delivering to that 7% to 7.5% for total TR and 9% for the Big 3. The key factor there is the book of business. The underlying bookings is very strong. The pipeline is strong, and we have easier comps in the second half of the year.

Operator

Jason Haas, Wells Fargo.

Jason Haas - *Wells Fargo Securities LLC - Analyst*

I'm curious if you could talk about what sort of price increase your customers will see if they upgrade from Westlaw Precision with AI to Westlaw Advantage? And if you don't want to be too specific on the percentage, which I understand, how does it compare from the step-up to Westlaw Precision with AI? I'm trying to understand this is a big step up in value and you'll be able to price even more for it than the price increases we've been seeing previously.

Michael Eastwood - *Thomson Reuters Corp - Chief Financial Officer*

Yes, Jason, I'll provide some color on that. We'll continue, no surprise to price for value over the time horizon. As we move forward, and I'll intentionally use the phrase commercial packages to my comment earlier versus point solutions looking at the collection of offerings, it will include a combination of a premium of the initial sale, but then also higher out-year price increases.

So you'll see a continued opportunity for sustained acceleration from all of our businesses. As a result of that gives us confidence in delivering for 2026 -- '25 and 2026 guidance. But I would encourage you to focus on the overall suite of versus products, so there will be a step up and there will be out year increases.

Jason Haas - Wells Fargo Securities LLC - Analyst

Got it. That's very helpful. And as a follow-up, I was curious if you could comment on the size and growth of CoCounsel? So Harvey recently disclosed they're doing \$100 million of ARR. So I was curious how CoCounsel compares to that?

Michael Eastwood - Thomson Reuters Corp - Chief Financial Officer

Yes. We don't disclose on an individual product level. I would say we are very pleased with the progress of CoCounsel across the total TR.

Operator

George Tong, Goldman Sachs.

George Tong - Goldman Sachs & Company, Inc. - Analyst

Sticking with the topic of AI, are you seeing different adoption curves for AI tools between large enterprise clients versus mid-market or smaller firms? And how are you tailoring your go-to-market strategies accordingly?

Steve Hasker - Thomson Reuters Corp - President, Chief Executive Officer, Director

Yes. Thanks, George. So I think what's interesting in this sort of AI revolution is that we're seeing a pretty even demand curve across the different segments. So relative to when we would put out a new version of Westlaw or a new version of Practical Law in the Legal segment and it would very much be the sort of the largest, most sophisticated firms with the most evolved sort of Chief Knowledge Officer groups and so forth.

They were the first customer set. Whereas now, we see sold proprietor, sole operator lawyers taking up CoCounsel and wanting to hear about the latest version of Westlaw if they're in a litigation business. And so I think that's true of the Tax & Accounting side of things as well. So it's slightly different and potentially more attractive dynamic for us.

George Tong - Goldman Sachs & Company, Inc. - Analyst

Got it. That's helpful. And then can you talk a little bit about what internal benchmarks or KPIs you're using to measure the ROI of AI investments, particularly in terms of customer retention or customer upsell rates or the percentage of ACV that's coming from AI?

Michael Eastwood - Thomson Reuters Corp - Chief Financial Officer

Yes. George, I think it's a combination of convergence of all the items that you mentioned there. I certainly look at it from a gross margin perspective. Just given in the last 2.5 years, we have a different type of cost in regards to the large lingual model pings or searches associated with that, the cloud cost, et cetera. Customer retention, we've talked a lot about in the last few quarters, that continues to be a key focus item.

And then also the adoption rate because some of these new offerings are really important for us, and we track the adoption and usage on a monthly, quarterly basis. So it's really a convergence, George of the items that you mentioned, not solely one item.

Steve Hasker - Thomson Reuters Corp - President, Chief Executive Officer, Director

All right. Great. I think we'll end the call there. So thanks, everybody, for your time. Have a good day.

Operator

This does conclude today's call. Thank you for all your participation. You may now disconnect.

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