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WTW.OQ - Q2 2022 Willis Towers Watson PLC Earnings Call

EVENT DATE/TIME: JULY 28, 2022 / 1:00PM GMT

OVERVIEW:

WTW reported 2Q22 YoverY organic revenue growth of 3%, adjusted operating income of \$314m and adjusted diluted EPS of \$2.32.

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PRESENTATION

Operator

Good morning, and welcome to WTW Second 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 a more detailed discussion of these and other risk factors, investors should review the forward-looking statements section of the earnings press release issued this morning as well as other disclosures in the most recent Form 10-K and in other Willis Towers Watson's 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.

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

Good morning, everyone. Thank you for joining us for WTW Second Quarter 2022 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer. In the second quarter, WTW delivered results that as expected, built off the solid start we had to our year. We generated organic revenue growth of 3% and adjusted diluted earnings per share of \$2.32 as we continue to make progress on our strategic initiatives. Our transformation program, continued expense discipline and operating leverage from new business generation drove 30 basis points of adjusted operating margin despite headwinds from our growth investments.

We also continued to execute against our capital allocation strategy and completed \$471 million in share repurchases in the second quarter, bringing total share repurchases for 2022 to \$2.7 billion. Overall, we're pleased with our second quarter performance and remain confident in our ability to deliver against our financial goals in both 2022 and the longer term. This confidence comes from our ongoing execution against our strategy to grow, simplify and transform as well as our continued progress in rebuilding our talent and ramping our productivity. Through the first half of the year, we've already seen top line benefits from our investments in talent, and we expect that benefit to meaningfully accelerate in the second half of the year.

I'm particularly pleased with the results of our transformation initiatives. We realized \$35 million of incremental annualized savings during the second quarter, bringing the total to \$71 million cumulative since the program's inception will more than double our original \$30 million target for 2022. Accordingly, we're raising our guidance on cumulative run rate transformation savings identified by the end of 2022 from \$30 million to over \$80 million.

It's important to note that this increase is not simply pulling forward savings previously included in our \$300 million medium-term target. Our focus on continuous improvement has helped us identify both areas in which we could accelerate progress as well as new opportunities and incremental sources of value.

As a result, we now expect the program to generate annual cost savings in excess of \$300 million by the end of 2024.

In the second quarter, we also made progress on our grow initiatives, bringing to bear the full capabilities of 1 WTW for our clients through both new and existing solutions. Our strategic focus on scaling our global lines of business and Corporate Risk & Broking is gaining traction in the market with growth in these lines exceeding the CRB average by 50%. We also maintained a steady pace of new product launches, focusing on high-growth, high-need markets such as ESG analytics and climate risk. In April, we launched our ESG analytics program at the U.S. RIMS Conference. It's already generating early results by simplifying our client outreach and solving ESG data analytics and reporting needs for clients and has been part of 7-figure wins in 2 pilot markets in 2022.

We believe this solution has the potential to scale further in multiple markets around the world and we're building a world-class suite of climate risk management tools and solutions under our climate quantified banner. Following our development of the climate transition pathways of accreditation framework and the launch of our climate transition index with stocks in 2021.

This year, we introduced our climate transition value at risk data and software for asset managers and asset owners. Earlier this month, we announced the acquisition of 1 of our longtime climate analytics and software partners, further enhancing our technical capabilities. Our investments in this area are positioning us to be a global leader in helping organizations and manage climate transition risk. While new products are important, our approach to everyday innovation is also supporting our growth priority as we nimbly respond to legislative and other environmental changes.

As suggested by the everyday label, there's lots happening in this area. So I'll share just 1 to give you an idea. In response to the U.S. health care, No Surprises Act, we quickly developed and introduced transparency bundles, a cost-effective communication solution that supports clients in meeting their compliance obligations and is easily sold as an add-on to our existing clients.

Lastly, together with our strategic growth initiatives, our intense focus on onboarding talent has built a strong foundation for revenue growth in the second half of 2022 and beyond. The pace of hiring in the second quarter matched that of the first quarter, and our new hires in sales and client management roles doubled compared to the second quarter last year. We also continued to see the benefit of retention efforts with voluntary attrition at reasonable levels and aligned with macro trends.

In sum, we've been hard at work this quarter, changing the way we operate in creating a leaner, more innovative and more agile WTW. I'm confident that as these initiatives mature, they will improve our long-term financial performance as we expect them to deliver significant shareholder returns. Before I hand it over to Andrew to discuss our financial results, I want to take a moment to talk about the resilience of our business in the face of dynamic and challenging economic conditions.

We believe WTW is well positioned to weather macroeconomic uncertainty, including both inflation and potential recession. Our portfolio of businesses is relatively noncyclical, we estimate that about 80% of our revenue base is recurring, often built upon nondiscretionary solutions and services. In addition, our clients span a variety of industries and geographies and our solutions tend to increase importance and value in complex economic environments. For these reasons, our business is less sensitive to economic downturns than companies in some other industries. As an example, in 2020, when U.S. GDP declined by 2%, we still posted organic revenue growth of 2%.

Similarly, if you looked at our predecessor company's results from the 2008, 2009 economic downturn, you'd see that they continue to grow organic revenues by 2% to 4%. That said, we do have some exposure in economically sensitive lines of business, where the work we do is discretionary in nature, primarily in our Health, Wealth and Career segment, but we would expect the impact of that exposure and recession to be relatively low. Overall, our performance in the quarter was aligned with our expectations and reflected our commitment to profitable growth and the successful execution of our strategy. We continue to build momentum and remain focused on delivering on our long-term goals.

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

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

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

Thanks, Carl. Good morning, everyone. Thanks to all of you for joining us today. Before turning to our results, let me take a minute to expand on Carl's comments about WTW's ability to navigate difficult economic conditions. With interest rate spiking and equities exceptionally volatile in the second quarter, we believe the market is clearly signaling concerns about the near-term future of the economy and corporate profits. As Carl mentioned, during the previous economic downturns, WTW continued to thrive and grow revenues. We have also repeatedly demonstrated our resilient cost structure, which has allowed the business to maintain its earnings power during challenging economic times. Despite inflationary pressure on labor costs and the post-pandemic normalizing of variable costs such as travel, we remain steadfast in exercising financial discipline, and our outlook on near-term and long-term margin expansion remains unchanged.

Turning to our financial results. The second quarter was aligned with our expectations. On an organic basis, revenue was up 3%, reflecting growth across most of our businesses. Adjusted operating income was \$314 million or 15.5% of revenue for the quarter up 30 basis points from \$318 million or 15.2% 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 \$2.32, representing 9% growth over the prior year.

Let's turn to our detailed segment results. Note that to provide clear comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise. The Health, Wealth and Career or HWC segment generated revenue growth of 2% on both an organic and constant currency basis compared to the second quarter of the prior year. Health, which is comprised of our Health and Benefits broking and consulting business, delivered growth of 8%. This includes a gain recorded in connection with book of business settlements related to senior staff departures that occurred in 2021. Excluding the book of business gain, Health's organic growth was 3%, primarily driven by new client appointments and further bolstered by project work.

Wealth, which consists of our retirement and investment businesses had a revenue decrease of 7% for the quarter. The decline was primarily due to a headwind from outsized performance fees that were recorded in the prior year quarter in our Investments business, as we've discussed previously. We expect to see significant improvement in the wealth businesses during the second half of the year driven by new client acquisition and strong market demand for specialist work in response to market volatility and legislative change.

Career, which includes our Work & Rewards and Employee Experience businesses also contributed to the revenue growth for the segment increasing 5% in the quarter. This growth was largely driven by strong client demand for advisory work, data products and software licenses.

In Benefits Delivery & Outsourcing, which encompasses our Benefits Delivery & Administration and our Technology and Administrative Solutions businesses, revenue increased 7% from the prior year second quarter. The increase was largely driven by individual marketplace and reflected growth in Medicare Advantage revenue in our direct-to-consumer business. Outsourcing revenue also grew with new client appointments and growth across the existing client base. We continue to see a macro environment that supports growth opportunities for this business in 2022.

HWC's operating margin was 18.7% this quarter compared to 18.6% in the prior period. Excluding the impact of foreign currency and onetime fees from book of business gains and performance fees, the margin expanded 80 basis points, driven by strong operating leverage and in-year savings from our transformation program.

Our near-term and long-term outlook for HWC remain positive as we expect its market-leading solutions and the ongoing demand drivers in its core businesses to continue to drive organic growth.

Looking at Risk and Broking, revenue was up 3% on an organic basis and 1% on a constant currency basis as compared to the prior year second quarter. Excluding a modest headwind from book of business settlement activities, R&B's organic revenue increased 4%. Corporate Risk & Broking, or CRB, revenue increased 3%. Book of business settlement activity, which stemmed from senior colleague departures that occurred in 2021 declined nominally from the prior year but did not meaningfully affect CRB's year-over-year organic growth rate. The business generated growth across all regions, primarily from new business with notable strength in our M&A, Aerospace, Natural Resources and FINEX specialty lines. International led CRB's growth driven by growth in Natural Resources and Construction lines. Growth in North America and Europe came from both new business and improved client retention driven by the expansion of our teams in those regions and colleague retention rates at senior levels have continued to show improvement.

In the Insurance Consulting and Technology business, revenue was up 9% compared to the prior year second quarter, driven by increased technology solutions sales and higher demand for advisory work. R&B's operating margin was 19.7% for the second quarter compared to 23.1% in the prior year second quarter. The margin decline was driven by our significant investment in new revenue-producing and client service talent. In Q2, R&B welcomed new leaders across all geographies. These key hires will deliver their industry expertise and specialty insights to clients across the globe in lines such as Construction, Aerospace, FINEX, Natural Resources and Facultative. Seeing steady improvements in our client pipeline has strengthened our conviction that the work we have done to rebuild our talent base will yield strong results throughout the second half of the year. We believe these actions will enable us to significantly accelerate organic growth and meet our longer-term goal of mid-single-digit revenue growth for this business.

Now let's turn to the enterprise level results. In Q2, we generated profitable growth with adjusted operating margins increasing 30 basis points to 15.5% from 15.2% in the prior year primarily reflecting improved operating leverage and our transformation initiatives, which more than offset our increased investments in talent during the period. We continue to expect margin improvement each year as we work to deliver in our 2024 margin goals.

As Carl mentioned, our transformation initiatives will be a key contributor to this ongoing margin expansion. Our early efforts in this area have been very successful. By accelerating shared services and workforce centralization efforts and identifying incremental opportunities to drive collaboration through real estate portfolio optimization we have far surpassed our \$30 million annualized run-rate savings goal for the year. As a result, we raised both our near- and long-term targets.

Foreign currency with a headwind on adjusted EPS and of \$0.17 through the first half of the year, largely due to the strength of the U.S. dollar against the euro. 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 \$0.15 to \$0.20 to a range of approximately \$0.20 to \$0.25.

We generated free cash flow of \$198 million for the first 6 months of 2022, an \$89 million decrease from free cash flow of \$287 million in the prior year. This decrease was due primarily to the absence of cash generation from the now divested Willis Re business as well as additional tax payments resulting from both the Willis Re sale and the deal termination fee received last year.

We continue to prioritize returning capital to shareholders and executed aggressively on this commitment. During the second quarter of 2022, we paid \$91 million in dividends and repurchased 2.1 million shares for \$471 million. Of that \$471 million, \$253 million was completed during May and June. We also raised our repurchase authorization by \$1 billion to \$6.5 billion, of which approximately \$2.1 billion remains. We continue to be committed to deploying excess capital and free cash flow into our highest return opportunities and still believe that the return we can achieve from repurchasing shares remains highly attractive. Accordingly, we expect to continue to deploy free cash flow in this manner, subject to market conditions.

Overall, we're off to a good start in 2022 with the performance of the business ramping as we expected it would. As we think about the rest of the year, we see macroeconomic challenges that will create demand for our services and opportunities to help clients. We continue to feel positive about the investments we have made in talent, innovation and operational transformation and are confident those investments will drive organic revenue growth and margin expansion we have forecast for the year and position us to achieve our 2024 goals.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Gregory Peters with Raymond James.

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

Good morning, everyone. So I guess what I'd like to focus on is the revenue targets in the Slide 8. I think you've reiterated the target of achieving a \$10 billion revenue results in fiscal year '24. And there's a lot of headwinds. You've got foreign exchange that's gone against you, you had to dispose the Russian operations and potential weakening of some economies. And I'm just curious about the pathway, it would suggest that organic and total revenue growth has to accelerate the next couple of years to get your objectives. So can you give us some sense of how you think you can get to that \$10 billion target?

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

Sure, Greg. So when we originally set those targets back in Investor Day, right, we were looking at 3 years and a lot can happen over 3 years and some of which, I think, in terms of economic cycles, we don't try and predict exactly when they're going to occur, but we know they can occur. So we tried to do chart a path that we thought was reasonably resilient against a variety of economic conditions that might occur over the 3-year period. And we try not to get too excited about what might happen over quarter-to-quarter because a lot of these things will even out. FX headwinds can turn into FX tailwinds. Recession can turn back into growth, and we think all of that can occur. And we think we've got a portfolio of businesses that is reasonably resilient against a variety of economic conditions. So for instance, inflation can drive higher asset prices, which will drive and turn, higher premiums and thus commissions. I -- we've got a health care business, where health care inflation will drive up the price of insurance and so on and so forth, right? So the fact that we've got a diversified portfolio of businesses, that historically has performed pretty well across a variety of places. The cycle gives us pretty good confidence. Now that's not to say, Greg, that we were there predicting Russia would happen, but we did allow for things like that to happen over a 3-year period because simply, the world is an uncertain place.

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

Okay. I guess my follow-up question, and it's so many areas to touch on. And I think let's just focus on the hiring. Can you give us some additional detail around the new hires you brought in terms of percentage of workforce or just some granular details on what's going on. We see the headlines. It's kind of hard for us on the outside to get a sense of the progress being made because an announcement that you're hiring this broker or that

broker against the context of an organization that employees thousands of -- tens of thousands of people, it's kind of hard to gauge what's really going on. So additional detail there will be helpful.

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

Sure, Greg. So as we mentioned, our hiring activity during our second quarter was matched that of the first quarter, which in turn was the highest it's been since 2019. Our attrition rates on the other side are very consistent with industry benchmarks that we use to gauge our progress there. So hiring has exceeded voluntary terminations. Our headcount continues to increase. We focus strongly on the front office and sales and client management jobs, and we're making, we think, very good progress. And some of that, yes, has played out in the trade press. But we're net positive. We're continuing to see people attracted to the proposition we represent, and we're looking to hire people into physicians that make sense for our strategy, right? On the broking side, we think where we specialize, we win, and that's the reason our global lines continue to grow faster than our overall business. And we think we are a very attractive employer for people joining that. We do think that, as we've said -- that we bring the people on, the revenue will follow over time. And that's one of the reasons we have confidence in sort of our improving accelerated revenue outlook for the rest of the year.

Operator

Our next question comes from Paul Newsome with Piper Sandler.

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

Could you give us a little bit more detail about the impact of some of these book gains on the margins. It looks like there was at least some unusual level of book gains in the quarter and maybe that had a margin impact of something that would have not necessarily be recurring respectively?

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

Yes, Paul, it's Andrew. Happy to answer that one. As you think about the margin for the various segments and the enterprise. If you exclude the impact of the gain on sale and the performance fees, right, which presented a headwind within HWC. The HWC margin, as we mentioned during the prepared remarks would have expanded 80 basis points without that headwind. Risk and Broking would have been the same with or without the impact of the gain on sale. And at the enterprise level, there would have been 60 basis points of margin expansion on an underlying basis, if you will.

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

Great. My second question or actually I was thinking about the comments you made from the economic sensitivity in the past. I think you referred to the predecessor company. Were you thinking of Willis or Towers or kind of both that's combined because I think in '08, '09, they were separate companies?

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

You're absolutely right. We were separate, and we were citing both in terms of how we performed during that period. And I should add, right, we've taken steps to further build up our resiliency in the businesses since then. For instance, if you look at the mix of business between consulting and technology in either our human capital or our insurance consulting and technology businesses, that's shifted far more towards the technology side of things which means we're talking multiyear contracts that are less sensitive to economic volatility. And that was a very deliberate step we took to make sure that we thought that the business had more sustainability to the growth rates over time. So very deliberate on our part.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

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

My first question is just on the outlook for the second half of revenue growth. So in your prepared remarks, you mentioned that you expect the benefit from talent to meaningfully accelerate in the back half. So can you give us a sense of how much revenue you're expecting from the new hires in the second half of this year? And then also within your full year guidance of mid-single digits, are you expecting any additional book gains in the back half of the year?

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

Yes. Sure. Elyse, it's Andrew. I'll start with the concept of hiring, translating into growth. We have been hiring at a fast pace, but we have a lot of experience onboarding talent, and it's always been the case that the revenue lags the hiring activity by several quarters. As we said last quarter, we expect the first half of '22 to be a gradual build then the second half to reflect all of the accelerating benefits and the narrowing gap with the industry. What we saw in the first and second quarters remains consistent with those expectations with some positive trends in our Corporate Risk & Broking segment. We are seeing top line benefit and expecting that to meaningfully accelerate in the second half. Looking beyond that, you should expect that the hires we're making now will continue to make a contribution and even larger contribution as we move into 2023. And your -- I'm sorry, Elyse, the second question?

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

I was just curious, does the full year guidance, when you say mid-single-digit organic, are you expecting any additional book gains or just what we saw in the second quarter.

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

We still expect to see some throughout the remainder of this year that relate to 2021 events as we've seen through the first half of this year. We do expect them to return to a normalized level over time.

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

And just a general comment, right? As we try to give you our outlook on things, sort of the known knowns, right, whether it's book gains or performance fees and changes in that. We're trying to -- we factor that in into our expectations rather than treat those as surprises that we're trying to give you later in the period, right? So we're...

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

Okay. And then when you guys say mid-single-digit organic, I don't think you guys have ever defined that. I know some peers had said that 5% or greater. Do you see that as 4% or 5%, like when you set the baseline from mid-single digit, what percentage are you using?

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

Yes, yes. You're in the correct range in terms of how we think about it, Elyse.

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 wanted to follow up a little bit on the hiring, it sounds like that's accelerated and headcount has grown on a quarter-over-quarter basis. I'm wondering specifically, just if we're looking at it on a year-over-year basis, are we at a point yet where we're seeing headcount growth on a year-over-year basis particularly in producer roles in R&B?

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

Yes and yes. That's quite correct. We very deliberately targeted beginning with just about a year ago making sure that we focused on rebuilding our front office, and that's big -- a good deal of success in doing exactly that. So we're very happy with the progress we've made in increasing our head count year-over-year and are continuing to look for the right people to bring on to continue to accelerate our growth. But the direct answer to your question, David, is yes.

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

Great. That's helpful. And then I just wanted -- on the cost saves, it's good to see that you guys are ahead of schedule and increase the target to \$300 million target. It sounds like the incremental upside is coming from some of the real estate optimization that you guys are doing, could you just remind me of the \$300 million plus, I guess, now over \$300 million of cost saves, how much is coming from real estate optimization? And what does that imply about how much of your real estate footprint you plan to cut?

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

So as we identified at our Investor Day presentation, we've got 3 major buckets with respect to the transformation program. We've got real estate, our footprint there. We've got technology and what we can do to accelerate our journey to the cloud and standardize technology across the organization, and we've got operational efficiency measures that we're taking. As we look toward our improved outlook, we see potential in all of these, not just real estate. You're correct that real estate was the first element of the program we could move on, and we have acted expeditiously. But our improved outlook for over \$300 million for the program is from all those cylinders, not just the real estate program in isolation.

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

Got it. And just to follow up on that. Is it -- I had remember, there was \$180 million, \$200 million of the \$300 million was coming from real estate, from just real estate optimization. Any sort of sense for how much of your total real estate footprint you plan to cut that's embedded in that outlook?

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

Yes. I think the -- your reference to the \$180 million there is probably a ballpark figure based on some graphical representations of what we put out there. As we think about our footprint, it is a meaningful reduction in our footprint. We won't get into specifics in terms of what percentage of our real estate portfolio that is, but it is quite significant. And as Carl has discussed in the past, right, the sort of reconfiguring of that workspace that remains after the fact to foster client interactions and collaborations with our colleagues.

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

Yes. We're actually taking the call here today, David, from our Philadelphia office, which is 1 of the early conversions we've made toward -- looking toward the new footprint. It's actually a great place to meet people.

Operator

our next question comes from Robert Cox with Goldman Sachs.

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

Could you talk about the puts and takes on free cash flow in the quarter and how you see free cash flow growing throughout the remainder of the year?

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

Yes, absolutely, Robert. Thanks for the question. The decrease in free cash flow was primarily driven by the elimination of cash generation from Willis Re, which was divested as well as some additional tax payments resulting from both the Willis Re sale and the receipt related to the termination payment from the business combination. So that's what's really driving that change. Our focus, as you can imagine, remains on our long-term goal of the \$5 billion to \$6 billion by 2024 that we set at Investor Day as opposed to any sort of short-term performance or volatility that may arise quarter-to-quarter.

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

Got it. And then just a second question, going back to the transformation initiative. The comments were that the savings were in a pull forward of savings. So I guess my question is, is it fair to assume that the \$50 million increase in your 2022 savings target also is a \$50 million increase to the \$300 million run rate. And then in an upside scenario, how much more savings do you think you could get here because it looks like you're getting -- you're finding additional savings?

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

Yes. So the increase for the current year is a combination of things that we've been able to accelerate some real estate, some non-real estate, but also some new opportunities that we have identified as the program has moved along. So I'm not sure that the direct translation of the excess this year applies uniformly to in excess of the entire program. We do expect to think about our more detailed guidance going forward and if there's stuff to share there we would do that about when we give our thoughts on 2023 towards the end of the year.

Operator

We have a question from Mark Hughes with Truist.

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

I think you got growth in Medicare Advantage. I know that's been a pretty dislocated area lately, and I think you were alluding to the macro environment supporting growth. Does that apply to the Medicare Advantage as well? How do you see that shaping out, particularly as we get an early look at maybe enrollment season?

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

So early days for enrollment season, Mark, I'll address sort of both of those. First of all, in terms of the market opportunity, as we're fond of siting right, 10,000 people become newly eligible for Medicare every day. And the percentage of Medicare eligibles who buy an advantage plan rather than just use traditional Medicare continues to rise. It's expected to go from just over 40% to more than 50% by the end of the decade. So there's clearly the growth potential in this market. And that's even not -- even taking into account current people receiving Medicare.

Now with respect to sort of indications for the year, remember, most of Tranzact's revenue is fourth quarter, right? It's -- that's our vast bulk of our selling season. So Q1, Q2, Q3, I think early days and really difficult to infer sort of what's happening today into what that might mean for the end of the year when our, our big sales campaign and overall annual enrollment takes place.

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

Okay. Now on the capital management front, about a good amount of stock back this quarter. Is this a reasonable run rate for the balance of the year?

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

Yes. I think it's fair to say that the rate at which we have acquired shares during the end of last year and the first half of this year would come down and as we've said before, we expect to manage our share buybacks using our free cash flow generation as opposed to the large amount of cash that we had on our balance sheet from the sale of Willis Re and the termination payment. So I think that's a good way to think about it.

Operator

Our next question comes from Yaron Kinar with Jefferies.

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

My first question, just going back to the cost save target that's now increasing above \$300 million by the end of 2024. What does that mean for the operating profit margin target of 24% to 25%? Is that also increasing? And if not, what offsets are you seeing?

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

No. The profit margin target out in 2024 is a range, right? So it provides for variability and opportunities that we may uncover along the way. So I think the right way to think about that is still the 24% to 25% target.

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

And 1 point I'd just like to make about the transformation program in general. While this is a 3-year program, we don't anticipate. At the end of it, we're going to be done finding opportunities for continued margin improvement across the organization. The entire management team is committed to looking at how we can be the best and most efficient WTW we can be. And so that's 1 of the reasons we've seen additional opportunities in the prior quarter that have caused us tell you where we think we're headed on that. But at the end of the day, regardless of what the outcome is for the transformation program, we'll be continuing to look for further opportunities to be an efficient company.

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

Got it. And then I think both in your prepared comments and in response to a previous question around the margin impact from the bookings in HWC. You had lumped in the book gains with performance fees when you were making these adjustments. So just conceptually, am I thinking about it correctly that the book gains would have been adjusting those how would have been a bad guide on margin, but then it's more than offset by a good guide from the performance fee adjustment?

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

Yes, in terms of the headwinds and the tailwinds in margin, I think you're thinking about that right. The -- I think the right way to examine all of the onetime items is to look at the headwinds and the tailwinds and the headwind from the performance fee was larger than the tailwind from gains on sale at an enterprise level.

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

Can you quantify either?

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

I think it's -- it will be disclosed in the Q that will get filed later today, so you can pick up that detail from there.

Operator

We have a question from Brian Meredith with UBS.

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

Two questions here. First, Carl, I'm just curious, could you talk a little bit about what client retention levels will look like and maybe break it out between the 2 business segments and how that's been trending over the last call it, 12 months? And is that what's also giving you some more confidence and your ability to make that mid-single-digit organic growth in the second half of the year?

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

Yes. I'll take that from a qualitative perspective as we don't disclose retention rates. But I look at it this way, right? Last year, we were a year ago, pretty much to the day, we're at a point of maximum uncertainty for the organization, which did have an effect on retention rates in the business, having a clear destiny and strategy that our clients, I think, appreciate and like has been extremely helpful in terms of making sure that the core base of our revenue, which is recurring revenue from clients, we think it's about 80% across the organization. Remains very, very strong, and they continue to hand us new opportunities to deepen those relationships.

There is a variety across the portfolio. So our -- for instance, our Retirement business is incredibly sticky and remain so over the past several years despite any disruption you might have seen. And we're seeing that play forward in just the exact same way it has over the past few decades, right? Our talent businesses, the career at Health, Wealth and Career historically, have been more project oriented, and so there is just simply a lower retention rate inherent to that business, again, which we've addressed through our buildup of our software offerings, which are stickier in nature. On the R&B side, right? Our analysis indicates that a lot of our growth is actually coming from new which is a very healthy sign for what we've been doing. And as we've stabilized retention rates in the business, following the last couple of years' worth of activity. That stabilization should lead to the acceleration of growth we expect during the rest of the year.

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

Great. And then second 1 for Andrew. I'm just curious, fiduciary income that you're getting, what impact did that have in the quarter maybe on a year-over-year basis and kind of the benefits potentially on the margins and inorganic growth? I imagine there's a nice little pickup.

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

Yes. I don't have all of that detail at hand, Brian. But you're right, for every quarter, 25 basis points rate movement. We pick up about \$4 million of investment income given the investable fiduciary cash. So it has started to have an impact. However, the -- we have to have the portfolio turnover, right, to be able to reinvest at the higher rate. So it does take a little bit of time to work through the P&L, but we are seeing positive impact and momentum there.

Operator

Our next question comes from Shlomo Rosenbaum with Stifel.

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

Carl, I thought I'd just ask you a little bit about how you're thinking about the accelerated and incremental cost savings you're generating from the program over the course of this year? Or -- and just holistically, actually, are you thinking about that as, hey, anything extra that we find, we really want to just focus on driving the top line of the business, continued hiring, continued investments? Or are you thinking that there will be some of that will be dropped to the bottom line?

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

Yes. Thanks, Shlomo. I view this as a bit of an and, right? We have a 3-year target for revenue. We have a 3-year target for margin. And we want to chart a sensible course that gets us to that at the end of the day. So there are going to be times where we invest for growth and there are going to be times where we'll take the savings and recognize that we've been able to permanently transform ourselves to be a more efficient company. And we want to judge that as circumstances come, right? So I think that will be a quarter-to-quarter thing. I wouldn't read to -- a individual quarter into a pattern of how we're going to balance those 2 out. But we have a set of goals and we know that there's tension between them, and it's our job as a management team to get there at the end of the day. And that's an active discussion that Andrew and I have all the time.

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

Okay. And then was there any impact to the business by excluding the Russia stuff from last year. As we talk about book of business, we talked about investment income fees, but was there anything the Russia business that was a negative year-over-year?

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

Yes. I mean we -- when we announced that we were exiting the country and the business there. We disclosed some information in an 8-K that would give you the size of the ongoing impact from a revenue perspective. So yes, there is a bit of a headwind from a revenue perspective, most notable in our Risk and Broking business, as you might expect, just given the history of our business there focused on that part of the market.

Operator

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

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

And I appreciate some of the color on earlier questions. I wanted to dig a little deeper. On the move from \$30 million to \$71 million of cost savings so far with up to maybe even over \$80 million by the end of the year. That's a big change. I guess you talked about 1 real estate rationalization. I'm a restructuring specialist, can you walk a little through what happens that you can find so quickly opportunities to save money. I'm just curious, it's a lot of money, and congratulations and I'm wondering how that works.

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

Yes, sure. I'll start on the real estate side, where as we sat down and continuously analyze the real estate portfolio, there were opportunities to reconfigure or exit space that were economically attractive that weren't necessarily apparent to us when we sketched out the program at the end of last year. That drove a meaningful part of it. And as we moved along there were similar types of situations related to IT and other areas of our business where we were able to take advantage of some right-shoring opportunities that made economic sense for the business. And then the other part that drove that was also new opportunities, right, that hadn't been uncovered at the outset of the program that we were able to identify and execute on relatively quickly.

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

Yes. I would point out before we extrapolate too far, right, the next phase of opportunities, right, will require a more measured approach, right, things like technology modernization, our process optimization. We don't want to disturb our business momentum. And so we will be approaching those in a measured way, consistent with the overall timing we have around the program.

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

Okay. And then I think I know the answer to the other questions. But if you have like put thing -- organic growth in the 3 buckets, retention, new business and price for what you're selling I imagine to get in step with your peers, the element that's been weak so far as the new business production, has retention been on par with your expectations? Are you getting the price from the market where your service is.

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

Yes. As we look at growth to date and where we expect the growth to come from, price will be a contributor. But as you sort of alluded to, not the main driver, right. New business has been in line with our expectations, and we'll -- we expect to continue to accelerate given all of the hiring that's taking place, as Carl mentioned, in the front office.

The retention rates are in line with our expectations. They've improved over the last year. We continue to expect improvement in that metric as we continue through the rest of the year into next year.

Operator

Our next question comes from Ryan Tunis with Autonomous.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Yes. So back in February in the 10-K, you guys disclosed a number of unfilled seats. I think it was 2,800 then. Could you give us an update on what that number looks like today?

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

I don't think we have that to hand, Ryan. So we can follow up to the extent if that is comfortable for you.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Sure. No problem. And then on the Wealth business, you mentioned some headwinds, you think it will get better in the second half of the year. Could you give us some idea of ignoring those headwinds this quarter? I think you said it was negative 7% organic, but stripping out those headwinds, where did you see core organic in the Wealth business in 2Q?

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

So I think the answer is absent that performance fee, Wealth would have been down to 3%. And that's principally due to timing work within the Retirement business. Retirement is the bulk of our Wealth business, right? It's our Retirement business and our Investments business, Retirement a bigger business for us. And so the timing of that project work is the principal cause of that decline. We actually have visibility into take a rebound of activity during the remainder of the year.

Operator

Our next question comes from Mark Marcon with Baird.

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

I have 2 questions that are macro related. The first 1 is aside from broking, are there opportunities to raise prices in any areas with any sort of significance given the inflationary environment. We're starting to hear from other companies that they've been taking up price where historically they haven't. So I'm just wondering if you have any opportunities from that perspective.

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

We do. We -- our consulting businesses charge on a variety of basis, but 1 of them is still good old billable hours, and we have the ability to modify billing rates. Some of that is subject to contracts in force, which may specify hourly rates, but others are prevailing rates, and we have that flexibility. So -- and that is something we do look at in all sorts of economic conditions.

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

Great. And it sounds like you're opportunistically taking advantage of the environment and doing that?

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

We look to pull all levers in our portfolio when it comes to the revenue side of our business as well as the expense side. So I think the safe answer to that is yes.

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

Okay. Great. And then the second one is obviously, we're in a slowing macro environment. There's no doubt about that. There's some debate about whether or not we're entering a recession or not. And I'm wondering how are you thinking about levers to continue to hit the targets. Obviously, you're -- you've got a cost reduction program that's proving to be even more successful. But just wondering if things get a little bit worse, historically, like Julie's business, it's been highly responsive to the fluctuations, and we've made adjustments. How -- philosophically, how are you thinking about that given that we're in the process of rebuilding -- headcount rebuilding, recruiting and retaining. Do you still have the flexibility to make adjustments? Or how should we think about it -- or are you more focused on the 3-year goal? And if a year falls a little bit short because of the macro, that's not really the overriding concern.

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

I think it's an and in the way we approach this, right? We don't ignore the short term. We certainly don't ignore the long term, and we manage the business for the greatest amount of resilience we can. And there are -- as I said, there are levers we can pull here, right? I mean 1 of them is like many firms in the industry, a lot of our compensation is variable. And so as our performance varies, that we share the rewards and the burdens of that variation in performance. So that's one. We have done our best to sort of, again, transform our businesses, so they are less economically sensitive and Julie's done a lot of work over the years in just that in the rear side of the business. The Wealth side, the Health side are less economically sensitive. And so as I said, as we moved from a pure consulting provider to a solutions provider, we've taken some of the economic sensitivity out of that business.

I think particularly, what makes this 1 a little interesting right now, is that there's still great demand for our Career business in the light of the great resignation. And now the great -- what are we going to do ride inflation? And so the demand for our services looks very strong over the short term, despite the economic clouds we're seeing.

Operator

(Operator Instructions) I'd like to turn the call back to management for closing remarks.

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

Thank you very much. Great question today and really happy for the engagement with you. I just want to point out that while we think we have made good strides and I appreciate the chance to explain how we are managing this business going forward. There is more to do, right? As I said earlier in this call, right, the 3-year program we've outlaid is a good start to achieving all the WTW can be. We think we have a great time, and we look forward to continuing dialogue with you as we achieve it. Have a great day, everyone.

Operator

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

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