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WTW.OQ - Q1 2025 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. Welcome to the WTW first quarter 2025 earnings conference call. Please refer to wtwco.com for the press release and supplemental information that were issued earlier today. Today's call is being recorded and will be available for the next three months on the WTW's website. Some of the comments in today's call may contain forward-looking statements within the meaning of the Private Security Reform Act of 1995.

These forward-looking statements are subject to risk and uncertainties. Actual results may differ materially from those discussed today, and the company undertakes no obligation to update these statements unless required by law.

For more details discussed and these other risk factors, investors should review the forward-looking statement section of the earnings press release issued in this morning as well as other disclosures in the most recent Form 10-K on the other Willis Tower Watson SEC for filings. During the call, non-GAAP financial measures may be discussed.

A reconciliation of non-GAAP measures as well as other information regarding these measures. Please refer to the most recent earnings release and other materials in the Investor Relations section of the company's website. It is now my pleasure to turn the conference over to Carl Hess, WTW's Chief Executive Officer. Please go ahead.

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Good morning, everyone. Thank you for joining us for WTW's first quarter 2025 earnings call. Joining me today is Andrew Krasner, our Chief Financial Officer; Julie Gebauer, our President of Health, Wealth and Career; and Lucy Clarke, our President of Risk and Broking are also joining us for our Q&A session.

In the first quarter, we built on our strong finish to 2024 and delivered 5% organic growth, 100 basis points of adjusted operating margin expansion, and $3.13 of adjusted EPS. This performance was in line with our expectations for quarterly pacing and supports our trajectory toward delivering our full year goals.

The solid results are the product of our relentless focus on advancing our strategic objectives. In particular, our efforts to enhance efficiency are strengthening our ability to generate operating leverage and support marginal expansion.

We remain fully committed to our strategy and are confident in the benefits it will bring, and I want to thank all WTW colleagues for their hard work executing our plans. On that note, let me share our perspective on what we're seeing in the market and how it may affect our businesses.

As we've discussed in the past, changing economic and regulatory conditions tend to drive demand for our services. The current heightened risk landscape and macroeconomic volatility create opportunities for us to help our clients manage their cost and risk profiles and lead their organizations through change.

In risk and broking, concerns about global trade, potential inflationary pressures, and growing geopolitical risks have led to considerable uncertainty and elevated risk for many companies. These risks are not evenly distributed by industry, and we believe our specialty approach has enabled us to provide tailored counsel more quickly than we could have under our previous geographic alignment.

For example, the global trade landscape has changed significantly due to new American tariffs on steel and other industrial goods, leading to unexpected cost increases in the rebuilding and replacement of damaged property.

This poses a financial challenge for businesses dependent on insured property, and to address these risks, WTW introduced the tariff guard endorsement, a strategic enhancement to commercial property coverage for natural resources companies.

Together with the scale and depth of the solutions we offer, WTW is well positioned to continue to serve as a reliable and trusted partner for our clients. In HWC, the growing share of recurring revenue streams provides a stable, resilient foundation for navigating the current environment.

Our deep expertise and strong analytical capabilities position us well to respond to the expected near-term increase in demand for benefits, cost management projects, pension forecasting, workforce and total rewards modeling, communication support, and more.

That said, the heightened geopolitical uncertainty is also creating near-term headwinds in certain areas, particularly in our North America career businesses, where some clients in certain industry sectors may choose to delay discretionary advisory work until they have greater clarity on the macroeconomic outlook.

Similarly, we're likely to see a modest decline in assets under management-based fees in our investment business if the capital market conditions persist.

As a reminder, these businesses are a small minority of HWC. The vast majority of our HWC revenues are recurring in nature with client retention rates in the mid-90s, making us confident in our ability to sustain growth in HWC even if economic conditions weaken.

In addition, over the longer term, we expect macroeconomic changes to spur more demand for our services as clients seek support in responding to the new environment, a pattern we've seen in prior periods of regulatory shift.

I'm confident in the resilience of our business and our colleagues who have proven their ability to navigate challenging circumstances. Our colleagues' hard work is reflected in the momentum we have built in the market and the strong start we've made this year implementing our new strategy to accelerate performance, enhance efficiency, and optimize our portfolio.

We've recorded many strategic wins this quarter that highlight our focus on accelerating performance. In R&B, the strength of our specialization strategy and our ability to deliver differentiated value through technical expertise, global collaboration and client-centric solutions were key factors in these wins.

In Europe, we secured a complex construction mandate tied to what is expected to become the largest urban development in the region. This opportunity was a result of the close coordination of our construction specialists globally and effective cross hauling from our regional colleagues.

Also in Europe, we expanded our existing mandate with a major global airline to be the sole broker for property and casualty and local lines, displacing several of our major competitors due to our specialized industry focus, long-term relationship, and more efficient service model.

Finally, we were appointed to provide both construction, all risk and health and benefits coverage for a key player in the mining and metals sector in West Africa, driven by our innovative solutions, exceptional service offerings, and competitive premiums.

This appointment demonstrates our ability to offer client integrated solutions across our R&B and HWC businesses and highlights the value of our global platform.

In HWC we successfully accelerated performance by growing our core business and making smart connections. For example, a global appliance manufacturer who relies on us for global pension actuarial work, chose us their global benefits management work across more than 50 countries because of the strength of our global network and the strategic insight we delivered on program design and financing.

In another example, we unseeded a 20-year incumbent in winning the US Health and Benefits outsourcing for a major hospitality company. They were compelled to make the change because of our engaging digital tools, our enterprise grade administration platform, and our track record of delivering quality outcomes.

Against a wide range of competitors, a major European financial institution selected us to assist them in a multi-year effort to redesign their group-wide job architecture, implement a new remuneration system, and support them with ongoing paid benchmarking.

Our industry expertise and business aligned process set us apart. We continue to focus on enhancing our efficiency through technology. I'm pleased to share that Liberty Specialty Markets is now using Neuron, WTW's digital trading platform, for live trading of DNL and cyber risks.

Neuron connects brokers and insurers in real time, streamlining complex specialty risk placements. We expect more insurers to join the neuron platform this year, further enhancing its value and efficiency We Do. WTW's Enterprise delivery organization is also driving greater efficiency.

After investing in global service delivery centers for several years to help standardize our service delivery model, we're now better able to leverage automation, data, and AI to further increase margins and deliver more value to clients.

For example, as part of We Do's right tech technology strategy, we implemented a tool to automate critical data audit and validation tasks for retirement plans. We quickly scaled the solution to 22 countries by putting it in the hands of retirement teams in our global service delivery centers.

Process improvements like this help WTW increase our agility and reduce costs while securing our clients' sensitive data. With regard to portfolio optimization, I'd like to highlight WTW's purchase of global commercial credit, a specialist broker focused on trade credit and political risk insurance. The acquisition adds to our fast-growing specialty strategy and our geographic footprint in a key growth area of the North American market.

Though it's a smaller acquisition, it reflects our focus on increasing our exposure to attractive, high growth, and high margin markets within our existing strategy. And finally, our reinsurance JV is progressing well. We're encouraged by the momentum and remain confident in its long-term contribution to growth and earnings.

Overall, I'm pleased with how we started the year, delivering results in line with our expectations. We produced solid revenue growth that supported meaningful margin expansion across both segments. I remain confident in our ability to deliver on our 2025 outlook for mid-single digit organic growth, adjusted operating margin expansion, adjusted EPS growth, and ongoing improvement in free cash flow margin.

We're actively monitoring the macro environment and may adjust our outlook depending on how factors like trade negotiations affect economic stability and growth. We're prepared to proactively manage through changes and adjust priorities as needed to stay aligned with our financial objectives.

And with that, I'll turn the call over to Andrew.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Thanks, Carl. Good morning and thanks for joining us today. In the first quarter, we delivered organic revenue growth of 5% in line with our expectations. Adjusted operating margin and expanded 100 basis points to 21.6% over Q1 2024 or 80 basis points excluding the impact of TRANZACT.

Adjusted diluted earnings per share was $3.13 excluding the impact of TRANZACT. This reflects an increase of 8% over the prior year. As a reminder, we completed the divested share of TRANZACT on December 31, 2024, which created a $1.14 headwind to adjusted diluted earnings per share for full year 2025.

As Carl discussed, our businesses are primed to perform, and our first quarter results reflect our confidence in the foundation we've established, along with our ongoing commitment to the strategic priorities and financial framework outlined during our Investor Day.

Next, I'll spend some time reviewing our segment results. Note that to provide comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis unless specifically stated otherwise. Health, wealth, and career revenue grew 3% compared to the first quarter of last year.

Growth for the quarter met our expectations, and we remain confident in HWC's full year outlook for mid-single digit growth and continued margin expansion, despite the potential headwinds from economic uncertainty in certain businesses that Carl mentioned.

Our health business grew 6% this quarter. All regions saw growth, with double-digit increase outside North America, driven by solid client retention, strong new business, geographic expansion in Saudi Arabia, and the ongoing appeal of our global benefits management solution.

In North America, client retention and new mid-market sales led to an increase in commissions, while consulting fees increased with more projects focused on cost management and legislative change.

With the potential for healthcare inflation to go even higher in the current environment, we expect that demand to continue. We continue to expect high-single digit growth in health for 2025 based on global market momentum, the successful introduction of new products, including our enhanced mid-market solution in North America, and our focus on sales excellence.

Wealth revenue grew 2% in the first quarter, driven by low single digit growth in the retirement business and high-single digit growth in the investment business. In retirement, strong growth outside North America due to increased de-risking activity and growth in our life site solutions was partially offset due to the expected negative timing impact of project activity in North America relative to the prior year.

Our investment business delivered high-single digit growth due to new product launches and the positive impact of favorable capital markets performance in the quarter. While the recent market volatility may impact second quarter results, particularly for investments, we continue to expect low-single digit growth in the wealth business for the year.

Career growth was 1% this quarter, largely in line with our expectations. While growth was tempered somewhat as economic uncertainty led some clients to defer advisory work, we continue to see healthy demand in areas such as pay transparency, incentive design, and pay benchmarking.

Revenue growth is expected to be weighted towards the second half of the year due to the typical seasonality and compensation surveys and timing of project work. As Carl highlighted, the lack of economic and policy clarity may impact the growth of the career business in the short term. However, support for legislative changes and cost management will continue to create demand. And as we highlighted in Invest today, our focus on product and technology offerings will further mitigate the downside risk associated with the uncertainty. Nonetheless, we see a wider range of potential outcomes for career this year and anticipate growth in the low-to-mid single digit range.

Benefits delivery and outsourcing saw 1% growth versus the first quarter of last year. BD&O revenue benefited from increased project and core administration work in Europe. We expect growth to accelerate throughout the year with the incidence of special project work to support regulatory changes and the timing of new client implementations. We continue to expect BD&O to grow at a mid-single digit rate for the year.

HWC's operating margin in the fourth quarter was 26.7%, an increase of 160 basis points compared to the prior year, where a 40-basis point improvement excluding the impact of the transactive vestiture, demonstrating our ability to consistently deliver margin expansion. We have a strong track record of margin expansion in HWC, and we will continue to build on that during 2025.

Moving to risk and broking, first quarter revenue growth was 7%, marking nine consecutive quarters of high-single digit to double digit growth. Our specialization strategy and our investments in talent, technology, and innovation continue to bear fruit.

Corporate risk and broking had another strong quarter, growing 8% or 9% when excluding both book of business activity and interest income. Notably, this is on top of 9% growth in the first quarter of 2024. CRB's growth was broad-based across all regions. Our specialization strategy remains a key growth driver for CRB, and specialty continues to outpace the rest of the segment's growth. We continue to see sustained client retention rates in the mid-90s and strong new business generation around the world.

Globally, our construction, facultative, crisis management, and surety specialty lines were major contributors to the strong growth performance this quarter.

From a geographic perspective, North America had a solid start to the year with notable contributions from our natural resources, surety, and M&A businesses. Furthermore, we saw a double-digit growth in our specialty lines across our Great Britain, Western Europe, and international geographies driven by strong new business generation.

Moving on to our insurance consulting and technology business, revenue was up 3% across both our technology and consulting practices. As we discussed at Investor Day, our ongoing investment in technology is driving an intentional shift in the mix of offerings in ICT, creating value for our clients by integrating technology and consulting solutions. Q1 growth in ICT was consistent with our projections, and we continue to expect a mid-single digit growth for the full year.

For risk and broking in total, we continue to expect mid-to-high single digit growth for the full year. R&B's operating margin was 22% for the quarter, a 120-basis point increase over the prior year first quarter. This is primarily due to operating leverage from our organic revenue growth, as well as transformation savings, partially offset by a combined 100-basis point headwind from foreign currency, lower interest income, and the absence of gain on sale activity.

As we outlined at our Investor Day last December, we continue to expect to deliver 100 basis points of average annual adjusted operating margin expansion in R&B over the next three years, driven by operating leverage and additional efficiencies, including the deployment of our global broking platform and workflow optimization.

Now let's turn to the enterprise level results. Adjusted operating margin for the quarter was 21.6%, a 100-basis point increase over prior year, primarily driven by greater operating leverage, which includes the benefits of our now completed transformation program.

Regardless of the macro environment, we remain confident in our operational disability and control, which strengthens our conviction in delivering margin expansion this year. Foreign exchange was a headwind to adjust the EPS of $0.09 for the quarter. Based on our current outlook and current spot rates, we expect foreign exchange to have no material impact on adjusted EPS for the full year, as the $0.09 headwind from Q1 will unwind by the end of the year.

Our US GAAP tax rate for the quarter was 21.5% versus 19.9% in the prior year. Our adjusted tax rate for the quarter was 22.7% compared to 22.3% for the first quarter of 2024. We expect our 2025 tax rate to be relatively consistent with that of 2024.

Cash flow was negative, $86 million for the first quarter of 2025, a decrease of $50 million from the prior year, primarily driven by the absence of cash collections related to TRANZACT and increased compensation payments.

Since TRANZACT historically recorded cash inflows in the first half of the year, followed by larger cash outflows in the second half of the year, TRANZACT sale will be a net tailwind to free cash flow on a full year basis.

As a reminder, free cash flow and free cash flow margin now reflect cash outflows for capitalized software costs for all periods presented in the earnings materials. For the full year, we continue to expect to expand our free cash flow margin driven by the sale of TRANZACT, the wind down of transformation related cash outflows, and expected annual margin expansion with a partial offset from cash taxes on the Willis-free earnout payment, which have not yet been paid.

During the quarter, we returned $288 million to our shareholders via share repurchases of $200 million and dividends of $88 million.

As we discussed that Investor Day in December, share repurchases will remain our primary form of capital return and a central component of our capital allocation strategy. We continue to expect to allocate approximately $1.5 billion to share repurchases in 2025, subject to market conditions and potential capital allocation to inorganic investment opportunities.

Given our balanced approach to capital allocation, we plan to continue to invest in talent and our platform to drive sustainable growth and expand margins. We will also increasingly emphasize M&A aligned with our strategic priorities of improving our business mix, expanding our reach across the insurance value chain, and enhancing our margins and free cash flow.

In closing, we are encouraged by our business performance in Q1 and expect to achieve our outlook for 2025. With that, let's open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Gregory Peters with Raymond James.

Gregory Peters - *Raymond James - Analyst*

Good morning, everyone. So thanks for the detail in your comments, and just some a question around the tariff and trade uncertainty. Hi, Carl. You mentioned the career business and the investment businesses having some pressure.

Andrew, you talked about the health business, being high-single digit component. Maybe you can give us some more color on how this is going to unfold and generate this mid-single digit type growth that you're forecasting for health, wealth, and career for the year?

Operator

And pardon me, Mr. Peters. We are having technical difficulties, so just hang on a moment and they will be right back with you. Just a moment, everyone. (Operator Instructions)

Okay, Mr. Peters, could I please get you to repeat your question again, sir?

Gregory Peters - *Raymond James - Analyst*

Absolutely. I'm not sure if you guys heard it or not, but I'll certainly go at it again. So first of all, good morning, but then secondly, in your comments, Carl, you talked about some headwinds from tariffs on and potential economic volatility on the career business and the investment business. Andrew, in your comments, you talked about the health business being up high-single digits for the year.

Maybe give us some additional color, what's driving your expectation for mid-single digits in health, wealth and career for the year, given all the give the puts and takes?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Sure, Greg, thanks and good morning. So just to set it out, right, health and wealth. Did grow 3%, year over year, which is very much in line with our expectations, and we're seeing strong demand for our benefits management offering, for pension consulting, for outsourcing demonstrated by some of the notable new appointments that I mentioned earlier, we are confident in our pipeline and we do continue to expect that HWC is going to have this single digit organic revenue growth for the full year.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yeah, and Greg, I'll provide some further details on each of the HWC businesses for the quarter and then hand it over to Julie, to talk more about what she's seeing.

So health had organic revenue growth of 6% and this solid growth was led by strong client retention and new business wins. All regions saw growth with double digit increases internationally. We saw strong contributions from geographic expansion efforts in Saudi Arabia and the ongoing expansion of our global benefits management solution. Wealth, where we had 2% organic revenue growth was driven by modest growth in the retirement business and high-single digit growth in investments.

Within retirement, we continue to see strong demand for our life site product. Our investment business delivered high single digit growth from new product launches, new business wins, and an improvement in capital market conditions within the quarter.

Career had 1% organic revenue growth that was tempered by postponed projects as economic uncertainty to apply to defer some advisory work. The career is our most economically sensitive business, and the broad market uncertainty may continue to weigh on growth within that business.

BDO grew 1% and that really benefited from increased project work and administration work in Europe. And as Carl mentioned, we still remain confident in our pipeline in HWC and continue to expect that segment will have mid-single digit revenue growth in 2025 and over the long term. Julie?

Julie Gebauer - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

Thanks, Andrew. My view of the HWC segment has not changed over the last 90 days. As you said, Q1 generally performed in line with our expectations. And overall we expect the segment to grow mid-single digits for the year.

We've got resilient businesses with a significant amount of recurring and required work, and we know how to navigate change and uncertainty, emphasizing those solutions that are relevant to clients in this environment.

So maybe diving into each of the business areas in health care inflation remains high, maybe going higher. We've got a very good pipeline and we expect growth to accelerate in the second half of the year, so we're confident in delivering high-single digit growth.

In wealth, demand for core defined benefit offerings is strong, and so is demand in adjacent areas. So that supports our outlook for low single digit growth.

So in career, just remember 70% of our work is from recurring projects like compensation committee appointments or like products like embark portal or compensation surveys, and that work is stable and it's underway. Now for the advisory project, that uncertainty in the environment is causing some delays.

And at the same time there are some areas like pay transparency in the EU and incentive design that still remains strong. So overall in this environment we've broadened our outlook and we're now expecting low-single digits to mid-single digit growth for the year.

Rounding it out with BD&O, our core offerings are sticky and stable. We expect growth to accelerate through the year and achieve mid-single digit growth.

So when you put it all together, we are confident in the pipeline that we've got, and we continue to expect that the segment will have mid-single digit revenue growth in 2025 and for the long term.

Gregory Peters - *Raymond James - Analyst*

That is excellent detail. Thank you. I guess, I'd like to just take the same question and apply it to the risk and broken segment. Because, the tariffs are a popular topic among all the conference calls and management, dealing with the challenges there and the potential for economic slowdown, maybe you can give us some additional detail on how you're thinking about organic revenue growth and the risk invoking business for the year?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So Greg, we're really pleased with the 7% organic we did for 11%, and that gives us confidence to achieve the mid-to-high single digit growth in R&B we see for the year.

The volatility we're seeing in the macro environment creates risk for many companies and we're well positioned to help our clients manage these risks, especially given the structure of our specialization strategy, which enables us to provide more tailored counsel with increased agility. We are seeing strong demand for our services with especially strong interest in specialization offerings. So I'll pass it over to Lucy to add some more color on what she said.

Lucy Clarke - *Willis Towers Watson PLC - President – Risk & Broking*

Thanks, Carl, and thanks for the question, Greg. I mean, I would just remind everybody that even before the last three months, our clients, whatever industry they're in, whatever geography, whatever side they are, have been navigating one of the most complex risk environments of a generation. That's generally when the most is expected of us and when we're at our best.

So these macros may be different, but the broking business is generally resilient when the circumstances are uncertain. I think that our specialization strategy, will serve us well, and our focus is on performing for clients. We're responding to increasing demand for trade credit and political risks and quickly coming up with new products, like the natural resources guys did with tariff guard. So we feel confident about the fundamentals of the business and the mid-to-high single digit growth for 2025.

Gregory Peters - *Raymond James - Analyst*

Got it. Thanks for the answers.

Operator

Elyse Greenspan with Wells Fargo.

Elyse Greenspan - *Wells Fargo - Analyst*

Hi, thanks. Good morning. My first question is on HWC. I think in the fourth quarter you guys had alluded to some timing, right, revenue being pushed from Q4 to Q1 in Korea and perhaps in other areas and did that revenue come online in the Q1, or is that now getting pushed back a bit further in, when you guys are talking about a stronger half year to this year?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So Elyse, good morning, and you know, as we said in our opening comments, career does have some near-term sensitivity to the lack of economic policy clarity, but we do think that the support for legislative changes that affect our clients as well as, cost management is going to create demand. As we review our pipeline, our expectations for revenue growth to be weighted toward the second half of the year. Part of that is, typical seasonality of compensation surveys and the timing of the project work, and that's one of the reasons we have the wider range of outcomes Julie talked about.

Julie Gebauer - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

And I'll just add the reminder that the first quarter was largely in line with our expectations, though it was muted because of the economic uncertainty and there was a modest impact on the revenue in the quarter because of that. I'll just come back to something I previously said. We've got about 70% of our revenue coming from recurring work, and as Carl mentioned, a lot of that comes in the second half, and we're seeing an increase in our survey participation this year.

Our pipeline for work is strong given the focus that we have on the market. It's a very disciplined focus. Our teams are initiating discussion with clients and prospects about topics that really matter in this environment and I already mentioned pay transparency, but there are areas like the impact of market volatility on incentive plans and that's generating new leads and new sales and the effort that we have to embed our employee experience capabilities into other offerings is also having an impact.

For example, many of our new outsourcing implementations that are going to happen later in this year will include our Embark software portal and the workforce management work that we're selling includes communications and change management support.

So we've got a durable career business and our teams are really equipped to address what our clients need now in spite of the uncertainty slowing down some projects in the first quarter. So we're confident this is going to allow us to grow in the range of low-to-mid single digits.

Elyse Greenspan - *Wells Fargo - Analyst*

Thanks and then, my follow up, was on free cash flow if you can just talk about your expectations for the full year and just walk us through, any puts and takes. I know you mentioned Andrew some of the TRANZACT, first half versus the second half and your opening comments, but anything else that we should be thinking about, for free cash flow this year?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yeah, absolutely. So our cash flow figure of negative $86 million, so below prior year by $50 million, it was right in line with our expectations for the quarter and we remain in line with our plans trajectory to deliver a free cash flow margin expansion in 2025. To provide a bit more color around that, the year over year decrease in the Q1 was primarily driven by two items.

One is the seasonality of TRANZACT cash flows. So TRANZACT historically recorded cash inflows in the first half of the year, followed by larger cash outflows in the second half of the year. So on a full year basis, TRANZACT sale will be a net tailwind to free cash flow, but it was a headwind this quarter and will be for Q2 as well. And the second item is increased compensation payments on a year-to-year basis. And as I think about the full year and beyond, so I think the right way to think about it is, our 2024 cash flow margin was 12.8%. That was inclusive of 440 basis points of headwinds from TRANZACT and transformation.

So if you think about our 2024 free cash flow on a normalized basis for those factors, it was about 17.2%. From that 17.2% normalized base, we expect further free cash flow margin improvement from operating margin expansion, offset by roughly 200 basis points of headwinds related to transformation, cash outflows and cash taxes on the Willis re-earn out, as I mentioned in the prepared remarks. So you put all of that together, I think that that's how I think about 2025, and then we continue to be confident in our ability to expand our free cash flow margin, beyond that after 2025.

Operator

Thank you. Rob Cox with Goldman Sachs.

Rob Cox - *Goldman Sachs - Analyst*

Hey thanks. First question I wanted to ask about M&A, you all talked about increasingly emphasizing M&A back at the Investor Day and then here today in the comments and we've seen one deal so far which is a little bit lighter than some of the public and private broker run rate but so I was just curious, did you think you would have acquired more businesses by now when you outlined the strategy back in December and are you still seeing deals out there and what's stopping you from doing more?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Yeah, I mean, thanks, Rob. Good morning. We feel good about our approach to M&A, right? I mean, just to remind everyone because we talked a bit about this, we're looking for companies that could be a good fit culturally, with that we're not going to see a lot of business disruption over the integration and they've got to satisfy the following criteria. First, improve our business mix to enhance our growth and presence in key markets, while strengthening our offering in high growth, high margin areas of our core business.

Second, they should expand our reach across the insurance value chain to further accelerate our growth while filling gaps in our capabilities and footprint, and we want to target businesses that help enhance our emerging and free cash flow profile. With regard to timing, through our growth simplifying strategy, we solidified our infrastructure, we strengthened the company. We have the right business focus now. We have more efficient processes. We've got the tools to integrate potential targets with WTW and deliver long term value. So we have our eyes on the landscape. We recognize there's going to be others active in the space, but we're looking for what's right for us, not just to do deals because we see others doing.

Rob Cox - *Goldman Sachs - Analyst*

Appreciate the color maybe as a follow up on the macro environment, I mean, given Willis is a global business, I'm curious when you look out at the operating environment and based on your client conversations are you seeing any more economic weakness or uncertainty in certain geographies?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Well, I mean, yes, we've said in the past, right, WTW is really well positioned to weather macroeconomic uncertainty. You can look to our history, you can look back to our predecessor companies, we have thrived under many various market conditions, and we think the current macro environment is going to create more opportunities for us, as we alluded to earlier, economic challenges can intensify.

Our clients needs for sound advice and risk management solutions, and many of our clients look to WTW for help in navigating these obstacles, creating opportunities that drive demand for our services regarding workforce management, regarding pension plans, regarding risk management solutions. Let me turn a little bit over to Julie and Lucy to talk about what they're seeing in the segments. Julie?

Julie Gebauer - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

Carl, so I'll just start with repeating something I've already said, which is that the vast majority of our work is recurring and required, and even in our most economically sensitive businesses in the career area, about 70% of our revenue comes from those areas. So we've got a steady base and this ability to navigate. And uncertainty is helpful and that's across the world. We're focused on solutions that are relevant in this environment. So we're well positioned to capture demand where there's a need for workforce management, workforce reductions.

Healthcare cost management is important right now and pension cost modeling, what's going to happen if the environment changes all very important for us, and even as the uncertainty causes some delays for some discretionary advisory work until there's greater clarity, these areas will hold us firm. So we're confident about our mid-single digit growth outlook for the year.

Lucy Clarke - *Willis Towers Watson PLC - President – Risk & Broking*

Yeah, thanks. Thanks, Julie, and thanks Rob for the question. I think I will also repeat something I've already said, which is that, in these circumstances, however uncertain they are, the broking business tends to be very resilient. We're not seeing particular weakness right at the moment from our clients. In fact, we're seeing increasing demand for some of our specialty products, and so really our focus is on just performing for our clients, and delivering in these, in this uncertain environment.

Rob Cox - *Goldman Sachs - Analyst*

Thank you.

Operator

Thank you. Paul Newsome with Piper Sandler.

Paul Newsome - *Piper Sandler & Co. - Analyst*

Good morning. Thanks for the call. I was hoping you could give us a little additional color on in the risk and broken business on carrier competition. We're hearing a lot about weakness in the large account business and maybe some resilience elsewhere, and, obviously Willis has a mix of business between middle and large, that's close, but we know it's important. So any thoughts on both what you're seeing in the marketplace plus the implications for your businesses?

Lucy Clarke - *Willis Towers Watson PLC - President – Risk & Broking*

Hi Paul, it's Lucy. Thanks for the question. Yeah, so, first of all, we definitely are seeing an improvement in pricing in most lines across the market, broadly that improvement or falling rates and pricing is mostly in property, large and complex risk.

Financial lines have stabilized after a period of improvement, and the pricing continues to increase in certain areas such as North American casualty, and auto.

So what does that mean? Well, first of all, I think it's important to remember that while we can't predict what will happen, the rating environment is not a surprise for us. Our clients have had many years of steep increases, carriers have performed well. Pricing is adequate, and so we were expecting an improving pricing market for our clients. Our business mix is about half a commission, half fee, and about half property, half casualty.

So I think we're well positioned and, of course, we can't predict to what extent the rates will fall and, would I guess particularly note that the geopolitical and macroeconomic uncertainty, may have a dampening effect on the optimism we're seeing today.

Paul Newsome - *Piper Sandler & Co. - Analyst*

That's one. That's very helpful. Thank you. Alternative question, a little bit more of a modeling approach question. So I'm getting quite a bit of questions from investors about market implications, equity, financial market implications on wealth and career, and I think you've touched on this, but maybe a few thoughts would be great just to talk about sort of the sensitivity. Of those businesses directly, it is simply a matter of just looking at the assets and the management and the relationship there, but I suspect there's way more to it, but any thoughts there that I think help folks who are trying to model this from an asset management perspective?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So remember, Paul, that our wealth business really has two major components. The bigger component is our pension consulting business, where we're typically appointed the actuary for defined benefit fund, and these relationships are very stable. They can last, literally for decades, and we've got client retention rates in the high 90s. So very sticky, very annuity, very stable basis. The smaller part of the wealth segment is our investment business, which is a combination of investment management and investment consulting.

Our clients vary but a lot of them are defined benefit funds where their asset base is typically quite matched to their liabilities. So our sensitivity to equity markets is probably a bit less than you would think, right? We've got exposure to the overall level of assets, but these are quite hedge to pension liabilities. So the characteristics vary a bit. Julie, any further?

Julie Gebauer - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

I'll just add that in our investment business, which is less than 5% of our overall HWC revenue, that some of our fees are determined as basis points on assets under management, but that's not all of our fees. We've got a meaningful portion of our revenue that fixed fees. So the basis point related fees are the ones that are susceptible to capital market volatility. And while that didn't affect us in Q1 because of favorable performance, the research performance could leave us with an impact in Q2. And then the other thing I'll add is that we intend to offset any short-term headwinds as much as possible by going to market aggressively with solutions that are currently relevant like workforce management.

Paul Newsome - *Piper Sandler & Co. - Analyst*

Thank you. I really appreciate the help as always. Very much appreciated.

Operator

Thank you. Brian Meredith, UBS.

Brian Meredith - *UBS - Analyst*

Yeah, thank you. I -- first one, Lucy, just could you remind us how big is the transactional business as a part of your overall business and is that going to be a headwind at all here as we look forward? I know it's been relatively low, but I thought it picked up second half of last year.

Lucy Clarke - *Willis Towers Watson PLC - President – Risk & Broking*

Hi, Brian. It's Lucy. Thanks for the question. So we're not going to comment on the size of our M&A business, and so we don't expect a major impact throughout the rest of the year.

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Brian Meredith - *UBS - Analyst*

Okay, thanks. And then, second question, I'm just curious on share buyback in the quarter. I appreciate that the first quarter is usually the weaker or the free cash flow quarters, but I would have thought with the correction your stock had post fourth quarter results as you've been a little bit more aggressive with share buyback, was there anything else to kind of think about, that may be prevented you from buying back more shares in the in the quarter?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So there's lots of things that go into the pacing of the share repurchases throughout the year. I think the right thing to focus is on the $1.5 billion that we've committed to for the year, with regard to pacing, we have opportunities at certain points in time to lean in depending on market conditions and accelerate some of that, and that's what we tend to do from time to time. So it's really, I think a combination of timing, market conditions, but again, focus on the full $1.5 billion for the full year.

Brian Meredith - *UBS - Analyst*

Great. Thanks.

Operator

David Motemaden with Evercore ISI.

David Motemaden - *Evercore ISI - Analyst*

Hey, good morning. I wanted to focus on wealth and BD&O, where I think you, guys had called out a few areas of project activity, timing that negatively impacted you guys. Wondering if you could size that impact that each of those had on each of the segment organic growth rates and then maybe just elaborate a bit more on your visibility into those coming online over the rest of the year? I get that demand for your services has gone up, but if it's project work, it sounds kind of discretionary in nature. So just wondering what your conversations with clients have been on those and what gives you some confidence that we're going to see that revert back?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So let me address BD&O first and then we can talk a bit about wealth, right? Remember that BD&O grew 1% for the quarter, and we did have some, increased project and core administration work in Europe. We expect growth to accelerate through the year with new client implementations as well as special project work. Part of that is to support regulatory changes. And part of it can be things that can actually be offsetting unfavorable macroeconomic conditions such as increased cot administration, if people are laying additional people off. So there's some -- not all the project work is economically sensitive in the way you might think it might be.

With respect to wealth, often a lot we have a variety of projects that somebody could be in response to regulatory change, which demands clients analyze the effect of such change on their retirement plans, some of the contemplation of pension risk transfer activity. Maybe Julie you want to elaborate a little bit more?

Julie Gebauer - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

Yeah, on the de-risking activity, we had a decent amount of that in Q1, as mentioned in the prepared comments. That activity dependent on a number of factors. The top factors are pension plans funded status, and Carl commented on how that's changing, maybe not as dramatically as people would have thought, and the interest rate environment. And as we look at it, those factors are still favorable for many plans. So we do expect that type of activity to continue in the current environment, probably at a slightly slower rate than we initially projected for the year.

But we expect clients that aren't undertaking derisking initiatives will pick up other project work to evaluate pension volatility, to use pensions to support workforce actions and the like. So we are confident that we'll capture our fair share of that and that's reflected in our outlook of low single digit growth.

David Motemaden - *Evercore ISI - Analyst*

Great thank you thanks for that that makes sense. And then maybe Andrew, just following up on the free cash flow you had mentioned, the TRANZACT sale was the headwind of free cash flow this quarter and it will be next quarter as well. I'm wondering if you could just size that how much of a headwind it was to free cash flow this quarter, and then the expectation for the headwind for next quarter just so I can sort of break down the components?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yeah, sure. So for this quarter year to year was a $56 million headwind. In Q2, it will be substantially smaller, about $8 million or so.

David Motemaden - *Evercore ISI - Analyst*

Perfect, thank you.

Operator

Mark Hughes with Truist Securities.

Mark Hughes - - *Analyst*

Yeah, thank you. Good morning. In the ICT, the organic 3%, this quarter last quarter is 11%. Was that just timing of new business or was there any sort of fundamental transition or inflection there?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Yeah. So remember ICT is a mix of consulting offerings and technology offerings. The consulting includes both recurring services such as reserve calculations for insurance companies as well as project work for things like securities issuance or M&A. On the technology side, we offer products that support things like underwriting, rate making, reserving for our clients, and those sales can be large and lumpy.

In fact, you, as we pointed that out in Q4, that was one of the drivers for the Q4 growth, and we can just make the pattern from quarter on quarter, look a little bit jagged, right, we think that's a feature, not a book.

Mark Hughes - - *Analyst*

Very good. And then on the reinsurance, JB, any change in your estimate for cost for the full year and any quick comments on how that's ramping?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So we're reminded this is a new launch, right? We're still in the startup phase and we're focused on building out the infrastructure and hiring new talent. At this point we'll give you more of an update when there's more to share, but we're very pleased with the progress made. And we're excited about our return and reinsurance. Andrew, you want to comment on?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yeah. Just to confirm there's no change in the outlook at this point for the rest of the year with regard to the guidance we previously gave.

Mark Hughes - - *Analyst*

Understood. Thank you.

Operator

Thank you. Mark Marcon, with Baird.

Mark Marcon - *Robert W. Baird & Company - Analyst*

Good morning, Carl. In your prepared remarks, you went through a number of new business wins, and I was wondering, it sounded to me like there's a greater proportion of them, that you mentioned than you've historically mentioned or even going back to John.

So I'm wondering, number one, do you have any sort of qualification with regards to the number of new business wins and the magnitude of the potential revenue that's coming on relative to prior quarters or any sort of quantification at all? Number one. And number two, to what extent is it coming from some of the new talent that you've added relative to some of the existing folks, is it a sign of increasing productivity from some of the new hires? Thank you.

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So I won't talk about numbers specifically. I will say that over the past few years we have put a lot of emphasis on being in the market and bringing new revenue and new logos to our client register. That's been a focus of both segments, and I think you're seeing that pay off handsomely in the revenue growth rates we've been showing over the last few years compared to what you might have had over years before that and so you know I'm sort of very pleased to see the discipline and focus we put in the marketplace paying off.

We've got very strong offerings in both segments and it's unsurprising to me that we continue to see the sort of progress we're making as demonstrated in our repeated remarks quarter after quarter about the success we're having in the marketplace. Julie, Lucy, want to talk a little about segment strategies with regard to that?

Julie Gebauer - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

We've got a clear focus on building market share in our core growth areas, and we've been successful at that disciplined focus on sales management. We'll enhance that and then our focus on smart connections, finding the ways that we can bring different service offerings together to address client needs and cross sell where it makes sense is paying dividends.

Lucy Clarke - *Willis Towers Watson PLC - President – Risk & Broking*

Yeah, thanks. I got to say, based on the fundamentals of our business, I really love our position. We have a specialization strategy that's working. We have a market leading digital and technology strategy. And we have the capabilities and credentials to compete with anybody in our space. So yeah, I think we're seeing a really strong new business in the quarter that's coming from, our existing colleagues as well as the new strategic hires, and we haven't seen the full impact even yet of those strategic hires, and of the planned hires we have during the course of the year. So we feel really optimistic about that.

Operator

Thank you. And that is going to conclude today's question-and-answer session. And I would like to hand the conference back over to Carl Hess for any further remarks.

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Thank you all for joining us. And I just wanted, I appreciate the hard work of all our WTW colleagues globally who helped us start the year on such a solid note. And I also like to thank our shareholders for their continued support of our efforts. I wish everyone a great day and look forward to speaking with you also.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
