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# EDITED TRANSCRIPT

WTW.OQ - Q2 2025 Willis Towers Watson PLC Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

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

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

**Julie Gebauer** *Willis Towers Watson PLC - Head of Health, Wealth and Career*

**Lucy Clarke** *Willis Towers Watson PLC - President - Risk & Broking*

## CONFERENCE CALL PARTICIPANTS

**Robert Cox** *Goldman Sachs Group Inc - Analyst*

**Charlie Lederer** *Bank of Montreal - Analyst*

**Elyse Greenspan** *Wells Fargo Securities LLC - Analyst*

**Mark Hughes** *Truist Securities, Inc. - Analyst*

**Katie Sakys** *Autonomous Research - Analyst*

**Brian Meredith** *UBS AG - Analyst*

**Mark Marcon** *Robert W. Baird & Co Inc - Analyst*

## PRESENTATION

### Operator

Good morning and welcome to the WTW second-quarter 2025 earnings conference call.

Please refer to [wtwco.com](http://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 comments in today's call may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1,995. These forward-looking statements are subject to risks and uncertainties. Actual results may differ materially from those discussed today, and the company undertakes no obligation to update these statements unless required by law. For more detailed discussion of these and other risk factors, investors should review the forward-looking statement section of the earnings press release issued this morning as well as in the 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 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'll now turn the call over to Carl Hess, WTW's Chief Executive Officer. Please go ahead.

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

Good morning, everyone.

Thank you for joining us for WTW's second-quarter 2025 earnings call. Joining me today is Andrew Krasner, our Chief Financial Officer. Julie Gebauer, our President of Health, Wealth & Career and Lucy Clarke, our President of Risk & Broking, are also joining us for our Q&A session.

In the second quarter, we delivered 5% organic growth, 150 basis points of adjusted operating margin expansion, and adjusted EPS of \$2.86 up roughly 20% year over year. Through focused execution, these results were in line with our expectations for the quarter, and we remain on track to deliver on our full-year financial objectives.

Our solid first-half results underscore the progress we have made advancing the strategic objectives we introduced at our Investor Day last December. Our strategy to accelerate performance, enhance efficiency, and optimize our portfolio continues to be a key driver of our results, especially in the face of a dynamic macroeconomic environment. We remain committed to our strategy and its execution, and we are confident in the value it will continue to generate. I want to sincerely thank all WTW colleagues for their commitment in executing these objectives.

Last quarter, we highlighted the impact of heightened geopolitical and macroeconomic uncertainty on our business, noting near-term headwinds in some more consulting businesses, especially for discretionary projects as well as potential longer-term tailwinds when conditions improve and clients begin responding more assertively to change. There were positive signs of improvement as the quarter went on as capital markets rebounded and our businesses adapted to changes in demand and buyer sentiment.

Clients are increasingly turning to us to help address the many people, risk, and capital issues they're facing amidst rising global trade, inflation, and geopolitical uncertainty. We feel positive about both our outlook and our ability to deliver for the second half of the year.

In Health, Wealth & Career; our strong mix of recurring revenue that supports required activities and our geographical diversification continue to provide a stable foundation for growth and for margin expansion. In the current environment, there continues to be significant demand for solutions focused on managing healthcare costs, derisking pension obligations, and core pay benchmarking work. And as we see consumer and corporate confidence begin to improve, we're also seeing increased demand for broad-based compensation design, benefits governance reviews, and merger integration support.

In Risk & Broking, the pace of innovation and continued challenges in global trade and inflationary and geopolitical issues are elevating both business opportunities and risk. This is demonstrated in CRB's top-line performance.

Q2 marks the 10th consecutive quarter where our Corporate Risk & Broking business recorded high-single-digit growth when excluding the impacts of both gain on sale activity and interest income. Our strength and specialty and the relentless focus of our team are clearly resonating with the market and clients. I remain confident in the growth trajectory and resilience of our business amidst economic uncertainty; thanks to our proven ability to help our clients thrive in challenging circumstances time and time again.

In addition, our consistent strategy execution is yielding clear benefits. The company has taken a holistic and intentional approach to technology and its role in accelerating growth and enhancing efficiency. There's observable progress in many client-centric and digital efforts such as the global broking platform, AI tools supporting digital interaction, and solutions that streamline data ingestion and further automate workflows which allow our colleagues to further differentiate WTW in the market and window work.

Our rollout of the global broking platform has demonstrated the power of seamlessly connecting brokers with the markets. The adoption of our broking platform is progressing on schedule, and it has and will continue to streamline service delivery and efficiency. We're also seeing early results in AI. Through the WTW Enterprise Delivery Organization or WE DO, we are raising AI literacy and fostering adoption throughout the company.

We have several AI augmented tools that are making measurable differences for both clients and colleagues. AI powered solutions are enhancing real-time analytics and reducing manual effort by streamlining data ingestion, analysis, and workflows. In some instances, we've seen a 75% reduction in routine work and processing time. In other areas, AI infused voice bots, chatbots, and guided-digital experiences are enhancing the client experience and satisfaction. We remain committed to harnessing the potential of our investments by balancing bold innovations with sustainable returns.

The benefits we're seeing across the enterprise are measurable, and we intend to maintain pace and uphold rigor in ensuring these investments deliver net positive outcomes for our clients, our colleagues, and ultimately our shareholders. I'm looking forward to sharing more about our progress and the long-term potential benefits to both growth and margins.

This quarter, we continue to record strong new business wins with specialty, technology, and global collaboration consistently being why we win in the market. In Health, Wealth & Career; our innovative products and solutions, together with our focus on making smart connections, continue to drive growth across all our businesses. For example, in Europe, a large global shipping and logistics company chose WTW's global benefits management program for its 70,000 employees around the world. Key to delivering this win were our deep expertise and strong reputation in global benefit management alongside innovative tools and technology.

In the wealth space, our innovative LifeSight platform in the UK was selected by a prominent medical association as its new Master Trust pension provider. WTW won the business from one of our main competitors due to the deep technical knowledge and clear articulation of the value we provide coupled with our reputation for quality client service.

In another great example, a major oil & gas company began using our career business' new AI-driven automated job leveling tool to support regular restructuring across their business areas as they go through a significant transformation and change. To quote them, we wouldn't have been able to evaluate 300 roles in 3 days without this tool. It was business-critical to complete this work with speed and confidence while going through their transformation.

In Risk & Broking, we continue to benefit from our specialization strategy and our ability to deliver differentiated value through technical expertise, global collaboration, and client-centric solutions. For example, after obtaining our license to act as an insurance broker in Saudi Arabia, we successfully placed property damage and comprehensive [general] (technical difficulty) liability insurance for one of the world's largest chemical manufacturers. Our team's deep knowledge of the industry and our ability to tailor technical solutions to this client's needs were key to winning this mandate. We look forward to the opportunities for growth in the Middle East, which remains a key market for WTW.

Our ability to provide tailored specialized solutions continues to resonate with clients and transform businesses, and it's positioning WTW to capture market share and high-growth industry sectors to fuel our own expansion. For instance, our construction specialty business is seeing strong results from sizable construction placements for data centers and industry sector forecasted to experience significant global growth. Our specialty model and our depth of expertise allows us to add value throughout the data center life cycle from land identification through funding and construction, powering the facility, and into operational management or divestment.

In addition, our construction and natural resources teams are working together to support clients on clean energy technologies during the construction and operational stages. We expect exponential growth with rising global demand in this area. And these are two great examples in our CRB business of how our highly agile specialty business model, coupled with our expertise allows us to spot opportunities and plan for rapid growth.

Furthermore, our cutting-edge technology and analytics have proven to help clients transform their businesses. Recently, a large UK health insurer decided to engage our insurance consulting and technology business to lead their pricing transformation initiative using Radar Vision. Radar Vision is an AI-driven modeling tool for insurer claims and it generates early actionable insights related to inflation, markets, competitors, and customer behaviors to help insurers manage pricing, underwriting, and claims. The implementation of Radar Vision helped our clients sustain a competitive advantage in a rapidly evolving market while also reinforcing WTW's reputation as a trusted partner in pricing transformation and analytics innovation.

Lastly, I want to reinforce our commitment and disciplined approach to optimizing our portfolio. I've highlighted some of the success of our organic investments, but our inorganic growth strategy remains consistent with our prior comments and we're deliberately patient and focused on first, enhancing our broking and wealth presence in key markets while strengthening our offerings in high growth, high margin areas of our core business. Second, expanding our reach across the insurance value chain to further accelerate our growth while filling gaps in our capabilities and footprint. And third, finding businesses that are good strategic fits that help us enhance our margin and free cash flow profile.

We're pleased to have announced an investment in the United Arab Emirates along with plans for Alpha Team Willis to become a wholly owned WTW business. This acquisition further enhances our value proposition and client experience delivered to global and local clients, and it directly complements our recent investments in Saudi Arabia by strengthening our presence in the Middle East. We're looking forward to continuing to work with our partners Al-Futtaim in the UAE to build on our years of success together.

Looking ahead, we will look for ways to continue to balance our capital management strategy. We'll be intentional in delivering long-term operating and free cash flow margin expansion, which will ultimately create long-term value for our shareholders.

In summary, results of this quarter were solid as we delivered organic revenue growth that contributed to meaningful margin expansion across both segments. We look forward to building on these results in the second half of the year and we remain confident in our ability to deliver on our 2025 guidance, including mid-single digit organic growth, adjusted operating margin expansion, adjusted EPS growth, and ongoing improvement in free cash flow margin.

And with that, I'll turn the call over to Andrew.

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

Thanks, Carl. Good morning and thanks everyone for joining us today.

In the second quarter, we delivered solid organic revenue growth of 5% and expanded adjusted operating margin by 150 basis points year over year to 18.5% or 100 basis points of year-over-year improvement when excluding the tailwind from the divestiture of Transact. Adjusted diluted earnings per share were \$2.86 which is an increase of approximately 20% over the prior year. As a reminder, we completed the divestiture of Transact on December 31, 2024, and for the full-year 2025, this will create a \$1.14 headwind to adjusted diluted earnings per share.

As Carl discussed, our solid 2nd quarter results reflect the strong foundation we've built and the benefits of the investments and talent and technology we've made recently. Our strategy continues to resonate with clients and colleagues and our businesses are highly resilient despite the uncertain operating environment. We are relentlessly focused on our strategic objectives, long-term shareholder value creation, and the financial framework outlined at Investor Day.

Turning to our segment results; Health, Wealth & Career revenue grew 4% compared to the second quarter of last year. We saw a sequential improvement in growth and a strengthening pipeline during the quarter, although clients remain cautious about the macro environment. 4% growth for the second quarter is in line with our expectations, and we remain on track to deliver mid-single-digit growth and margin expansion for HWC in 2025. As a reminder, the vast majority of HWC's business is recurring, with only a small portion being more economically sensitive and discretionary.

Our health business achieved strong growth of 8% this quarter or 9% growth excluding the impact of interest income and gain on sale activity. All regions saw robust growth driven by double-digit increases outside of North America and solid performance in North America. Strong new business and focus on client retention remain key drivers of growth, coupled with the ongoing appeal of our global benefits management solution. In North America, focused sales efforts and mid-market growth led to an increase in commissions, while consulting projects increased with greater demand for cost management and legislative change projects.

Looking ahead, we anticipate demand to remain strong for the health business driven by health care inflation and employers' ongoing need to manage costs while providing a competitive employee value proposition. We also successfully introduced our enhanced mid-market solution in North America and launched new panels and facilities. Overall, we've established a healthy pipeline for the second half of the year. Excluding the impact of interest income and gain on sale activity, health grew 8% in the first half and we continue to expect high-single-digit growth for the full year in 2025.

Wealth had revenue growth of 3% in the second quarter, primarily driven by the retirement business, which delivered growth across all geographies and solutions. Our core defined benefits consulting offerings remained resilient and we saw growth in project work to support legislative changes, pension risk transfers, and workforce actions. In addition, we continued to expand our client base for our LifeSight Master Trust and Insured Solutions.

Our investments business saw low-single-digit growth with new products and client wins offset by capital market volatility, the latter of which improved as the quarter progressed. This was a headwind we pointed out last quarter and expected it to impact investments results in the second quarter. We continue to expect low-single-digit growth in the wealth business for the year. Career growth was 1% in the second quarter, with solid

growth outside of North America driven by healthy demand for pay transparency support, compensation design, and employee communication projects, and a net positive increase in compensation committee employment.

As we communicated in the first quarter, advisory growth in North America was expected to be tempered by delays in certain discretionary projects. While lingering macroeconomic uncertainty may continue to impact some of our clients' decision making, we expect revenue growth to increase in the second half due to the seasonality of compensation benchmarking surveys and increased support required to prepare for the EU pay transparency directive that goes into effect in mid-2026.

Discretionary advisory project work only comprises about one-third of our career business or less than 5% of the HWC segment. As we previously communicated, we expect career to grow low- to mid-single-digits in 2025. We continue to expect mid-single-digit growth in the long-term based on our past and continued focus on product and technology offerings and recurring services.

Benefits Delivery & Outsourcing or BD&O was flat versus last year's second quarter when we delivered 7% growth excluding Transact. BD&O revenue benefited from growth and outsourcing due to increased projects and core administration work in Europe, which was offset by lower commission revenue in the individual marketplace business. It is important to remember that even following the sale of Transact, BD&O maintains a B2B2C Medicare business and so generates nearly half of its revenue in the fourth quarter. The seasonality of this business is driven by the timing of the Medicare enrollment period and new business generation, which is even more acute within individual marketplace where the fourth quarter is about 80% of its annual revenues.

Accordingly, we forecast BD&O growth to be stronger in the second half of the year, especially with the expected timing of commissions, new client implementations, and new projects to support regulatory changes. We continue to expect BD&O to grow at mid-single-digits for the year.

HWC's operating margin in the second quarter was 23.8%, an increase of 190 basis points compared to the prior year or an increase of 20 basis points, excluding the impact of the Transact divestiture. This demonstrates our ability to consistently deliver incremental margin expansion in cyclical macro conditions and adds to our strong track record of margin expansion in HWC.

Let me move on to Risk & Broking, which delivered another strong quarter with revenue growth of 6%, underscoring the continued momentum in the business. Our specialization strategy and our investments in talent, data, and technology continue to pay dividends. Corporate Risk & Broking delivered another strong quarter, growing 6% or 7% when excluding both book of business activity and fiduciary interest income. Notably, this is on top of 11% achieved in the prior year and as Carl mentioned, this is the 10th consecutive quarter in a row of high-single-digit growth when excluding book of business activity and fiduciary interest income.

CRB's growth was broad based across all regions, driven by sustained client retention in the mid-90s and strong business generation around the world. Importantly, we expanded our market presence with meaningful client wins in the Middle East, some of which Carl already highlighted. Our global specialization strategy remains a key growth driver for CRB. Our investments are yielding value as demonstrated by its growth continuing to outpace the rest of the segment.

Globally, our construction, facultative, surety, and natural resource specialty lines continue to deliver strong performance, and we're meeting full contributors to CRB's 6% growth this quarter and 7% growth in the first half of this year. Our recent investment in credit risk solutions, both organically and inorganically, is also helping to accelerate performance. From a geographic perspective, our global specialty business had double-digit growth in all of our geographies underpinned by strong client retention and new generation. We are excited by the results we are seeing from our specialization investments and we expect mid- to high-single-digit growth to continue in CRB for 2025.

In our insurance consulting and technology business, revenue was flat versus the same quarter last year. Our pipeline is strong for the second half of the year, especially on the technology sales side, but we observed a weaker consulting environment during the quarter as well as a more conservative buying behavior for large multi-year technology implementations.

Consulting offers services such as reserve calculations, financial and capital modeling, and discretionary projects like transaction services for insurers, whereas technology offers software products that support advanced analytics for claims, underwriting, rate making, and reserving for insurance

clients with large multi-year contracts that tend to have longer sales cycles. We have been making a focused effort to bring the combined proposition of consulting and technology closer together to create more value for clients and to drive growth. For the full year, we are now expecting low-single to mid-single-digit growth in ICT.

Turning back to R&B segment results overall, we are pleased with R&B's momentum year to date, which gives us confidence in our ability to deliver mid- to high-single-digit growth for the full year. R&B's operating margin was 21.2% for the second quarter, a 60-basis-point improvement over the prior year or 100-basis-points improvement when excluding the impact of foreign exchange. This was primarily driven by operating leverage from strong organic revenue growth performance, coupled with continued expense discipline as well as benefits from prior-year transformation savings. Foreign exchange was a headwind of 40 basis points to R&B's operating margin this second quarter due to the weakening US dollar, but we expect the full-year foreign exchange impact to be more modest.

We achieved 90 basis points of adjusted operating margin improvement in R&B so far this year, and we are committed to delivering 100 basis points of average annual adjusted operating margin expansion over the next three years. The strategic investments we made in our global [brokering] platform, our global placement strategy as well as our digital automation and workflow optimization are strong foundations for additional operating leverage and efficiencies and we will see these investments continue to deliver benefits for years to come.

Finally, I will give some additional color on our enterprise level results. Adjusted operating margin for the second quarter was 18.5%, a 150 basis-point improvement over the prior year, primarily driven by the strong margin expansion in the segments and prudent business expense management. The adjusted operating margin includes a 50basis-point tailwind from the Transact divestiture for the quarter. As we enter the second half of 2025, all of our businesses are operating with discipline and rigor, which gives us confidence in our ability to continue to expand margins.

Foreign currency was neutral on adjusted EPS for the quarter and a negative \$0.09 impact for the first half of 2025. The US dollar has been weakening during the quarter, so I want to give you some additional color on foreign exchange. At the current spot rates, we expect an approximately \$0.05 tailwind to adjust the EPS for the full year, though the impact may fluctuate quarter to quarter. Our US GAAP tax rate for the quarter was 6.8% versus 15.6% in the prior year. Our adjusted tax rate for the quarter was 18% compared to 22.4% for the second quarter of 2024. We expect our full-year 2025 tax rate to be relatively consistent with the prior year rate.

We generated a free cash flow of \$217 million for the first six months ending June 30, 2025, a decrease of \$88 million from the prior year. This was driven by increased incentive costs, the redesign of one of our ongoing retirement programs, higher cash tax payments, and the absence of Transact cash inflows, which were partially offset by reduced transformation program cash costs and operational improvements. Looking at the back half of the year, remaining transformation costs will reduce further and the divestiture of Transact will become a tailwind to free cash flow as we lap the quarters in which that business recorded net cash outflows.

Additionally, we received the Willis Re earnout payment in April and we do not anticipate any material cash tax payment on it in 2025 or beyond. We remain on track to deliver on our free cash flow objective of annual margin expansion and our outlook remains largely unchanged. During the quarter, we returned \$591 million to our shareholders via share repurchases of \$500 million and dividends of \$91 million. We view share repurchases as one of the primary methods of capital return and an attractive use of capital to efficiently deliver value to shareholders and therefore is a central component of our capital allocation strategy. We continue to expect share repurchases to total approximately \$1.5 billion in 2025, subject to market conditions and potential capital allocation to inorganic investment opportunities.

As we've mentioned, we are taking a more balanced, disciplined approach to capital allocation to generate long-term shareholder value. We'll continue to be selective as we invest in talent and in our platform to ensure we're driving sustainable growth and margin expansion.

In closing, we are pleased by our business performance in the first half of 2025. We are increasingly seeing the execution of our strategy manifest in our results, giving us confidence in delivering on our 2025 financial objectives and beyond.

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

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Rob Cox, Goldman Sachs.

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### Robert Cox - Goldman Sachs Group Inc - Analyst

So I want to ask about HWC organic. I think you mentioned there's more positive signs of improvement as the quarter went on and there was guidance for acceleration in a couple of the businesses there. So net- net, are you thinking about HWC growth accelerating a bit from here and can you talk about the drivers?

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

So HWC grew 4% compared to the second quarter of last year, and that was in line with our expectations. We're seeing demand remain strong for our global benefits management, for pensions, for outsourcing, where we won many notable new appointments that I mentioned earlier. We feel confident in our pipeline and we continue to expect that HWC is going to have mid-single digit organic revenue growth and margin expansion for the full year.

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

And it's Andrew. I can briefly touch on HWC's growth and then would want Julie to comment on what she's seeing.

As it relates to health, this continues to be a key strategic focus area for us. We're capturing market share and seeing strong growth play out as Julie's highlighted in the past. Health or organic growth of 8% in Q2 or that would have been 9% excluding interest income and gain on sale activity, and notably we delivered 8% in the first half of the year with strong growth across all of our regions. So we're on pace for high-single digit this year. We're also seeing strong demand for wealth, which generated 3% organic growth from strong growth in the retirement business, specifically for our LifeSight solutions and our pension advisory and brokerage services.

So we continue to see strong growth trajectory for our investment business as well. And putting those things together, we think of these as long-term accelerators of growth and we continue to expect low-single digit there for 2025. We continue to be confident about our pipeline in HWC and would expect the segment to maintain mid-single digit revenue growth and margin expansion in 2025 and over the longer term.

Maybe Julie, you want to comment about what you're seeing in HWC?

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### Julie Gebauer - Willis Towers Watson PLC - Head of Health, Wealth and Career

Sure, Andrew.

I'd actually like to start with an overview across HWC and that is that clients are carrying on with their recurring and required work, and that is most of what we do. Clients are also starting up new project work. It's typically related to managing cost and risk, and it includes support for corporate transactions plus some work on specific employee attraction and retention issues that clients are facing.

Now there are puts and takes across our businesses, so I'd like to go into more details for each business area. Starting with health, it is worth noting that this is the fifth quarter in a row where our growth has been either at the upper bound of mid-single digits or at high-single digits or actually even more, and we expect that to continue at least for the rest of 2025.

And that's because healthcare inflation hasn't abated. In the US, our latest estimates are for increases of 10% or more and that's due to several things. Like prescription drug costs are increasing significantly and there are more high-cost claims.

On that latter point, we had one client recently tell me that a patient had a \$3.5 million claim for gene therapy. Clients are facing similar challenges around the world. And so, of course, they're responding. They're doing things like taking their health plans out for competitive bids. They're evaluating specialty solutions, and also considering more significant design changes. And these are all things that we can help with, so we've got a strong pipeline and we're confident in delivering high-single-digit growth for the year.

Now in well, beyond the core work that Andrew mentioned, clients are focusing on using pension surplus, they're focused on de-risking, and they're focused on adapting to new legislation. Andrew also mentioned LifeSight. We're live in 12 countries with this solution now, and we're implementing more clients. So all of this supports our outlook for low-single-digit growth for the year.

For career, we generated growth again this quarter, even with the challenging macro environment. And that's because most of our work is from recurring projects like compensation committee appointments or products like our Embark portal. And on the advisory side, even with some project delays, there are some strong areas like Carl mentioned pay transparency and incentive design. Our sales pipeline in these areas for the rest of the year is healthy and growing.

I also just wanted to highlight that our compensation survey participation, which is a lead indicator of sales later in the year, is up again over last year. So our outlook for the year is for growth, and that's in the range of low-single-digit to mid-single-digit revenue growth for the year.

Now finally, in BDO, I want to highlight that a third of our revenues come from our individual marketplace. That's our Medicare exchange. The other two-thirds is outsourcing. I want to focus on the individual marketplace business because we generate 80% of our revenue in this business in the fourth quarter, and we expect growth in that because we value clients. We also expect to see increases in commissions because we think more retirees will review and switch their coverage.

And as a result, we expect mid-single-digit growth this year across BD&O. So Rob, those are the puts and takes. We think the areas of strength like health are expected to more than offset any short-term headwinds or discretionary advisory work in 2025. So HWC expectation is mid-single-digit revenue growth for '25 and over the long term.

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**Robert Cox** - *Goldman Sachs Group Inc - Analyst*

Awesome, thank you so much for the answer.

Moving on to Risk & Broking, I think, high-single digits again core organic growth there. Are we basically at steady state contributions from the talent investments at this point and is growth -- does that make growth really a function of the core specialization strategy or would you say there's still an extra lift relative to normal from the timing of talent investments?

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

So I mean again we're pretty pleased with the 6% growth we delivered in R&B, that was on top of 10% growth for the (inaudible) quarter the prior year. CRB delivered 6%, 7% excluding book of business sales and investment income and that was on top (technical difficulty) of the 11% capable in the prior year. And we attributed this to our specialization strategy. As we talked about our investments in talent, technology, innovation, new business wins and strong client retention continue to help move things forward.

I mean, Lucy, any commentary on the growth and the talent perspective?

**Lucy Clarke** - *Willis Towers Watson PLC - President - Risk & Broking*

Yeah, sure. Thanks, Carl. Hey, Rob, thanks for the question.

Yeah, we're encouraged by the 6% organic growth in the quarter 7% in CRB (inaudible) for the business sales and investment income. And combined with the strong results from the first quarter, we think we're in a good position to meet our full year goals. So the growth has been driven by new business, it's been driven by client retention, the impact of the investments we've made in people, which you noted, and technology both paying off as well as the specialty strategy.

We don't see any end to the progress that we're going to make on the specialty strategy. We remain well equipped to support our clients as they manage the ongoing volatility from trade and geopolitical challenges. We're also continuing to expand our market presence. Strong winds across the globe, including the Middle East. Carl highlighted that during his prepared remarks. As a result, we're confident of achieving mid- to high-single-digit growth organic in R&B.

Just for a few further specifics, the strong growth we have in our specialty businesses continues to outpace the rest of CRB, growing at double digits for the quarter. It's important to remember that it's growing at that rate because the strategy resonates with clients. It works for them, and we believe that that helps with the competitive edge. So yeah, the approach is working. It's a key driver of growth in R&B, and we expect that to continue.

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**Operator**

Charlie Lederer, BMO.

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**Charlie Lederer** - *Bank of Montreal - Analyst*

Andrew, you made some comments about free cash flow. I'm wondering if you can unpack second-quarter performance, and how we should think about the magnitude of free cash flow margin improvement over the balance of the year. Any puts and takes you could quantify would be helpful.

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

Yeah, absolutely. So for the first half of the year, we generated free cash flow of \$217 million. While that's \$88 million below the prior year, it primarily reflects the headwinds we called out in our prepared remarks, specifically that was the increased compensation and cash tax payments, the timing impact from the redesign of the key retirement program, and the absence of \$63 million of transact-related cash inflows that benefited the first half of last year.

Those more than offset the gains from the transformation initiatives and underlying margin expansion but looking ahead, we see a more favorable setup in the second half. The key headwinds from the first half, namely the incentive comp and the retirement program redesign are now behind us. And we expect a meaningful tailwind in the second half of '25 from the absence of both transformation program, cash outflows, and the transact business, which adversely impacted free cash flow results in the prior year.

So here's how we think about the full year view of free cash flow. So first we had free cash flow of \$217 million through the first six months to 2024 second half normalized free cash flow, so excluding the headwinds from transformation and Transact was about \$1.2 billion. We expect improvement on that \$1.2 billion driven by organic growth, higher margins, and working capital management.

And lastly, we do not anticipate any additional cash tax payments on the (inaudible) we earnout in 2025 or beyond. So putting all of that together, we remain confident in our ability to deliver free cash flow margin expansion in 2025, and we see additional opportunity to build on that momentum in the years beyond.

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**Charlie Lederer** - *Bank of Montreal - Analyst*

Thanks. That's helpful. I know you just touched on the impact of investments and talent, but I just wanted to follow up. It seems like we've been seeing headlines in the insurance media about heightened competition for insurance brokerage talent. I'm wondering if you guys would agree with that, being a theme in today's marketplace and how you're feeling about it and any actions you're taking.

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

Thanks for the question. I'm not sure we see that as particularly a new thing. It's something we've been aware of and frankly capitalizing on for the past several years. Others may have woken up to talent being the key driver for this business. We've believed in it for a long time, so we're staying focused on executing our strategy, making sure we have the right talent to play to support that. Currently, our approach is more opportunistic and strategic aimed at enhancing our ability to achieve sustainable and profitable growth and create value.

Lucy, you want to talk about what we're expecting to (inaudible) hires?

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**Lucy Clarke** - *Willis Towers Watson PLC - President - Risk & Broking*

Yeah, sure, thank you. Thanks, Charlie.

As Carl mentioned, we have been complimenting our existing talent by making strategic hires in the areas where we think they'll be most impactful within specialty or within geography and CRB since 2021. It was a deliberate systematic hiring strategy identified and executed by our existing talents and a key part actually of growth simplify and transform the strategy set out by Carl Andrew and my predecessor Adam Garrard for Risk & Broking. It is a strategy that has proven successful for us. We will continue to execute on that strategy.

I would also just mention our specialty approach, it's not only a meaningful contributor to organic growth, but it is a key reason we're attracting the right talent in the market. We expect strong growth to continue in our specialty businesses, which is outpacing the average of the rest of the business because the strategy works for clients and it resonates with our people. So yeah, identifying and attracting talent to complement our existing talent base will continue to be a really important part of our future strategy.

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**Operator**

Elyse Greenspan, Wells Fargo.

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**Elyse Greenspan** - *Wells Fargo Securities LLC - Analyst*

My first question within the guidance, I saw you guys lowered the cost for the gain on Willis joint venture. I think it's now expected to be \$0.20 for the year, right? And I think prior was \$0.25 to \$0.35. So I guess my question there is, are you guys behind original hiring plans or is there some other factor related to the change in guide there and will you guys be ready to transact with that entity by January 1, 2026?

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

Yes, sure. It's Andrew, I'll take the first part.

So the launch is progressing in line with our expectations. The revised estimate is simply due to having better insight into the expense picture for the remainder of the year. So we're very satisfied with the progress made so far and continue to be excited about our re-entry into the reinsurance space.

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

Yeah, and remember, Elyse. This is a new launch. We're still in the startup phase. We're focusing right now on building out the infrastructure, hiring new talent, and we'll update you on our plans for entering markets when there's more to share. That being said, right, we're really pleased with the progress we've made so far and remain really excited about our return to reinsurance.

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**Elyse Greenspan** - *Wells Fargo Securities LLC - Analyst*

And then my second question is just on margins. It sounds like the 100 basis points of margin expansion is the expectation for the full year within R&B. And then you just walk us through like the drivers that you see to achieve that that improvement. And then I'm assuming that you guys also at the enterprise level reaffirmed the overall margin improvement. So is there anything related to operating leverage or margin expansion that you would point out beyond -- now that we're beyond the transformation savings.

Thank you.

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

Yes, sure, it's Andrew. Why don't I start with the R&B piece of that?

So during the quarter we improved margins in our R&B segment by 100 basis points before FX, which had a negative 40-basis-point impact. So that's on top of Q1 with margin improvement of over 100 basis points. So despite headwinds from FX and investment income, R&B had first half margin expansion of 90 basis points. And while we're not guiding a specific number for the full year, our commitment to deliver the 100 basis points of annual margin expansion over the next three years has not changed, and our first half performance indicates, we're on track to achieve that goal, and that's driven by operating leverage as well as other operational efficiencies, including the deployment of our global broking platform and workflow optimization, I think which we touched on during the prepared remarks.

Maybe Lucy, you want to add some more color there.

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**Lucy Clarke** - *Willis Towers Watson PLC - President - Risk & Broking*

Yeah, sure, Andrew, thank you, Elyse.

Just in terms of the drivers for R&B, one is, of course, the continued impact of the enterprise delivery organization. This has played a key role in centralizing activities across the enterprise and for one thing, it helps ensure that like our team are focused on doing the right work in the right places. And as Carl mentioned in his prepared remarks, it's also been a real foundational place to work on our stronger AI capabilities.

In CRB, we're using AI to ingest and interpret unstructured data, accelerate workflows, just reducing manual efforts. Our specific technology investments in R&B, global broking platform, our global placement strategies, and a number of other like digital, automation, and workflow [optimization] initiatives are driving productivity across the business, improving client service, and operational efficiency.

As you know we have targeted mid- to high-single-digit organic revenue growth and we are also confident of being able to deliver operating leverage on that growth. We have room to grow in every specialty line we're in and in every geography. As we discussed at Investor Day, we're also taking deliberate steps to improve our business mix. We're trying to expand into higher growth, high margin markets, both organically and inorganically. Those initiatives will help us to deliver sustainable margin improvement and contribute to operating leverage. So efficiency gains, operating leverage, those will be the key drivers of the 100 basis points of average annual margin expansion in each of the next three years, and we remain confident in our ability to execute on that.

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

So speaking a little bit about the enterprise, Elyse, I mean our expectations have not changed. We still expect to deliver margin expansion for the year and I'll let Andrew dive into some margin expectations in more detail. Yeah.

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

Thanks, Carl. And I just start off by saying the 150 basis points of adjusted operating margin expansion we delivered this quarter was in line with our expectations. That growth was really driven by strong organic growth and enhanced efficiencies, which drove greater operating leverage. We also had a 50-basis-point tailwind from the divestiture of Transact, which was mostly offset by headwinds in investment income and currency.

Like Carl said, our margin expansion outlook remains unchanged. As we communicated at our Investor Day, the financial framework, we're committed to driving continued annual margin expansion through efficiency and operating leverage. I already talked about the 100 basis points of average annual margin expansion in R&B, that coupled with building on HWC's strong track record of margin expansion as you have seen this quarter is what will get us there.

I think for the full year that the key drivers of that margin expansion would be a combination of the operating leverage, the enhancing efficiency. You've heard, I think about our WE DO strategy which is set up to continue to drive efficiencies and further streamline processes, which I think gives us a really strong foundation, alongside our business mix and portfolio optimization efforts to really drive sustainable annual margin expansion for WTW going forward.

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**Operator**

Mark Hughes, Truist Securities.

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**Mark Hughes** - *Truist Securities, Inc. - Analyst*

You'd mentioned in health that outside of North America your growth was quite strong, up in the double digits. Was that attributable to any macro volatility tariffs, that sort of thing, or is that more just underlying momentum?

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**Julie Gebauer** - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

That for outside of North America, our health growth was driven by momentum as you suggested and very significant healthcare cost inflation that organizations are experiencing outside of the US.

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**Mark Hughes** - *Truist Securities, Inc. - Analyst*

Very good.

And then I think in HWC you mentioned the trajectory through the corridor was good. You saw a strengthening pipeline. Any similar observations about Risk & Broking, just how that progressed through the three months?

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**Lucy Clarke** - *Willis Towers Watson PLC - President - Risk & Broking*

Yeah, we're expecting to continue to deliver mid- to high-single digit organic growth throughout the balance of the year and in the medium to long term.

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**Operator**

Katie Sakys, Autonomous Research.

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**Katie Sakys** - *Autonomous Research - Analyst*

I wanted to dial in on ICT growth expectations of the balance of the year. I understand it's just one of many moving pieces and that there can be a lot of lumpy transactions that influence growth in the line. But in terms of thinking about the rest of this year, what are you guys thinking might drive higher organic growth and what assumptions are you making about client spend management as you look into the next six months?

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

Yeah, first, let me take a bit of a step back, right? Just give everyone a quick refresher on some key points about ICT. It represents about 11% of the segment and it's focused on delivering top-tier technology solutions and trusted consulting services to insurance carriers. That's the client base.

On consulting, we deliver both recurring services like reserve calculations as well as discretionary project work for things like securities issuance or M&A amongst insurance companies. On the technology side, we do software products that support underwriting, rate making, and reserving for clients, and those are typically larger and multi-year contracts. And while we are seeing and continue to see significant value in the combined approach of consulting and technology offerings due to the software consulting environment, we're now expecting low- to mid-single-digit growth for the full year.

Lucy, want to elaborate?

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**Lucy Clarke** - *Willis Towers Watson PLC - President - Risk & Broking*

Yeah, sure. Thanks, Katie, for the question.

We feel good about the ICT business. We're particularly confident about the strong technology pipeline we have for the second half of the year. As we've seen in the past, the timing of some large-scale finance or technology transformations often create variability in the timing of results. So in some clients are taking a more measured approach to investment in the second quarter due to economic conditions. Our underlying pipeline and opportunities remain strong and so our long-term outlook for ICT remains mid- to high-single digit organic growth.

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**Katie Sakys** - *Autonomous Research - Analyst*

Got it. Okay.

And then on the changing guidance on the reinsurance JV. Is it fair to frame the discussion there in thinking the additional upside to that guide would come from further improvement to the insight on expenses or could we potentially see some further upside into that guide over the next six months as you get a better sight line on potential growth expectations?

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

Yeah, I mean, based on what we know today and the startup phase of the business, we don't expect additional changes at this time in terms of the cost associated with getting that built and launched.

**Operator**

Brian Meredith, UBS Equities.

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**Brian Meredith** - UBS AG - Analyst

Some other brokers in the quarter have talked about the impact of the rate environment, particularly large ticket property business on growth this quarter. I'm curious, was there any impact on CRB and maybe just remind us what the potential impact of just the pricing environment could have on your revenues.

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**Lucy Clarke** - Willis Towers Watson PLC - President - Risk & Broking

Yeah, sure, Brian. Hi, it's Lucy. Thanks for the question.

So that's right, we've seen rates in certain classes continuing to trend downward. We've seen that in the market since the beginning of last year. Like the others have said, most lines are softening. The most effective part of the market is the large and complex property segments, and the part of the market where rates are still hardening is the North American casualty excess umbrella auto.

The important thing to remember about where the rating is, is that after many years of market hardening across all lines, this was expected. We planned for it, the industry will have planned for it. Obviously, we didn't know exactly where it was going to go but we [knew] directionally. And so where carriers still consider that they're getting rate adequacy, the conditions will continue to improve for clients.

So rate has been a moderate headwind for us, but the two elements that affect how it impacts us are how clients decide to behave and the makeup of our overall book. And just in terms of clients, right? Sometimes they take the savings, sometimes they use the opportunity of a really good market to buy more. And in terms of the makeup of our book, we're about half property, half casualty. We skew to the middle market so that we're not as impacted by large and complex property, and we have a good balance between commission and fee.

And just as an overall observation, we've made significant investments in the business over the last three years, and those investments are continuing to pay off. So we can't predict the extent to which rates may continue to decline, but we do not rely on pricing to drive our organic growth. And we remain well positioned and confident about our mid- to high-single-digit organic growth guidance for Risk & Broking.

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**Brian Meredith** - UBS AG - Analyst

That's really helpful. Thank you.

And then just Carl, I wonder if you could just remind us of your view with respect to inorganic growth and then you talked about strategic acquisitions. A number of the other major brokers have made some very large acquisitions. Is your view that you're more focused on bolt-ons or do you have the capacity and the ability to do something of larger scale?

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

Yeah, let me talk a little bit about our thinking on M&A. And let me start with some illustrations of what we have been up to. Right earlier this year, we completed the purchase of global commercial credit as a specialist broker focused on trade credit and political risk. We've talked about the buyout of Alpha Team Willis that's currently pending. We are actively looking for opportunities and we're being thoughtful and disciplined in our approach.

We're particularly interested in bolt-on acquisitions that fit nicely into our specialty strategy. In the wealth space, the market's fast expanding, so we are particularly interested in wealth management and defined contribution capabilities in growing markets and beyond bolt-ons, we'll also consider larger opportunities to enhance our presence in select geographies or market segments.

Ultimately, WTW is leading data and technology platforms and a unique culture. These assets should make a lot of sense for any business that may be looking to join us. So to be a bit more specific, we're aiming to increase our business fix and broking wealth through M&A. We see this as a key opportunity expanding into high growth, high margin areas of our core business.

Secondly, we see an opportunity to play across the insurance value chain like our re-entry into the free reinsurance with [pain, accelerate growth].

And third, a combination of WTFU should have a compelling financial story enhancing our margins and free cash flow profile.

And lastly, I want to remind you that we're looking for those that can be a good cultural fit, minimize business disruption, and satisfy the criteria that I just talked about.

Now, as far as size, I'm not going to talk about hypotheticals, right? We'll only get to pursue something that the expected return and value creation potential are compelling versus our other capital allocation options. And if we're confident we can execute the opportunity without disrupting our existing business and adding -- we want to add value to our clients and business and our shareholders along the way. The last few years we've solidified our infrastructure, we've strengthened the company, and we now have the right business focus and more efficient processes and the tools. They integrate potential targets with WTW and deliver long-term value.

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#### **Operator**

Mark Marcon, Robert W. Baird.

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#### **Mark Marcon** - *Robert W. Baird & Co Inc - Analyst*

Thanks for squeezing me in.

Two long-term questions. Carl, you mentioned AI in your prepared script. I'm wondering if you can elaborate a little bit more in terms of your efforts there in terms of increasing efficiencies, automating, and how you're thinking about that from a long-term perspective.

And then Julie, health within HWC has been a key driver. Obviously, things are looking very good for this year. I'm wondering if you can talk a little bit about longer term in terms of the next three to five years and particularly, how much work you expect in terms of plan redesign given the healthcare inflation that's occurring. Thank you.

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

Sure, and I'll see that two questions. Let me get to the AI first, and I'll let Julie that first.

I talked about this in my prepared remarks, right? And we've been implementing various forms of AI for years, such as advanced analytics, machine learning models, right? And that helps drive efficiency and deliver our client solutions. We use these types of AI for -- in our risk modeling for clients and other risk management solutions.

Let me give you an example, right? Coverage clarified in our construction business that uses AI to verify that insurance coverage is adequate and contractually compliant, which is otherwise a pretty time-consuming and labor-intensive manual process. We built coverage clarified in-house and we estimate it's making our process up to 40% more efficient and that's just one example, right? We continue to explore opportunities to use AI to improve the overall client experience, streamline our internal processes, and to enhance both client and our decision making.

Now, as always, we're doing it thoughtfully and responsibly by putting our clients first and in full alignment with our values and applicable legal and regulatory requirements. I'm sure my general counsel's out there smiling somewhere to ensure the quality of our advice on what clients expect and what our costs are getting from WTW. So we intend to balance innovation with sustainable return, and we see long-term potential benefits to both growth and margins from our AI investments.

Julie?

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**Julie Gebauer** - *Willis Towers Watson PLC - Head of Health, Wealth and Career*

Sure, and thanks for the question on health, Mark.

Look, as you know healthcare coverage is a significant component of the employee value proposition in virtually all countries around the world and the cost of that coverage is meaningful relative to other components, particularly in some large economies like the US.

The drivers of cost increase, they're currently, I mentioned before, a prescription drugs. There's overall utilization. There are new treatments that are driving high-cost claims, and we don't see those changing in the short term for sure, but also in the medium term, so organizations will need to continue to keep an eye on this component of their total compensation and benefits costs and we expect long term to see high-single-digit growth over this -- for this business.

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**Operator**

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

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

So thank you all for joining us this morning. I want to thank all our WTW colleagues again for their hard work and dedication, and thank you to our shareholders for their continued support of our efforts.

Have a great day, everyone.

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**Operator**

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

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