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# EDITED TRANSCRIPT

WTW.OQ - Q3 2024 Willis Towers Watson PLC Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

**Mitch Rubin** *Raymond James Financial Inc. - Analyst*

**Elyse Greenspan** *Wells Fargo & Co. - Analyst*

**Rob Cox** *Goldman Sachs Asset Management LP - Analyst*

**Mark Hughes** *Truist Securities Inc. - Analyst*

**Peter Knudsen** *Evercore ISI - Analyst*

**Katie Sakys** *Autonomous Research US LP - Analyst*

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

## PRESENTATION

### Operator

Good morning. Welcome to the WTW's third quarter 2024 earnings conference call. Please refer to [wtwco.com](http://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 statement section of the earnings press release issued this morning as well as other disclosures in the company's most recent form 10-K and other filings the company has made with the SEC.

During the call, certain non-GAAP financial measures will be discussed. For reconciliations of the non-GAAP measures as well as other information regarding these measures, please refer to the earnings press release issued this morning 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.

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

Good morning, everyone. Thank you for joining us for WTW's third quarter 2024 earnings call. Joining me today is Andrew Krasner, our Chief Financial Officer. We had another strong quarter, delivering 6% organic revenue growth, driven by 10% organic growth in risk and broking and 4% in HWC.

Adjusted operating margin expanded 190 basis points year over year to 18.1%, driven by operating leverage, continued cost discipline, and the success of our transformation program. Taken together, this resulted in adjusted diluted earnings per share of \$2.93, a 31% increase versus the third quarter of 2023.

We also generated free cash flow of \$807 million for the nine months ended September 30, up 14% year over year. While our GAAP results reflect the loss due to the accounting treatment of the pending sale of our transact business, which Andrew will discuss in more detail, our strong third quarter operating performance gave us momentum as we entered the fourth quarter.

Our value proposition and powerful solutions continue to resonate in the marketplace and our investments in talent and technology are helping fuel our continued strong performance and attractive returns. Alongside the supportive demand environment we're experiencing, these factors make us confident we will deliver on our 2024 targets.

And more specifically within those targets, as we mentioned last quarter, we do see some opportunities for stronger performance relative to our margin goals. Potential upside could come from better than expected productivity for investment and talent, the timing of transformation savings, continued expense management, and the possibility of rebounding global M&A activity.

Now let me share some details on our performance and developments this quarter that highlight our strategic progress. In HWC, we achieved organic growth of 4% in the quarter even as we continue to intentionally moderate growth in our transact business.

While employment and wage growth slowed somewhat in various parts of the world, demand remains strong. Our HWC capitalized on this and grew 6% in health, 3% in wealth, and 7% in career. Core growth and smart connections remained our focus, resulting in continued growth in global benefits management, compensation benchmarking surveys, de-risking activity, and total rewards assignments.

We've also gained notable new appointments for benefits outsourcing, remuneration committee advisory services, our retiree healthcare exchange, and core actuarial services. These wins will add more than 50,000 new customers to our individual healthcare exchange from the state of Maryland.

And they include us being named actuary to a major US utility to a competitive bidding process where we unseated the 30 year incumbent. Continuing our track record of introducing breakthrough solutions that leave the market, we introduced several new solutions again this quarter. We designed a virtual captive to affect cost and risk mitigation strategies for employee benefits in more than 80 countries that can't be covered in a traditional captive insurance company.

Our approach incorporates data aggregation and predictive analytics. We also developed a new workforce management proposition, an end-to-end solution to help organizations manage reductions in force. The proposition includes predictive modeling capabilities to achieve cost reduction targets, while minimizing cash flow impacts and limiting the risk of unwanted turnover.

It also includes effective change in communication management to support the organization's culture and sustain employee engagement. Our focus on smart connections across HWC has also continued to pay dividends as it did when we provided cross business services to a gas company that was concerned about cost savings.

Colleagues across work and rewards retirement, BDA, and employee experience engaged with the company's HR and finance teams to design and support a workforce separation program, move their retirees to our individual marketplace and transfer some of their retiree medical and life obligations to an insurance carrier.

In another example, CRB recognized that a European technology client going through an acquisition needed help with corporate risk and employee benefits. And so they introduced HWC. Together the WTW team supported due diligence, strategic planning and the integration of employee benefits and corporate brokerage services. Risk and broking continue to grow at pace this quarter, delivering 10% organic growth on top of 10% growth in the prior year period.

Our specialization strategy, investments in talent and technology, strong client retention rates, and substantial new business generation all contributed to this excellent performance. Our specialty businesses continue to generate the strongest growth in the segment. Our focus on specialization has enabled us to better address our clients' complicated and ever changing risk profiles and continues to be a primary driver of our strong organic growth.

We also continue to make progress on our strategy to rapidly expand our MGA, MGU, data and analytics, affinity and specialty solutions by developing innovative products and services with strategic partners.

Let me update you on the latest developments. First, Verita, our open market MGU in North America has exceeded our growth expectations since its launch at the beginning of the year. To bolster our offering, Verita recently partnered with Canopus US Insurance to introduce a new option called the client edge facility, which will efficiently deliver additional needed property insurance capacity for large and complex risks as well as middle market risks.

This new venture reflects Verita's focus on bringing new innovative insurance solutions to clients, brokers, and capacity partners. Second, we announced a partnership with Kayna, a top tier insurance infrastructure platform. This collaboration will enable us to bring our data and analytics tools and insurance advisory and brokerage expertise to the fast growing affinity insurance sector and meaningfully strengthen our presence there.

Together with [Kata], we're offering administration for industry specialized platforms to distribute tailored property, general liability, workers' compensation, commercial auto, and (inaudible) liability insurance solutions to a variety of sectors.

Our specialist teams will lead the product development and broker all insurance offerings. The third strategic partnership at our R&B segment announced this quarter was our co-brokerage agreement with The J. Morey Company, which will focus on North American exposures of companies headquartered in Japan.

Asian companies with unique risk management needs will now have access to WTW's vast carrier relationships and our specialty insurance skill set which will help them tailor solutions to address industry and geography specific risks.

These strategic partnerships complement and strengthen our focus on specialization and expansion to high margin parts of the insurance value chain, which have been driving and will continue to drive margin to creative organic growth in R&B.

Moving from growth to margins, both operating leverage and our transformation efforts were key contributors to margin expansion during the quarter. The transformation program realized \$52 million of incremental annualized savings this quarter, bringing the total to \$446 million in cumulative annualized savings since the program inception.

In addition to the direct margin impact transformation has made, the investments we've made in technology processes and infrastructure across the life of the program have better positioned us to drive further efficiencies and continued operating leverage well into the future.

Finally, I want to update you on our portfolio management activities. Portfolio management has been a part of our strategy over the last three years as we work to simplify our organization and focus on business with significant growth opportunities and strong margin and cash flow profiles that also aligned to our core capabilities.

As announced earlier this month, we entered into a definitive agreement to sell transact, transact with WTW's only direct to consumer business. And this sale significantly simplifies our portfolio and our strategy by enabling us to focus on our core B2B and B2B2C activities, notably divesting transact also accelerates our progress toward our long-term free cash flow margin expansion goals. Andrew is going to walk through the financial and accounting details of the sale later.

Elsewhere in our portfolio, we acquired a minority interest stake in Atomos, a UK-based wealth manager, which strengthens the existing strategic alliance between our wealth business and Atomos. Atomos uses WTW's investment engine to provide its clients who are individual investors with a broad and diverse array of investment options that were previously only available to institutional investors.

This expanded relationship with Atomos will allow WTW to penetrate the large and growing UK wealth market, which has an estimated market value of [GBP2.2 trillion]. These strategic portfolio management actions along with the partnership announcements I mentioned earlier reflect our continued focus on reviewing our portfolio to ensure our businesses are well-aligned and strongly positioned to drive profitable growth.

This dovetails with our disciplined capital allocation process through which we consider all our options to maximize shareholder value creation, including share repurchases, internal investments, and carefully considered strategic M&A. In closing, we're pleased with our third quarter performance which reflects our team's focus and hard work to meet our clients' needs with innovative ideas and efficiency.

As we enter the fourth quarter, we're focused on executing on our strategic priorities. I'm encouraged and excited by the enthusiastic client response and the opportunities we see in the market. We have positive momentum and I'm confident we'll finish the year strong and achieve our 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 third quarter, we delivered organic revenue growth of 6%. Adjusted operating margin expanded 190 basis points to 18.1% and adjusted diluted earnings per share were \$2.93, an increase of 31% over the prior year. Our solid results continue to give us confidence in achieving our 2024 financial targets.

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 4% compared to the third quarter of last year.

Our health business generated revenue growth of 6% for the quarter or 5% excluding book of business activity. Double-digit growth in international, along with strong growth in Europe was driven by solid client retention, new local appointments, and the continued expansion of our global benefits management client portfolio.

North America generated growth as a result of increased brokerage income. We continue to expect high single-digit growth for the business for the year based on our pipeline and our expected commission stream.

Wealth revenue grew 3% in the third quarter, driven by strong growth in our retirement business, primarily due to valuation work in Europe. We also delivered solid growth in our investments business due to improvements in capital markets and growth from our LifeSight solution.

Career delivered 7% growth for the quarter. Growth in compensation benchmarking participation helped deliver increased compensation survey sales and custom data analytics and working rewards. In employee experience, we saw growth in our sales of our employee portal.

Benefits delivery and outsourcing had a decline of 1% versus the third quarter of last year. As a reminder, BD&O faced a strong comparable this quarter due to the timing of project work in outsourcing during last year's third quarter as well as a headwind related to a previously mentioned client sourced its health and other benefits administration.

And as we discussed last quarter, we have been deliberately moderating growth in our Medicare related businesses. As a result, for the year, we are expecting BD&O to have low single-digit growth with and without TRANZACT.

HWC's operating margin was 24.7%, an increase of 90 basis points compared to the prior year third quarter, primarily driven by transformation savings. Moving to risk and broking, third quarter revenue was up 10% on an organic basis and operating margin expanded 240 basis points to 18.1%. This includes book of business activity of \$4 million versus \$1 million in the prior year.

Interest income was up \$4 million from the third quarter last year. Corporate risk and broking had a solid quarter, growing 10% with strong contributions across all geographies including double digit growth in Great Britain and our Western Europe and international regions.

As Carl mentioned, our specialty lines continue to be major contributors to the strong growth performance led globally by our facultative, crisis management, and financial solutions businesses. We also saw a very strong performance by two of our largest specialty businesses, FINEX and construction.

Growth in CRB Great Britain was led by facultative financial solutions, crisis management, FINEX construction and aerospace. Across CRB Western Europe, we saw strong growth in FINEX and natural resources businesses.

Western Europe also had double-digit growth in a number of our countries in the region. North America CRB had solid growth supported by strong contributions from our construction, marine, and natural resource businesses.

Our international region had organic growth across all subregions, led by double-digit growth in Latin America and Asia and double-digit growth in almost all of our specialty businesses as well as P&C retail and affinity.

We continue to see the stabilizing and softening of global rates from the slowdown in the US inflation. Property, financial lines and commercial rates are decreasing. Casualty remains stable, but market conditions are increasingly difficult for motor risks and North American exposures.

Hurricane Milton did not seem to increase natural catastrophe rates, but its financial impact is still uncertain. Our specialty lines continue to stabilize, but with some increases in political risk and trade credit.

Moving on to our insurance consulting and technology business. Revenue was up 7% with strong double-digit growth in our technology practice, partially offset by continued tempered demand in the consulting practices.

R&B's operating margin was 18.1% for the quarter, a 240 basis point increase over the prior year third quarter primarily due to operating leverage driven by organic revenue growth and disciplined expense management as well as transformation savings.

We continue to expect margin expansion for R&B for the full year. But as a reminder, in Q4, we will face headwinds from \$14 million of book of business activity that occurred in Q4 of last year.

Now let's turn to the enterprise level results. At the enterprise level, adjusted operating margin for the quarter was 18.1%, a 190 basis point increase over prior year primarily driven by operating leverage and the benefits of our transformation program.

We had \$52 million of incremental annualized transformation savings, bringing the total to \$446 million of cumulative savings since the program's inception. Our unallocated net was negative \$85 million for the third quarter. We continue to expect the full year 2024 balance to be relatively consistent with 2023. Foreign exchange was a headwind to adjusted EPS of \$0.02 for the quarter.

At current spot rates, we expect foreign exchange to be a headwind of approximately \$0.06 on adjusted EPS for the year. Our US GAAP tax rate for the quarter was 16.1% versus 15.5% in the prior year. Our adjusted tax rate for the quarter was 19.7% compared to 24.3% for the third quarter of 2023.

We previously mentioned that we anticipated our adjusted tax rate for the year to be similar to our 2023 rate, excluding last year's onetime tax items, which was 22.4%. Given our current position, we now expect our adjusted tax rate to be moderately more favorable.

During the quarter, we returned \$294 million to our shareholders via share repurchases of \$205 million and dividends of \$89 million. We continue to view share repurchases as an attractive use of capital to create long-term shareholder value and the central focus of our balanced approach to capital allocation.

As we mentioned previously, we continuously monitor our cash levels and market conditions to take advantage of opportunities to accelerate repurchases if the opportunity presents itself. With that, based on current market conditions and other relevant factors, we now expect share repurchases for the year to be \$900 million, up from our previous estimate of \$750 million.

As Carl mentioned, WTW has entered a definitive agreement to sell the TRANZACT business. 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.

In connection with the pending transaction, held-for-sale accounting treatment applies to TRANZACT assets and liabilities, the financial results of TRANZACT will continue to be reflected in our financial statements through the closing date of the transaction which is expected to be later in Q4, subject to regulatory approvals and customary closing conditions.

We do not expect the transaction to impact our financial target year as we anticipate booking approximately a full year of financial results for TRANZACT. The pending transaction resulted in pretax losses and related impairment charges of over \$1 billion each, which are reflected in the GAAP results for Q3.

These are one-time non-cash charges and are not included in adjusted diluted earnings per share. TRANZACT's stand-alone historical financial results are included in the supplemental slides. While I won't review those in detail now, I do want to highlight that we expect the sale to be accretive to organic growth, adjusted operating margins, and free cash flow margin.

We generated free cash flow of \$807 million for the nine months ended September 30, an increase of \$100 million from the prior year, primarily driven by operating margin expansion, partially offset by cash outflows related to transformation and discretionary compensation payments. We continue to be confident in our expectations of year-over-year improvement in full year free cash flow margin.

And given the sale of TRANZACT, we expect to accelerate our progress towards our long-term free cash flow margin goal. In closing, we are very pleased with our strong business performance and expect this momentum to enable us to achieve our 2024 targets. With that, let's open it up for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Greg Peters, Raymond James.

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### Mitch Rubin - Raymond James Financial Inc. - Analyst

This is Mitch Rubin on behalf of Greg Peters. Can you clarify the impact of the sale of TRANZACT on Q3 organic results and free cash flow?

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

Mitch, thanks for your question. In Q3, TRANZACT was a 70 basis point headwind on organic growth at the HWC level and 50 basis points at the enterprise level. It's important to note that BD&O's results were uneven in the second half of the prior year with 14% growth in Q3 and 3% growth in Q4.

So the full year reserve results will serve as more of a relevant comparison point for that specific business unit. For 2025, we anticipate that excluding TRANZACT from our results, we'll have a positive impact on our organic growth, adjusted operating margin, and the free cash flow margin profile.

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### Mitch Rubin - Raymond James Financial Inc. - Analyst

As a follow-up, can you provide some additional color on the impact of new hires and growth and exposure units on organic growth inside risk and broking?

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

Sure, Mitch. This is Carl. Let me give you some perspective there. When you look at the growth, and we're really happy with the growth that we enjoyed in risk and drove for the quarter. The principal drivers to that were client retention and new business, right?

And we didn't actually have much of an effect as in prior quarters from rate. And our new hires, we're really pleased with the progress they've made are part of that growth story, but they're only parts, right? Majority of our growth is due to all our colleagues, including the new hires.

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**Operator**

Elyse Greenspan, Wells Fargo.

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**Elyse Greenspan - Wells Fargo & Co. - Analyst**

So my first question, Carl, you started off by saying positive, there's a tailwind to this year's margin guide. And Andrew, you lowered the tax guidance and up the buyback guidance but you guys have not changed the EPS guidance for the year. Is there just some conservatism built in? Do you expect to be at the high end of the range? How do we think about these positive updates relative to the lack of change in overall 2024 EPS guide?

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

So let me talk a little bit about margin guidance, Elyse, and Andrew will follow-up on EPS. We had 190 basis points of margin expansion this quarter. That's 210 basis points of expansion year to date. We're really pleased with our execution.

We remain optimistic with where we're tracking within the margin guidance range, but we do continue to see opportunities for stronger performance relative to that guidance, for example, better-than-expected productivity from our investment in talent in both segments, including the [CRB] that was just talking about with Mitch.

The timing of transformation we're continuing to find opportunities to trim expenses without impacting growth and productivity. And there's the potential for rebounding global M&A activity that creates opportunities within both segments.

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

And all of those factors, Carl, could lead to outperformance on the margin side. It's also important to keep in mind that there was a \$14 million book of business sale that happened in Q4 of last year. So that would be a headwind as well as the pacing of transformation savings that really came through in the fourth quarter last year that also produced a bit of a tougher comparable.

In terms of EPS, Elyse, we're pleased with our execution. Year to date and last quarter raised the low end of our EPS target range. And given the momentum we see in the business and our ability to execute, we're confident that we'll deliver EPS within that range.

In terms of any opportunity to outperform there, that's really going to start with the outperformance on the adjusted operating margin that Carl just alluded to, coupled with greater top-line growth.

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**Elyse Greenspan - Wells Fargo & Co. - Analyst**

And then my follow-up was on repurchase. I appreciate, right, that you guys did this year's guidance by \$150 million, but you guys are coming into good amount of cash last year. We have the earn-out from [Gallagher 750], right, something in the range, just [\$100 million] from the TRANZACT divestiture.

So when you think about all this cash coming in door, Carl, I think you said a balanced approach to M&A. So I'm just trying to think about how you're going to balance like incremental repurchase. And my assumption is if M&A is considered, it will probably be more bolt-on things.

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

Elyse, as we continuously evaluate our capital structure to ensure it's appropriate to take advantage of opportunities to deploy capital across share repurchases and organic and inorganic investment opportunities, so maintaining that flexibility is really important to us.

And given where we were in the year and our cash position and the progress on the free cash flow wanted to take advantage of upping the repurchase target for the year. And maybe, Carl, do you want to talk a little bit about --

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

Yeah, thinking about this on a go-forward basis, Elyse, I guess, we've come a long way over the last three years, right? Since the beginning of that period, we've stabilized the business. We rebuilt our talent base. We've restored our client base, and that's brought revenue growth to competitive levels.

And at the same time, we've been able to return significant capital to shareholders while transforming and simplifying this company. And our allocation to capital allocation is also evolving. We're in a far better place from where we started. And through those efforts, we're now in a place to be able to execute and integrate organic opportunities.

Across our industry, our peers have created value through M&A, and we believe M&A is a healthy component to a balanced approach to growth.

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

And we will continue to take a balanced approach to capital allocation and evaluate all of those options, which do, of course, include share buybacks as a central component of that strategy.

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**Operator**

Rob Cox, Goldman Sachs.

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**Rob Cox** - *Goldman Sachs Asset Management LP - Analyst*

Just following up on the organic growth question. I mean it appears that risk broking organic, excluding investment income and book settlements might have accelerated in the quarter. Can you talk about what continues to drive the strong performance there? And if you see anything that would lead you to believe growth would be materially different in the fourth quarter as you head into kind of your largest revenue quarter there.

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

Yeah. I mean we're really pleased with the 10% organic we did in R&B during the quarter. And to recognize that was on top of a 10% comparable in the prior period last year and neither book of business or interest income meaningfully impacted that organic growth rate. We continue to expect meaningful contributions from our strategic investments in talent, we mentioned earlier and platforms and as we continue to pursue opportunities in line with our specialization strategy.

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

Yeah. And within CRB, the 10% growth, right, as Carl alluded to earlier, really driven by new business both from the investments and talent that we've made in our existing talent base. Retention was obviously a component there as well, but really want to stress the importance of the new business that we've had in the last quarter.

Rate did not have a meaningful impact. Investment income did not have a meaningful impact and the book of business activity did not have a meaningful impact. So really strong growth profile within CRB. Within ICT, there was 7% for the quarter, that was really driven by the technology business, which had double-digit growth. And as we mentioned, that was partially offset by temper demand in the consulting business.

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**Rob Cox** - *Goldman Sachs Asset Management LP - Analyst*

Okay. Appreciate that color. And then as my follow-up, I was hoping you guys could comment on what type of magnitude of the tax shield might be expecting from the sale of the TRANZACT business? And kind of secondly, like the tax rate is actually getting better this year, but could you comment on if you're seeing any potential pressure into 2025, given some of the global regulatory changes on taxes?

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

Yeah, sure. So as it relates to TRANZACT, you will have noted that we disclosed that there would be some impairment and other losses associated with that. For the most part, those are going to be capital losses, so they can only be applied to the extent that there are capital gains and that is US specific. So we would have to have US specific capital gains to offset those.

And in terms of tax rate going forward, not going to get into guidance at this point. We'll cover that on our full year call early next year. But we do seek to make sure that we've got appropriate structures in place to manage risks around increasing tax rates.

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**Operator**

Mark Hughes, Truist Securities.

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**Mark Hughes** - *Truist Securities Inc. - Analyst*

Carl, you talked about seeing better productivity from your new talent and you've got a lot of capital that's available. Are you kind of redoing this acceleration in hiring that you did a couple of years ago post the transaction? I mean, is that something that you're pursuing? Or could you give us some sense of how that hiring pace has continued in the last 6, 12 months?

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

Yeah. So we're continuing to hire talent, Mark. But it's more opportunistically as we find people who are well aligned with what we're trying to pursue across our segments in terms of our business strategy. And I contrast that to a few years ago where we were really in rebuilding those. I think pretty much every one of this call is all aware, right? We are rebuilt. That's great news. And it's showing up in the numbers, right?

We're closing highly competitive growth rates. But there is talent out there that I think we can be an excellent partner to, and we'll continue to seek out those individuals and bring them on and continue to grow this organization organically.

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**Mark Hughes** - *Truist Securities Inc. - Analyst*

And then Andrew, the transformation program, I think you've got some disclosures in the presentation. But the cash impact, the cash headwinds from that transformation program for full year 2024, can you give us a sense of what that number is? And then how much of that cash impact extends over into early 2025?

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

Yeah, sure. We expect the cash to be relatively consistent with prior years. But at the same time, we'll have some cash outflows that bleed over into next year from a timing perspective that will impact free cash flow and free cash flow margin as that plays out.

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

But that will sort of wind its way out by end of Q1 and H1.

**Operator**

Mike Zaremski, BMO.

**Unidentified Participant**

This is Charlie on for Mike. I guess this quarter, we've heard from some carriers talking about increased competitiveness in the London market. Can you talk about what you're seeing there and how you see it or whether you see it impacting CRB in the global lines businesses?

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

Yeah. So I guess, globally, I'd say we're seeing a stabilizing the softening market and in the US, obviously, London markets, some E&S are part of that. We're seeing the impact of a slowdown in inflation. Commercial rates are starting to decrease, mostly in international countries and to a lesser extent, in Europe and North America.

Property rates certainly are decreasing. Financial lines are decreasing. Cyber had a short-term stabilizing impact from the CrowdStrike event, but quickly returned to decreasing rates. Casualty lines are stabilizing globally except for North America. And then I think we're still working our way through the effect of Hurricane Milton and other nat cat.

The results across our various global lines do vary. I mean construction is stabilizing unless there are specific issues concerned with a particular project. Marine is stabilizing, but marine liability, we're seeing sort of high single-digit increases.

But in general, specialty lines have been stable, which with a few exceptions like political risks and trade credit, which are reflecting the unsettled geopolitical environment. We just don't view rate as a significant headwind or tailwind across the portfolio in terms of been impacting us in the last several quarters.

As we've said, our growth has been primarily driven by high retention rates and strong new business and I think reflects the success of our specialization strategy. That's going to really continue to differentiate us and help us make a difference.

**Unidentified Participant**

That's helpful. And I guess, it sounds like you're going to keep including TRANZACT in results until the sale closes. Is that the right way to think about it? And so should we expect to see it in your 4Q numbers? And how should we think about, I guess, 4Q margins looking depending on, I guess, it depends on when the deal closes.

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

Yeah. In terms of closing, we expect it to occur close enough to the end of the year that we would have essentially a full year of results within our numbers. So don't expect it to have an impact on the full year in terms of the guidance range where we expect to land for the full year. And as we mentioned going forward, will be the elimination of a headwind on organic growth, margin, and free cash flow margin.

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**Operator**

[Peter Knudsen, Evercore ISI].

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**Peter Knudsen** - *Evercore ISI - Analyst*

Carl, you mentioned some optimism coming from a rebound in global M&A activity. I'm just wondering, could you give us some more color on what your team is seeing today that's causing that optimism?

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

Yeah. I did use the word potential, right? So I'm not sure I'd phrase that optimism, but just open this too. We have seen an uptick in M&A activity in Europe, lesser extended international. We've not seen that in North America.

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**Peter Knudsen** - *Evercore ISI - Analyst*

Okay. Got it. That's helpful. And then for my second question, on the continued temper demand in consulting services. I'm just curious what the conversations with clients are like similarly, are you seeing any green shoots of this returning as well? And just any commentary on when you might expect this headwind to go away would be great.

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

Okay. I think that comment you're referring to probably was regarding ICT over in the risk and broking. Do you want me to talk about HWC? I wasn't quite clear by the way you phrased.

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**Peter Knudsen** - *Evercore ISI - Analyst*

No, that was for ICT, yeah.

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

Yeah. I mean we're continuing to see strong demand for our technology solutions. And the way we've built ICT over the years that a lot of the consulting works its way around the technology. So it's helping clients maximize the value they get from that technology. So when technology leads consulting will often follow.

But there are some areas within ICT that are -- can be sort of very cyclical and dependent on sort of various activity, including M&A and securities issuance in conjunction with M&A by insurance companies. So we've been through these cycles before, and we adjust to them and make sure that we can kind of keep the business pointed in the right direction.

One of the things we've very successfully done over the last 10 or so years has actually changed the mix between consulting and technology to be far more balanced than a 50-50 which lowers the cyclicity of the business and makes it just a bit more resilient.

That being said, some of the technology sales are recorded at the time of sale when the spread over the life of the contract. So you get a little lumpiness in the results. That's smooth its way out between quarters, but you might have some lumpiness within the quarter.

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**Operator**

Meyer Shields, KBW.

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**Unidentified Participant**

It's Jane on for Meyer. My first question is on TRANZACT. Just wondering how would the removal of TRANZACT highly seasonal earnings tender effect on quality earnings going forward?

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

Yeah. So there's some information in the supplemental slides, which we provided regarding the seasonality which will allow a perspective on how that will impact us on a quarterly basis throughout the year.

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**Unidentified Participant**

Got it. My second question is on what elements of your specialization strategy, do you see as most critical in maintaining the strong client retention rate in risk and broking?

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

So I'd point out a few things, right? One is that specialization is said aside others that our entire business, not just the parts that face the market, are structured along industry verticals. So these are businesses, not just practices that they have national global P&Ls with dedicated personnel directly responsible and accountable for that business.

Every business operational financial decisions tied to that approach, and that drives better outcomes for our clients because every person, every step in the process is focused on solving issues and providing products and services specific to that respective industry and geography.

And as a result, we're able to tailor our solutions in a more focused manner, and that delivers enhanced value through industry-leading analytics and client engagement techniques. It makes for a very attractive proposition for clients looking to manage their risks.

And as part of that strategy, we have local specialties in each of our regions because there are different nuances and different dynamics that depend on geography. For example, we've got industry verticals in real estate and hospitality and leisure in North America, given large client base demand in that region. In Europe, where there's more of a demand for commercial auto insurance, we have local specialty teams for that particular segment. So it's all about the client. And that works for each.

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**Operator**

Alex Scott, Barclays.

**Unidentified Participant**

This is Justin on for Alex. First question was related to the transformation program. It seems as though when we're looking at the savings, it's sort of coming -- like the savings are sort of coming to an end from a spending and a savings perspective. So just curious about your thoughts in terms of how we're thinking about or how we should think about margins heading into 2025 in terms of the pace of margin expansion as sort of the transformation program sort of subsides over time.

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

Yeah. We're not going to give any guidance on 2025 at this point. We'll talk about that early next year as we normally do. But we do expect some continued tailwinds from the transformation program in terms of run rate savings generated this year, converting to in your savings through the early part of next year.

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

I'd also add that we've been quite explicit that we sized the transformation program and the associated savings by what we thought we could achieve during this three-year period, not the total margins improvement we thought we can get out of this organization. So we will be done trying to drive margin and free cash flow margin improvement in subsequent years. We'll just be doing it as DAU rather than through a transformation program.

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**Unidentified Participant**

Got it. And I guess I just had a quick follow-up question. Just on just a high level on capital allocation. I think there was a comment earlier about sort of infusion of capital coming in through sort of the own the Gallagher deal and sort of this transaction disposition.

When we're sort of -- and then sort of try to triangulate that with sort of your comments around being more opportunistic on hiring repurchases slightly being up -- like does that sort of lead some opportunities for inorganic growth. I'm just curious how you guys are thinking about capital allocation heading into 2025.

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

Yeah. I talked a bit about our thinking on M&A as part of it. We've seen competitors who create value through M&A, and we think that opportunity is available to us as well, now that we have got our house in simpler and better order through the transformation program. So if we can find the strategic opportunity that fits within our portfolio and helps us expand our reach across the value chains in which we operate, we will be interested.

We'll be looking for opportunities to improve our business mix to enhance operating and free cash flow margins. This is something I think we'll be talking about. I don't think -- I know we'll be talking a bit more at Investor Day.

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**Operator**

Katie Sakys, Autonomous Research.

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**Katie Sakys** - *Autonomous Research US LP - Analyst*

I just wanted to ask about you guys' perspective on specifically middle markets. We've seen quite a bit of pickup in big main deal activity there. And I'm curious what Willis' own strategy and approach towards the middle market opportunity is as we think about the next year ahead?

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

Well, I mean, we already operate in the middle market. So it's an area that we're familiar with. We see the attractive potential, a lot of job creation and business creation that occurs in the middle market and not a new subject to us.

I think it's where I began because a lot of economic creation occurs in the middle market, it's primary to invest for growth and we do that organically as part of our strategy over the past several years. And we've watched for instance, our HWC businesses begin to repackage some of the intellectual capital that they critically offer to large employers to service the middle market.

And I think going forward, we'll continue to survey our opportunities, including inorganic opportunities as well as I alluded to in some of the earlier questions.

Got it. And then really quickly on TRANZACT. It looks like the impact from the business on the group or enterprise level of free cash flow margin is a little bit different from 2023 versus 2022? And thinking about the full year impact for this year, where would you guys say is the right place to contemplate that?

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

The headwind for 2024 should be less than it has been historically, and it's largely driven by the intentional slowing of the growth there, which helps the free cash flow dynamic for that business. And then once it's no longer part of the business portfolio, next year we'll have a more meaningful impact in terms of accretion to the free cash flow margin.

**Operator**

Mark Marcon, Robert W. Baird.

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

Nice results. Wondering if you can talk a little bit more about HWC in two respects. First of all, with regards to the health side, you've obviously -- Carl, you've been through multiple election cycles, how do you think the healthcare consulting portion of the business is going to be impacted by the changes that could potentially happen one way or the other on that part of the business?

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

Yeah. So I mean over a short-term period environment, Mark, generally change or potential change is quite good for us on the consulting side because clients have to sort of work their way through what the potential effect of changes in regulation might mean to their operation of their benefits programs.

So I think generally, we see a beneficial effect from change. And that's not just across our health business, that can fly across our pensions business and wealth, for our career business, for instance, [insurance currency]. So I think over prior cycles like this, generally change is our friend.

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

That's my suspicion. And then going on to the wealth side and specifically with regards to pension, I'm sure you've seen all the news with regards to Boeing. And I'm just wondering to what extent that could end up spurring some actions on the pension side, particularly with regards to de-risking.

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

So I mean, starting with Boeing, I mean, there's no question that traditional pension plans have paid an important role in the financial security of millions and millions of people around the world. And the great shift we've had to define contribution is lots of unanswered questions. I think we're still seeing countries and employers were trying to work their way through.

And WTW is well-positioned to help employers sort of where to find out where they fit on that spectrum and to offer them the right solutions, they're correct for their workforce. So I think we welcome the debate or what's the right pension plan for our workforce. We've been answering that question for plan sponsors for a long, long, long time.

With respect to the PRT outlook, I guess I'd say a few things. First of all, the current interest rate environment has been driving demand for pension de-risking strategies where we assist our clients, not just with the transaction but also the evaluation and the analysis and the preparation that goes through it.

This year, we have seen more clients in North America to take advantage of the favorable interest rate environment to initiate pension de-risking through bulk lump sums and alternate de-risking actions like annuity buyouts still remain attractive.

We've been seeing these type of opportunities, especially in Great Britain. In general, given the on average well-funded nature of pension plans, and the interest rate environment. We are seeing continued activity here. And we expect, as the bulk lump sum activity may fall off, that we'll see increases in other areas such as annuity purchase or retiree medical de-risking activity. We'll probably talk a bit more about this at Investor Day.

**Operator**

Thank you. I'm showing no further questions at this time. I would now like to turn it back to Carl for closing remarks.

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

Thank you, and thank you once again for joining us today. And I'd like to thank WTW's colleagues, their dedication in supporting our clients has helped us to deliver another strong quarter and has us on track to achieve our goals for 2024. I'd also like to thank our shareholders for their continued support. We look forward to connecting with you all at our Investor Day in December, and Happy Halloween, everyone.

**Operator**

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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