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WTW.OQ - Q3 2022 Willis Towers Watson PLC Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2022 / 1:00PM GMT

OVERVIEW:

Co. reported 3Q22 adjusted operating income of $284m and adjusted diluted EPS of $2.20.

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PRESENTATION

Operator

Good morning, and welcome to the WTW Third Quarter 2022 Earnings Conference Call. Please refer to 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. 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 more detailed discussions 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 a 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 will now turn the call over to Carl Hess, WTW's Chief Executive Officer. Please go ahead, sir.

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

Good morning, everyone. Thank you for joining for WTW's Third Quarter 2022 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer. Our third quarter performance reflects the increasing momentum we see in the business and our intense focus on delivering on our commitments. As projected, our organic revenue growth accelerated reaching 6% this quarter fueled by the great efforts of our colleagues and the strength of our global client model and further augmented by the investments we've made in talent and technology.

We generated adjusted diluted earnings of $2.20 per share and drove 110 basis points of adjusted operating margin expansion, thanks to our transformation program, continued expense discipline and operating leverage from new business. We also continue to execute against our capital allocation strategy, completing $369 million in share repurchases in the third quarter. That brings our year-to-date total to $3.1 billion.

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We're pleased with our third quarter performance and our progress executing our strategy to grow, simplify and transform gives us confidence in our ability to deliver against our guidance for 2022 and to drive growth and value creation over the long term.

A year ago, at our Investor Day, we laid out our strategy for how we take WTW forward and deliver robust shareholder returns. Before getting into the details of the quarter, I want to provide you with an update on these initiatives. While it's still early in our journey, and there is more work to do, we have made substantial progress and are seeing encouraging signs that our investments and actions will yield the long-term improvement we expect. Our transformation efforts have made the most immediate impact. As I mentioned on our last earnings call, our focus on continuous improvement has helped us identify new opportunities and incremental sources of value as well as areas in which we can accelerate progress.

During the third quarter, we realized $29 million of incremental annualized savings. This brings the total to $100 million in cumulative annualized savings since the program's inception, far exceeding our original $30 million target for 2022. Accordingly, we're raising our guidance on cumulative run rate transformation savings action by the end of 2022 from over $80 million to approximately $110 million. The additional transformation savings we've identified also supported increase to the total annual cost savings we expect the program to deliver by the end of 2024 from $300 million to $360 million. And as I said, there's still more work to do, and we will continue searching for additional opportunities.

Meanwhile, our Simplify and Grow initiatives are powering the increasing momentum we see in the business. One of our key simplify activities has been streamlining shared operations to improve sales and retention outcomes. Our accelerated growth and robust pipeline demonstrate the progress we've made deploying this more agile model globally.

For our Grow initiatives, we remain focused on investment in both core and fast-growing markets and innovation to drive differentiation and better client outcomes. In Corporate Risk and Broking, our investments in specialized solutions and strategic hires for our global lines of business are meaningfully accelerating growth with most lines growing double digits this quarter.

In Health, Wealth and Career we've seen strong uptake of our solutions that are cross sold across the segment and are increasingly bundling products into our core advisory work.

Our focus on innovation is driving improvements to existing solutions as well as launches of new products. For example, WTW's global payroll diagnostic tool is a sophisticated model, which provides refined evaluation of comprehensive catastrophe risks. The model clarifies exposure to terrorism in 12 natural perils and includes live event tracking for events such as pandemics, earthquakes, wind storms. We've recently enhanced this tool with hurricane tracking advisory and resiliency scoring, upgrading the sophisticated foundational tool with next-level analytics.

Analytics is a key area for new product development as well, including the recent launch of Risk Intelligence Quantified or Risk IQ. This flexible and crystallized platform provides risk specialists with autonomous access to the breadth of WTW's leading Risk & Analytics solutions. Risk IQ puts managers in control of their analytic outputs, providing patients with the ability to run business-critical scenarios and prepare for potential losses.

WTW is at the forefront when it comes to delivering valuable strategic solutions across this market and Risk IQ further highlights our client-centric capabilities. Our new products reflect the evolution of our services to align with the changing needs of our clients.

In addition, our ongoing investments to rebuild our talent base are proceeding as expected. The pace of hiring in the third quarter matched that of the first half of the year. We also continue to see the benefit of retention efforts with voluntary attrition remaining in line with macro trends.

One Grow initiative from Investor Day that has not been a focus for us to date is inorganic expansion. While we expect share repurchases to remain the primary avenue for capital deployment, we are still committed to identifying attractive opportunities to strengthen our portfolio and add scale and fill gaps in our capabilities via acquisitions as part of our broader capital allocation strategy, particularly with the market now tilting in favor of buyers.

Over the past year, we've developed a strong understanding of where we could benefit from deploying capital, which enables us to be a disciplined and opportunistic buyer. The progress we have made to date gives us confidence that WTW is on the right path but we also recognize that we

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have more work to do. We'll share a more detailed outlook for 2023 next quarter, and we continue to believe we will deliver on our long-term organic growth and margin expansion expectations.

While we're on this topic, I wanted to take some time to discuss our decision to reflect the impact of the Russian divestiture in our 2024 guidance. As you know, during the first quarter of 2022, we announced our intention to transfer ownership of our Russian subsidiaries to local management and work to identify potential longer-term offsets to the impact of the exit. The transfer was completed in the third quarter, and given the current conditions, we do not anticipate resuming operations there in the foreseeable future. WTW's operations in Russia, which were almost entirely within our Risk and Broking segment, comprised approximately 1% of consolidated revenue for 2021 and were highly profitable. Due to the unusual circumstances under which the divestiture was made, there were essentially no proceeds from the transfer. As a result of this one-off event, we are unable to replace the lost earnings through reinvestment of proceeds.

With the transaction complete, we believe it's now appropriate to revise the starting and ending points of our long-term guidance to reflect the divestiture of WTW's Russian operations, just as we would any other significant transaction. I want to make it very clear that despite revising our long-term targets, we remain committed to delivering the same level of improvement, mid-single-digit, organic revenue growth and 400 to 500 basis points of adjusted operating margin expansion as we set out at Investor Day.

Page 4 of the earnings release published earlier this morning provides further disclosure on the divestiture and the related adjustments to our long-term guidance. Please note that our initial and revised targets exclude the potential effects of fluctuations in foreign currency rates.

The ongoing situation in Russia is a stark reminder of the heightened geopolitical and macroeconomic risk all basis is face today. I want to take a moment to talk about how we're helping our clients navigate this complicated and uncertain landscape. Our solutions help clients manage their human, physical and financial capital to protect and strengthen their institutions, and these tools only become more valuable in challenging times.

Inflation is top of mind. Our clients are increasingly seeking our advice and solutions to manage the impact of inflation on wages, health care costs, pensions and retirement plans. With tight labor markets persisting, solving these challenges is a strategic opportunity for clients, and we're helping them optimize total rewards spend, manage the cost of retirement and medical programs and efficiently fund and finance programs via pooling, global underwriting, captive strategies and delegated asset management.

Another hallmark of the current environment is how quickly it's changing. In addition to working with our clients to manage traditional ever-present risks, we're seeing strong demand from clients for innovative solutions and tools to help them identify, quantify and manage fast-moving risks such as more volatile financial markets, climate change, geopolitical tensions, heightened ESG risk and reputational damage to name a few. We're rising to this challenge by bringing the best of our organization together globally, creating market-leading analytical tools to help clients make better informed decisions and crafting customized solutions to meet our clients' emergent risks.

Our performance in the quarter demonstrated our focus on delivering on our commitments and our pursuit of profitable sustainable growth. We believe that the successful execution of our strategy and robust client demand in the face of a very complex risk environment will keep us on track to achieve our guidance for 2022. We continue to build momentum and remain focused on the (inaudible) goals to create shareholder value.

In closing, I want to thank our colleagues for their performance this quarter. We are truly appreciative of their dedication, service and continued commitment to our vision. And with that, I'll turn the call over to Andrew.

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

Thanks, Carl. Good morning, everyone. Thanks to all of you for joining us today. As Carl mentioned, our clients are grappling with a host of macroeconomic and geopolitical challenges. Unfortunately, they have also continued to grapple with rising commercial insurance rates. While price increases appear to be moderating, WTW's Q2 commercial lines insurance pricing survey showed an aggregate increase of just below 6%. Data for nearly all lines continue to indicate significant price increases with the exception of works compensation and D&O liability. The largest price increase came from cyber followed by professional liability.

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In light of these additional pressure points, we continue to focus on helping clients evaluate their options so they can make better informed decisions about how to best manage their risk portfolios.

Turning to our financial results. The third quarter was in line with our expectations. On an organic basis, revenue was up 6%, reflecting accelerating growth across all of our businesses. Adjusted operating income was $284 million or 14.5% of revenue for the quarter, up 110 basis points from $264 million or 13.4% of revenue in the same period last year as our growth and expense discipline combined to enhance our profitability. The net result was adjusted diluted earnings per share of $2.20, representing 27% growth over the prior year.

Let's turn to our detailed segment results. Note that to provide comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise. The Health, Wealth and Career or HWC segment generated revenue growth of 4% are both in organic and constant currency basis compared to the third quarter of last year. Health, which is comprised of our Health and Benefits broking and consulting business delivered growth of 6%, primarily driven by increased demand for products and advisory work in North America spurred by clients focus on mitigating likely 2023 cost increases and by U.S. legislative changes. Revenue also grew outside of North America as a result of new client appointments and increases in health care premiums.

Wealth, which consists of our retirement and investment businesses grew 3% in the quarter. The growth was primarily attributable to higher levels of regulatory and project work in Europe as well as increased consulting work in North America. The growth was partially offset by a nominal decrease in our delegated investment solutions business, which was pressured by declines in capital markets. While we expect the headwind from these declines to persist into the fourth quarter, we see momentum in building in the rest of the Wealth business during the remainder of the year, driven by new client acquisition and strong demand for specialist work in response to market volatility and legislative changes.

Career, which includes our Work & Rewards and Employee Experience businesses also contributed to revenue growth for the segment, increasing 6% in the quarter. This growth was largely driven by strong client demand for talent and compensation products, including compensation benchmarking surveys, hiring assessments and employee engagement offerings, which we see continuing.

Benefits Delivery and Outsourcing, which encompasses our Benefits Delivery and Administration and our Technology and Administrative Solutions businesses generated 2% revenue growth over the third quarter of 2021. The increase was largely driven by individual marketplace and reflected growth in Medicare Advantage revenue in our direct-to-consumer business. Outsourcing revenue also increased due to new client appointments and growth across the existing client base. We continue to see an environment that supports growth opportunities for this business for the remainder of 2022 and beyond.

HWC's operating margin was 20.3% this quarter compared to 20.6% in the prior period. The margin declined primarily to investments in resourcing and technology to support future revenue growth.

As economic uncertainty looms and market volatility persists, companies are dealing with high inflation rates, workplace stress caused by labor shortages as well as cost and risk management concerns related to pensions and health benefits. Against this challenging backdrop, HWC is helping companies better address employees' needs while managing business realities. Our near and long-term outlook for HWC remains positive as we expect its market-leading solutions and the ongoing demand drivers in its core businesses to continue to support organic growth.

Risk and Broking revenue was up 6% on an organic basis and 3% on a constant currency basis compared to the prior year third quarter. Corporate Risk and Broking or CRB, revenue increased 6%. The business generated growth across all regions, primarily from new business with double-digit growth across most of our global lines of business. Book of business settlement activity was due to senior colleague departures in 2021 and is consistent with the levels seen in the prior year period. Thus, it did not affect CRB's year-over-year organic growth rate.

Both Europe and International led CRB's growth with improved client retention and notably strong new business in natural resources, construction and aerospace. Solid growth in North America was driven by strong contributions from both construction and M&A solutions.

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In the Insurance Consulting and Technology business, revenue was up 2% on top of a tough comparable of 18% growth in the prior year third quarter, primarily driven by increased Technology Solutions sales. On a year-to-date basis, ICT has delivered strong growth. It's trajectory continues to point towards a strong finish in the fourth quarter.

R&B's operating margin was 13.7% for the third quarter compared to 17.5% in the prior year third quarter. Margin headwinds were driven by our significant investments in new revenue-producing and client service talent. Throughout this year, R&B welcomed new leaders and senior contributors across all geographies at both the regional and country level. Leveraging their industry expertise, these key hires have begun to contribute to our performance and we expect these contributions will become more meaningful going forward. The steady improvement in our talent base and client pipeline has strengthened our conviction that the work we have done to rebuild our talent base is gaining traction and will yield strong results.

Now let's turn to the enterprise level results. In Q3, we generated profitable growth with adjusted operating margin increasing 110 basis points to 14.5% from 13.4% in the prior year, primarily reflecting the benefits of strategic portfolio management which was realized at the corporate level, alongside transformation program savings, which were realized at the segment level, but were more than offset by our increased investment in talent during the period.

We continue to expect margin improvement each year as we work to deliver on our 2024 margin goal. As Carl mentioned, our transformation initiatives will be a key contributor to this ongoing margin expansion, and we're encouraged by the success of our early efforts. By accelerating shared services and our workforce centralization efforts, in addition to identifying incremental opportunities to drive collaboration through real estate portfolio optimization, we have far surpassed our original $30 million annualized run rate savings goal for the year. As a result, we raised both our near and long-term targets and now expect to deliver approximately $110 million in cumulative run rate savings by the end of 2022 and $360 million by the end of 2024.

Foreign currency was a headwind on adjusted EPS of $0.20 through the first 9 months of the year, largely due to the strength of the U.S. dollar. Assuming today's rates continue for the remainder of the year, we've updated our guidance related to our expected foreign currency headwind on adjusted earnings per share from a range of $0.20 to $0.25 to a range of approximately $0.25 to $0.30. We generated free cash flow of $337 million for the first 9 months of 2022 compared to free cash flow of $1.8 billion in the prior year. This decrease was primarily due to the receipt of the $1 billion termination fee in the comparable period, the absence of cash generation from the now divested Willis Re business and additional tax payments made this year on both the Willis Re, gain on sale and the termination fee.

Our U.S. GAAP tax rate for the third quarter was 0.7% versus 22.5% in the prior year. Our adjusted tax rate for the third quarter was 16.8% versus 23.2% in the prior year. The current year adjusted tax rate is lower primarily due to lower U.S. fee expense and excess tax benefit on share-based compensation. We expect the full year 2022 adjusted tax rate to be relatively consistent with our historical rates.

We continue to pursue a disciplined capital allocation strategy that balances capital return to shareholders with internal investments and strategic M&A to deploy our capital on the highest return opportunities. During the third quarter of 2022, we paid $91 million in dividends and repurchased 1.8 million shares for $369 million.

We are pleased by our progress with business performance ramping as we expected. For the remainder of the year, we see macroeconomic environment that is creating demand for our services and opportunities to help clients with our unique combination of solutions. We feel positive about the investments we have made in talent, innovation and operational transformation and are confident these investments will continue to drive organic revenue growth and margin expansion.

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question coming from the line of Gregory Peters from Raymond James.

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

The first question will be on revenue, both the organic and the change in your fiscal '24 targets. Just curious, Carl, in your comments, you talked about macroeconomic issues, particularly there seem to be some challenges in Europe, et cetera. And I'm curious how you're thinking organic is going to perform, especially with some of your businesses overseas in light of these economic conditions.

And then if I think about the fiscal '24 target, the revised target, it implies a compound annual growth rate of 5% or a little bit higher. And that's not something that's happened very often in the history of Willis Towers Watson. So just trying to bridge the gap between what's going on in the macro environment and what you're suggesting is potential for the company.

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

Yes. Sure, Greg. So I look at it this way, across our key growth drivers, which include strategic initiatives, hiring and industry conditions, we do see momentum building that gives us confidence in achieving the targets we've laid out. Our strategic growth initiatives are gaining traction, for instance, we're making progress on scaling our global lines of business and corporate risk and broking. And we do expect the growth in these lines is going to continue to exceed the CRB average material. And we're also seeing a steady pace of new product launches, and we're focusing on high growth and high need markets like ESG analytics and climate risk. And what we've seen so far in terms of the performance of our new hires and front office sales and our client management roles has reinforced our expectation that the benefits of that hiring activity will meaningfully accelerate in the second half, and particularly some positive trends in CRB gave us confidence in our improving growth outlook.

I think looking macro, right, industry conditions remain generally favorable and our business has historically been inflated from general macro volatility, and we're certainly seeing some of that. The need for sound advice and risk management solutions typically only intensifies during dynamic times such as these in the markets, and many of our clients look to us for help in navigating [changes] in labor markets, financial markets, and the geopolitical environment. In H,W, C, we're seeing strong demand and growth across the H, W and C businesses. The macro environment remains reasonably supportive and the buildup of our technology offerings further enhances our resilience and reinforces our confidence in our positioning.

In R&B, we think the company-specific headwinds we had are mostly behind us, and expect we'll continue to narrow that growth gap as our high reactions gain momentum. Macro uncertainty is proving to be a bit of a tailwind as our clients seek to better manage their risk in a highly complex environment.

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

So just a point of clarification, you ran through a lot of information, I appreciate that. When I think about talent rewards, I used to have a lot of economic sensitivity to it. How does that bake into your thought process as you had your fiscal year '24 revenue targets?

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

Greg, I'd point out 2 things, right? One is that the effects of COVID and new ways of working are stimulating demand for services as our client base is sort of looking to manage their workforce in light of the changes to the nature of full-time work in the gig economy. So some of the sensitivity we would have normally seen through the economic cycle, actually just hasn't been there this time. And the second is we have pivoted the business

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over the years from a rather pure consulting and project-oriented business to be much more reliant on annuity revenue and software. So it's simply a more resilient business than in the past.

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

My second question is just on the other parts of the fiscal '24 on the revised targets. The margin is lower, the free cash flow numbers are lower. And I was wondering if you could spend a minute and talk to us about the gives and takes on those -- the revisions to those parts of your estimates.

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

Yes, sure. Greg, it's Andrew. Thanks for the question. On the margin, it is purely a function of the impact of the Russian business as well as when we think the pacing of the incremental transformation savings will come online during the 3-year period. The free cash flow guide and change really has 3 components to it. The first is the Russian divestiture where we received no cash proceeds and also had the loss of both the revenue and cash generation from future business but also the receivables, right, that we already had accounted for, which were uncollectible. .

The second component was the incremental cost to achieve the $60 million of transformation program savings at the same 2.5x rate that we've been talking about. So that's an incremental $150 million.

And the third component is timing differences from cash tax payments made this year on both the termination fee and Willis Re gain which our Investor Day guidance contemplated would incur entirely in 2021. As we've mentioned in our prepared remarks last quarter, part of our decrease in free cash flow this year was due to some of these tax payments taking place this year rather than when we had originally anticipated just due to some of the complexity and timing considerations.

Operator

And our next question coming from the line of Elyse Greenspan with Wells Fargo.

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

I want to go back to the question on the guidance, right? So if I look at the operating margin in the new 2024 guidance. At the midpoint, you're lowering that by $125 million. And I know Russia right, $120 million, and it's a high-margin business, but it seems like that is higher than losing Russia. Is there something else going on there? And -- or maybe it's just that the saves are back-end loaded, but it seems like there's some other earnings that are leaving '24 relative to your prior guide other than just Russia?

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

Yes. I think -- Elyse, it's Andrew. I think some of the disconnect there, maybe just when you the timing of the saves -- the incremental saves are coming online. But the change in margin has really been driven purely by the impact of the Russia divestiture.

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

Okay. And then in terms of this current quarter, right, the segment margins were both weaker, but there was lower unallocated expenses. What -- is there something going on with the corporate unallocated expenses that drove them down this quarter? And is that sustainable? Or was there just something difference between the corporate cost that you downstream to the segment this quarter versus prior periods?

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

Yes. Our margin expansion in the quarter was driven by the benefits of our transformation program savings and also some strategic portfolio management actions which were more than offset by some of the increased investments in talent seen at the segment level. We had corporate savings as well, but just not necessarily the same level of reinvestment that you would have seen within the segments. There is also the impact of some of these businesses that we decided to exit coming out of the deal termination, which are not allocated to the new segments as well as the effective management of the stranded costs from the Willis Re divestiture.

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

Are most of the Willis Re stranded cost gone at this point?

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

I'd say they're being effectively managed given that we are still in the midst of a transition services agreement with Gallagher.

Operator

And our next question coming from the line of Paul Newsome with Piper Sandler.

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

Sorry to beat a dead horse, but I got kind of confused here following your answer to Elyse's question about these expenses impacting the '24 guidance. So is it the idea that we're ahead of taking cost cuts, but those cost cuts are happening sometime at a later time, perhaps, perhaps beyond 2024, and that's affecting this guidance? And I apologize for my confusion.

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

Yes. No problem, Paul. I was referring to the incremental $60 million that we announced on top of the initial $300 million. So it was really about the pacing of the incremental $60 million.

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

And that's happening sort of after 2024, so it's not helping the 2024 as much as we would expect?

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

I think that's the right way to think about it. It will be more weighted towards the back end of the program rather than during the current period or near term.

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

Which I think, Paul, is something you'd expect by savings that we've identified later in the process.

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

No, that makes sense. I think we're still struggling a little bit with the math because of the -- it looked like there was quite a bit more than the Russian loss in the event, which is high, but it also looked like there was sort of less of an impact from the cost cutting. So I guess I'm still -- I apologize again for my confusion, but it just doesn't seem like the numbers are adding quite the same, like maybe there's something else in there that we or just missing, but again I apologize for my confusion.

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

Yes. No. I think you just need to be thinking about the margin on the Russian business in the appropriate fashion and you can triangulate on the reguide on the margin.

Operator

And our next question coming from the line of David Motemaden with Evercore ISI.

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

I just wanted to go back to the margin target reduction, the 1 point reduction. Maybe we could just put some numbers around Russia, some specific numbers because I'm sort of calculating it being a 30 to 40 basis point adverse impact on the margin, so there's a bit more, at least, that I'm thinking is in there. So maybe if you could just clarify that.

And then secondly, on the fiduciary income, I think that is something that is going to be a tailwind. Maybe could you just talk about how much of a benefit that, that had this quarter? And also, is that -- I think that's going to increase going forward that's going to help the margin. I'm assuming that's baked into the guide as well, but if you could just clarify that as well.

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

Yes, sure. On the margin recast, the -- it's important to keep in mind that the margin on that business, as we've said, is more than double the enterprise-wide margin. So you can use that to get to the recasted margin range. And then on investment income, we haven't disclosed the specific numbers. I think you'll see some information in the queue that might be helpful in framing that. We are definitely starting to see some modest benefit from the rising rate environment, come through in the financials. But of course, as rates rise, we've got to turn over investment portfolios and that takes time to work through the system fully.

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

Yes. I mean, back to Russia for just 1 second. I mean you've got to recognize, as you think about our Russian business. We have been operating there for over 40 years, right? We had a very strong position in the country. The nature of the business was largely project-based work, one-off and starts with a pretty high profit margin, but it was a minimal local presence required to service business. And we're able to leverage our existing global operating infrastructure on the global platform. And thus, able to do this in the country in a very cost-effective manner.

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

Got it. Okay. Okay. I guess it was much higher than double than, I guess, the enterprise-wide margin then much higher. Okay. That's helpful. And then maybe just switching gears on M&A. I've just noticed -- I mean, the cash balance is very high. You guys are, I think, under your leverage target by quite a bit. And yet the buyback, I think, is definitely a little bit light versus, I think, just given the cash position and the leverage profile. So I'm

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wondering if -- are you guys contemplating any larger scale M&A? Or I guess, why haven't we seen the buyback really ramp up just given the cash on the balance sheet?

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

So I'll start on M&A, and maybe Andrew can comment a bit about buybacks. As we laid out [in] last year's Investor Day, intentional portfolio management to optimize value is fundamental to our Simplify initiatives, and we're still looking across our options to create value for shareholders, and that includes divestitures as well as opportunistic M&A opportunities. And now that the market is finally tilting in favor of buyers of it, that should strengthen our -- look for opportunities to strengthen our capabilities in key functional areas and important geographies. But we're continuing to employ a disciplined capital allocation strategy that balances capital return with internal investments in strategic M&A to look for the highest return possibilities.

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

And just on the repurchase front, we have been pretty consistent in our messaging that share repurchases are going to come at the pace of free cash flow generally speaking, unless we find alternative uses for that. The -- I won't get into the details of the cash balance, but we do consider that cash balance as well as the free cash flow when looking at repurchases decisions as well as our financial leverage. And with rates where they are, we're very thoughtful about incremental leverage and the cost that, that comes with that.

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

Got it. So I guess -- yes, so the cash target balance is kind of $1.5 billion sort of where it ended the quarter is kind of the cash level that you guys think is necessary to run at?

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

No. I don't -- I think we can run leaner than that, but we do have to keep cash on hand for future obligations as well as funding share repurchases and managing the cash flow.

Operator

And our next question coming from the line of Andrew Kligerman with Credit Suisse.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

I'm trying to get at net staffing in the third quarter. How did that improve incrementally? And just around that, maybe as I think Andrew talked earlier about a survey of Willis Re's where clients are seeing pricing in the aggregate up 6% on average. And then you talked about 6% organic revenue growth. So would, a, I interpret that meaning that your kind of client base has been very stable kind of very flattish, and the uptick in organic revenue has been largely by pricing and exposure growth? And then the part b of it is net staffing, how did that change Q-over-Q?

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

So let me start with staffing. And we don't do headcount on a quarterly basis. We will discuss headcount detail in our 10-K. So hiring has been strong, and the hiring activity in Q3 matched that in the first half and it's fortified by the fact that we see the benefit of our retention efforts. Voluntary attrition has remained consistent with the macro environment and the external benchmarks we use to measure this. So our year-to-date hiring

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has exceeded voluntary terminations. Our headcount continues to increase. And sort of getting to the revenue aspect of your question, we anticipate that the contributions we improve in our talent base to become more meaningful going forward.

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

And just on the dynamics around growth, right, there's different factors pushing and pulling in the opposite directions, right? So I think we've been pretty clear that coming out of the breakup of the transaction last year that things like retention, right, were challenged, particularly in certain geographies and certain lines of business. And of course, in the opposite direction, you have rate and new business and things of that nature. So there are offsetting factors that contribute to the organic growth profile.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Got it. And not to belabor too much, the issue of the EBIT revenue target change. Carl, you seem somewhat optimistic last quarter that you had some puts and takes where you really wouldn't have to worry about pressures. You seem confident that you could [meet] those '22 targets for 2024. So now as you've made a change due to Russia, what I'd like to know is what would give us confidence that we're not going to see another change for the weaker? And if there is another change, what might be some of the risks that are kind of prominent in your mind right now?

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

Yes. So when we came up with our initial targets, where we looked at a variety of scenarios to what could happen between now and 2024, right? Different economic outlooks all sorts of different things, right? I don't think we factored in that we would be divesting a business of the scope of and size of Russia for no cash proceeds to reinvest, right? That, I think, is enough of a one-off that we felt justified in the transparency we're giving you on recasting targets. But I thought that we were going to have a divestment for zero, yes, was a bit outside the main term. And frankly, I think that is a bit unique and extraordinary.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

So bottom line, you feel very confident in '24. And then with that, that extra $60 million of expense saves, would that get you back in ['25] for that operating margin target of 24% to 25%?

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

We're very pleased with the progress we're making

(technical difficulty)

on the expense savings, and that's one of the reasons why we said we maintained sort of the delta between starting and end to get there and we actually see more daylight developing. That's why we raised the $300 million to $360 million.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Okay. And maybe if I could just sneak one last in. And you did -- Carl, you mentioned at the beginning, attractive opportunities for M&A. Could you give us a sense of what areas maybe that have kind of prompted to see some practice -- what pockets of your businesses might [be compelling]?

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

So while I was speaking attractive, right, it was the fact that valuations appear to be coming down from levels where we just didn't think that they could be value accretive to us, right? And so -- there are opportunities across the span of the businesses we operate in. As we look to what makes sense for us, right, it's going to be, whether it's a geographic adjacency of an attractive economy that will fit our business profile. Or a specialty area where we see that fitting in very nicely to what we do very well in the marketplace.

Operator

And our next question coming from the line of Mark Hughes with Truist.

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

In the Benefits Delivery and Outsourcing, some of your competitors have had to adjust their assumptions around customer longevity and here I'm talking about TRANZACT. I'm just sort of curious, your current view about your assumptions there. And then also curious your view of the competitive environment as we kind of get into enrollment season, how the competition looks in terms of the push for leads and advertising, that sort of thing?

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

Sure. So let me begin with the second part of that, and I'll get to the assumptions. We're quite happy with our positioning on TRANZACT and the opportunity, right? Again, this is a place where the market addressable to us, expands by 10,000 people a day. That's how many people become Medicare eligible, newly for Medicare every day. And the people who -- the percentage of people who decide to buy a Medicare Advantage plan, rather traditional Medicare continues to rise and expect it to go from 40% to over 50% by the end of the decade. So there's clearly growth potential in this market.

As you point out, right, there's been some volatility amongst our competitors and the carriers, and that does have some effect on us, some retention in the -- retrenchment in the market with some of our competitors, and that can impact us to our advantage. But certainly, churn in carriers books of business can impact our persistency rates. But we have taken steps, right? I think that put us in a different position than most of our competitors. We fortified our lead qualification process and have set up a post-placement customer care team to make sure that people are satisfied with the coverage they're electing. And that, plus our disciplined cost management enables us, we think, to continue growing while others have to slow down to focus on their profitability.

With respect to persistency rates, right, this is something we examined, right, within the portfolio on a line-by-line basis. And we use independent actuaries to make sure that we're validating our team's view of what we think the persistency will be. And continue to evaluate how the market looks and what that will be.

Operator

And our next question coming from the line of Mark Marcon with Baird.

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

It's Mark Marcon from Baird. You mentioned that headcount is actually up on a sequential basis relative to Q2. Salaries and Benefits are down by 2.4% year-over-year, 2.7% sequentially. Is the primary reason why Salaries and Benefits are down on a dollar basis because of FX? And a small element of Russia, you mentioned that the presence on the ground was fairly minimal. So I'm just trying to understand that element and to what -- what do you attribute to the decline to?

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

Yes. I think FX is a meaningful component of the difference that you're seeing there in that line item given where our employee bases are located.

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

I would add that part of our transformation program involves workforce relocation as we simplify where we do work. And so -- not front office, but a significant part of our mid- and back office hiring has occurred in our international businesses, where we tend to enjoy lower-wage structures.

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

We also have the impact of our transformation program and where -- again, where folks are located and making sure that the savings are coming through, and you're seeing some of that materialize there as well.

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

And I would imagine you're also optimizing different roles and the expenses of various roles in order to optimize things from a long-term perspective. To what extent could trends continue, when we think about it just as it relates to that, if the headcount continues to go up?

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

Yes. We're always looking to make progress in that ratio. It's a constant focus for us. As I said, optimizing the workforce is a really important component of the transformation program. And hence, the comp and bend that falls out of that is an important metric.

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

And that's not just necessarily a location, right? That can be automation.

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

Great. And then with regards to just going back to the prior question with regards to TRANZACT, I mean is it your general sense that based on everything that you're currently seeing out in the market that TRANZACT should be able to go back to its kind of historic level of performance? Or are there elements that would make it more like last year just because of certain vagaries in the market right now?

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

Yes. A couple of things there. I think, one, it's important to remember that growth rates will likely moderate as that business becomes bigger and bigger. That's just the simple fact of the math. The other thing to keep in mind is that over 50% of the individual marketplace business revenues were generated in the fourth quarter. So it's best to think about that business on a full year basis, not focus on any particular quarter. We performed very strong this year and continue to feel positive about our current market positioning. And we're also encouraged by the early signs we're seeing for the quarter. But again, it's still very early in enrollment season.

Operator

And our next question coming from the line of Robert Cox with Goldman Sachs.

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Robert Cox - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Maybe an update on the magnitude of book settlements you might expect in 4Q and beyond because I know you've maintained the organic growth outlook for 2022, but you faced a difficult compare with the $74 million in book sales from 4Q '21.

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

Yes. We still expect to see some book sales throughout the rest of the year that relates to 2021 events. We do expect those to normalize even further as 2021 receives from [preview]. This dynamic was anticipated in our long-term forecast for mid-single-digit growth. And as you point out and as a reminder, in Q4 of 2021, there was approximately $74 million of book sales, $39 million of that was in the segments. We do not anticipate that level to repeat this year.

Robert Cox - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Okay. And can you give us some more color on the tailwinds you're seeing in the Wealth business, particularly in the U.K. And with respect to the increase in project activity related to financial market volatility.

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

Yes. So when markets fluctuate a lot, right, our client base in the Wealth business, specifically our retirement business, needs to often reforecasting of what their cash funding requirements or their accounting expense requirements are going to be. So it just generates a significant amount of project work for us in the markets where there are major defined benefit plans. And when the volatility stops, that work will stop, but we don't seem to have any lack of volatility these days. I'd probably offset a bit by the fact that within the Wealth business, of course, we have our investments business and a certain amount of that business is based on asset-based fees and with lower capital market levels over the year, that has been a bit of a headwind for that business.

Operator

And our last question coming from the line of Meyer Shields with KBW.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

So 2 quick questions, if I can. First, I guess, one of the questions again a lot this morning in e-mail is whether there are other regions of the world where you similarly have very outsized margins that are like Russia, just in terms of understanding the scope of margin expansion program and where it does apply?

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

So as with any diversified business, we're going to have places and lines of business that are more profitable than the group average and less profitable than group average. And so the answer is we have some, right? But are generally the areas where we have either specialist capability that's hard to replicate or that there are regulatory barriers to entry. So there is competition that might be less than open competition, are going to be areas where there may be opportunities to have higher profits than average in the business. So the answer is there are places. However, we are a broadly diversified business, right? And we do just discuss where our revenue is sourced from. And so there are many geographies where we have significant revenue concentration of the size of Russia. You can see our top 5 listings in 10-K.

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Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. That's helpful. And then just going back to TRANZACT very briefly. To because other competitors are pulling back and providing, I guess, a better opportunity for near-term growth at TRANZACT. Is that going to have a negative impact on cash flow?

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

That's a dynamic that we manage very closely, as you can imagine. So we do make sure that the growth we're targeting is profitable growth and do balance that against the cash consumption in that line of business. So we don't expect it to be a significant drag. But of course, we do manage that dynamic closely. .

Operator

Thank you. I am showing no other questions at this time. Ladies and gentlemen, that does conclude our conference for today. Thank you for your participation. You may disconnect. Everyone, have a great day.

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