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WTW.OQ - Q1 2022 Willis Towers Watson PLC Earnings Call

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## OVERVIEW:

Co. reported 1Q22 adjusted operating income of \$371m and adjusted diluted EPS of \$2.66.

## CORPORATE PARTICIPANTS

**Andrew Jay Krasner** *Willis Towers Watson Public Limited Company - CFO*

**Carl A. Hess** *Willis Towers Watson Public Limited Company - CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Brian Robert Meredith** *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

**Charles Gregory Peters** *Raymond James & Associates, Inc., Research Division - Equity Analyst*

**David Kenneth Motemaden** *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

**Elyse Beth Greenspan** *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

**Joshua David Shanker** *BofA Securities, Research Division - MD*

**Mark Steven Marcon** *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

**Paul Newsome** *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

**Shlomo H. Rosenbaum** *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

**Yaron Joseph Kinar** *Jefferies LLC, Research Division - Equity Analyst*

## PRESENTATION

### Operator

Good morning. Welcome to the WTW First Quarter 2022 Earnings Conference Call. Please refer to [wtwco.com](http://wtwco.com) for the press release and supplemental information that was issued earlier today. Today's call is being recorded and will be available for the next 3 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 (sic) [Private Securities Litigation 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 in 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 the measures, please refer to the most recent earnings release and other materials in the Investor Relations section of the company's website.

I would now turn the call over to Carl Hess, WTW's Chief Executive Officer. Please go ahead.

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**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Good morning, everyone. Thank you for joining us for WTW's First Quarter 2022 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer.

The first quarter marked a solid start to our year, with results that were in line with our expectations and reflect improved momentum in our business. We generated organic revenue growth of 2% and expanded adjusted operating margins by 200 basis points, driven by new business generation and continued expense discipline.

We also continue to focus on executing our capital allocation strategy and have now completed \$4.1 billion in share repurchases since our 2021 Investor Day. Overall, we've had a solid start to the year and remain confident in our ability to deliver on our financial goals for both 2022 and the longer term.

Before discussing our strategic progress and operating results, I'd like to share our heartbreak and dismay over the crisis in Ukraine. We wholeheartedly wish for a peaceful solution and remain steadfast in our support for all our colleagues and their families in the region who have been affected. Their safety and well-being have been top of mind in the past months.

WTW has been in daily contact with any colleagues who've chosen to remain in the Ukraine and provided financial and accommodation support to those who chose to relocate. Our own special contingency risks operation is providing guidance and assistance to our Ukraine country leader. We're also encouraging our colleagues to utilize our matching gifts program to help increase financial donations for disaster relief. I'm proud of how our colleagues who come together in support. Thank you for showing up for each other.

In addition to supporting our employees, WTW is supporting clients in key areas related to this crisis, including claims and risk across various lines such as political, investment, supply chain and cyber.

As previously announced, WTW decided to withdraw from our business in Russia and transfer ownership to local management who will operate independently in the Russian market. In a few minutes, Andrew will talk more about the financial impact of our decision to exit Russia.

Now I'd like to provide a few updates on our progress against our company-wide priorities. At our last Investor Day, we unveiled our grow, simplify and transform strategy, and we executed against each of these strategic priorities during the first quarter. Innovation has always been a key area of focus for us. And as One WTW, we strive to bring the diverse capabilities of the enterprise together to innovate on behalf of our clients to address current and unmet needs, and we continue to do so in the first quarter.

Let me walk you through just a few examples. Our Risk and Broking segment launched ESG analytics and diagnostics, which provides a multisource comprehensive analysis of a firm's ESG performance. We also introduced a bespoke reputational risk solution designed to help our clients understand, manage and recover from reputational crises. Both products address ESG risk, which is an area of rapidly growing importance for our clients. Our ongoing product innovation continues to drive growth in our Risk & Analytics business within Risk and Broking.

In Health, Wealth and Career, we unveiled a new employee insights platform called Engage to help clients understand their employees' views on various topics that affect the employee experience and, ultimately, business performance. We've had fantastic client feedback on Engage to date and are excited about its potential.

I'm pleased to say that our commitment to innovation continues to be recognized by the industry. During the quarter, WTW secured the top spot in Advisen's Pacesetter Index and annual recognition of product innovation leadership in the P&C insurance industry. WTW topped the index having launched 16 new products and services in 2021. I'm proud of our team for earning this recognition, which reinforces our capabilities and our dedication to delivering innovative and actionable solutions for today's complex challenges in people, risk and capital.

At our Investor Day, I also spoke to you about our actions to simplify the business and make it easier and quicker to engage with our clients as we work to bring the best of WTW to them. We've advanced on this front as well, refocusing the company into 2 operating segments across 3 geographies to create a more streamlined structure and enhance the agility of the team while also enabling us to leverage common technology, platforms and processes.

We also shared our focus on transforming WTW to enhance speed to market and promote efficiency, and I'm encouraged by the progress we've made on our transformation initiatives. We realized \$16 million of incremental annualized savings during the first quarter, bringing the total to \$36 million since the program's inception. This exceeds our original \$30 million target for all of 2022. And as part of this program, we introduced WTW work styles, a program which modernizes the way we work to align our real estate footprint to a hybrid working environment and contributes to our transformation program savings. WTW work styles reflects our belief that colleagues can be successful working in a variety of our ways and our confidence that a high-performing culture is the result of exceptional talent, not real estate.

Speaking of talent, our rate of hiring in the first quarter accelerated by 23% compared to the fourth quarter of 2021, reaching our highest hiring volume in a single quarter since 2019. Our new hires in sales and client management roles tripled compared to the first quarter last year. We also continue to see retention efforts gain more traction in Q1, with voluntary attrition dropping 19% from Q4 of 2021 and a significant decline in senior level departures. We've seen the same positive dynamics play out in our Corporate Risk & Broking segment.

Let me take a minute now to touch on some of our financial highlights for the quarter. On an organic basis, revenue was up 2%, reflecting growth across most of our businesses. Adjusted operating income was \$371 million or 17.2% of revenue for the quarter, up 200 basis points from \$338 million or 15.2% of revenue in the same period last year as our growth and expense discipline combined to enhance our profitability in the period. Net result was adjusted diluted earnings per share of \$2.66, representing 22% growth over the prior year, in part due to our aggressive share repurchase program.

Overall, our performance in the quarter was aligned with our expectations and reflected our commitment to profitable growth and the successful execution of our strategy. We continue to build momentum, and we believe our progress has us on track to reach our financial goals for 2022 and to become a \$10 billion plus company by 2024.

In closing, I want to express my gratitude to my incredible team of colleagues who live our values and have delivered every day for our clients in a volatile and challenging environment. With our sharpened focus, we are well positioned to continue driving growth and executing on our transformation.

And with that, I'll turn the call over to Andrew for more detail on our results.

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**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Thanks, Carl. Good morning, everyone. Thanks to all of you for joining us so early in the day.

The first quarter saw dramatic macroeconomic and geopolitical changes that required us to navigate rapid and significant shifts in our markets that we expect will continue to evolve throughout the year. High inflation, uncertainty around how long it will last and tight labor supply are impacting our clients' people strategies in a variety of ways. Geopolitical and economic factors are affecting the insurance landscape, with events in Ukraine likely to dampen the short-term moderation in pricing growth. Monetary policy and inflationary forces are expected to translate into remeasured asset values and exposures, ultimately translating into premium growth. We continue to navigate through this complex and dynamic backdrop and have delivered a good start to the year, with most of our businesses contributing to organic revenue growth.

Before we turn to our detailed segment results, let me take a moment to touch on our exit from our Russian businesses. As we previously reported, we made the decision to exit our operations in Russia, which comprised approximately 1% of consolidated WTW revenue for 2021, primarily within our Risk and Broking segment. The lost profits from our Russia operations will create modest margin headwinds for the company in 2022 and beyond. However, we have taken swift action to deploy near-term cost mitigation measures and to identify longer-term offsets, which gives us confidence in achieving our guidance for the year and reaching our 2024 financial goals.

Let's turn to our detailed segment results. Note that to provide clear comparability with all periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise.

The Health, Wealth and Career, or HWC segment, generated revenue growth of 2% on an organic basis and 3% on a constant currency basis compared to the first quarter of the prior year. Career, which represents our Work & Rewards and Employee Experience businesses, led revenue growth for the segment, increasing 7% in the quarter, following growth of 3% in Q4 of 2021. This growth was driven by strong demand for rewards consulting, pay benchmarking and software. Health, which is comprised of our Health and Benefits broking and consulting business, delivered strong growth of 6% through a combination of increased retention, new client appointments and project work. Wealth, which represents our Retirement and Investment businesses, had a revenue increase of 1% for the quarter, driven by growth from new clients.

In Benefits Delivery & Outsourcing, which encompasses our Benefits Delivery & Administration and benefit plan administration businesses, revenue declined by 2% from the prior year first quarter. The decline was largely driven by individual marketplace and reflected a shift in revenue timing from our B2B Medicare exchange business, which we expect to normalize over the course of 2022, as well as lower growth in Medicare Advantage revenue in our direct-to-consumer business. We continue to see a macro environment that supports growth opportunities for this business.

HWC's operating margin expanded 110 basis points to 20.7% in the first quarter, driven primarily by strong operating leverage from our growth. We see HWC's historical industry-leading margins continuing. HWC's market-leading solutions and the tailwinds in its core markets should continue to drive organic growth. Both our near-term and long-term outlook on HWC remain positive.

Now let's look at Risk and Broking, or R&B. R&B's revenue was flat on an organic and constant currency basis as compared to the prior year first quarter. Excluding a headwind from a book of business gain on sale that was recorded in the prior comparable period, Risk and Broking's organic revenue growth was 2%.

In the Insurance Consulting and Technology, or ICT business, revenue was up 9% compared to the prior year first quarter, with increased technology solutions sales alongside increased demand for advisory work. Corporate Risk & Broking, or CRB, revenue declined 1%. Excluding the book of business sale I mentioned earlier and Russia-related revenue, CRB increased 3% and, growth across all regions, primarily from new business with notable strength in our FINEX and M&A lines. Excluding headwinds from prior year book of business sales, North America led CRB's growth, where colleague retention rates at senior levels have continued to show significant improvement. Excluding our Russia business, international and Europe also contributed to CRB's growth.

Risk and Broking's operating margin was 21.6% for the first quarter compared to 21.9% in the prior year first quarter. Excluding the headwind from book of business sale in the prior period, the margin increased 130 basis points for the first quarter as a result of top line growth alongside continued cost management. Risk and Broking's organic growth has trailed industry averages, primarily due to elevated colleague departures and reduced hiring during the period when the business combination was pending, 2 factors that we believe are now behind us. We continue to expect that the actions we have taken will enable us to narrow the growth gap over the course of the year, with pace accelerating in the second half of 2022 as the impacts of our actions build and headwinds subside. Overall, our outlook for Risk and Broking remains positive with mid-single-digit revenue growth expected over the longer term.

Now let's turn to the enterprise level results. In Q1, we generated profitable growth with adjusted operating margins increasing 200 basis points to 17.2% from 15.2% in the prior year, a product of our focus on strategic priorities and cost management. We continue to expect margin improvement each year as we work to deliver on our 2024 margin goals.

As Carl mentioned, our transformation initiatives will be a key contributor to that ongoing margin expansion. Our early efforts in this area have been very successful, and we have already surpassed our \$30 million annualized run rate savings goal for the year. We are actively seeking further cost transformation opportunities, and we'll update you as those progress.

We had free cash flow of negative \$10 million for the first quarter of 2022, a \$155 million increase from free cash flow of negative \$165 million in the prior year. Approximately \$50 million of the increase was core free cash flow improvement while the remaining \$105 million was driven by onetime items. The onetime items consist primarily of legal settlement paid -- payments made in the prior year, totaling \$185 million, partially offset by a net \$80 million in other nonrecurring items, such as cash inflows from now divested businesses like Reinsurance, which increased prior year free cash flow, and cash payments related to transaction and transformation costs, which decreased current year free cash flow.

We continue to prioritize returning capital to shareholders and executed aggressively on those commitments. We paid \$98 million in dividends for the first quarter of 2022 and repurchased 9.9 million shares for \$2.25 billion, achieving the \$4 billion near-term share repurchase target we set at Investor Day. At the end of Q1, approximately \$1.6 billion remain under our current repurchase authorization. We remain committed to deploying excess capital and free cash flow into our highest return opportunities and continue to believe the return we can achieve from repurchasing shares remains highly attractive, and we expect to continue to deploy free cash flow in this manner.

Overall, we're off to a good start in 2022. As we think about the rest of the year, we see macroeconomic challenges that will continue to create demand for our services and opportunities to help clients. We continue to feel positive about the investments we made in talent last year and this year. We are confident those investments will support revenue growth and that we will achieve our targets for the year.

With that, let's open it up for Q&A.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Yaron Kinar with Jefferies.

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**Yaron Joseph Kinar** - *Jefferies LLC, Research Division - Equity Analyst*

So my first question is on the comp and benefit ratio, I think it was down about 270 basis points year-over-year. How do you see that evolving now that attrition and hiring have inflected?

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**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. There's a lot of different components moving within the salaries and benefit line. Part of it is FX. We also had businesses that were part of the group last year, such as Miller, who were not in this year's numbers as well. It will take some time for some of that to work through the system. So we expect to return to more historical normalized ratios and levels over time as that stuff clears through.

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**Yaron Joseph Kinar** - *Jefferies LLC, Research Division - Equity Analyst*

Okay. And do you see any lingering impact from book sales for the rest of the year?

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**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. So there were no book sales this quarter. And obviously, we had the headwind from the first quarter of last year. We expect to return to more normalized levels over time as we've talked about in the past. However, there's always the possibility that there may be some, over the next couple of quarters, that relate directly to events that would have transpired in 2021.

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### Operator

Our next question comes from David Motemaden with Evercore ISI.

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**David Kenneth Motemaden** - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Just a question. You had spoken in the previous response about returning to a more normalized comp and ben ratio over time. Obviously, a lot of different things have been moving around here from business sales. And I guess I'm just wondering what would you define as a more normalized comp and ben ratio that we should think about over time?

**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. I think the best way to look at that is to go backwards, look at some of our historical comp and ben ratios when there was less M&A activity, less ins and out within the business and some more stable FX.

**David Kenneth Motemaden** - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. Okay. That's helpful. And then maybe good to see on the share repurchase that was completed, the \$4 billion, ahead of schedule. Understanding you still have some left on the authorization, but I guess I'm just wondering, cash level still look healthy, leverage is still below your target. I guess maybe you could talk about how you're thinking about and how we should think about timing of a new authorization and completing the existing one.

**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. I mean in terms of authorization, right, that -- we always make sure we have enough headroom to be able to capitalize on opportunities that may present themselves. And of course, we balance the share repurchase pacing with free cash flow now that we're sort of through the large amount of cash on the balance sheet from the termination payment. And the divestiture of Willis Re. So I would expect the pace to moderate over the rest of the year. But we continue to believe that our highest return opportunity is the investment in our own shares.

**Operator**

Our next question comes from Elyse Greenspan with Wells Fargo.

**Elyse Beth Greenspan** - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

My first question was just on client retention. Can you give us a sense of where the client retention was this quarter? Where was it last quarter? And then how should we think about how that's going to impact organic in 2022? And what kind of the base case for client retention through the year embedded within that mid-single-digit organic growth guidance?

**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. So we don't disclose retention. But clearly, some of the headwinds we faced last year have dissipated. And we expect that to show up in the retention figures as well.

There are a couple of factors there, right? One is organizational uncertainty, which has clearly dissipated with a clear path forward post the merger termination. And second is the human capital effects that the uncertainty had within our workforce and the fact that we've been able to reverse that with our hiring successes and building back the team to where it needs to be.

So we're quite happy with both of those, and we think that, that tells a pretty good story for what retention can be going forward as well as, of course, the traction of new business.

**Elyse Beth Greenspan** - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

Okay. And then I noticed you guys did not provide the TRANZACT revenue this quarter. I'm not sure if you're willing to disclose that if you can. And then I see that the Benefits Delivery & Outsourcing business, right, that was negative 2% organic. So I'm assuming you saw a decline within TRANZACT. And would that be your expectation that, that business would decline this year? And is that also embedded within the mid-single-digit organic growth guidance?

**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. Elyse, it's Andrew. I think there are a couple of pieces to that, so I'll try and unpack all of that. And if I miss anything, please let me know.

So first, the metrics that we are providing are aligned with the way that we're running our business under the new segmentation. In the past years, we did provide growth figures for TRANZACT to give further clarity into the growth for the first few years during the acquisition. We'll continue to give color on that business, but the level of detail will be different just given the new segmentation.

In terms of growth for that business, there were some timing headwinds for TRANZACT that occurred in Q1. We fully expect those to normalize over the full year. As mentioned previously on some calls, we run that business for profitable growth and continue to have high expectations that TRANZACT can continue strong growth. We see a macro environment which really supports the growth opportunities in that business.

**Operator**

Our next question comes from Josh Shanker with Bank of America.

**Joshua David Shanker** - *BofA Securities, Research Division - MD*

A couple items. One is in terms of thinking about the book of business drag, can we quantify that? And should we expect it to continue through 4Q '21 -- 4Q '22, that is?

**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. So the book of business drag for this quarter over the last quarter was about \$15 million. So that's what's created that headwind for that particular business.

As you can imagine, these things are a bit episodic and involve sometimes lengthy discussions with counterparties as they get worked through. So it's hard to say with any certainty what the timing may look like for any of those throughout the rest of the year. But as I said earlier, we do expect to return to a normalized level over time and anything that does pop up throughout the rest of this year directly related to events from 2021.

**Joshua David Shanker** - *BofA Securities, Research Division - MD*

And do we need to budget anything in for revenue loss on the Russian side in our, I guess, inorganic numbers?

**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

No, it's divested. So it will come out in the organic numbers.

**Joshua David Shanker** - *BofA Securities, Research Division - MD*

Okay. And then one last one. Can you -- maybe you can't, I was wondering if you can talk about gross hires versus net hires in the quarter, talking about how you've grown and whatnot. Is there any way -- you've got to have some percentages, but we don't have the basis. Can we talk about in terms of headcount?

**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. Yes, we don't give that level of detail, but we're -- at least from my point of view, I guess, in a happy place of hiring being up and departures being down, which the net effect, therefore, has to be positive.

**Joshua David Shanker** - *BofA Securities, Research Division - MD*

And do you give the employee count at quarter end yet?

**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Annually.

**Joshua David Shanker** - *BofA Securities, Research Division - MD*

Only annually. Okay.

**Operator**

Our next question comes from Greg Peters with Raymond James.

**Charles Gregory Peters** - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

So Carl, I guess we're about 7 months into your results since you mapped out what your fiscal year 2024 targets would be. And I'm just curious if you could give us an updated view on how you view the progress to date versus where you want to be and what you mapped out to investors for fiscal year '24.

**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Sure, Greg. Thanks. I mean we're pretty happy with where we are with both respect just kind of how we're doing in 2022 and 2024. We're making progress, and we're what we said we would do. And I think the signs that's happening are there, right, in terms of kind of the resumption of growth. And we talked a little bit about the human capital aspect of that, and we're starting to see that take. The hires we did in 2021 begin to generate results for us in 2022 and the steps we took to stabilize the workforce, again, leading to retention and growth efforts.

And with respect to our plans for 2024, right, the transformation progress has been at or above what we said it would, and we're continuing to see good opportunities there. So I think my general tone is, I think we're pretty happy, and we've done what we said we would do. And hopefully, you agree.

**Charles Gregory Peters** - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

So the bottom line on that is that you are holding firm on your targets, you think they're still achievable. It looks like the revenue number might be a little bit of a -- it's not a layup anymore, especially with Russia falling off, but that would be the assessment that you'd like us to take away from this, right?

**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

That's right. We didn't know about Russia. No one knew about Russia, but we knew when making our plans that things would happen, right, good things and not so good things, right? We're very...

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**Charles Gregory Peters** - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

I guess the second question I had, and this isn't news to you, and you've heard it in some of the prior questions, but it's just -- there's this -- there's -- the new hires come at a cost, and there's a lag between the time you onboard them, they're actually -- and then they actually produce revenue. And so there's this inflection point of increased cost versus limited revenue. And I guess as we sit on the outside watching your progress, trying to understand the cadence of how that's working within the company, you talk about the wonderful new hire results, and I assume a big chunk of that is forward-facing sales. But we're trying to see how that works with the margin assumptions because the upfront cost versus revenue, if that all makes sense.

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**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

So a couple of points, and then I'll let Andrew talk as well. First of all, I mean, not all businesses have that delay between onboarding and revenue, right? So demand for, for instance, so what's going on today in our Work & Rewards business is such that we can put people to work as soon as we get them on the payroll, right? There's a lot of demand in the marketplace for those services. And the training time to do it, the WTW way, is pretty quick. And of course, some people in sales and client management roles will come to us with existing relationships that they'll be bringing with us as well. So it's not a sort of nothing for a long time is the natural way of doing this.

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**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. And the other thing I would add, right, is when we set out our '24 targets, we accounted for the need to make investment hires throughout that period. The pace of margin improvement over that period won't be linear, but we do expect it to be present every year throughout that journey. And of course, we've got various levers at our disposal to make sure that, that happens.

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**Operator**

Our next question comes from Mark Marcon with Baird.

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**Mark Steven Marcon** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Wondering if you can just talk about your -- how you were conceiving the mid-single-digit organic revenue growth for the year in terms of that target. To what extent do you think you were intending for that to be back-end loaded because of the dynamics that we talked about with regards to newer hires taking a while to add revenue at least within Corporate Risk & Broking? And to what extent should we modify our expectations now that there are more concerns from a cyclical perspective in terms of what could end up occurring within the economy as rate hikes are pursued and Europe is kind of going through energy stresses.

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**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. It's Andrew, why don't I take the first part of that, and then I'll hand it over to Carl to talk about the macro environment.

So in terms of pacing of organic growth, I think it's in line exactly with our expectations going into this year. We did expect the pace of that to accelerate during the second half of the year as we continue to narrow the gap with some of our peers. The hiring that Carl talked about sort of

depends on the line of business, how quickly the revenue comes online. And we've accounted for that in our plan and commentary about sort of the pacing of organic growth throughout the rest of 2022.

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**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

And with respect to the, say, rate, I mean, we think no matter what the dynamics, we deliver a differentiated and tailored approach to risk management for our clients. And thus, even an environment where the pace of rate increases, moderating can be quite good for our business. Clients work their way through their risk exposures. And just as when rates go up sharply, they may tend to rein in how much they're spending and retain more risk. As rates moderate, that doesn't necessarily translate into decreased spending or decreased revenue for us.

And with respect to the recessionary -- potential recessionary environment, I think I'd point out that the need for good advice and great risk management solutions typically only intensifies during dynamic or turbulent times in the markets. And today, we're seeing numerous opportunities to provide advice and solutions to our clients as they grapple with these sorts of issues. So we continue to monitor the financial impact of our business, these potential outcomes and adapt our strategy as necessary. But in general, these industries are ones where they're pretty resilient to economic cycles.

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**Mark Steven Marcon** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. And then with regards to just your answers with regards to BDA and the timing of certain headwinds within that business, can you just elaborate in terms of what you meant by that? And what would be the trigger for getting back to growth in that business prior to the new enrollment period?

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**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. You need to look at that business on an annual basis, right? And on an annual basis, we absolutely expect meaningful growth from that business. So don't focus too much on the one quarter of results on a year-over-year basis over the course of the year, right? It will continue to show positive momentum.

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**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. I mean, TRANZACT really has 2 sales cycles, right? There's the big Q4 cycle and a smaller Q1 cycle, and they're really pretty independent.

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**Mark Steven Marcon** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Got it. And then lastly, the transformation program is off to a strong start. You've restructured about \$11 million in the quarter. How should we think about that over the course of this year?

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**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. So we entered the year with a meaningful run rate savings, have achieved incremental run rate savings in the first quarter. I think you could probably do some simple math there to try and figure out how much of what we've announced so far will end up being captured this year. The expectation is that we will continue to look for opportunities, to add to that throughout the course of the year and capture as much of that as possible. And as we discussed during the prepared remarks, we're constantly evaluating new opportunities, and we'll come back with an update on that as that develops.

**Operator**

Our next question comes from Paul Wilson with Piper Sandler.

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**Paul Newsome** - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

It's Paul Newsome. That's a new misname from you. Usually, it's like Newman. The -- I just want to ask a couple of modeling questions. One is on the tax rate. Any thoughts on that? I wouldn't think a U.S. tax rate, 21%, would be kind of a normal tax rate for you folks, given the -- but maybe just any thoughts you have to help us model that would be great.

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**Andrew Jay Krasner** - Willis Towers Watson Public Limited Company - CFO

Yes, we're not providing tax guidance for 2022. However, based on the current environment, we don't foresee any large swings in our projected tax rate for 2022, based on where it's been historically. Of course, it doesn't take into account any future legislation, which could have a positive or negative effect on our tax rate.

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**Paul Newsome** - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

But if we look back sort of before maybe this quarter, that would be kind of a better place to look than this quarter [actually].

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**Andrew Jay Krasner** - Willis Towers Watson Public Limited Company - CFO

Yes. I think if you look on an annual basis over the last 2 years, it will give you a pretty good indication of our expectations.

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**Paul Newsome** - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

That's great. And then just a couple of more modeling. Any thoughts on some of the restructuring, the pace of some of the restructuring charges that we should expect prospectively as we try and reconcile the difference between the net and adjusted?

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**Andrew Jay Krasner** - Willis Towers Watson Public Limited Company - CFO

Yes. We haven't disclosed the exact pace of the spend of the \$750 million, which we mentioned during Investor Day. You would expect a lot of that to be front-end loaded over, say, the first 2 years, which would be sort of the opposite of what you would expect from the savings, which might be more back-end loaded and accelerate over the course of the 3-year period.

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**Paul Newsome** - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

And then finally, I guess, similar, unallocated net. It's always been a little bit of a black box for us trying to model Willis. How should we think about cost savings coming through relative -- and I assume that that's a piece of what's going to happen with the segment level as well, but maybe I'm wrong. And how should we think about that?

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**Andrew Jay Krasner** - Willis Towers Watson Public Limited Company - CFO

Yes. Can you just elaborate on the question there a little bit?

**Paul Newsome** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Well, there's potentially a corporate, right, level of expenses that come through under the segment level? Historically, a pretty good size number. And I was just wondering if that's part of the expense cuts that we've been talking about and how much we should think about that possibly changing over time?

**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. No, I think you're asking about the costs, and those will be distributed back to the areas that they are associated with.

**Operator**

Our next question comes from Shlomo Rosenbaum with Stifel.

**Shlomo H. Rosenbaum** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

I had a quick question just about the headcount for hiring and attrition. Again, the sequential numbers are definitely showing improvement, but we are dealing with a situation where the fourth quarter is a situation where people don't move around all that much. And I was wondering if you can -- just on the historical experience you've had with Willis Towers Watson, if you could talk about what the levels of hiring and attrition are relative to kind of historical levels that you'd normally see in kind of the first quarter, just to give us some context on a longer-term basis.

**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Yes. So I mean, our first quarter hiring was the highest we've had in any quarter since the first quarter of 2019. So I mean, it's, I think, quite strong by any measure.

In terms of attrition, we see this getting back to normal levels. There -- yes, if you look at things like a 12-month rolling attrition, right, things get very distorted by the effect of COVID and then coming out of COVID. So those numbers are a little tough to read. If we look at sort of things like monthly attrition, of course, there's a lot of lumpiness to the figures and some timing that we have to examine, right? For instance, we've got, as you said, fourth quarter termination rates versus immediately after we pay our short-term incentives, right? And so there's [quality] in those numbers. However, we see this normalizing is the easiest way to put it, right, to levels that are much more in line with what we've seen historically for the organizations, precombination.

**Shlomo H. Rosenbaum** - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

So if you go to pre-COVID times, are you significantly different? Or are you just modestly different right now with the good line of sight to normalization?

**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

Again, there's -- the visibility here is a little hard because if you look at it on a 12-month basis, we're factoring in COVID periods. If we look at it on a monthly basis, right, taking something and annualizing it sort of magnifies what might be pretty small number differences. So I don't want to overgeneralize here, but we're pretty happy with the numbers we're seeing on the attraction and retention.

**Operator**

Our next question comes from Brian Meredith with UBS.

**Brian Robert Meredith** - UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist

Two questions here. First, hopefully, the first one is a quick simple one here. Andrew, what was the actual benefit from book sales in the second quarter of 2021, just so we know what the headwind is as we look at organic for 2020 -- 2Q 2022?

**Andrew Jay Krasner** - Willis Towers Watson Public Limited Company - CFO

For Q2 of 2021?

**Brian Robert Meredith** - UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist

Yes, exactly. Yes, exactly. For 2Q of 2021, what was the benefit of book sales so we can kind of understand kind of what the impact will be in 2Q -- or the headwind will be?

**Andrew Jay Krasner** - Willis Towers Watson Public Limited Company - CFO

I think if my memory serves me correctly, it was about \$30 million, 3-0.

**Brian Robert Meredith** - UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist

\$30 million. Great. That's helpful. And then the second question, I'm just curious, so if I think back when the merger was going on, I'm sure there were a number of clients that left during the merger or, [contrary], decided to leave during the merger because of some of the regulatory stuff that was going on. I'm just curious, what impact do you think that's having on your organic revenue growth, call it, fourth quarter and this quarter? And what do you think the drag will be here in the next couple of quarters?

**Carl A. Hess** - Willis Towers Watson Public Limited Company - CEO & Director

So I mean, there was clearly an impact, right, and twofold, right? One is clients leaving. The other is sort of new clients not signing up, right? Again, back to my earlier comments about (inaudible) and [2 RFPs] out instead of 1.

We see that dissipating over the balance of the year, Brian. And part of that is due to a strong vibrant WTW is definitely a magnet for clients as well as people, and we're very happy about that. And the second being comparables, right? So the effect, so if something goes away and looking at versus prior year numbers. So if you want to sort of take that as a straight line out, that's not a bad place to start in terms of assumption.

**Operator**

And we have a question from Yaron Kinar with Jefferies.

**Yaron Joseph Kinar** - Jefferies LLC, Research Division - Equity Analyst

Just one quick follow-up on TRANZACT. So I think since the acquisition, we've seen the publicly traded peers' valuations compressed quite a bit. At what point does that factor into looking at a potential goodwill impairment charge?

**Andrew Jay Krasner** - *Willis Towers Watson Public Limited Company - CFO*

Yes. So it's Andrew. Thank you for the question. We continue to believe and, I think, have demonstrated that we've got a very different business than some of the stand-alone publicly traded peers. We have different relationships with the carriers. We've got different processes around lead generation and verification.

So while we do take a look at that, of course, we don't believe we're impacted by completely the same dynamics as those companies.

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**Operator**

I'm showing no other questions in the queue. I'd like to turn the call back to management for any closing remarks.

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**Carl A. Hess** - *Willis Towers Watson Public Limited Company - CEO & Director*

So we thank everyone for joining us this morning. As we said, we're happy about the progress we've made, both with respect to 2022 and our 2024 goals. We look forward to further engagement with you as we take WTW forward to be the best that we can be. Thanks very much, and have a great morning.

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**Operator**

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

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