

EQUITY RESEARCH

June 27, 2023

Flash Research

THOMSON REUTERS CORPORATION

Acquiring Casetext For \$650 Million

Our Conclusion

TRI announced that it has acquired Casetext, a California-based provider of technology for legal professionals, for \$650 million. Casetext is a leader in leveraging Artificial Intelligence and Machine Learning in the legal space, and the acquisition furthers TRI's committed push into generative AI. Casetext recently released CoCounsel, a generative AI-powered legal assistant that was built using Chat GPT-4 as an infrastructural backend. The acquisition appears to be a clear strategic fit, with TRI accelerating its push into Generative AI following a commitment to spend \$100 million annually on the technology while also making use of the proceeds from recent London Stock Exchange share sales. TRI is clearly looking to be a first mover when it comes to Generative AI in the legal market, and the acquisition of a competitor that has already released a Generative-AI-powered solution further emphasizes the desire to stay ahead of the market. No financial details for Casetext were provided, and we expect additional details on Casetext's financial history, the structure of the transaction, and how TRI plans to integrate Casetext with the rest of its legal professional's business.

Key Points

What Is Casetext: Casetext is a provider of legal technology that serves over 10,000 law firms and legal departments. Using early access to OpenAI's GPT-4 model, Casetext developed and released CoCounsel in March 2023, making it one of the first Generative-AI powered legal tools to hit the market. Branded as the world's first reliable AI legal assistant, CoCounsel leverages AI to assist with document review, deposition preparation, database search, research, and contract analysis. Public information about Casetext's size and fundraising activity is limited, but SEC filings show over \$60M raised since its incorporation in 2013. The Y-combinator backed company initially focused on building a community site for lawyers and a service to provide attorney-annotated legal texts, before pivoting into AI.

Committed To Generative AI: The Casetext acquisition furthers TRI's push to embrace next-generation AI technology and comes after the company committed to investing \$100 million in artificial intelligence on an annual basis. TRI has already announced a partnership to integrate Westlaw and Practical Law with Microsoft's generative-AI Copilot tools and the Casetext acquisition should deepen TRI's AI talent pool and accelerate the product roadmap for AI-driven research and contract analysis tools.

Conference Call Details: TRI will hold a conference call to discuss the transaction today at 9AM ET via webcast [here](#).

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Outperformer

TRI-NYSE, Sector: Industrials

Current Price (6/26/23): US\$135.17

Price Target (12-18 mos.): US\$145.23

All figures in US dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

Price Target Calculation

Our base case price target is based on our EV/EBITDA valuation where we apply a 22.5x EBITDA multiple to TRI's core Legal, Tax & Accounting, and Corporates segments, a 7.5x multiple to value Global Print and Reuters News and back-out normalized corporate costs using a 20.9x blended average multiple. We also carry TRI's stake in LSEG at mark-to-market value.

Key Risks To Price Target

Execution Risk With Change Program: The change program is expected to result in a material lift to EBITDA margins given a number of operational changes. If the change program does not meet management targets for margin improvement, investors are likely to discount the multiple they are willing to pay. **Execution Risk With New Product and Version Launches:** Part of Thomson Reuters' growth strategy involves developing new products or services and improving existing products to meet the needs of end customers. There is risk in new product introduction and stemming from missed product expectations and disruptions of service. **Acquisition Risk:** Some portion of Thomson Reuters' growth still stems from acquisitions, and the company continues to look for opportunities to enter new product markets that complement the existing business lines. There is risk associated with realizing returns from these investments and elevated costs associated with integration.

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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
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None	NA	Sector rating is not applicable.

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CIBC World Markets Inc. Price Chart

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