

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

WLTW.OQ - Q3 2020 Willis Towers Watson PLC Earnings Call

EVENT DATE/TIME: OCTOBER 29, 2020 / 1:30PM GMT

OVERVIEW:

Co. reported 3Q20 reported revenue of \$2b, net income of \$122m and diluted EPS of \$0.93.

CORPORATE PARTICIPANTS

John J. Haley *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Michael J. Burwell *Willis Towers Watson Public Limited Company - CFO*

CONFERENCE CALL PARTICIPANTS

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

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

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

Mark Douglas Hughes *Truist Securities, Inc., Research Division - MD*

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

Sean Keller Reitenbach *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

PRESENTATION

Operator

Good morning. Welcome to the Willis Tower Watson's Third Quarter 2020 Earnings Conference Call. Please refer to the willistowerswatson.com for 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 Willis Towers Watson'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 refer the forward-looking statements section of the earnings press release issued today this morning as well as other disclosures in the most recent Form 10-K and in other Willis Tower Watson's SEC filings.

During the call, certain non-GAAP financial measures may be discussed. For reconciliation of the non-GAAP measures as well as other information regarding these measures, please refer to the most recent earnings release and other materials in the Investor Relations section of the company's website.

I would now like to turn the call over to Mr. John Haley, Willis Towers Watson's Chief Executive Officer. Please go ahead.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Okay. Thank you. Good morning, everyone, and thank you for joining us on our third quarter 2020 earnings call. Joining me today is Mike Burwell, our Chief Financial Officer.

In the third quarter, we continued to navigate through challenging economic conditions. Nevertheless, I'm pleased with our financial performance. While our revenues continue to be impacted by the pandemic and the lockdown, particularly, in our discretionary lines of business, our overall performance reflects the durability and resilience of our business model. In many of our core businesses we continue to experience new business generation, strong client retention rates and increased operating leverage. We continue to reduce our controllable spending and improve our liquidity through prudent cash flow management.

As we navigate through the COVID-19 lockdown and the resulting economic conditions, the well-being of our colleagues, clients and communities remains at the forefront. It has been an arduous but transformative year.

With great changes come new opportunities for growth, which is why we continue to be excited about the proposed Aon and Willis Towers Watson combination. COVID-19 has highlighted deficiencies in the way the world approaches people, risk and capital issues, and we believe our combination with Aon will allow us to more proactively support our clients in developing solutions to problems that are inadequately managed today. COVID-19 has shown the world that the widespread cost of extreme events far exceeds the upfront cost of prudent preparatory measures. Climate risk is one such area where we see protection gaps and building greater resilience is critical. Similar to the COVID-19 pandemic, climate change will challenge many countries with the potential for profound socioeconomic destructions, highlighting the critical need for more efficient, risk-informed investment decision making to help save lives and economies from the foreseeable shocks in the years and decades ahead.

I'm proud of the work that Willis Towers Watson has done to get ahead of the curve on climate risk. As I announced in the fall of 2019, we're a founding member of the Coalition for Climate Resilient Investment, or CCRI. The CCRI is a public-private coalition of institutional investors, banks, insurers, rating agencies and governments. And it was launched last year to produce solutions, facilitating the integration of climate risk into investment policy.

Our work on climate has involved multiple businesses and geographies. To focus our efforts, we introduced Climate Quantified at the World Economic Forum meeting in Davos earlier this year. This is galvanizing our work in helping organizations navigate climate risk. For example, we're working with a large financial institution to assess the exposure of asset portfolios to climate change. We've also been developing approaches to risk transfer, such as parametric insurance, which we believe enable protection against unpredictable but potentially devastating risks, protection that was previously unthinkable with traditional insurance.

Willis Towers Watson is not a newcomer on this topic. In response to growing demand for our climate services and capabilities, we established the Climate and Resilience Hub, which sits within the Investment, Risk & Reinsurance segment. Climate has been at the core of our research agenda for the last 15 years, well before this made the headlines. Climate has also been an integral component of the investment business research efforts, including those of our Thinking Ahead Institute.

Overall, we've invested over \$50 million over the last decade to support open climate and natural hazard research in partnership with institutions such as the National Center for Atmospheric Research, Columbia University, the National University of Singapore and Newcastle, Cambridge and Exeter universities. We continue to drive momentum on client resilience during this year's annual Climate Week in New York City.

The annual Climate Week presented an opportunity for the company to promote resilience and sustainability, showcase global climate action and maintain the critical momentum needed to manage climate risk. We also had the honor of participating in the World Economic Forum Sustainable Development Impact Summit, contributing towards important initiatives that will accelerate sustainability and resilience.

The COVID-19 pandemic has dramatically highlighted what happens when countries and businesses do not prepare for long-term resilience and instead prioritize short-term considerations. Progress has been too slow in closing the protection gaps that exist.

As we cited in our recently released white paper, both Aon and Willis Towers Watson share a strong commitment to helping clients navigate their most complex challenges. We're eager to bring new and innovative solutions to our clients, to help them meet their evolving needs and address global problems like climate risk. We believe our combined firm will have the capacity to take progressive action and implement systemic change that will have both immediate and long-term impact in 4 key areas: navigating new forms of volatility, building a resilient workforce, rethinking access to capital and, of course, addressing the underserved.

So let's move on to our third quarter results. Reported revenue for the third quarter was \$2 billion. That's up 1% as compared to the prior year third quarter, flat on a constant currency basis and down 1% on an organic basis.

Reported revenue included \$17 million of positive currency movement. Similar to the last quarter, we experienced solid financial performance in areas where we have a well-established market position, mature relationships and annuity or compliance-driven businesses. We faced some headwinds in areas where our revenue is more aligned to discretionary project spending.

Net income was \$122 million, up 53% for the third quarter as compared to \$80 million of net income in the prior year third quarter. Adjusted EBITDA was \$382 million or 19% of revenue as compared to the prior year adjusted EBITDA for the third quarter of \$344 million or 17.3% of revenue. That represents an 11% increase on an adjusted EBITDA dollar basis and 170 basis points of margin improvement.

For the quarter, diluted earnings per share, which included a gain on the sale of Max Matthiessen were \$0.93, an increase of 60% as compared to the prior year. Adjusted diluted earnings per share were \$1.33 for the third quarter, reflecting an increase of 2% compared to the prior year. Overall, it was a solid quarter. We grew revenue and adjusted earnings per share and had enhanced adjusted EBITDA margin performance.

Now let's look at each of the segments in some more detail. To provide clear comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise. Segment margins are calculated using segment revenue and exclude unallocated corporate costs such as amortization of intangibles, certain transaction and integration expenses resulting from mergers and acquisitions as well as other items which we consider noncore to our operating results. The segment results do include discretionary compensation.

The Human Capital & Benefits, or HCB segment revenue was down 2% on an organic and constant currency basis compared to the third quarter of the prior year. That's primarily as a result of a decline in demand in our Talent and Rewards business. Talent and Rewards revenue decreased 9% with the economic turmoil related to the COVID-19 lockdowns adversely impacting workforce dynamics at many companies and dampening the need for advisory work globally.

Our Health and Benefits revenues increased 1% for the quarter. We experienced strong client retention in North America, alongside new global benefit management and local brokerage appointments outside North America. Retirement revenue was flat compared to the prior year, with reduced derisking activity in North America being balanced by increased funding in GMP equalization work in Great Britain.

Technology and Administrative Solutions revenue declined in Western Europe and international, primarily as a result of nonrecurring project work that had enhanced the prior year's results. Despite the pressure on revenue, HCB's operating margin decreased by only 30 basis points compared to the prior year third quarter as a result of careful cost management efforts. We remain confident about the long-term prospects of our HCB segment. Work environments have changed dramatically this year, forcing many companies to rethink their approach to work and rewards. HCB there is to help clients make the tough decisions needed to unlock their organizational resilience and push forward.

Now let's look at Corporate Risk & Broking or CRB, which had a revenue decrease of 1% on an organic and constant currency basis as compared to the prior year third quarter. North America's revenue was down by 4% in the third quarter. This was mainly a result of a tough comparable from the prior year, which benefited from the one-off sale of a book of business. Revenue for International and Western Europe increased 3% and 4%, respectively, driven by new business and strong renewal.

Great Britain's revenue declined 2% for the third quarter. Great Britain's results were negatively impacted by a change in the remuneration model for certain lines of business. This change, which is neutral to operating income results in lower revenue and an equal reduction in salaries and benefits expense. Absent this change, Great Britain's revenue increased by 2%, primarily from strong performance across most lines of business, including Financial Solutions and FINEX.

CRB revenue was \$649 million for the quarter with an operating margin of 12.5% and compared to \$651 million in revenue with an operating margin of 12.4% in the prior year third quarter. The margin improvement was due to top line growth, coupled with cost containment efforts. CRB combines research, data and strategic insight to address our clients' most complex risk challenges. Companies must constantly adapt to today's ever-changing business landscape, and we believe CRB is well positioned to provide solutions that keep pace with our clients' evolving needs.

Turning to Investment, Risk & Reinsurance, or IRR. Revenue for the third quarter was \$331 million, an increase of 3% on an organic basis and flat on a constant currency basis as compared to the prior year third quarter. Reinsurance with growth of 7% continued to lead the segment's growth through a combination of net new business and favorable renewals.

Insurance Consulting and Technology revenue was up 1%, mainly from technology sale. Investment revenue increased 4% with continued expansion of the delegated investment services portfolio.

Max Matthiessen revenue increased primarily from increased commission income. As a reminder, we sold the Max Matthiessen business in the third quarter, and they will not be included in our Q4 results.

Our wholesale business was down 12% on an organic basis, with pressure across all lines and lower investment returns.

IRR had an operating margin of 8.6% as compared to 9.3% for the prior year third quarter. We continue to feel good about IRR's momentum. IRR's portfolio of offerings provides organizations with information needed to understand their risk and how it affects capital and their financial performance. Advising clients through these turbulent times continues to be IRR's core focus.

Revenue for the Benefits Delivery & Administration, or BDA segment increased by 26% on a constant currency basis and increased 6% on an organic basis from the prior year third quarter. The growth in revenue was primarily driven by TRANZACT, which contributed \$96 million to BDA's top line this quarter.

The Benefits Outsourcing business also contributed to the increase in revenue, which was largely driven by its expanded client base.

The BDA segment had revenues of \$226 million with a minus 5.3% operating margin as compared to minus 11.9% in the prior year third quarter. The margin improvement was primarily driven by the top line growth. We're optimistic about the long-term growth of this business. The pandemic has threatened the well-being of people all over the globe. In this time of heightened stress and uncertainty, BDA empowers employees and retirees by providing easy access to the tools they need to understand their benefit option and to take control of their health care.

Overall, I'm pleased with our progress. We delivered steady overall financial performance with modest margin expansion and adjusted EPS growth, despite the lingering economic turmoil.

So now I'll turn the call over to Mike.

Michael J. Burwell - Willis Towers Watson Public Limited Company - CFO

Thanks, John, and good morning to everyone. Thanks to all of you for joining us. I'd like to extend my gratitude to our colleagues for another solid quarter as well as thank our clients for their continued support and trust in us through this challenging environment. I'm proud of our leadership, our colleagues and our overall resiliency demonstrated by our businesses.

Now let's turn to our financial overview. In the third quarter, we continued to face some headwinds from the COVID-19 pandemic, but we are reassured by the demand for our services and solutions and by our ability to reduce discretionary expenses and to manage our cash. We were pleased to see another solid quarter of profitability with underlying adjusted EPS growth and remarkable free cash flow growth.

Now I'll turn to the overall detailed financial results. I'll start with income from operations. Income from operations for the third quarter was \$73 million or 3.6% of revenue, down 180 basis points from the prior year third quarter income from operations of \$107 million or 5.4% of revenue.

Adjusted operating income for the third quarter was \$238 million or 11.8% of revenue, up 20 basis points from \$231 million or 11.6% of revenue in the prior year third quarter.

The third quarters of 2020 and 2019, our diluted EPS were \$0.93 and \$0.58, respectively. For the third quarter of 2020, our adjusted EPS was up 2% to \$1.33 per share as compared to \$1.31 per share in the prior year third quarter. Foreign exchange had a \$0.03 impact on EPS for the third quarter.

Our U.S. GAAP tax rate for the third quarter was 27.6% versus 20.4% in the prior year. Our adjusted tax rate for the third quarter was 30%, up from 22.2% rate in the prior year. The current quarter effective tax rate was higher as a result of the enacted statutory tax rate changes in the U.K., requiring us to remeasure our U.K. deferred tax liabilities and recognize a discrete deferred tax expense of approximately \$11 million or \$0.08 per share during the 3 months ended September 30, 2020.

Turning to the balance sheet. As the COVID-19 situation continues to evolve, I believe that we are well prepared to navigate the uncertainty that lies ahead. We ended the third quarter with a strong capital and liquidity position, with cash and cash equivalents of \$1.6 billion and full capacity on our undrawn \$1.25 billion revolving credit facility. We had no borrowings under our credit facility during the quarter. Our debt to adjusted EBITDA has improved from 2.7 at 9/30/2019 and 2.4 at 12/31/2019 to 2.3 at 9/30/2020.

Willis Towers Watson remains well positioned from liquidity perspective. We aim to continue to maintain a strong and durable balance sheet, continue pushing forward our cost and efficiency initiatives. We continue to monitor ever-evolving impact of the pandemic, and we're prepared to take appropriate measures as needed to preserve our financial position.

For the third quarter of 2020, our free cash flow was \$473 million versus \$262 million in the prior year, bringing our year-to-date free cash flow to \$1 billion, an increase of 130% from \$445 million for the first 9 months of the prior year. The year-over-year improvement in free cash flow is due to a combination of prudent working capital management and a disciplined approach to managing spend.

In terms of capital allocation, we paid \$259 million in dividends and did not repurchase any shares in the 9 months ended September 30, 2020. As a reminder, given certain prohibitions in the transaction agreement in connection with our pending business combination with Aon, we do not expect to repurchase any shares during the remainder of 2020.

As a general matter, the COVID-19 pandemic did not have a material adverse impact to our overall financial results for the third quarter of fiscal 2020. However, the pandemic did impact revenue growth, particularly in some discretionary lines, and we expect the effects of COVID-19 on general economic activity could negatively impact our revenue results for the remainder of 2020 and beyond. The duration of the pandemic, the full magnitude of its economic impact and the subsequent speed of recovery remain unknown. In the meantime, we remain focused on maintaining a strong balance sheet, liquidity and financial flexibility.

The COVID-19 pandemic has caused considerable economic upheaval, but I'm very proud of the leadership team and resolve of our colleagues in supporting our clients during these difficult times. These third quarter results are a direct reflection of the agility of our global model. Overall, we delivered a solid financial performance in the third quarter, and I remain confident in our ability to continue driving value for all our stakeholders.

I'll now I'll turn the call back to John.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Thanks, Mike. And now we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Paul Newsome with Piper Sandler.

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

So obviously, the theme today with brokers is that the excellent margin control that everyone's had. Any thoughts as we get into the next quarter or beyond about, just if you'll have to increase the -- about the spending just because hopefully, things are getting a little bit back to normal again?

John J. Haley - Willis Towers Watson Public Limited Company - CEO & Executive Director

Yes. So I think, look, we expect that situation is going to evolve and change during, say, 2021, but I think we really don't know exactly how it's going to evolve. I think we know it's going to be different than it is today, but we don't think it's going to go back to where it was prior to COVID-19 also. To the extent we have some more expenses, say, travel and entertainment, things like that, we'll only be undertaking them when they're justified by generating the extra revenue. So while we expect expenses to increase, we're going to try to do that only where we also have the corresponding revenue increases.

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

Great. And completely different question. Obviously, we're looking at a changing political environment well with the ACA possibly being affected by a quarterly, any thoughts on that business and the outlook, just given the changing regulatory environment?

John J. Haley - Willis Towers Watson Public Limited Company - CEO & Executive Director

No. I mean I think what we would say is, we think that the services that we provide, I talked at the end of my remarks about how the -- particularly the services we provide in BDA let employees and individuals take control of their benefits and their health care. And I think that's a theme that you see around the world. Whatever way politicians or the particular methods they use for providing health care, they want individuals to be in charge of their own health care and take responsibility for it. And so, we feel pretty good about the services we provide.

Operator

Our next question comes from the line of Elyse Greenspan with Wells Fargo.

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

My first question on CRB, you guys pointed to a one-off sale in North America, I think you gave the impact of Great Britain, the one-off item there that the GB piece would have been up 2%. What would all of CRB have done in the quarter, if we adjust for the onetime in North America and Great Britain?

Michael J. Burwell - Willis Towers Watson Public Limited Company - CFO

Yes, Elyse, I mean, we would have been a slight -- we have been flat overall to a slight increase. It's kind of really where we would have been for the quarter. Obviously, when we look at the quarter, overall, we look at the year-to-date results. And when we look at that, we feel like we're operating pretty favorably in comparison to the market. And so that's kind of how we think about it.

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

Okay. Great. And then wholesale, I think I heard you guys say that, that was down 12% within IRR. I know you guys, like there's been -- it's been disclosed, right, about the potential sale of Miller. I'm not sure if that had an impact or if we just get a little bit more color on what you saw within wholesale? And is anything there kind of onetime to the Q3? And how we should think about the trajectory of that business from here?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes. So, when we look at Miller overall, thank you for the question, Elyse. One of the things that happens with Miller is that they ensure a lot of events and in particular, sporting events, and so obviously, there's been a lot of those that haven't transpired or being put on hold. And so that's what we really saw in terms of driving the reduction in revenue growth for the quarter. Now we continue to evaluate strategic alternatives, as we said, for Miller. Miller has been a very strong and performing business for us, but that's the direct reason of why the decline in Miller for the quarter.

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

Is the sporting event more pronounced to the Q3 than other quarters? Or would that be even throughout the year?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

No, it's a little bit more in the Q3.

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

Okay. And then my last question on the tax rate, you pointed to, I think there was a U.K. statutory change that led to the elevation in the quarter. Is there any impact on your go-forward tax rate?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes. So as I just received feedback, Elyse, yes, so we did -- the U.K. did raise their statutory rate by 2%. As I said, it had a \$11 million -- approximately \$11 million impact on our tax calculation for the quarter in terms of setting that up on our deferred tax liabilities. But also, we could not adjust for that on a onetime basis. So that had \$0.08 impact into our results for the quarter. So -- and then for the year, we will -- it will have a slight impact for us thinking about the year, but nonetheless, not -- within a -- think about it within roughly a 1% kind of number for the year.

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

Okay and then if I can just shove one more in. The free cash flow is \$1 billion year-to-date. That had obviously been a major focus of Willis Towers Watson. I know you guys pulled all of your guidance at the start of COVID like, most other players in the space. But that was your free cash flow target for the year. So obviously, you guys have hit that 1 quarter ahead of time. Anything specific to the free cash flow conversion for the past couple of quarters? Or has it just been kind of blocking and tackling in all the things that you guys have focused on in terms of payables and receivables really drive that conversion up?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes, Elyse, so thank you for pointing that out. It's really the effort by our colleagues. Our colleagues have worked extremely hard on this. Overall, as we have -- as a collective group, as a leadership team in terms of driving and focused on this. So as you know, it has been something a topic of conversation that's happened historically. We've continued to focus on how it is that we manage our relationships with our clients, doing the right things in the face of the pandemic. But equally been very focused on making sure that we have the right terms and we collect our cash appropriately.

And so -- as well as pay appropriately. And so all those things factored into our continued focus on it. And it's -- we're proud that we -- where we sit through the third quarter, and we'll look to continue to deliver as we move forward in the fourth quarter.

Operator

Your next question comes from the line of Greg Peters with Raymond James.

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

My first question would be just an update on the merger. Can you talk about the role of the U.K. regulator and your merger process? Especially, in the context of Brexit? And do you still anticipate minimal disposals?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. So, look, Greg, thanks for the question. Unfortunately, we can't comment on any specific approvals obtained or still outstanding. There are several global antitrust filings that are required in connection with the proposed transaction. And the specific process varies by jurisdiction. But I can tell you, we are still planning to submit all of our antitrust filings in required jurisdictions. And we're still expecting to have all clearances in the first half of 2021.

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

Got it. The second question, so I was looking just at the consolidated income statement, I think it's on Page 15 of your press release. And it's clear that the operating -- other operating expenses are down and I think that's just a reflection of your tight control over T&E, but I was struck by the salary and benefits line, which as a percentage of the revenue inched up, I think it was like 64.5% last year. And then this year, it's above 66%. So can you walk us through maybe on a consolidated basis and maybe at the segment level, why salary and benefits as a percentage of revenue is running higher in the third quarter this year than it did the third quarter last year.

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Sure. Greg, so thank you for the question. And in terms of looking at S&B, we obviously have -- bring the right talent on board is important for each of our businesses. And in particular, when you look at the growth that we've had in our BDA segment, specifically, we've brought on more talent in that particular business overall. Obviously, we have -- think about our overall incentive compensation numbers in terms of that we accrue on a year-over-year basis in terms of thinking about it. So, we -- it is just a function of the people and our drive associated with it. We looked at impacting resources -- overall is a decision of last resort, not that we wouldn't impact people, but that was a decision of last resort. And so, our colleagues have bonded together to drive cost benefits out. And we, as a leadership team, have been really managing that line, the best that we can. Yes, it's up slightly, in my mind, comparison to the prior year. But we've been able to offset a heck of a lot of other costs through that. And we have -- just cut that off immediately with the level of talent that you're continuing to bring into the organization in terms of what that looks like. So...

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. And maybe I'll just add that, I think, Greg, we've -- we're looking to try to get to an incentive compensation for this year that is around the same as we were last year. Although the actual way we accrue that by quarter sometimes varies a little bit. And I think we did accrue more this quarter than we did the same quarter last year. We're still looking to get to around the same bonus pool. I mean ideally, we'd like to even have it be slightly better, but we're looking to get to around the same bonus pool as we had last year. We also have some headwinds from stock compensation as we get charges for that as the stock price goes up.

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

Got it. Just my final -- I know you threw in a comment around TRANZACT and you're in the annual enrollment period for that business right now. Can you give us an update from where you sit on how that business looks to grow in the fourth quarter this year?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Well, I mean, it's too early for us to say anything about what the fourth quarter is going to be like this year. I think that's really just beginning. But overall, as I think we said on the prior calls, too, we're very excited about this business. I think we were incredibly enthused, when we were able to acquire TRANZACT and fold it into Willis Towers Watson. And we're even more enthused about the business today. So we feel pretty good about the long-range prospects here. And we think it's a perfect fit with the rest of the organization.

Operator

Your next question comes from the line of Mark Marcon with Baird.

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

Congrats on the free cash flow. That was really, great to see. Wondering, you're not giving us any guidance for the fourth quarter, but I'm wondering if you can just talk across the different segments, HCB, CRB, IRR and BDA, just in terms of what you were seeing as the quarter unfolded in terms of new business development efforts? And how that may potentially end up impacting the fourth quarter and a little bit beyond that, just because there's obviously a lag between when new engagements are signed, and they actually turn into revenue. And then also, if you could tell us what the impact would be with Max Matthiessen in terms of that being disposed?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. So, I'll let Mike go through and give us some thoughts about the new business. But let me just make 1 comment at the beginning. As we -- we're not giving any guidance because in today's -- with today's world, it's just so hard to know how things are going to impact -- things are going to impact from 1 quarter to another. I will note, though, that last year, the fourth quarter of 2019 was an extraordinarily good quarter for us. And so, we're facing a tough comparable in that fourth quarter. But as I had referenced in response to an earlier question, we're still looking to try to get to about the same results as we had last year. But Mike, do you want to go run through this?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes, John, thanks. And then Mark, I mean, again, under the -- we're not -- the fourth quarter hasn't happened. Not giving guidance, but just giving you some sense.

Our HCB business as John referenced in his prepared remarks, to it, our retirement business, we're very pleased with its performance in terms of it serving the marketplace, and we continue to be very pleased with where it's performing in the context of a very difficult economic environment.

Our Talent and Rewards business is going to continue to be -- you got discretionary spending that's out there. And so frankly, it's performed better than we expected, to tell you the truth, given where it had previously been -- when we look back in the financial crisis, on our Talent and Rewards business and how well that group has done overall.

H&B, we talked about it this quarter, having 1% growth. We continue to believe H&B will continue to perform well. And so -- and that business is very focused on managing its cost appropriately. And so that's kind of how we think about our that business. The only other one I commented on

is our TAS business. And as John said in his prepared remarks, we had a very -- a year-over-year basis, we had a very large project that transpired in the prior year. We didn't have it in the current year, and that will continue to have some impact as it looks at the fourth quarter. But again, from an overall margin standpoint, the group has done a very good job in managing its costs overall.

On CRB, the CRB team, when we look at its revenue growth and we adjust for the question that Elyse asked, just in terms of prior year sales, we're pleased with where CRB sits on a year-to-date basis. And when we look at its growth trajectory, we believe that it will -- should perform at market levels, and we don't see any reason why it won't. And the group, again, similar to the HCB comments, been very focused on managing its margins properly. And cost management, and we don't see anything different from that leadership team in terms of what business they're doing.

When I look at our IRR business, obviously, we've divested Max. We will -- in terms of its -- we think it's a very good time to divest of Max. It's a very good business, and we think it will continue to thrive under its new ownership structure, but it's been a great business for us. And -- so we'll have -- obviously have that out in the fourth quarter.

Our reinsurance business is growth at 7%. When we compare that to others, we believe that's at -- if not market-leading, at least at the comparable basis, to the marketplace overall.

And our ICT business, in terms of the group, continues to do very well. They've got some tremendous talent in that business and continue to improve on their technology sales overall. Our investment business increased this quarter 4%, continued expansion in the delegated investment services. We're very pleased with their performance and what they've continued to do in very, very tough market conditions.

And as I said, our wholesale business was down and we really believe that was a direct link back to the canceled sporting events, events overall, in particular, sporting events, and we've seen these kinds of rebounds happen and -- as it relates to the wholesale business. So we will wait and see. I'm not giving any projections there, but we're very pleased with that management team and their ability to be able to deliver, if you look at historical -- their historical ability to deliver.

If we go to our BDA business, I think John really covered that in his comments earlier. Overall, we're very pleased with BDA. And obviously, all the action is going to happen here in the fourth quarter, given the open enrollment period of time. So, we continue to watch that. But very, very pleased with that team in terms of what business they're doing. So, try to give you a little bit more color, Mark, as much as possible and thinking about those businesses. But as John said in his comments earlier, we're going to manage cost effectively. We will spend where it's appropriate to drive revenue growth. And our management team as well as all our colleagues are very focused on that objective in delivering for all stakeholders.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

And maybe I would just add 2 quick things here to Mike, to what you gave there. First of all, I think you referenced this, but just to sort of emphasize it, our Talent and Rewards business, it's down, but this is a business that has a large percentage of discretionary projects. And we feel like this is -- they have performed extraordinarily well here. When we compare it to either what I think others are doing in the market or we go back and we compare it to the downturns in the early 2000s, Talent and Rewards has performed extraordinarily well. And just to give you a sense of the difficulty in looking at some of these things, I could take our bulk lump sum activity. So we're continuing to expect a sort of a healthy pipeline there. But with this low or near 0 interest rate environment, some sponsors are going to step back from these initiatives because of the reduced funded status in their pension plans.

On the other hand, so other sponsors are going to look at the reduced lender status and say, jeez, we're going to be spending a longer time on the PBGC premium cap because of this reduced funded status. That actually increases the ROI for doing the BLS project. So, which of those 2 things is going to be predominant? We don't really know at the moment. I mean we're still -- as I said, we still continue to expect a healthy pipeline, but probably, nominally, lower than last year. But that could pick up going into 2021.

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

Great. And then just to make sure I heard most of the comments correctly. The general sense I got is, as Mike was going through everything was, there probably, doesn't sound like there was a huge deterioration as you went month-to-month to month through the last quarter, just in terms of sales activity. It sounded like, it was generally more stable. Is that a correct interpretation?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. I think that's correct.

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

Okay. And then just Max Matthiessen, just what's the revenue impact going to be on a quarterly basis? On an annualized basis in terms of taking them out.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Mike, you have that, don't you?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes. Yes, just getting it here, Mark.

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

Sure. And then while you're looking at that, just to go back to Greg's question, was there -- do you sense that there's any more regulatory challenge or less regulatory challenge with regards to Aon than what you previously anticipated? Or is it basically just in line?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

So I would say, I think that there's nothing that has been any kind of a big surprise in terms of what we've done with the regulators. I think when we put the combination together, we felt that there were some very good arguments as to why this combination made sense and why there should be -- we should be able to go ahead without any restrictions. But it doesn't matter what we think. What matters is what the regulators think. And so we've been working with them, and we've been submitting all the information. As I said, we haven't been asked for anything, which is any kind of a big surprise to us at all. And we're -- as we stand, we've been working very cooperatively, and we're on our schedule.

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

And Mark, back, think about Max Matthiessen roughly about \$25 million in revenue per quarter.

Operator

Our next question comes from the line of Mark Hughes with Truist?

Mark Douglas Hughes - *Truist Securities, Inc., Research Division - MD*

In the impact of climate change and the efforts you're making to deal with that, what do you think it means for your business in terms of growth opportunities, if there's more losses, more risks, more volatility? How do you think about that?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Well I think there's 2 things. I would say that a lot of the work we've been doing in climate change has evolved out of the capabilities that we have in the work we normally do for clients. So we've been working with them on risk management and on having insurance against things like hurricanes or other things that are a result that can be impacted by climate change. So we have that capability, we're working with them. A lot of the work that we're doing, for example, around the Coalition for Climate Resilient Investment is not really revenue-generating work, but it is work that we think is an important contribution that we're uniquely positioned to provide to the market.

In the long run, though, climate change is going to impact almost every part of our business. It's going to be impacting the severity of some of these long tail or extreme events that are occurring. And so we're going to have to be helping to model that. We're happy helping to work with clients on risk mitigation. We're going to have to be working with them to build in resilience. I mentioned about how we're working with some of the largest financial institution in the world to evaluate their loan portfolio for its exposure to climate. We're going to be working with -- in our investment consulting operations, understanding how pension plans and other investors want to take climate into account in their investments. And this is something that actually we've had about a 15-year track record, as I said, of having been working on that. And in our Talent and Rewards business, we're going to be working to help put these kind of metrics into executive compensation plans. So we see this as impacting the whole broad range of businesses we have.

Operator

And your final question comes from the line of Sean Reitenbach with KBW.

Sean Keller Reitenbach - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

This might be a little similar to past question. But thinking about HCB, and you mentioned clients having to rethink talent, rewards and such. Is that project flow you're starting to see already? Or is that kind of projected demand that we will really start to contribute to growth in 2021 as the economic environment stabilizes and such?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

I think this is closer to saying, when I went through on the bulk lump sum activity, I said, here are some reasons why it could increase and here's some reasons why it might be tamped down somewhat. I think with T&R, those are some reasons why we think it might increase, but it's not like we're really seeing a lot of that yet.

Sean Keller Reitenbach - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Okay. And then thinking about the -- like reinsurance and insurance rate environment and such in conversations with clients, what are the discussions about the rate environment? Are you preparing them for significant -- maybe like multiple renewals of high rate increases? I know 1 industry CEO mentioned, the industry still hasn't seen a real response from reinsurers. So that could further kind of provide more momentum and longer duration of this hardening market?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. I mean I think, look, we -- one of the things we do with our clients is to discuss the environment and the pricing environment and what's out there. Of course, we like to think we'll be able to do a better job for them than others. So they probably have a little bit less of a rate increase.

Operator

And there are no further questions. I would now like to turn the call back over to Mr. John Haley, Willis Towers Watson's Chief Executive Officer. Please go ahead.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Okay. Thanks very much, everyone, for joining us on this call, and we look forward to updating you in February, on the full year's results. Have a good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Refinitiv. All Rights Reserved.