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WTW.OQ - Q1 2024 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. Welcome to the WTW First Quarter 2024 Earnings Conference Call. Please refer to wtwco.com for the press release and supplemental information that were issued earlier today. Today's call is being recorded and will be available for the next 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 a more detailed discussion of these and other risk factors, investors should visit the forward-looking statements section of the earnings press release issued this morning as well as other disclosures in the company's most recent Form 10-K and in other filings the company has made with the SEC.

During the call, certain non-GAAP financial measures will be discussed. For reconciliations of the non-GAAP measures as well as other information regarding these measures, please refer to the earnings press release issued this morning and other materials in the Investor Relations section of the company's website.

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

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

Good morning, everyone. Thank you for joining us for WTW's First Quarter 2024 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer.

We had a solid start to the year, delivering first quarter results in line with our expectations. Our momentum from last year has carried us into 2024 as we continue to execute on our strategic priorities to grow, simplify and transform. Our exceptional solutions, productivity from new hires and investments in talent and technology continue to play a pivotal role in fueling organic revenue growth of 5%. Simultaneously, our transformation initiatives helped us generate adjusted operating margin expansion of 200 basis points year-over-year and 16% growth in adjusted diluted earnings per share.

We had $33 million of incremental annualized savings from our transformation program during the first quarter, bringing the total to $370 million in cumulative annualized savings since the program's inception. We continue to look for more opportunities to optimize the business while leveraging our cost structure to expand our margins. This encouraging start to the year, our robust new business pipeline and our plans for realizing operating efficiencies across the rest of the year, give us a high level of confidence that we will deliver on our 2024 commitments.

I'm pleased with how our strategic progress has driven this quarter's results and more importantly, has positioned us for continued profitable growth. For the first quarter of 2024, we delivered top line growth, underscoring the heightened importance of our services in the current market. Our distinctive data-driven and industry-specific approach is making us more attuned to specific economic dynamics that allow us to enhance outcomes and mitigate risk for our clients.

Our global client model continues to resonate with the market, thanks to our world-class offerings and the unwavering dedication of our colleagues. All this puts us in a strong position to achieve sustainable profitable growth and to enhance long-term shareholder value.

Let me give you an update on the progress we've made and the opportunities ahead for our segments. Our specialization strategy in Risk and Broking remains a key growth driver for both the segment and the company. R&B had organic revenue growth of 8% for the quarter. Our Specialty businesses continue to strongly outpace the rest of the segment's growth. And we also continue to see sustained client retention rates in the mid-90s, the product of the ongoing value of our data and analytics focus and the effective insurance solutions that we provide to our clients.

We often get questions about WTW's specialist approach and how it sets us apart. What's unique about WTW's approach is that our entire business, not just the client-facing parts is structured around industry concentrations. This has clear benefits for both our clients and our operations. Clients can tap into both our global and local expertise, which includes unique data and analytical tools that help create a continuous cycle as we tackle industry challenges, aggregate our experience and information and use that to further improve our solutions to meet specific industry needs.

From an operational point of view, these are businesses with national or even global P&Ls and not simply an industry practice group. Our dedicated industry teams have heightened accountability for end-to-end performance and make informed decisions based on their experience and in-depth knowledge that results in exceptional value delivered to our clients while achieving strong financial results.

A client win from this past quarter illustrates the effectiveness of this approach. Members of our global construction line of business based in our Europe and international geographies came together to win a multiyear contract for a rail infrastructure leader, by creating a custom solution that fit the client's unique risk management profile. The global teams were assisted by our local teams in the country where the railway was being built, enabling us to provide even further specific expertise to the situation. Our team's familiarity with the industry-specific risks associated with rail infrastructure, combined with our specialized geographic knowledge ultimately secured us to win amidst fierce competition.

In North America, our transition to industry-focused divisions is complete, enhancing our ability to meet client needs and driving innovation and new offerings through our industry verticals. One example of this is Verita, our open market MGU, which has continued to exceed our expectations since its introduction last quarter. The recent addition of workers' compensation capabilities further solidifies Verita's proposition within the insurance ecosystem, enhancing its value proposition and is expanding its market reach. We continue to expect the investments made in talented technology over the last few years, combined with the reorientation of the R&B business towards specialization will drive higher levels of activity with new and existing clients that is fundamental to our organic revenue growth and margin expansion trajectory this year.

In HWC, we remain focused on our core businesses, while fostering smart connections to fuel sustainable organic growth of 4% in the quarter. Clients continue to recognize that the deep expertise we have at each of our HWC businesses enables us to deliver market-leading solutions across our Health, Wealth, Career and Benefits Delivery & Outsourcing businesses and make breakthroughs that matter in a complex and changing environment.

For example, with many pension plans being well funded, our retirement teams around the world have helped clients derisk their plans and gain access to surplus assets not only through traditional means like annuity buy-ins and buyouts but also through novel approaches like reopening previously closed pension plans. In addition, we've assembled a unique solution involving bulk annuity purchases at our retiree health care exchange that enables U.S. organizations to derisk retiree medical obligations. After launching this solution late last year, we've already helped clients settle some $430 million in retiree medical liabilities, and we expect another $500 million in settlements over the rest of this year.

In other breakthroughs, we're using artificial intelligence and broader digital tools to help clients answer some big questions about their people processes. Specifically, we've doubled our digitally enabled revenue into the career area, 2 years running, and are focused on doubling again in 2024. This includes us helping dozens of the world's largest companies identify the skills their employees need to deliver solid business results and grow in their careers.

We've also developed thousands of job profiles and aligned hundreds of jobs to specific career levels with AI, freeing up time for consultants so that they can spend more of their time advising clients and reward strategy and program design. Our digital solutions extended to the executive pay area with our proprietary performance modeling tool that we've deployed to help hundreds of compensation committees make decisions about executive pay and performance targets.

Stepping over to healthcare, we see no shortage of opportunities. There's continued high inflation around the world and the introduction of new Specialty solutions is not abating. Clients and prospects are looking for breakthrough to deliver value and impact, evidenced by the more than 2,500 people who recently attended our Flagship U.S. Healthcare Conference.

All of our core businesses are helping organizations respond to new legislation and regulation from the Netherlands Pension Legislation to the EU Pay Transparency Requirements. An important part of core business growth in HWC is the smart connections that span the segment, which create opportunities to cultivate sustainable sticky relationships. Two examples of this came with wins this past quarter with a telecommunications provider and a global biopharmaceutical company.

In both instances, we were able to create a comprehensive bundle of solutions by engaging our teams across working rewards, employee experience, retirement and Benefits Delivery & Administration. In addition to being simply larger, these multi-business relationships are typically more embedded and more profitable as we build connections with varied client stakeholders, deliver greater value, utilize our client knowledge and leverage common resources.

Our focus on smart connections continues to gain traction across our segments, demonstrating the complementary nature of our businesses and providing further evidence of the value of our multi-industry expertise. For example, this past quarter, our colleagues in HWC help tee up a broking opportunity for our CRB team to do a complete review of a health and benefit clients P&C insurance strategy and programs. After detailing our approach to industry specialization, our CRB colleagues were chosen for all lines of coverage over the incumbent.

Putting it all together, good market demand, well-positioned core businesses, breakthrough solutions in new areas and smart connections that add value, the outlook for HWC remains strong. In closing, I'm proud of our performance this quarter, which reflects our continued strategic progress. We're executing successfully at our priorities and as a result, we're in a solid position to deliver on our goals for 2024. I'm excited about the opportunities that lie ahead for the rest of the year and beyond. And as always, I extend my gratitude to our colleagues for continuing to stay dedicated and committed to WTW and our clients.

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, and thanks for joining us today. As Carl mentioned, we started the year on a strong note, achieving results that were in line with our expectations and position us well to achieve our 2024 targets. We remain focused on driving profitable growth through improving productivity leveraging our specialization and smart connection strategies and executing our transformation program. In the quarter, we delivered organic revenue growth of 5% and drove adjusted operating margin expansion of 200 basis points. The result was adjusted diluted earnings per share of $3.29, an increase of 16% over prior year.

Next, I'll spend some time reviewing our segment results. Note that to provide comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise. Health, Wealth and Career generated revenue growth of 4% compared to the first quarter of last year, in line with our expectations of mid-single-digit organic revenue growth for the segment in 2024.

Health revenue increased 3% for the quarter, led by high-single-digit growth in international and Europe and driven by the continued expansion of our global benefits management client portfolio. Timing of new business contributed to lower growth in North America, where our business is typically fee-based. We expect that to accelerate significantly throughout the remainder of the year, in line with high-single-digit growth expectations for the full year.

Wealth grew 3% in the first quarter, driven by strong growth in our retirement business due to increased pension derisking work in North America and Europe, along with a modest increase in our Investments business due in part to new products. Career delivered 3% growth in the quarter, primarily driven by increased projects related to communication work and employee experience and more broad-based reward assignments and working reward. It is notable that in this point in the year, our compensation benchmarking participation is up double digits over 2023, creating a pipeline for accelerated growth in the latter half of 2024.

Benefits Delivery & Outsourcing generated 6% growth in the quarter. The increase was driven by higher volumes and placements of Medicare Advantage and life policies in our individual marketplace business. Based on the incidence of growth projected by carriers in the Medicare Advantage space, we expect more moderated growth later in the year. Offsetting the BDA growth was low growth in our outsourcing business as we absorbed a revenue headwind due to a large client in-sourcing its health and other benefits administration.

HWC's operating margin was 25.1%, an increase of 110 basis points compared to the prior year first quarter, primarily driven by transformation savings. Risk and Broking revenue was up 8% on an organic basis for the first quarter. There was a $5 million unfavorable year-over-year impact from book of business activity. Interest income was $28 million for the quarter, up $16 million from the first quarter last year.

Corporate Risk & Broking had another strong quarter, growing 9% or 10% excluding the impact of book-of-business activity primarily driven by strong client retention across all geographies and higher level of new business activity. Our specialty lines continue to be a major contributor to the strong growth performance led globally by financial solutions and natural resources. Growth across CRB in Europe was led by Financial Solutions, Aerospace, Natural Resources, Marine and P&C.

North America CRB had solid growth driven by new business across several lines, including Construction, Natural Resources and Real Estate, Hospitality and Leisure as well as contributions from our new Verita business. Our international region also contributed strong organic growth across all subregions, led by countries in Central and Eastern Europe, Middle East and Africa.

Looking at the insurance industry more broadly in terms of rates, the market remains a bit mixed with some flattening and even softening in specific insurance lines such as D&O and cyber. However, the current risk environment is marked by increased frequency in natural disasters, social inflation and geopolitical conflicts. And as a result of that, we see rate increases across various lines such as casualty, especially in North America, and globally in political violence and terrorism.

Insurance Consulting & Technology revenue was flat with prior year due to the timing of consulting and technology revenue between quarters. We expect ICT to achieve mid- to high-single-digit growth for the full year and in line with our overall expectations for Risk and Broking. R&B's operating margin was 20.8% for the quarter, a 90-basis-point increase over the prior year first quarter, primarily due to interest income, transformation savings and solid organic revenue growth in CRB. R&B also faced margin headwinds this quarter from the impact of book of business activity as well as foreign exchange.

In addition, as we mentioned at year-end, now that our talent base in R&B is back to full strength, we are focused on strategic and opportunistic talent investments with industry expertise as well as investments in technology that will eventually yield more revenue than what is currently in the mix. These investments impacted R&B's margins this quarter. However, they will enhance our presence and capabilities in the lines of business and geographies that we believe offer the greatest growth and profitability potential.

We continue to expect margin expansion on a full year basis and as we mentioned last quarter, given the business' seasonality and uncertain pacing of our investments, the scale of R&B margin expansion may vary from quarter-to-quarter, but should improve over the course of the year.

Now let's turn to the enterprise level results. At the enterprise level, adjusted operating margin for the quarter was 20.6%, a 200-basis-point increase over prior year. The benefits of our transformation program drove a large part of our margin expansion for the quarter alongside improved operating leverage. We had $33 million of incremental annualized transformation savings for the quarter, bringing the total to $370 million since the program's inception. The benefits this program provides will better position us to drive sustainable operating leverage going forward.

Our unallocated net was negative $56 million for the first quarter. We continue to expect the full year 2024 balance to be relatively consistent with 2023. Foreign exchange did not have a meaningful impact on adjusted EPS for the quarter, at current spot rates, we expect foreign exchange to have a headwind of approximately $0.05 on adjusted EPS for the year. Our U.S. GAAP tax rate for the quarter was 19.9% versus 19.5% in the prior year. Our adjusted tax rate for the quarter was 22.4% compared to 20.5% for the first quarter of 2023. We continue to expect our adjusted tax rate for the year to be close to our 2023 rate, excluding the onetime tax items we mentioned last quarter.

During the quarter, we returned $187 million to our shareholders with share repurchases of $101 million and dividends of $86 million. We continue to execute a disciplined capital allocation strategy and currently view share repurchases as an attractive use of capital to create long-term shareholder value. We continue to expect approximately $750 million of share repurchases in 2024, subject to market conditions and other relevant factors.

Our interest expense for the quarter was $64 million versus $54 million in the first quarter of 2023. We actively managed our leverage profile by issuing $750 million of new debt in March. A portion of those proceeds will be used to pay our upcoming $650 million debt maturity in June.

We generated free cash flow of negative $9 million for the first quarter, a decline of $101 million from the prior year, primarily driven by increased cash outflows related to transformation and discretionary compensation payments partially offset by higher inflows from collections. The free cash flow results for the quarter are in line with what we planned as free cash flow margin was not intended to be a linear path for the year. We continue to be confident in our expectations of year-over-year improvement in our full year free cash flow margin.

Our results this quarter were a solid start to2024, and reflect a continuation of the significant progress we have been making on our strategy and operational performance. We expect our momentum to continue throughout the rest of the year and are confident in achieving our 2024 targets.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Elyse Greenspan with Wells Fargo.

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

My first question is on the guide for the margin within R&B. I think you said that the margin improvement should improve over the course of the year. Just want to make sure I heard that correctly because you did show a pretty strong improvement in the back half of '23. So I thought that maybe those would represent harder comps, but is the guide that you would expect improvement -- the margin improvement to gain steam, Q2 then get better in Q3 and then Q4? Or did I misunderstand that comment?

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

Elyse, I think you're thinking about that correctly. We do expect continued expansion throughout the course of the year. We did make some investments in Q1, which did impact the margin expansion and operating leverage within R&B. But for the course of the year, we do expect the margin expansion to continue as well as the operating leverage generation.

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

And then my second question was just on the impact of the potential ban of noncompetes by the FTC. Can you just help us think through the impact that could have on WTW and how that could help both your ability to bring on talent and then just thoughts around potential departures, how you would think through the balance of the two, if there is a change?

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

Yes, thanks Elyse. We see this as actually quite manageable for us. We employ non-solicits as part of what we do. And we think that is actually quite a manageable situation for us. So we think that we're still looking through this. And of course, there may be some litigation concerning all that. But our standard restrictive covenants don't prevent our employees from working for our competitors. They are, as I said, non-solicitation, nondisclosure type agreements, and they don't function to prevent someone from taking a job a competitor. We don't think the world tied to that type of restrictive covenant. And so we've managed quite well against these in the past, and we'll manage I think quite well going...

Operator

Our next question comes from Gregory Peters with Raymond James.

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

Thanks for the comments, specifically, Andrew, around expectations on organic. And I wanted to revisit inside Health Wealth and Career, two comments you made about the health piece and the career piece, both of which you seem to guide to a better organic result as we go through the year. I was wondering if you could give us some color behind why you have the confidence that, that's going to be a better result for the year.

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

Yes, Gregory, maybe I'll start, and Andrew can chime in as well. So with respect to health, right, we see a couple of factors as giving us confidence regarding the rest of the year. We continue to have strong performance in our global benefits management offering, where we help multinationals deliver consistent and superior program of benefits to their workforce across, our pipeline remains very strong and our hit rate within that pipeline remains very strong.

It's sort of the beginning of the selling season in Q1 for North America. And here, we see opportunities to help companies continue to mitigate the inflation in healthcare. And specifically the impact of GLP-1 drugs, which help among other things vis-a-vis, relatively high-priced tickets, so near-term cost impact. Of course, these may have help over the long-term managing healthcare costs, getting the improved wellness outcomes.

On the career side, we are seeing, as we alluded to before, strong demand participation in our compensation benchmarking. And that typically turns into request for compensation survey for later on down the road. Paid transparency legislation in the EU is driving demand for helping people sort of understand how that's going to impact them, pay equity projects, broad-based pay and career projects are some of the outcomes.

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

And just a couple of points of detail on that, especially as it relates to Q1 and going forward. So within health the continued expansion of the global benefits management client portfolio, which Carl alluded to, drove high-single-digit growth, particularly driven by Europe and our international geographies, as we talked about the timing of the new business contributed to lower growth in North America, where our business is typically fee-based we expect that to accelerate significantly throughout the remainder of the year, in line with high-single-digit growth expectations for the full year.

In Wealth, the 3% organic revenue growth from -- was driven from retirement work, related to derisking in North America and Europe and a modest increase in our investments business due to asset mix. 2/3 of our assets there are for DB plans, which are designed to hedge long-term pension liabilities. So they're highly interest rate dependent and thus don't benefit as much from run-ups in the equity market.

Within Career, there was some really good project work increases and employee experience working awards. And just to round things out of BDO, there was organic revenue growth driven by higher volumes of placements of life and Medicare Advantage policies within our individual marketplace business, and based on the growth projected by carriers in the MA space, we do expect somewhat slower growth later in the year. and then offsetting the BDA growth within BD&O was our outsourcing business. But when you look through all of that, we continue to be confident that our pipeline will drive mid-single-digit organic growth for the full year within HWC.

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

Excellent detail. For my follow-up question, I'd like to pivot to your investor deck on the free cash flow margin expectations, I think it's Slide 21. And I was looking at the column that says 2024 and beyond. And I was wondering if you could spend a minute and give us -- quantify some of those variables in there, like the improvement in TRANZACT free cash flow profile, the headwind from cash in '24 and HWC and R&B, just sort of give us some benchmarks so we can sort of think of how that the trajectory of improvement might progress over the next couple of years.

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

Yes, we haven't quantified any of the specific components. But here's how we think about the steps to getting to the 16% plus margin target, right? So we've got greater profitability as a result of driving margin expansion as a contributing factor that's not just from transformation and operating leverage, but also over time, improving our business mix, as we've talked about in the past, so MGAs and MGUs things of that nature.

The second component, obviously, will have the abatement of the transformation-related cash outlays. That will taper off throughout the first half of 2025. And then as we think about the TRANZACT business, we still expect that to be positive within the next few years. That's going to come as a result of the maturing of the business and the portfolio as well as continuing to improve the product mix.

I do think it's important to note that even when TRANZACT turns positive from a cash flow perspective, it will still be a drag on the enterprise free cash flow margin as it's not going to be converting right at the same rate as the rest of the business. So it will take some time for that headwind to subside.

And then in the other direction, as we've talked about, we do have some temporary headwinds from cash investments within the business for product development and technology to support future growth and inefficiencies. But at the end of the day, we are committed to making annual progress on the free cash flow margin as we drive towards that 16% plus.

Operator

Our next question comes from Rob Cox with Goldman Sachs.

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

Just had a first question on talent. I was just hoping you guys could give us an update on sort of the talent base in terms of hiring trends, attrition trends and perhaps you could comment on some of the staff reductions that were reported in media articles over the quarter?

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

Sure, Rob. So as we mentioned, right, we have replenished our talent base. And so our investments going forward are more focused on strategic and opportunistic hiring. And we think they put us in a position to achieve sustainable profitable growth. We're not just hiring to fill our bench. We're hiring to take advantage of specific opportunities to create value. Lucy Clarke would be a great example of one of those strategic hires. We are looking forward to we're welcoming her next -- later this year. In addition, we've had some notable strategic hires to support our industry verticals and Verita.

With respect to attrition, it has come down within levels that are in our normal range and quite manageable for us as a business. We very much view ourselves still as a flagship for talent. And retaining our current talent base is just as important as attracting new talent, and it's no exit, I thank our colleagues on each and every one of these calls.

With respect to recent press reports, I would point out that we had always contemplated as part of the transformation program, the relocation of work, the various parts of what we do. And so I view this as not really news. It's just reporting.

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

Great. Just a follow-up. I think there were some updated rules from CMS regarding Medicare Advantage broker compensation, have you been able to assess if there is an expected impact transact from any of those changes?

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

So the final CMS rules for '25 that address marketing and Medicare Advantage plans in the U.S. was released in early April, right? So not all that long ago. The good news of the final rule was less onerous on the proposed role in a number of ways. And while there's still some uncertainties about all of its provisions are going to be implemented, but it's not causing us to change our outlook for the year. We've been actively engaged with the carriers in this space. They have reiterated the important role that we play in the distribution of Medicare insurance solutions and the valuable services we provide beneficiaries. I guess, I just close that by saying managing regulatory change is a regular part of our business. And I think we've been quite successful in navigating these sort of changes in the past. We will continue to do so in the future.

Operator

Our next question comes from Mike Ward with Citi.

Michael Augustus Ward - *Citigroup Inc., Research Division - Research Analyst*

Just on the unallocated expense items. Just wondering if you have any expectations for the rest of the year? And does that kind of depend on interest rate levels?

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

So the unallocated net for the full year, we expect to be relatively consistent with 2023 on a 12-month basis. What you're seeing there right now is the outcome of driving down expenses at the corporate level focused on enhancing the margin profile of the company going forward. Some examples of that include things like refining our corporate support model for the businesses. as well as managing discretionary spend. So that's really where it manifests itself in the unallocated net this quarter. And again, for the full year, should be relatively consistent with last year.

Michael Augustus Ward - *Citigroup Inc., Research Division - Research Analyst*

Okay. And then maybe on Global Specialties. I was hoping you could expand on the kind of growth outlook and maybe which lines you're expecting faster or slower growth?

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

So we continue to be delighted with the performance of our specialization strategy. And for the quarter, our global lines of business once again grew more than double the rest of the portfolio. So we think it is working a treat. Some of these lines are facing more challenging conditions than others. Our FINEX business, for instance, has the headwind of reduced M&A activity, which lowers the amount of work we do in transactional liability as well as the sharp decline in rates we've had over recently large number of quarters, but continues actually to still make quite good growth in -- despite these -- we see in things like Construction and Natural Resources, our unique analytic proposition, actually helping quite a bit. But in general, we're seeing strong growth across the portfolio where we have headwinds and tailwinds from rate and other conditions (inaudible).

Operator

Our next question comes from Andrew Kligerman with TD Cowen.

Andrew Scott Kligerman - *TD Cowen, Research Division - MD*

I'd like to follow up on Rob's earlier question about the staffing. Should I take it that, Carl, when you say strategic hires, and then couple that you mentioned what we had read about 120 to 130 staff members were reduced. That was just kind of the normal course of business. So as I net that out, should we be thinking that WTW does not plan to grow. They just want to selectively hire and reduce where it's impactful. Is that -- in terms of staffing. Is that the right way to think about it.

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

Let me unpick that a bit, Andrew. So as I -- one of the big focuses for us coming to '22 and '23 was rebuilding our talent base, where the events of '20 and '21 had not been helpful. That rebuild job is over, right? It doesn't mean we're done hiring because we're always going (inaudible) for great talent. But we're no longer (inaudible) rebuild, it's a build, right? If I could differentiate it that way.

With respect to non-front-office operations, the effect of the transformation program is twofold, right? One is we do have some -- where are we doing the work or things going on. Those won't necessarily cause any reduction in headcount, right? Because we actually might just be doing the work from a different location. And that wouldn't be the headcount as much as the cost of what we do as being the driver for decisions in that regard.

The other factor is technology, right? And the transformation is not just about it's certainly not just about workforce relocation, but it is about automation and efficiency. And we do see a role for that going forward. Now that technology is not free, right? So there's a spend involved there. So you may see a shifting in some line items here as we continue to optimize how we run this business.

Andrew Scott Kligerman - *TD Cowen, Research Division - MD*

Got it. Okay. And I was really intrigued by the smart connections example that you provided earlier. Could you tell a little bit about if HWC recommends a big opportunity to CRB and they're successful. Is there some compensation to the referral people within WTW and maybe you could elaborate if there is.

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

Well, I'm not going to go into details of our compensation programs for obvious competitive reasons, Andrew. But I will say that as the world leading compensation consultant, and that includes sales compensation, we have a very good adviser internally on how we structure programs to make sure we maximize the value of the internal crossing.

Operator

Our next question comes from Mark Hughes with Truist Securities.

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

Carl, you talked about the opportunity in pension derisking, et cetera. The organic in wealth at 3%. Do you anticipate that will pick back up.

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

We've characterized back our Investor Day where wealth is a low- to mid-single-digit growth business. So it's performing within those sort of areas of expectation. We do see the environment potential risk management as being one where we continue to be a valuable role for our clients over the upcoming year. We see that there continues to be interest in opportunities, whether those are annuity buy-ins and buyouts. We're probably less favorable environment for bulk lump sums, but we think that other derisking actions will make up for those opportunities.

And as we alluded to during the first part of the call, right, it's not just about derisking for some clients, actually. We have seen clients reopening their pension plan to take advantage of utilizing surplus to actually improve their overall compensation programs.

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

Right. And then the interest expense for this year, can you give us a sense of what you're looking for?

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

Yes. Sure. So remember, we took on some incremental debt in the first quarter, and we're sitting on the cash related to a large portion of that related to the maturity that we have coming up in June. Again, that's $650 million. We took out $750 million. So you'll see a temporary uptick in interest expense as we're carrying both components of that for a couple of months.

Operator

Our next question comes from Bob Huang with Morgan Stanley.

Jian Huang - *Morgan Stanley, Research Division - Research Associate*

My first question is on just a high-level question on growth outlook. First quarter U.S. GDP 1.6%, European Union has been more or less in a weaker spot as well. Given (inaudible) material business in Europe and U.S., can you maybe talk about what the clients are seeing, what you're expecting for rest of the year, specifically the European business and also at the geopolitical concerns become more complex over time? Curious to hear your view on that.

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

Yes, sure. Thanks. I guess I'd look at it this way. The current tightened risk landscape and potentially changing rate environment creates more opportunities for us to help our clients manage their risk profile given the scale and depth of the solutions we can offer them. And given the demand we see in the marketplace, we feel good about delivering on our top line targets of mid-single-digit organic revenue growth and at least $9.9 billion in revenue.

In R&B, we see opportunities for growth given our ability to help our clients address complex and challenging risks, such as natural disasters, social inflation, things like media impact and litigation in total reform and public sentiment will factor their way into that. Geopolitical conflicts, where Europe is sort of on the edge of a couple of those. And more importantly, we're seeing increased demand for our customized tools and specialized solutions. So that will ensure that clients receive the best return for their premium dollar across their entire portfolio of risks.

And given the success we've seen from these efforts, we'll continue to grow and expand this strategy into additional geographies, industry verticals. You heard us talk earlier about specialization now making its way into select industries in Europe, and international. So we think this is a very sound footing for us.

In HWC, right, that complexity in the human capital landscape continues to increase. Our clients' need for sound advice and risk management solutions intensified. As a result, they turn to us to provide solutions and help them navigate issues surrounding benefits, pension plans, workforce management. For example, we help health clients address rising health care costs by providing effective plan management, specialty solutions that can improve their population pulse status. We also provide comp benchmarking.

And -- but I guess a couple of things or looking at Europe specifically to get down the point you're trying to drilling on, we identify EU Pay transparency as a tailwind for us. It's also the peak valuation year in great Britain, and that typically brings some of an upspike in workforce. That's probably tempered a little bit this year because of the fact that pension plans are well funded, so they need a bit less support in managing trustee corporate negotiations over contributions.

But in general, the unsettled landscape that you led your question with tends to be a driver for business for us rather than a challenge.

Jian Huang - *Morgan Stanley, Research Division - Research Associate*

Got it. That's very helpful. A follow-up question. I know that you addressed part of this. Just trying to put everything together. Obviously, on the Slide 21, your cash flow walk you mentioned that cash investment in transformation will subside after 2024. Obviously, on the first quarter 2024 earnings free cash flow decreased because of transformation discretionary comp payments. Just curious how much of that was transformation in the first quarter? And I understand that it's now linear, but can you maybe help us think about how we should think about that transformation impact for 2024 on free cash flow?

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

Yes. I think we expect for the full year for it to be marginally higher than last year. And we -- from a payment timing perspective, we'll bleed into 2025, right? But the incurrence of all the costs will be in '24. There will be a couple of month lag as payments go out. So we do expect a net headwind there year-over-year for free cash flow margin.

Operator

Our next question comes from Michael Zaremski with BMO.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

First question, in regards to the Risk and Broking segment, continued excellent organic growth levels. Curious if Willis has been the beneficiary of like reverse book sales that are aiding growth like meaning you've been book sale buyer? Or would that be netted out within the book sales line item, I think, that you've disclosed?

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

Yes. There's nothing meaningful in there that's contributing to the growth from that. And mostly it's been driven by new business retention rates, very little impact from rate.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

Okay. Yes, you guys have been clear about the reinvestment in talent hire. Okay, got it. Lastly, on interest income, and I don't think we have the fiduciary asset levels yet, but it looks like the yield implied is kind of high. Is there anything unusual in there? Or is that the run rate or anything we should be thinking about seasonality wise?

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

No, I think it's a good run rate. The asset levels, obviously vary by quarter. But on an annual basis, I think the yield should be fairly consistent.

Operator

Our next question comes from Mark Marcon with Baird.

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

Clearly, really strong progress in terms of the margin expansion and clearly, there's successful efforts with regards to efficiency and utilization. But I'm also trying to understand the impact of pricing. What are you seeing from a -- and obviously, it varies by segment. But broadly speaking, to what extent has pricing been a positive catalyst for the margin expansion? And to what extent -- if that is the case, to what extent is that sustainable?

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

So within R&B, as we alluded to earlier, rate has been a nonfactor in our business, and I just don't view sort of -- as Andrew said, right, it's -- our results have been driven by great retention and great new business. And we think with our strategy of specialization, those are sustainable. And we -- and continued focus, you need to continue to do.

With respect to HWC, I guess I put these 2 things, right? One is we continue to try and to drive differentiated solutions in the marketplace that enable us to charge a fair value for the great work we do. We remain very engaged with our client base to ensure that our already high retention rates stay there. And we think that we have been very successful at delivering value, significant multiple of fees we charge and our clients very much value that as a trusted adviser with relationships that, in some cases, stretch back multiple decades.

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

Terrific. And then for my follow-up, just on BDO, you did mention that there was one large client that ended up in-sourcing some of the retirement programs. Wondering, do you have a perspective in terms of why that was? And is this kind of a one-off? Or is this anything to be concerned about on a go-forward basis?

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

So we very much view that as a one-off. This is a client that had a pronounced bent toward -- technology bent towards self-service. And we were a bit of an outlier in their portfolio of advisers. So while we would have preferred a different decision, we understand that decision. If anything, though, we see the market going the other way is that clients continue to deal with the complexity of what it takes to administer these programs and companies such as us can offer a more turnkey solution they could ever develop on their own.

Operator

The Next question comes from Meyer Shields with KBW.

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

Carl, you distinguished between sort of the rebuilding that was necessary after 2020, 2021 and more recent hiring. When you talk about the hires that have come on in the first stage of that, are they fully productive in line with the longer-term legacy Willis Towers Watson employees? Or is there still more room to go over time?

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

Yes. So I mean, we are very pleased with the progress these group of hires have made and they are contributing to our success. But we think there is still more room to go, especially for the more recent vintages, right? This effort began in early '22 and continued through '23. The people we hired in '23 still don't have from (inaudible). And we've always said 6 to 18 months become fully productive.

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

Okay. Perfect. And then if I could just go back to the timing issue in health. Does that timing impact the expenses as well?

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

We expect the expenses to be relatively even throughout the year in that regard, and it's really just the pacing of the revenue for project work that we expect to pick up throughout the rest of the year to get to that mid- to high-single-digit growth rate.

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

I mean that business is a combination of commissions, which is outside the U.S. is largely how we collect things. And then in the U.S., we have a very successful large market consulting business that's fee-based. So we're typically collecting fees as we earn them, but we keep the people on throughout the year.

Operator

Our next question comes from David Motemaden with Evercore ISI.

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

I just had a question for Andrew. So I heard you on the moderated TRANZACT growth later in the year given the projected growth by the carriers in Medicare Advantage. Just wanted to know if that changes your view at all on the free cash flow trajectory. Does that pull forward sort of the timing in terms of how you think about getting to that 16%. Or just how that lower growth in the TRANZACT business might help or aid free cash flow throughout this year?

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

Yes, it's a good question. Naturally, slower growth within that business, which is a net consumer of cash will foster a quicker move up the curve there on getting to breakeven and if positive on free cash flow. So that would definitely be a tailwind there if it did play out that way based on what we're hearing from some of the carriers at the moment in their expected growth rates.

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

Got it. Helpful. And then maybe just another question on -- good to see that the R&B growth has continued to be robust. And I'm not looking for specific numbers here, but I'm wondering if you guys sort of look at your market share today compared to where it was back in, call it, 2020, 2021. Are you guys back to that level? Is there still room to go within just the Risk and Broking businesses that you compete in?

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

Well, I mean, we certainly think there is room for us to grow market share, right. We think we have a differentiated service offering that shows very well for clients who appreciate a calculated approach to a smarter way to risk, right, we call it. And so we continue to see great potential and that is one of the reasons we think our new business results have been so strong as they are. And we think that has certainly the ability to continue forward.

Operator

This concludes the question-and-answer session. I would now like to turn it back to Carl Hess for closing remarks.

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

Thank you. Thank you all again for joining us. I appreciate the hard work of all our WTW colleagues globally who've helped us start the year on such a solid note. I'd like to thank you, our shareholders for your continued support of our efforts. Have a great day.

Operator

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