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WTW.OQ - Willis Towers Watson PLC To Acquire Newfront

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. Welcome to the WTW Acquisition of Newfront announcement 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 three months on WTW's website. Some of the statements 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 press release issued this morning as well as in the company's most recent Form 10-K and other subsequent WTW SEC filings. During the call, certain non-GAAP financial measures may be discussed. To provide direct comparability with prior periods, all commentary regarding the company's revenue growth results will be on a non-GAAP organic basis unless specifically stated otherwise.

For reconciliations 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 Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Good morning, everyone. Thank you for joining us today as we announce the acquisition of Newfront. On the call with me is Andrew Krasner, our Chief Financial Officer.

As you've seen this morning, we announced an agreement to acquire Newfront, a top 40 US insurance broker that combines deep specialty expertise with cutting-edge proprietary technology. Newfront's fast-growing middle-market broking business, exposure to high-growth specialty markets, and unique technology capabilities make this an attractive fit for WTW. We are excited to welcome the Newfront team.

Let me explain why this acquisition is so compelling. First, it improves our business mix by expanding our reach in the US middle market and enhances our presence in high-growth specialty areas, including technology, fintech, and life sciences. It also broadens our producer base with more than 120 producers supporting our growth ambitions.

Second, Newfront possesses proprietary technology and agentic AI capabilities. Combined with WTW's strong technology foundation and our recent strategic investments in data and analytics, AI and digital services, this acquisition will enable us to create an end-to-end platform that will let us serve clients faster, smarter and more efficiently. This has been a goal of both Newfront and WTW, contributing to the strong strategic rationale and alignment of this combination.

Third, this acquisition is well aligned with our disciplined capital allocation priorities. By enhancing our broking capabilities in the key US market and accelerating the realization of an end-to-end platform for the critical middle market, this acquisition will support continued revenue growth and margin expansion across the company.

And lastly, the transaction structure offers a compelling financial return profile, which Andrew will elaborate on with the net purchase price representing approximately 12 times Newfront's estimated 2026 pro forma adjusted EBITDA, inclusive of run rate synergies. Put simply, we're confident this acquisition will drive shareholder value creation. That value proposition starts with a great asset.

Newfront is a highly regarded US broker with an impressive track record of growth. It's delivered a 20% organic revenue growth CAGR from 2018 to 2024 and is expected to generate an approximately 26% pro forma adjusted EBITDA margin in 2026. Its success has been driven by its 650-plus employees, including more than 120 producers serving approximately 14,000 clients and strong technology. More on that later.

Newfront's two operating segments, Business Insurance and Total Rewards, are a natural complement to our core Risk & Broking and Health, Wealth & Career businesses. Business Insurance is Newfront's specialized broking platform that focuses primarily on middle market clients, representing roughly 60% of total revenue. Like our Corporate Risk & Broking business, Business Insurance focuses on high-growth verticals, and we expect Newfront to enhance our specialty offerings and expand our US footprint.

Newfront's Total Rewards business comprises roughly 40% of revenue and provides holistic coverage ranging from benefit plan management and administration to specialty services, including supporting clients' provisions of benefits as they expand globally. This business mostly fits within our Health business, and there's an attractive opportunity to bring HWC's broader range of services to Newfront's clients. Newfront's mission to modernize broking was set out by its Co-Founder and Chief Executive Officer, Spike Lipkin, whose work I've watched and admired for many years.

Newfront has executed successfully on that mission and has delivered impressive growth and truly innovative technology. From a cultural standpoint, Newfront's commitment to innovation and client service makes it a natural fit for WTW. I'm looking forward to the impact Spike, his co-founders, Brian, Gordon, and Kurt and their team will have on our combined organization in the years to come. As you can see, Newfront's business and capabilities will amplify our strategy to accelerate performance, enhance efficiency, and optimize our portfolio. By combining our scale and resources with their producers, tools and capabilities, we have an opportunity to further accelerate our middle market growth.

In addition, Newfront's technology complements our existing investments and expedites our technology roadmap, allowing us to further differentiate our client and colleague experiences to serve clients faster, smarter and more efficiently. And lastly, this acquisition shifts our portfolio mix further toward broking and increases our exposure to high-growth specialties in the US middle market. Let me elaborate on what makes Newfront's technology capabilities special and how they complement our investments and accelerate our strategy.

Newfront's deep specialty expertise is underpinned by a robust proprietary AI-enabled technology platform that has rapidly evolved since the company is founded as well as the strong tech and engineering talent base that's built it and continues to expand its capabilities. At the center of Newfront's technology is Navigator, a data-rich client-facing platform that provides a single digital interface with real-time insights into insurance, risk data and benefits. Navigator helps clients, colleagues and carriers better navigate program complexity, streamlining coverage management and risk decisions. Navigator is one of many proprietary tools Newfront has developed to support an improved client experience and more efficient scale to serve the middle market.

In addition to the Navigator tool, we're excited to complement WTW's broking platform in Neuron technology with the agentic AI-enabled placement technology Newfront has created. As part of their end-to-end client journey, the data of master Navigator is shared to an intelligence layer to prepare and enrich client submissions during the placement process. This intelligence layer helps to bring transparency to the risk decision-making process by automating the administrative, but very important part of the client journey. These placement automation solutions enable brokers to serve clients more productively than traditional models allow by automating high-volume, lower-complexity workflows, these tools enable smaller teams to broadly deliver exceptional service and risk management. Pairing Newfront's Navigator and AI solutions with WTW's risk and analytics capabilities, our broking platform for global placement and client servicing and our digital trading platform, Neuron, we're creating an end-to-end technology platform.

This platform will enable all our brokers to serve clients of all sizes with greater speed, efficiency, and intelligence. This combination will simplify the broker and client experience, improve sales productivity, enable us to expand more quickly in the middle market, unlocking cross-selling opportunities and bolster our technology talent base. I am incredibly excited about what WTW and Newfront can achieve together. This acquisition has clear benefits for our colleagues, clients and shareholders, enhancing our existing strategy while also driving shareholder value creation.

And now, I'll pass it over to Andrew for a more detailed discussion of the transaction terms and financials.

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Thanks, Carl. Good morning, and thanks, everyone, for joining us today. Let me start with an overview of the terms of the transaction. These details are also provided in the slides posted on our website, and I'd encourage you to reference them.

Under the terms of the agreement, WTW will pay an upfront purchase price of $1.05 billion comprised of approximately $900 million in cash funded with new debt and approximately $150 million in equity to Newfront employee shareholders. In addition to this upfront payment, the transaction includes up to $250 million in contingent consideration payable after the third anniversary of closing. This is primarily equity-based and requires the achievement of certain operational targets. This brings the total consideration to $1.3 billion, which is roughly 12 times estimated 2026 pro forma adjusted EBITDA, inclusive of estimated cost synergies, which I'll touch on shortly. In addition, there is a potential upside earn-out of up to $150 million, payable in WTW equity after the third anniversary of closing, contingent upon achievement of above-target revenue growth objectives.

The merger agreement also includes long-term retention incentives totaling $100 million of WTW restricted and performance-based equity to promote colleague and client retention in alignment with WTW's broader strategic objectives. We expect this transaction to be roughly $0.10 dilutive to adjusted EPS in 2026 and accretive to adjusted EPS in 2027. We remain committed to $1.5 billion of share repurchases for 2025, in line with our focus on a balanced capital allocation approach.

Following the receipt of certain regulatory approvals and other customary closing conditions, we anticipate closing in the first quarter of next year. As you can see, this transaction is thoughtfully designed to foster alignment, retain talent and drive long-term growth within a financially disciplined structure that rewards strong ongoing performance. Next, let me provide some color on estimated synergies and integration costs.

As Carl highlighted, the integration of Newfront's proven tech-enabled model will expand our mid-market broking capabilities helping WTW drive efficiencies and accelerate growth in a fast-growing market. That said, we are not including any revenue synergies in our projections, but we have identified cost synergies that we will deliver across Newfront and WTW.

We are estimating approximately $35 million of run rate cost synergies by the end of 2028, primarily from technology-driven efficiencies and overhead optimization. Our enterprise delivery organization we do, which led our successful transformation program, will play a large role in executing on these synergies. We expect to realize 5% of these cost synergies in 2026, 55% by 2027 and 100% by 2028.

One-time transaction and integration costs are estimated to be roughly $125 million over the next three years. Of these cash costs, $7 million will be incurred in 2025 and $53 million in 2026, with the rest spread ratably over the following two years. In addition, one-time noncash asset write-offs of approximately $30 million will be spread over the next three years. Within the next three years, we will have enhanced our client experience, improved productivity and efficiency and accelerated our technology roadmap.

To close, I'd like to come back to our disciplined approach to M&A that we laid out last year. This acquisition checks all of the boxes. It sharpens our focus on our core businesses, strengthening our position in high-growth specialty markets.

Newfront and WTW have shared values and clear strategic alignment, and the deal structure reinforces that alignment and helps us retain and empower top talent. As Carl shared, our businesses and our technology capabilities are highly complementary and our disciplined approach and redo capabilities will minimize disruption. We're enhancing our growth profile and accelerating our use of technology to drive efficiencies, margin, and free cash flow. Finally, the disciplined performance-focused transaction structure and attractive post-synergy multiple are designed to ensure that we achieve a compelling financial return profile for shareholders.

With that, let me turn it back over to Carl for some closing remarks.

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Thanks, Andrew. Before we move to Q&A, I want to reiterate how this transaction advances the strategy we laid out at our 2024 Investor Day. Newfront's business and technology are fully aligned with our focus on accelerating performance, enhancing efficiency, and optimizing our portfolio and strategic position. As Andrew shared, this acquisition is a disciplined and thoughtful step forward in delivering on our balanced capital allocation strategy, and I'm confident it will drive shareholder value creation.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mike Zaremski, Bank of Montreal, BMO.

Michael Zaremski - *Bank of Montreal - Analyst*

I had -- my first question, and hopefully, there's time for follow-up is on the earnouts. Maybe you can kind of elaborate on them, including the details on when and how they might get paid out over time?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. Sure. It's Andrew. Let me start by quickly walking through the deal structure. So upfront, we're paying $1.05 billion. That's comprised of approximately $900 million in cash and $150 million in equity. The $150 million of equity is going to Newfront employee shareholders and will invest over a multiyear period. For that, we believe this creates the right alignment of interest to drive growth across the combined company. The contingent consideration of up to $250 million is payable after the third anniversary of closing. This is primarily equity-based, and it requires the achievement of certain operational targets.

And together, those components represent $1.3 billion in total consideration, where WTW and Newfront share the risk and rewards with significant value creation opportunities for WTW shareholders. In addition, there is a potential upside earn-out of $150 million payable in WTW equity after the third anniversary of closing. And that is contingent upon the achievement of above-target revenue growth objectives.

And then finally, in addition to the consideration and earn-out mentioned, there's a $100 million of equity for employee retention through 2031. And we designed the deal in a way that we believe will retain talent, reinforce alignment, and incentivize a seamless combination across our organizations.

With respect to the earn-outs, as I mentioned, the $250 million contingent consideration is based on revenue performance. We believe this is achievable based on revenue retention. And secondly, the $150 million upside earn-out is based on, as I said, above target revenue objectives and exceptional outperformance.

We'd love nothing more than to hit these targets. Importantly, the additional consideration would be primarily paid out in equity to further reinforce employee retention and alignment of interest.

Michael Zaremski - *Bank of Montreal - Analyst*

Okay. My follow-up -- that's helpful, probably for you as well, specifically on the $125 million of transaction and integration costs, if we put it in a ratio relative to the $35 million of cost synergies, and we benchmark it to pretty much all your peers now have announced deals in the past, the ratio, $125 million over $35 million, it's much, much higher than peers. So I guess, on one hand, it makes us, at least me, feel comfortable that your synergy guidance is potentially conservative. But on the other hand, just trying to understand why that ratio -- why that $125 million is relatively large. Perhaps there's something you would like to call out and elaborate on that's in that $125 million.

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, sure. I think the first thing I'd mention is the $125 million that you're referring to consists of transaction expenses in addition to the cash cost to achieve. So if we focus just on the cash cost to achieve, it's about $100 million. That ratio relative to the synergies is about 2.8 times. That is relatively consistent with what we saw during our transformation program.

So feel very comfortable about how we're thinking about the cost to achieve relative to the synergies. In terms of the cost to achieve, it's going to come across a couple of areas, but a lot of it is going to have to do with the integration of technology platforms and things of that nature to drive the $35 million of synergies, which is going to be rationalization of overhead efficiencies as well as leveraging technology to improve productivity and efficiency.

Operator

Elyse Greenspan, Wells Fargo.

Elyse Greenspan - *Wells Fargo Securities LLC - Analyst*

I was hoping to start off on organic growth. Just if you could give us a sense of -- I know you gave a longer time period CAGR, but of more recent organic growth trends at Newfront, maybe '25, even if '24 is helpful. And how you're thinking about the outlook?

And then, I also want to confirm because there has been some inconsistencies across how companies have done deals that this will be, I guess, within M&A and not organic for 12 months post-close. And then, I know you guys, right, had said on your last quarter's call that maybe the competitive market, right, makes R&D more mid-single digits versus high-single digits. Does this change that view once this business gets within your organic, I'm assuming, one year post-close?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Okay. I'll try and get to all of the aspects of that question, Elyse. So let me begin with sort of the organic growth perspective. While we're not going to guide to Newfront's longer-term growth, it's worth noting that they've grown organically at a 20% CAGR between 2018 and 2024. And we're anticipating about 10% organic for them for 2026.

I think that's a strong growth record. We find it impressive. And I think it's a testament to Newfront's specialization strategy, their technology and their talent, and all that aligns well with WTW's objectives.

Like we've always said, we intend to grow -- invest in high-growth and high-margin businesses like Newfront, but equally important, the two organizations share similar ambitions, values. We think there's opportunity to extrapolate each other's strengths. The specialties and skills that we have in CRB and Health and our world-class client servicing capabilities, they're highly attractive assets to their business. So while we've taken a thoughtful approach to this strategy and the transaction that we think aligns really well with our overall M&A strategy, we wouldn't have made this deal unless we had strong conviction about the strategic rationale and about Newfront's potential to improve our overall growth profile.

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. And just on the second part of your question, the results will stay out of organic growth for the first 12 months. And just the impact on RMB's organic growth rate overall, I think it's important just to keep in mind the relative scale and size of the two components, where we do expect it to have an impact over time, but the relative size of the revenue base will sort of make that, I think, a bit modest overall relative to the size of the whole segment.

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

I guess, one last part. I'm sorry, Elyse recognize that the numbers I was quoting on growth includes both segments.

Operator

Paul Newsome, Piper Sandler.

Paul Newsome - *Piper Jaffray Inc - Analyst*

Is there any cyclicality that we should note for Newfront's business? Do they tend to have it all, the [PME]? Or is it sort of ratable year over the year?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. The seasonality of the business is relatively consistent with our broking businesses.

Paul Newsome - *Piper Jaffray Inc - Analyst*

That's great. And when we're thinking about the 100 basis point goal for the risky broker business that, margin improvement goal, does this sort of reset the base a little bit for prospectively? Or how should we think about that?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Well, we're not going to give specific margin guidance at this time relative to this. We do believe there are long-term margin opportunities, and we'll provide additional color about that on our '26 outlook in our upcoming full year earnings call. But let me just maybe hit a few points that Carl already mentioned, which includes sort of the unique technology that we think Newfront brings and the positive financial impact that we're going to see by expanding the technology adoption across our combined client base.

We do see significant opportunities to drive sales productivity, potentially improving producer validation and a path to long-term margin improvement, especially in the middle market. And we are committed to delivering on the financial framework that we communicated at our Investor Day, where we expect to deliver the 100 basis points of margin improvement for R&B and build on HWC's strong track record with some marginal -- margin improvement there.

Operator

David Motemaden, Evercore ISI.

David Motemaden - *Evercore Inc - Analyst*

I just had a question on the revenue growth and the organic revenue growth of Newfront. So it looks like -- at least when I'm looking at the historic revenue growth here, it looks like revenue growth slowed to 13% in '24 from like 34% in '23 and further based on the projections to 7% in 2025. And it looks like you guys are now thinking that it will accelerate to 10% in 2026. So I was just hoping to get some detail what's behind the slowdown, and then, the acceleration in revenue growth.

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, sure. I think it's important to keep in mind a couple of things here. One is the relative size maybe that they were growing from during parts of that period, so you would expect to see, I think, some higher growth rates there. And the other thing that's been happening over the past bit of time is just -- and we've talked about it on some of our earnings calls, regarding just the rate headwinds in certain parts of the market.

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Yes. I mean, I think, David, I'd point out that Newfront does have meaningful D&O business. It's part of the Business Insurance business. And despite meaningful pressure in the D&O market, the business maintained its strong growth in recent years. And we believe that they can maintain high single-digit organic growth despite the pressure in the current market.

Just like WTW, Newfront has proven to be resilient despite the uncertainty, and we're excited to be able to build on that consistency, but also amplifying our ability to win new business, enhance our client servicing capabilities, and better serve our combined client base.

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

And in the near term, we do expect some tailwinds from some producer hiring investments that Newfront has made.

Operator

Andrew Andersen, Jefferies.

Andrew Andersen - *Jefferies LLC - Analyst*

I think the current North American middle market business for you is about $1.5 billion of revenue. And I think it's a little bit more casualty weighted. Could you maybe just share a bit about how the business mix is within Newfront? And I imagine a lot of this is commission-weighted business.

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Andrew, I think if you look at our North America business, I think you're quoting the total number. Mid-market is a large part of that, but it's not all mid-market. And just -- we -- I think I'd characterize our business as mid -- upper mid-market, skewing in both directions from there. Newfront is a mid-market business with some upper mid-market business as well. So just a little bit of characterization there.

Our business is quite balanced between property and casualty. I think you'd find a mix with Newfront that's probably got similar characteristics. I called out D&O a while ago, but they've got a significant casualty book, cyber, property, personal lines, and a variety of other things sort of make that up. But it's quite balanced in nature.

Operator

Brian Meredith, UBS.

Brian Meredith - *UBS AG - Analyst*

A couple of quick questions here for you. First, Andrew, the $100 million of equity-based retentions, is that going to be expensed through earnings in the next couple of years? Or is that going to go below the line, at least just in the EPS line? How is that going to be accounted for?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, it will end up as below the line given it's related to the transaction.

Brian Meredith - *UBS AG - Analyst*

That makes sense. And then the second one, I'm just curious, Newfront had a pretty efficient operating model given all the technology investment they have in the Navigator system. Your $35 million of cost savings, does that include any potential applicability of the Navigator system or whatever on Willis' kind of existing cost base? Or are there additional opportunities for further efficiencies and stuff as you implement Newfront systems into Willis?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

It does include some of those efficiencies. And the efficiency number that -- the synergy number that we quoted is for the run rate we expect after three years. We do expect the impact of the technology platform and the digital ecosystem to continue to have impact beyond that time period as well. So we do think there's further enhancements that can come from leveraging that technology.

Operator

Josh Shanker, Bank of America.

Joshua Shanker - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

As I was reading the press release, I was pleased to see that the Newfront acquisition is on what you view as the cutting edge of agentic AI. When I talk to a lot of agents and brokers, generally, the conversation is that the agent-customer relationship is sacrosanct and AI is not going to create a big impact had changed that situation, but here's a business you're acquiring that appreciates that future. I'm wondering if you can talk about the scope of what you think the agentic AI proposition is? What kind of policies that will affect? And what the market opportunity and risk is here?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Yes. I think the two propositions you put upfront there, Josh, are actually quite compatible. There is -- we're not saying that there is no human element here. We think that's actually an important part of the equation. And we're really impressed how Newfront has been able to balance that out and how they approach doing business.

So we think that they provide us a unique opportunity to accelerate our technology roadmap. And really importantly, their technology nicely complements the technology we've been investing in. In particular, their client-facing interface, Navigator, you cited, and the agentic AI-driven property and casualty placement solutions, those accelerate speed to market, and they provide more scalable client solutions in an efficient manner. And we see applicability to that across our portfolio of businesses, even beyond broking over time. So meanwhile, our investments in our CRB technology platforms have focused more heavily on data and analytics, trading and connectivity, global placement and client servicing, and we showed a bit of that in the supplemental materials.

So when we bring together Newfront's technology with WTW's broking platforms, our Neuron digital trading, our risk models, our data analytics, we'll be creating an end-to-end platform that enables us to service clients of all sizes more efficiently. And similarly, Newfront's benefits management technology, like the Navigator client portal and Benji, which is their benefits assistant, they're much more effective in serving the middle market. And WTW's health benefits management and enrollment platforms are tailored to global and large market clients. So the combination, again, is highly complementary. We see opportunities to accelerate our ability to bring large market solutions to middle market clients and vice versa.

Joshua Shanker - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

And do you foresee any risk to the current relationship situation that there will be some business that goes digital and the market share of the relationship sort of oriented business will change?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Look, I think this is a business where a human touch is appreciated. I think the ability to make that human touch more effective and more efficient through agentic AI and other technology is going to be significant, and we're really delighted how this combination is going to accelerate our ability to do that.

Operator

Tracy Benguigui, Wolfe Research.

Tracy Benguigui - *Wolfe Research LLC - Equity Analyst*

It feels like you're a bit later in the larger M&A bandwagon, and I'm wondering why now. Is this deal specifically that you like? Or do you feel like you've made good progress on your specialization strategy where you're ready to focus your efforts on M&A?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

I think there's a combination of things here, Tracy. One is when -- back in '21, we announced the strategy for the organization and the transformation program, we were very, very clear during that period that we wanted to make sure we focused on the successful outcomes of the transformation program, and transformative M&A would be detracted from that. And so we deliberately took a time out from doing that. As we referenced during our Investor Day last year, a mission accomplished with respect to transformation, and we did signify our pivot to a more balanced strategy, reflecting continued driving organic progress in the organization as well as looking to augment what we could do through targets that could advance the proposition we have. And we are very convinced that Newfront does exactly that.

We're doing exactly what we said we would do.

Tracy Benguigui - *Wolfe Research LLC - Equity Analyst*

All right. Very good. And also, I noticed you still have healthy debt headroom post deal. So how are you thinking about future M&A?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Yes. So I mean we said this before, so I apologize for repeating myself, but we take a thoughtful and disciplined approach to evaluating inorganic opportunities. We applied that same framework to this transaction. We're going to continue to do so as we assess opportunities that could strengthen our portfolio and advance our long-term strategy. So I'm not going to comment on hypotheticals, but we're only going to pursue opportunities if the expected returns and value creation potential are compelling versus other capital allocation options.

When we see something that meets that bar and we believe we can execute on it without disrupting the business, we'll be fully prepared to act. So our overall M&A philosophy that we talked about last year remains unchanged, and we're operating from a position of strength, and we'll move decisively when the right opportunities arise.

Operator

Mark Hughes, Truist Securities.

Mark Hughes - *Truist Securities - Analyst*

You talked about the Navigator technology. Is that something that you might be able to kind of target a little smaller market strata if it's a little bit more of a direct model perhaps? Does that widen up your kind of aperture for the size of client you might pursue in the broking space?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Well, I think Navigator is certainly a more efficient interface as we approach the mid-market and smaller end of the mid-market. That was an attractive feature for us, Mark, and as we evaluated the combination here. So I think your thesis is correct. I mean, there is probably a lower limit to that at some point, where to one of the earlier questions, digital might make sense for very small organizations and personal lines. But we think this clearly expands our capability to efficiently operate in a broader space than we had as a standalone organization.

Mark Hughes - *Truist Securities - Analyst*

And is that part of the integration strategy with this one? Is it to roll out or make the Navigator accessible to your wider platform? Is that part of the current strategy?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Absolutely. It absolutely is Mark. And that's not just necessarily with -- that's not just a US comment, right? As I said earlier in the call, we see applicability to Newfront's technology across our portfolio.

We'll take a thoughtful measure, not try and do everything at once, right? But we see the ability to have this apply across that spans of the WTW business, whether that's our different lines or our different geographies.

Operator

Meyer Shields, Keefe, Bruyette, & Woods.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

I'm wondering, is it possible that you'd end up paying the $150 million earn-out on revenue growth without maxing out on the $250 million of contingent consideration? Are those co-dependent?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

It's possible, but relatively unlikely that, that combination of events would transpire.

Meyer Shields - *Keefe Bruyette & Woods Inc - Analyst*

Okay. Understood. And for 2025, I guess, the original $1 billion, now $1.5 billion of capital deployment, that was, as I understand it, intended to cover M&A and repurchases. Since the cash component of this deal is being funded by debt, is that $1.5 billion a good starting point for 2026 capital deployment?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. So we talked about the commitment for 2025 of $1.5 billion. And we still have meaningful deployable capital available on our balance sheet. And, of course, our businesses generate a substantial amount of free cash. We're not going to give specifics on '26 right now, and we'll do that on our full-year '25 earnings call, as we typically do.

As we've always said, we'll evaluate all options for capital allocation, which includes share buybacks, internal investments in, of course, the carefully considered strategic M&A like this transaction. And with that approach, it ensures we are maximizing value creation for our shareholders.

Operator

Katie Sakys, Autonomous Research.

Katie Sakys - *Autonomous Research - Analyst*

I just kind of wanted to circle back to the projected pro forma adjusted EBITDA margins for Newfront in 2026. I think two points about that of year-over-year expansion is quite impressive. And I was wondering if you could just kind of walk us through a little bit more detail on where exactly you think the drivers of that expansion are coming from for Newfront? And really what you think are the biggest risks to that expansion over the course of the next year might be?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. So first, let me start by saying we feel fairly comfortable about that margin for 2026. And it's really being driven by two things: one, the increasing scale of the business and the organic growth that they're achieving, naturally creates some operating leverage. And over the past year, they have taken some cost management measures, which will flow through their P&L in 2026.

Katie Sakys - *Autonomous Research - Analyst*

Okay. And does that also contemplate the producer investments that you had previously mentioned in Newfront made over the course of this year?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Yes, it does. And this is a dynamic we, of course, saw play out during -- if you look at '22, '23, '24 for us, as you invest in talent, you monitor and realize that return in talent, it's an industry dynamic, we're very comfortable with, and we're happy to see it playing out for Newfront as well.

Operator

Ryan Tunis, Cantor.

Ryan Tunis - *Cantor Fitzgerald LP - Research Analyst*

A couple for me. First one, just big picture. When I think about Newfront historically, it's kind of been kind of in the anti-bolt-on, right? You got a management team that's really invested organically and the talent that's gone there is sort of done so to get away from the bolt-on noise elsewhere. I guess, I'm curious if Willis kind of shares that same ethos on how to expand middle market from here?

Is it -- for you guys, is it more of an organic growth exploration? Or would you consider incremental bolt-on M&A from here?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Well, I think -- first of all, I think you've characterized the Newfront approach very well. And I think it's worked very well for that organization. We want to continue the momentum they've been able to build, so the 120 producers they are bringing to the table that has been an organic build and very successful, and we look forward to their ability to be even more successful within WTW.

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. And we don't view the Newfront platform as the beginning of a roll-up machine.

Ryan Tunis - *Cantor Fitzgerald LP - Research Analyst*

Got it. And then a follow-up. I'm just trying to figure out if I'm thinking about this right. I would guess that the producer CAGR over that time period, it's probably somewhere in the same ballpark as the 20% organic revenue growth. And if that's the case, I would think that the way to think about organic going forward for Newfront would be probably most impacted by incremental growth in producer count.

Just curious if I'm thinking about that right.

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

I'm not sure I quite buy that all the way, right? And that one of the Newfront's features that we found very attractive is the ability for their technology to improve sales velocity and producer productivity. And I think that's reflected in the growth rate. It's not just a headcount story.

Operator

Mitchell Rubin, Raymond James.

Mitchell Rubin - *Hill River Capital Inc - Analyst*

Could you please provide some color on the step down in valuation for Newfront from its funding round in 2022, which valued the company around $2.2 billion?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, sure. I don't think we can opine on the valuation of prior rounds of financing, but we're very comfortable with the consideration and the structure that we've put together for the Newfront shareholders and the employee shareholders.

Mitchell Rubin - *Hill River Capital Inc - Analyst*

All right. And could you give us an idea of the free cash flow conversion on a pro forma basis for the company?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. Newfront has a run rate free cash flow margin, which is relatively consistent with ours. As we realize the synergies from the transaction, bring our intellectual capital and technology together and scale in the high-growth and high-margin areas, which we've talked about, we expect to drive adjusted operating margin expansion with that. So that in conjunction with the abatement of integration costs over time will drive free cash flow margin expansion over time. As we look beyond the completion of this deal, the capital management strategy that we've set out remains unchanged.

As I mentioned before, we've got a lot of flexibility on our balance sheet. Our leverage profile is still within target, and we generate strong free cash flow.

Operator

Alex Scott, Barclays.

Alex Scott - *Barclays Services Corp - Equity Analyst*

I wanted to expand actually on couple of the questions there from Ryan. I had also sort of had the perception that Newfront had sort of an interesting angle on being able to acquire talent. Maybe a little more based on the technology, the entrepreneurial atmosphere, et cetera, versus maybe some of the team lifting that happens at the big brokers, there might be more compensation motivated and so forth. So I guess the question I want to ask is, well, how do you maintain that? Like how do you maintain that edge?

Can you still achieve that kind of special sauce when it's part of a bigger organization like Willis? And what are you doing to achieve that? Will it be more siloed? Like what Spike's role going to be at the company? Can you help us think through all of that?

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Yes. A lot of dimensions, but we have put a lot of time and energy thinking about that. I might take a little bit of exception as to your characterization of being broker culture. I think we've got something at WTW that's pretty special in terms of teamwork, in terms of staying close to clients and in terms of intellectual capital development. So that's one of the reasons we think that the organizations are highly complementary here, and this is a real win-win for both clients and for colleagues within both organizations.

We've put a lot of thought into structuring the transaction to retain, to align, incentivize the entire Newfront team, both production staff and technological talent. We view this as critical. And I think both sides are really excited about being able to incorporate the strengths of both organizations in a way that preserves strengths, enhances capabilities and focuses on state-of-the-art delivery and development practices. That will enable us to accelerate the execution of both organization strategies. With respect to the Spike to Gordon to Brian to Kurt, the co-founders, we have tremendous respect for what they have done and the business they've built.

They are going to transition to WTW at close. The process of bringing our organizations together is going to be collaborative. That means we're going to be working together with the leadership team at Newfront to facilitate a seamless transition to find roles and maximize Newfront's potential as part of WTW. And just on a personal line, I'm really looking forward to welcoming the Newfront team and the impact Spike, his cofounders and their team going to have on our combined teams over the years to come.

Alex Scott - *Barclays Services Corp - Equity Analyst*

That's helpful. I know you mentioned earlier, revenue synergies weren't in the projection, but just wanted to get a feel of what could those look like? And maybe even if you're not willing to quantify anything, just what are some of those opportunities? And then how will you drive those revenue synergies over time?

Andrew Jay Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, sure. So Newfront is a great business that has generated significant organic growth in recent years. If you think about their market-leading technology, the producer base that complements our strategy and our market footprint well and leveraging sort of the capabilities in the middle market and the high-growth industries that we mentioned. Like you said, we're taking a conservative approach and not forecasting any revenue synergies.

But I think, as you can gather, we're very excited about the opportunity for the combined teams and expanding the use of the technology. So we see opportunities to strengthen the growth profile, enhance producer productivity, particularly in the middle market. You heard Carl talk about sales velocity and efficiencies earlier. And we also see opportunities to cross-sell as we think about bringing sort of the full suite of WTW capabilities to Newfront clients and to the middle market, especially in HWC, where we have a very broad offering. So we think the opportunities are exciting.

Operator

I would now like to turn the conference back over to Carl Hess for closing remarks.

Carl Hess - *Willis Towers Watson PLC - President, Chief Executive Officer, Director*

Thank you all for joining us this morning on relatively short notice. I am very excited about the opportunities this transaction unlocks, and I am once again going to say how delighted I am to welcome the Newfront team to WTW. And as always, we want to thank our shareholders for their continued support. Have a great day, everyone.

Operator

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