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WTW.OQ - Q4 2024 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 fourth-quarter and full-year 2024 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 WTW's website.

Some of the comments in today's call may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995. These forward-looking statements are subject to risks 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 a more detailed discussion of these and other risk factors, investors should review the Forward-Looking Statements section of the earnings press release issued this morning, as well as other disclosures in the most recent Form 10-K and other Willis Towers Watson SEC filings.

During the call, certain non-GAAP financial measures may be discussed. For reconciliations of the 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.

I'll now turn the call 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 fourth-quarter and full-year 2024 earnings call. Joining me today is Andrew Krasner, our Chief Financial Officer.

Before we begin, I'd like to acknowledge the devastating wildfires in California and express our deepest sympathy to all those affected. For our colleagues, clients, and business partners in the areas impacted, our thoughts are with you, and we will continue to lend our support through the difficult time.

2024 was a landmark year for WTW. The completion of our three-year Grow, Simplify and Transform strategic priorities has strengthened our competitive position and enabled us to deliver on our financial target for 2024. Thanks to our team's focus and collaboration, we entered 2025 with strong momentum in the market and all our businesses primed to perform.

As we discussed at our Investor Day in December, three years of hard work to Grow, Simplify and Transform have made WTW a faster growing, more focused, and more profitable company. We grew the business by making strategic investments in talent and innovation, simplified our business to become more efficient and agile, and transformed the business to modernize and enhance how we operate. The successful execution of our strategy was reflected in our fourth-quarter and full-year 2024 results.

We delivered 5% organic revenue growth in the fourth quarter with an adjusted operating margin of 36.1%, up 190 basis points over the prior year. Excluding TRANZACT, which we divested on December 31, we recorded 6% organic revenue growth and 36.6% adjusted operating margin. Our Transformation program, which has now concluded, delivered \$27 million of incremental annualized savings during the quarter, bringing total savings over the life of the program to \$473 million.

Adjusted diluted earnings per share were \$8.13, a 9% increase year over year. For the full year, we had organic revenue growth of 5% in line with our mid-single-digit target or 6% excluding TRANZACT. We expanded adjusted operating margin by 190 basis points year over year to 23.9% or 24.4%, excluding TRANZACT, fulfilling our commitment to annual margin expansion. Our adjusted diluting earnings per share were \$16.93, up 17% year over year.

We're proud of our 2024 performance and are excited for the next chapter at WTW as we implement our new strategy to accelerate performance, enhance efficiency, and optimize our portfolio. We're now focused on extending and amplifying our strengths and building on the solid foundation we've created over the last three years.

To accelerate performance, we're focused on strengthening our core businesses, continuing to innovate, leveraging and expanding our global footprint and advancing connections across our business. To enhance efficiency, we're committed to continuous improvement and delivering on our [we do] efforts to drive both margin and free cash flow improvement. And to optimize our portfolio, we'll proceed by investing organically and inorganically to improve our business mix, guided by a focused investment framework and a rebalanced capital allocation strategy.

As we discussed at Investor Day, many of our strategic objectives represent an evolution rather than a revolution for our businesses. We feel confident about the path forward because we're focusing on and investing most heavily in our best-performing ideas. Let me take a few minutes to share some color around several of our key client wins from the fourth quarter reflecting our strategic priorities.

Our industry-leading analytics capabilities were a key contributor to signing a major global logistics provider to a cross-segment contract, which includes all its global lines of insurance coverage as well as global benefits management. We previously worked with this client a much smaller mandate, and by using our Risk Intelligence software, it changed how the client thought about their insurance portfolio and who they wanted to work with. Together, with the trust our team built, our innovative and collaborative solutions led the client to appoint us over their incumbent broker.

We'll continue to focus on strengthening smart connections across our business and going to market collaboratively. In the fourth quarter, this approach, alongside our global service delivery model, helped us expand our existing relationship with a large global IT vendor to cover a whole spectrum of insurance programs, global benefits management, and Embark and Engage implementations.

Similarly, collaboration between our CRB and H&B teams in Asia and Europe help secure a brokerage appointment across both businesses for a leading communications technology group in Asia, highlighting the connectivity of our businesses across segments and regions.

In HWC, we're continuing to focus on our core businesses that have sustained mid-single-digit growth since 2016 and delivered 3% organic growth or 6% organic growth, excluding TRANZACT in the fourth quarter. HWC's strategic priorities of core growth, smart connections and innovation will enable us to build on our strong financial track record with sustained revenue growth and further margin expansion. Many of our new business

wins in HWC in the fourth quarter reflect these priorities. We continue to add new multi-year client contracts in our core service areas due to our deep technical expertise, sophisticated analytics, and our ability to create breakthroughs that matter.

Our focus on smart connections resulted in wins that extend across service areas. For example, one of the world's fastest-growing international airlines chose us as their ongoing pension investment advisor, global retirement governance advisor, and outsourcing provider. We won health and benefits plan management and communications work for a Fortune 500 diversified manufacturing company, unseating decades-long incumbents. And one of the largest nonprofit healthcare systems in the United States awarded us a long-term outsourcing, retirement, and employee experience contract. And so did a leading logistics company based in Europe.

In R&B, as our specialization strategy continues to generate strong results, we're focused on deepening our expertise and expanding our existing specialty line into new geographies while building the talent and tools to support new specialized lines. In the fourth quarter, we delivered high-single-digit organic growth in R&B and won a number of large contracts that reflect the value of our specialization strategy. The CRB across order teams spanning multiple specialties created a customized construction program for a Middle Eastern mega project of an Asian manufacturing company. Our global collaboration and local expertise helped us secure the work for all-risk coverage for the project. And in ICT, we won a multi-year software contract with a large insurer, driven by our global analytics capabilities and the efficiency of our technology solutions.

I also want to take a moment to highlight our progress on optimizing our portfolio. As I mentioned earlier, we completed the sale of TRANZACT for \$632 million on December 31 and expect this divestiture to strengthen our growth rates, operating margins, and free cash flow starting in 2025. We're also reentering the reinsurance market through a joint venture with Bain Capital, and Andrew will provide some financial details on that later.

And as we discussed at Investor Day, we're taking a focused and disciplined approach to organic investment. We're prioritizing improving our business mix, expanding our reach across the insurance value chain, and enhancing our margins and cash flow. We'll be thoughtful about the opportunities we pursue, recognizing the importance of minimizing business disruption and creating clear, cultural alignment.

As I look at the year ahead, I feel confident in our position and our outlook for 2025. We have strong momentum in the market. We continue to make steady progress against our strategy. And the political and regulatory changes we are seeing in the US and elsewhere across the globe tend to support client demand for our services.

We introduced a financial framework at Investor Day in December that calls for mid-single-digit organic growth, continued annual adjusted operating margin expansion, annual adjusted EPS growth, and ongoing growth in free cash flow and free cash flow margin. Andrew will share more details on our financial performance and outlook shortly. But before I hand it over to him, I want to take a moment to reflect on what we've gained from the journey that we've been on these past three years.

We have grown, we have simplified, and we have transformed, and we are much better for it. I have never been more optimistic about WTW's future. We are more focused, more connected, more efficient, and more aligned than we've ever been. And we're keenly focused on realizing our potential to create value for our shareholders.

We're well positioned to accelerate performance and deliver profitable growth through innovation and expansion into attractive markets. We're continuing to enhance efficiencies across the company for continued margin expansion and free cash flow improvement. And we're optimizing our business mix to elevate our financial performance and our strategic position.

I want to thank all our colleagues for their contributions to improving WTW and for their continued commitment to our clients and our company. 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 fourth quarter, we delivered organic revenue growth of 5% or 6% excluding TRANZACT. Adjusted operating margin expanded 190 basis points to 36.1% or 36.6% excluding TRANZACT. Adjusted diluted earnings per share were \$8.13, an increase of 9% over the prior year.

For the full year, we delivered organic revenue growth of 5% or 6% excluding TRANZACT. Adjusted operating margins expanded 190 basis points to 23.9%. Excluding TRANZACT, our margin expanded 210 basis points to 24.4%. Adjusted diluted earnings per share were \$16.93 up 17% over the prior period. Our full-year results reflect our strong execution against our Grow, Simplify and Transform strategic priorities, positioning us well as we entered 2025.

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 fourth quarter of last year. Excluding TRANZACT, HWC revenue grew 6%. With the full year, HWC generated 4% organic growth or 5% excluding TRANZACT, which was in line with our outlook for the segment as we outlined at Investor Day. Our Health business grew 18% for the quarter or 16% excluding book of business activity. All geographies achieved double-digit growth with new business and strong client retention being the primary contributors. The continued expansion of our global benefits management client portfolio, which we discussed at Investor Day, was a meaningful driver as well.

We also saw robust consulting project activity in Europe. And as expected, timing of consulting projects and commissions positively impacted our North America results. We expect Health to deliver high-single-digit growth in 2025 based on our 2024 new business success in our current pipeline and sales focus.

Wealth revenue grew 3% in the fourth quarter, driven by low single digit growth in our retirement business. We saw a strong demand for LifeSight in Europe, as well as consulting projects to implement legislative changes. North America also grew on the back of higher levels of project activity. Our investments business delivered low-single-digit growth despite a strong comparable due to new business wins and successful new solutions.

We continue to expect low-single-digit growth in the Wealth business. Career delivered 1% revenue growth in the quarter below our expectations. Timing limited growth in the quarter with some sold projects delayed to Q1. For the full year, Career recorded 4% organic growth and we are confident that Career will continue growing at similar mid-single digit levels.

Benefits delivery and outsourcing revenue declined 2% versus the fourth quarter of last year. Excluding TRANZACT, BD&O revenue grew 1% with notable growth in project work and benefits outsourcing and new client wins and retirees shopping for new plans in individual marketplace. Excluding TRANZACT, BD&O grew 2% for the full year 2024 despite facing a significant headwind from a large client that insourced its health and benefits administration as we've discussed in previous quarters.

Looking ahead, we expect BD&O to grow at a mid-single-digit rate. HWC's operating margin for the fourth quarter was 41.9%, an increase of 140 basis points compared to the prior year, primarily driven by transformation savings. For the full year, HWC's operating margin grew by 170 basis points to 29.7% and by 180 basis points, excluding TRANZACT, to 31.4%. As we mentioned at Investor Day, for 2025, we expect continued margin expansion in HWC.

Moving to Risk and Broking, fourth-quarter revenue was up 7% on an organic basis, or 8% excluding book of business activity on top of a double-digit comparable in the prior year. Operating margin expanded 60 basis points to 33.5%, despite an 80-basis-point combined headwind from book of business activity and a decline in interest income. For the full year, Risk and Broking revenue saw 8% organic growth. Excluding the impact of book of business activity and interest income, R&B's growth rate was also 8%.

Corporate Risk and Broking had a solid quarter, growing 6%. Excluding book of business activity and interest income, CRB revenue grew 8% on top of a double-digit comparable with contributions from all regions and driven by continued improvement in client retention levels globally and strong new business generation.

As Carl mentioned, our specialization strategy continues to lead the way with Facultative, Surety and Marine specialty lines having been major contributors to the strong growth performance this quarter. Robust new business activity across a wide range of lines drove growth in Great Britain and Western Europe, which delivered double-digit growth as a whole and in a number of countries in the region with particular strength in Facultative, Construction, Natural Resources, Financial Solutions, FINEX, Marine and Aerospace.

North America's growth was supported by strong client retention and new business growth. Our international region had strong organic growth across the board with notable double-digit increases in Latin America, Central Europe and Asia, as well as many of our specialty lines.

Moving to our Insurance Consulting and Technology business, revenue was up 11% led by strong technology sales and modest growth in consulting services. As we discussed at Investor Day, our ongoing investment in technology is driving an intentional mix shift in ICT, creating value for our clients by integrated technology and consulting solutions.

Looking ahead, we continue to expect mid- to high single-digit growth from both CRB and ICT. R&B's operating margin was 33.5% for the quarter, a 60-basis-point increase over the prior-year fourth quarter, primarily due to operating leverage from our organic revenue growth as well as transformation savings partially offset by headwinds from book of business activity and declining interest income. As we outlined in 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 fourth quarter was 36.1%, a 190-basis-point increase over prior year, primarily driven by greater operating leverage and continued benefits from our now completed Transformation program. We had \$27 million of incremental annualized Transformation savings, bringing the total to \$473 million of cumulative savings since the program's inception.

Foreign exchange was a headwind to adjusted EPS of \$0.08 for the quarter. Based on our current outlook and at current spot rates, we expect foreign exchange to be a headwind of approximately \$0.18 on adjusted EPS for 2025.

Our US GAAP tax rate for the quarter was 26% versus 15.7% in the prior year. Our adjusted tax rate in the quarter was 21.3% compared to 19.1% for the fourth quarter of 2023. Our full-year adjusted tax rate was 21.5%. We expect our 2025 tax rate to be relatively consistent with that of 2024, though we do see some potential for a modestly more favorable rate.

As Carl mentioned, WTW completed the sale of the TRANZACT business on December 31. We believe this sale will help us sharpen our strategic focus, simplify our portfolio, and accelerate our progress towards our long-term free cash flow margin goals.

The transaction resulted in a pretax loss and related impairment charges of over \$1 billion each, which are reflected in the full-year GAAP results. These are one-time noncash charges and are not included in adjusted diluted earnings per share. We generated free cash flow of \$1.4 billion for the full year of 2024, an increase of \$184 million from prior year, primarily driven by operating margin expansion, partially offset by cash outflows related to transformation and discretionary compensation payments.

Given the sale of TRANZACT, the wind down of our transformation-related cash spending and expected annual margin expansion, we expect to continue expanding our free cash flow margin in 2025 with partial offsets from residual cash transformation expenses and cash taxes on the Willis [re-earnout] payment, which will be classified as cash flows from operating activities. During the quarter, we returned \$484 million to our shareholders via share repurchases of \$395 million and dividends of \$89 million, bringing us to \$1.26 billion in capital return to shareholders for the full year.

Before wrapping up, I want to take a few minutes to provide some thoughts on 2025. First, we are making some changes to our non-GAAP metrics to better reflect how we view our core operating performance and to better align with industry reporting. Starting with Q1 2025, we will exclude pension income from adjusted EPS, adjusted EBITDA, and the adjusted effective tax rate. Also, free cash flow and free cash flow margin will reflect cash outflows for capitalized software costs. Please refer to the appendix of our supplemental slides for detailed information on these upcoming changes and the recast of our historical non-GAAP measures.

Second, as we discussed at Investor Day in December, we are now in a position to rebalance our capital allocation approach, thanks to the success of our Grow, Simplify and Transform priorities. We intend to maintain share repurchases as the primary form of capital return and a central component of our capital allocation strategy.

We expect to allocate approximately \$1.5 billion of share repurchases in 2025, subject to market conditions and potential capital allocation to organic and inorganic investment opportunities. 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. As part of our investment program, we will be making initial investments in our reinsurance joint venture to support its development as a start-up venture, which we expect to be a \$0.25 to \$0.35 headwind to adjusted EPS this year.

Finally, we introduced our financial framework at Investor Day in December and have provided some financial considerations for 2025 in our release and slides, most of which I've discussed in these comments as well. In closing, we are very pleased with our strong business performance in 2024 and expect this momentum to continue in 2025. With that, let's open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Elyse Greenspan, Wells Fargo.

Elyse Greenspan - Wells Fargo Securities, LLC - Analyst

My first question is just kind of thoughts on overall margin improvement. I know you said 100 basis points in R&B. There was no guide other than improving within HWC, and obviously, unallocated costs can fluctuate. So can you just kind of go through the headwinds and tailwinds to margin improvement and how you think about overall margin improvement in '25?

Carl Hess - Willis Towers Watson PLC - Chief Executive Officer

Sure, Elyse. Thank you, and good morning. We expect to expand our margins for '25. We're going to do this in a few ways, right? We're going to focus on capturing the benefits from our Transformation program. We're going to leverage our [we do] organizations know-how to continue to enhance efficiency through our right work, right place, right technology, and right real estate strategy.

Secondly, we see additional opportunities to invest in process optimization and enhance our work and be more consistent in our client service delivery. And then lastly, we're focused on automation to support productivity gains. We see opportunities to leverage AI responsibly to intelligently enhance our work and further streamline processes.

Andrew Krasner - Willis Towers Watson PLC - Chief Financial Officer

And Elyse, I can walk you through some of the puts and takes as we think about the '25 margin expansion opportunity. So the sale of TRANZACT will be approximately a 50-basis-point tailwind on enterprise margin. And for HWC, where we have a strong track record of delivering margin expansion, we expect to have incremental growth beyond the impact of the TRANZACT divestiture.

Within R&B and as we discussed at Investor Day, we expect to deliver the roughly 100 basis points of margin expansion on average over the next three years. And we're confident in our ability to achieve this as our Transformation program has set us up to drive additional efficiencies in R&B.

Our unallocated net was \$310 million in 2024. We expect 2025 to be roughly in line with 2024. And we acknowledge there may be some modest pressure from declining interest rates and that has been contemplated in what I just walked through.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

Thanks. And then my follow-up is on capital management, right? I know you guys kind of were talking to this more balanced approach, right, stemming from Investor Day. I still would have thought the buyback might have been higher just given the TRANZACT proceeds, the Willis re-earnout is coming and you're still strong -- current cash position and free cash flow generation. So can you just spend a little bit more time walking us through how you came up with [\$1.5 billion]?

And then in terms of deal activity, M&A right is now part of the equation. Is these smaller things? Just help us think through what transactions Willis might consider.

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

Yeah, sure, Elyse. I mean, just to be clear, right, shareholder returns may be a central component of our capital allocation strategy. You could expect us to remain aggressive and opportunistic, right, as we believe our stock remains undervalued in the marketplace. We are not just holding ourselves to a specific target for the next few years as we do expect to deploy capital toward M&A and other organic opportunities.

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

Yeah. And for 2025, we're expecting share repurchases of approximately \$1.5 billion, subject to market conditions and potential capital allocation to organic and inorganic investment opportunities. As we think about the pacing of that, we continuously monitor our cash levels and marketing conditions to take advantage of opportunities to accelerate repurchases if the opportunity presents itself.

And as we've talked about in the past, believe it's prudent to maintain an appropriate amount of financial flexibility, and I think that's what you're seeing there. And as we always have, we'll evaluate all of our options for capital allocation which include share buybacks, internal investments, and carefully considered strategic M&A to ensure that we're maximizing value creation for shareholders.

Operator

Gregory Peters, Raymond James.

Gregory Peters - *Raymond James - Analyst*

Good morning, everyone. For the first question, I'll focus on free cash flow. It seems like there's going to be some moving pieces in 2025. So maybe -- you did reference some of them in your comments. Maybe we can go back and go into a little more detail on what's going to happen. And then also related to that, you have this longer-term objective of 16% -- on the conversion ratio. Can you just update us on your perspective for that?

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

Yeah, sure. Absolutely, Greg. So as we discussed at Investor Day, we are intensely focused on improving our free cash flow margin by beginning to evolve our business mix, continuing to improve working capital management and also, of course, enhancing our operating margins. And we're very happy with the progress we've made enhancing our free cash flow profile during 2024.

The free cash flow of \$1.4 billion for the year is an increase of \$184 million from last year. That was primarily driven by operating margin expansion and partially offset by cash outflows related to transformation and discretionary compensation payments, and all of that represented a free cash flow margin of 13.9%.

In 2024, there was about 140-basis-point headwind from TRANZACT and approximately 320-basis-point headwind from Transformation spending. So normalizing our 2024 free cash flow margin for those factors, we delivered a free cash flow margin of around 18.4%, and we expect to continue to improve upon this.

As a reminder, starting in Q1, free cash flow and free cash flow margin will reflect cash outflows for capitalized software costs, and we recast a little bit historical non-GAAP measures in the appendix of the supplemental slides. And as we think about 2025, give a sale of TRANZACT, the wind down of the transformation-related cash spending and expected annual operating margin expansion, we expect to continue expanding our free cash flow margin on a reported and normalized basis.

More specifically, we expect cash outflows of around \$90 million in 2025 from the settlement of accrued costs related to the Transformation program, which concluded in 2024. And in terms of cash taxes related to the Willis re-earnout, we expect a headwind there of up to around \$90 million in 2025.

Gregory Peters - *Raymond James - Analyst*

Thanks for the detail. I guess the other question I had is sticking on the commentary you had. You mentioned in your prepared remarks foreign exchange headwinds. You also talked about the reinsurance joint venture. Could you provide us some perspective on the geography of where these are going to show up inside your reported financials? I guess the foreign exchange is going to be evenly spread out between the two segments, but I'm curious how the reinsurance headwind is going to show up in your financials. And is there any seasonality issues that we should be considering when we think about foreign exchange and reinsurance costs?

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

Yes, sure. So in terms of geography on the reinsurance side, that will be below the line outside of operating margins. And as it relates to FX, our largest exposures are sterling, euro and Canadian dollar. In Q1, we expect an FX headwind of about \$0.08 a share relative to the \$0.18 for the full year.

Operator

Andrew Kligerman, TD Cowen.

Andrew Kligerman - *TD Cowen - Analyst*

Hi, good morning. So in your strategy, with the departure of Michael Chang recently and then some big, big hires to replace him, and I think you added some other people, as I've heard. And then on the call, I heard -- and one of the kind of hallmarks while he was at WTW was to build out that specialization program. And Carl, I thought I heard you say that you want to expand specialization into new geographies.

So just to confirm, it sounds like specialization is still very prominent part of your plan. And could you elaborate on what you mean by new geographies, what areas that might be. And if that means that your net hiring will be pretty robust as a result.

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

Sure. We are really pleased with the results we've been generating over the last few years from our specialization strategy. It has been a key driver of growth for R&B. We continue to see strong growth in our Specialty businesses and that outpaces our overall CRB average growth rate. We think our strategy sets us apart from others in the industry and in our entire business, not just the parts that face the market and structure along the industry verticals.

And as part of this strategy, we have local specialties in each of our regions as their nuances and different dynamics depending on geography, right? For example, we have industry verticals in real estate and hospitality leisure in North America given large client base demand in that region. In Europe, where this sort of demand for commercial auto, we have local specialty teams for that particular segment.

So we basically are expanding the Specialty strategy but customizing as we go for geographies. North America, which is our largest geography, was the natural place to start this but building on our strong heritage in our global lines of business centers in the UK. I mean, we're really pleased with the results we see from this because it's been successful, because it works for clients, right?

And in North America, right, where the work is done to focus on our Specialty strategy -- and that's led to the continued growth in that region for the last years -- we are very excited to welcome Pat Donnelly to WTW, if that's what you're alluding to with your question. I mean, Pat is a highly respected and a competent leader, has a tremendous background and his leadership will help us drive growth and accelerate our Specialty strategy in the region. And we're looking forward to welcoming him during the second quarter.

Andrew Kligerman - *TD Cowen - Analyst*

That's great. So that's exciting expansion. And then just thinking about what you've done in the last two, three years with hires, is there still a tailwind from that as those producers kind of mature into their new roles at WTW? Or has that generally kind of matured and your growth will be based on what you're doing now and expanding into new geographies and the like?

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

Yeah. It's Andrew. We're very pleased with the growth rates we've had in Risk & Broking, and CRB as well. And we do expect some continued productivity improvement from those cohorts of new hires over the last few years. And all of those new hires have contributed to the organic growth in the segment.

However, our competitive growth rates are a function of the efforts of all of our colleagues and the specialty strategy that's driving that. And even without the contribution from the recent hires, we would have had competitive growth rates.

Operator

Rob Cox, Goldman Sachs.

Rob Cox - *Goldman Sachs - Analyst*

Hey, thanks. I had a question on the reinsurance JV. Could you just talk about the dollar amount, cash outflows that you'd expect there annually? And sorry if I miss this, but if you could just confirm that that would not impact the free cash flow.

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

Yes, correct. That would be sitting outside of free cash flow. It would show up in the investing section of the statement of cash flows. And in terms of overall size, you can think of it as a bolt-on acquisition over a several year period as we continue to fund the start-up.

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

Yeah. I mean, the timing, right, this is essentially organic, right? We don't expect to achieve steady state growth rates and full margin potential for the next several years. And the amount of the investment will depend on the size of the opportunity we see in front of us.

Rob Cox - *Goldman Sachs - Analyst*

Okay, got it. That's helpful. And I just wanted to ask on Health, excluding the book of business sales, it sounds like organic growth was still 15%, which is much stronger than peers. Just curious what is driving that growth and if any of the large new business wins that you had touched upon there is kind of contributing to any of the forward growth.

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

Yeah, sure. So you're right, excluding the book of business activity growth for the quarter was 16% within Health. And that revenue growth was led by increased project work and brokerage income in North America as well as the continuous expansion of our global benefits management client portfolio and our international in Europe geographies. And consistent with what we shared at Investor Day, continue to expect high single-digit growth for this business.

The market demand overall remains strong given healthcare inflation and employment levels. And while we expect growth rates to be more balanced in 2025, the stronger comparable in the second and fourth quarter could lead to some lumpiness on a quarter-by-quarter basis throughout 2025.

Operator

Alex Scott, Barclays.

Alex Scott - *Barclays Capital Inc. - Analyst*

Hey, good morning. First one I have for you is on just the M&A environment. It seems like maybe opportunities with larger companies that are maybe getting too large to stay in the private market are accelerating. And I'd just be interested in, if that's what you're seeing, if you have interest in doing something larger and just how to think about that in the context of what I thought was a pretty sizable buyback actually.

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

Yeah. I won't comment on what other companies may be thinking of in terms of their strategy. So I'll probably focus a bit on how we're thinking about this.

Look, over the last three years, we've solidified our infrastructure and strengthened the company. We have the right business focus and more efficient processes and tools to integrate potential targets with WTW and deliver long-term value. We look at our strategy to -- as one trying to achieve three key objectives, right?

First, improve our business mix to enhance our broking and wealth presence. In key markets, while strengthening our offers -- our efforts in high growth and high margin rates are core business. Second, we want to expand our reach across the insurance value chain designed to further accelerate our growth and fill gaps, our capabilities, and footprint. And third, target businesses that would help enhance our margins and free cash flow profile, right?

I'm not going to comment on hypothetical targets, but we're looking for firms that could be a good fit culturally with minimal business disruption, and of course, satisfy the criteria I just laid out. So we're going to be thoughtful and disciplined in our approach in that environment.

Alex Scott - *Barclays Capital Inc. - Analyst*

Thanks. That's helpful. And maybe for the second one, just your thoughts on the pricing environment and how we should think about that into 2025 compared to 2024? And I know you guys have given high-level guidance that sort of includes all of that, but maybe just some extra texture around the pricing environment and how that's evolving.

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

I assume you're referring to commercial risk when you talked about the pricing investment.

Alex Scott - *Barclays Capital Inc. - Analyst*

Yeah, typically risk and broking, yeah, sorry.

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

Okay, yeah. I just wanted to be clear. I mean, the markets further stabilized in the fourth quarter. I mean, most lines of insurance are sort of positive outcomes for our clients and insurers are continuing to look for growth, and that's leading to increased competition in the market. The markets remain especially advantageous for well risk managed, non-cap driven and loss-free clients.

From a geographic point of view, Asia-Pacific and Latin America are leading the market shift towards softening where local market supply and the international insurers or markets compete and that leads better results for our clients. Most property lines continue to be stable to improving for our clients with some rate reductions available depending on the risk profile. Rate reductions are still available, but decelerating in cyber and kind of showing professional lines. And the global casualty market, in contrast, remains rather firm with the North American market, maybe except for workers' comp still challenging.

Overall, we don't view rate as a significant headwind or tailwind across our R&B portfolio in terms of how it impacts us this past quarter or during the year. Our growth was driven primarily by high retention rates in new business as well as the investments we talked about earlier and we've made over the last few years. And the reorientation of the R&B business towards specialization, we think that's really made a difference for us and will continue to differentiate us.

Operator

Michael Zaremski, BMO.

Unidentified Participant

Hey, good morning. This is Charlie on for Mike. Just going back to the reinsurance joint venture, Carl mentioned the focused approach. Can you add some color on what areas you see the opportunity? And is there anything more you can share about the terms whether in terms of financial commitments or a buyout option or anything else we should be thinking about?

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

Yeah. We're not going to get into the specific terms of the JV agreement in terms of timing and things of that nature. I think as we alluded to, the structure provides us with flexibility to deploy capital if and when it makes sense to continue to expand that just based on the size of the opportunity that we see will take some time for us to reach critical mass and have an impact there. There is the opportunity and potential for WTW to wholly own the asset at some point in the future, if that's what makes sense. And so we're really excited about the business opportunity there. I think it will contribute a lot to the platform and looking forward to talking more about it as it evolves.

Unidentified Participant

Thanks. And Andrew, you mentioned an opportunity with taxes to maybe get a more favorable rate. Can you add some color around that as well?

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

Yeah, sure. We're always looking for opportunities to be efficient from a tax perspective. Pillar 2 is still being implemented globally, and there are still some moving pieces there. So I think there could be some slight upside to the guide that we gave.

Operator

Jon Newsome, Piper Sandler.

Paul Newsome - *Piper Sandler Companies - Analyst*

Hi, good morning. It's actually Paul Newsome. But you picked up my first name first. I was hoping you could add, similar to what you talked about with the risk and broking comment about the sort of environmental environment for pricing and competition. We hear a lot about health insurance inflation but it's kind of tough to translate that back to your Health and Wealth and Career business as well. But maybe if you could kind of expand upon that, is there a way that you [did this within] Risk and Broking business?

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

Sure. Obviously, there, we have a pretty good span of businesses in HWC. Let me start with Health. Healthcare inflation has a direct impact on premiums paid for fully insured plans. Those are prevalent outside North America and in the Health/Middle markets in North America. Health and care inflation has an indirect impact on self-insured plans, which are nearly universal among large markets in North America.

During periods of high healthcare inflation, the sponsors of self-insured plans often engage in new ways to keep cost in check, which can generate opportunities for us. We have a relatively smaller portion of our Health business outside North America and in North America middle market compared to others. That being said, we are very pleased with Health's organic revenue growth for '24 and healthcare inflation was one, but only one of the factors that helped deliver that result, and we expect that trend to continue, which leads to our outlook for high single-digit growth prospects for that business for '25 based on our expected pipeline and commission streams.

Moving over to Wealth, right, the Wealth business has got several components. Our pension consulting business is largely annuity-based with long-term relationships that can stretch multiple decades. The drivers there for growth are often regulatory activity which could drive demand, and then derisking of pension plans or what you would call pension risk transfer.

On the PRT side, we continue to see strong demand for consulting, the interest rate environment that drives demand for pension de-risking strategies, but there are also strategies that drive -- sorry, factors that drive activity, such as the level of surplus assets in the system, we think that the overall volume of annuity buy-ins and buyouts in the US is expected to be similar compared to prior years.

On the Career side, this is probably the most economically sensitive of our businesses, but one we have taken substantial activity over the past years to de-risk a bit with respect to activity. A couple of things to think about. One is we've been focused on rebalancing our portfolio. We still have meaningful project work, but we now have a greater balance of product, software, and annuity-type relationships, those who intend to be recurring and multiyear. That includes things like compensation benchmarking, compensation committee appointments, and our digital solutions like Embark and Engage.

Second is our disciplined focus. If we were simply responding to RFPs, we wouldn't be seeing the growth we are. We're out there in the marketplace and generating activity. Like the Wealth business, regulatory change and what this can (inaudible) for a company is rethinking their talent strategy drives demand for our business here.

And then lastly, benefits delivery and outsourcing. These are typically multiyear contracts with a very, very high renewal rate. We do manage this business not just for growth but for profitable growth. So if we see competitive activity driving down price beyond the point where we think we can achieve a good return on a contract, I mean, we'll pass on the opportunity. So our growth there, we'd like to think of it is measured by the opportunity out there. That's a quick survey of HWC.

Paul Newsome - Piper Sandler Companies - Analyst

That's great. Maybe for a second question, we could switch to your middle-market property casualty business. You've long had a middle-market platform. I'm just curious, at this point, are there geographies within that middle-market platform that are particularly strong or particularly lacking in general as you look towards trying to expand that middle-market platform?

Carl Hess - Willis Towers Watson PLC - Chief Executive Officer

First off, from a performance perspective, we've seen good growth across the portfolio. We have a business that includes lots of in-market companies across the world. And we've been growing all geographies over the past several years. So we're quite happy with that strategy.

Now in terms of the opportunity, there are geographies we see where we are relatively underway. We highlighted the US, which is the world's largest insurance market as a place where we see significant opportunity and we will be addressing that both organically as we have been for the past several years as well as looking at the inorganic potential there as well.

Operator

Mark Hughes, Truist Securities.

Mark Hughes - Truist Securities - Analyst

Andrew, the 18.4% normalized free cash, is that recapped or the capitalized software cost. It looks like it's about 110 bps. Does that already include that headwind?

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

Yeah. No. So the 18.4% that I referenced is on a current calculation basis, not the new go forward, which will start in 2025 with Q1.

Mark Hughes - *Truist Securities - Analyst*

So as a baseline, we might take that 110 bps out, call it, [17.3%]. Is that fair?

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

Yeah, that's fair on a normalized basis, correct.

Mark Hughes - *Truist Securities - Analyst*

Okay. And then, Carl, you mentioned how political regulatory activity may be helpful for your business. Could you expand on that a little bit?

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

Yes. I mean, when -- the regulatory environment has changed, clients are faced with potential change to their business, and they turn to us for evaluation of their options, understanding of what others can do and implementation of the change. That's a formula that's worked very well for us for a very long time, and we expect that to continue in the future.

Operator

Josh Shanker, Bank of America.

Josh Shanker - *BofA Global Research - Analyst*

Yeah. Thank you very much. Carl, I really appreciate your around the world visit with Paul. I want to talk about that a little bit. In terms of the economic sensitivity of the business, is it more revenue sensitivity? Or is it margin sensitivity? You have a business with a lot of very talented people who in hard time just can't produce as much, but you want to keep them for the recovery. How should we see recessionary impact on revenues versus recessionary impact on margins?

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

Yeah. Really good question. First of all, I guess I'd point out, this is a business that if you look at our history, we've been able to produce revenue growth in all sorts of different economic conditions. But yes, there is economic sensitivity to the overall revenue in the firm, and you can look to sort of prior price environment and see we've produced growth, but it's been more muted.

However, in terms of looking at our bottom line, a substantial chunk of our compensation is variable compensation. And just as our employee, our colleagues share in the upside, they help us manage through the downside as well. And so we've been able to deliver still or more stable operating income results through thick and thin as a result.

Josh Shanker - *BofA Global Research - Analyst*

Great. And in terms of two things that we are sort of worried about, there's some concern about the potential for recession. There's also maybe more at the forefront, it concerns about inflation. Confronted with both recession and inflation simultaneously, did the two net each other out in the way that your revenues are generated? Or is one a bigger impact on your faith than the other?

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

Yeah. Remember those fabulous 70s, I guess, is what you're saying, thinking about climates like that. I think that there is a different -- some of the parts that are across the business can work in very different ways. I mean, inflation will affect the price of the insurance as well as asset values that will help us in terms of our commission-based income in both segments as well as the asset-based fees we may be getting in within the Wealth business. It does affect, of course, our compensation costs. But as I just alluded to, we've got some control over that.

And we've also been able to manage for the past couple of decades through efforts like our right -- real estate right workforce location programs. To be able to help manage our biggest chunk of costs across the organization, we just [comp at] that. So we think that because of the flexibility we've engendered in this organization, increasingly so over the last three years, we're pretty well positioned to weather all sorts of economic and climates, including stagflation.

Operator

David Motemaden, Evercore ISI.

David Motemaden - *Evercore ISI - Analyst*

Hey, good morning. I had a bigger picture margin question just around the natural operating leverage for the enterprise, just sort of growing revenues faster than expenses. I believe in 2021, and I know I'm going back, but back then, you guys had called out around 70 basis points a year of natural operating leverage, but the mix has changed a bit since then. So I'm wondering if that still stands as a good baseline to consider before thinking about some of the other moving pieces here in 2025.

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

Yeah. I think that may have been relevant at that time with that business mix as you suggested. I think there were obviously several components that are no longer part of the business portfolio. So I do think the best way to think about it now is what I was alluding to earlier, which is the 100 basis points on average over the next three years in R&B, continued incremental margin improvement in HWC, which already has very high margins and then factoring in the tailwind at the enterprise level from the divestiture of TRANZACT. So I think if you think about that, weight the portfolio, that's probably the best way to think about sort of the margin expansion opportunity going forward.

David Motemaden - *Evercore ISI - Analyst*

Okay. Great. Thank you. And then just wanted to follow up on what sort of hiring and what sort of employment growth within the Willis employee base you guys saw in 2024. I think it was like 2% to 3% in 2023, if I look at just headcount growth. How was that in 2024? And is that sort of like a good run rate to think about how you guys are expecting to grow headcount and maybe more specifically, producers into 2025?

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

Yeah. It's got a bad way to think about it. I mean, philosophically, we look at it this way. We had a focused effort several years ago to replenish our talent base, and we talk a little bit about the effect that's had on our revenue trajectory. But these days, our current hiring efforts are more opportunistic than more strategic with the goal of enhancing our ability to achieve sustainable, profitable growth and create value.

And so with respect to our hiring and overall expense base, there are any incremental investments, whether they're in talent or they're in technology aren't going to prevent us from hitting our margin targets. We expect to get to those with the hiring we contemplate.

Operator

Meyer Shields, KBW.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

Two small modeling questions. First, I'm a little unclear. When you talk about the \$1.5 billion of share repurchases, is that the baseline assuming no inorganic activity, but if there is any (inaudible) that goes down, or does that \$1.5 billion take some into account?

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

Yes. The \$1.5 billion is the baseline and depending on the size of any inorganic opportunities that could come down if we find an attractive return opportunity to invest that -- those funds in aside from share repurchases.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, thanks for the clarification. And then I think, Carl, you mentioned some timing issues in Career. Is there any way of ballparking the impact on either revenues or margins?

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

Well, I mean -- we talked in the prepared remarks, right? The projects that were delayed from Q4 to Q1, they're sold, right? We fully expect those to start this quarter. More broadly, our pipeline remains robust. Our proactive discussions with clients and prospects continue to turn up many that our clients what are help to address. And I talked a little bit about the balance we have between products and software and consulting that's designed to be -- deliver a thing more level pattern growth.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Carl Hess for closing remarks.

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

Thank you, again, all of you for joining us. I once again want to extend my thanks and appreciation to all our WTW colleagues globally. Their dedication and commitment has made 2024 such a success. I look forward to maintaining our momentum in 2025 as we continue to implement our updated strategy and deliver for our clients. Thank you and have a great day.

Operator

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

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