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WLTW.OQ - Q2 2020 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Co. reported 2Q20 reported revenue of \$2.1b, net income of \$102m and diluted EPS of \$0.72.



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PRESENTATION

Operator

Good morning. Welcome to the Willis Towers Watson Second Quarter 2020 Earnings Conference Call. Please refer to willistowerswatson.com for the press release and supplemental information that was issued earlier today. Today's call is being recorded and will be available for the next 3 months on Willis Towers Watson's website.

Some of the comments in today's call may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties. Actual results may differ materially from those discussed today, and the company undertakes no obligation to update these statements unless required by law. For a more detailed discussion of these and other risk factors, investors should view the forward-looking statements section of the earnings press release issued this morning as well as other disclosures in the most recent Form 10-K and in other Willis Towers Watson SEC filings.

During the call, certain non-GAAP financial measures may be discussed. For 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'll now turn the call over to Mr. John Haley, Willis Towers Watson's Chief Executive Officer. Please go ahead, sir.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Thank you. Good morning, everyone, and thank you for joining us on our second quarter 2020 earnings call. Joining me today are Mike Burwell, our Chief Financial Officer; and Rich Keefe, our Head of Investor Relations.

In the second quarter, we continued to navigate through an uncertain and unprecedented economic downturn. Nevertheless, I'm pleased with our financial performance. While our results were somewhat impacted by the pandemic, our overall performance reflects the strength, the diversity and the durability of our business model. In many of our core businesses, we continued to see new business generation, strong retention rates and increased operating leverage. We also reduced our controllable spending and improved our liquidity through prudent cash flow management. I'm extremely proud of the work we've done to build the company's operational resilience and strong balance sheet, both of which have provided a foundation for long-term sustainable growth.



Before delving further into our second quarter performance, I'd like to give a brief update on a couple of important topics. During our last earnings call, I talked about the COVID-19 crisis and the measures we have taken to mobilize and mitigate the risk to our colleagues. Now we're taking what we've learned from the global pandemic to work together even better and are reimagining our workplace and our work activities.

This is no longer about reacting to the COVID-19 situation. It's about proactively using the experience of the last few months to create a more flexible, agile future. We want to leverage and enhance what we've learned to explore how we can work differently. And we want to ensure we maintain the key elements of our culture that keep our colleagues engaged and inspired.

A working group that includes leaders from across the company has been convened to plan for this next phase of our journey. Their work focuses on reimagining our workplace across core themes including collaboration, learning and development and external stakeholder engagement. I continue to be impressed with the agility of our colleagues and their commitment to clients and each other in the wake of this global pandemic. Against the rapidly evolving backdrop of the last few months, our colleagues around the world quickly embraced the immense amount of change spurred by COVID-19 and remained resolute in providing excellent client service.

Likewise, our colleagues have rapidly embraced the prospect of the Aon combination and are generally enthused and looking forward to the many opportunities that lie ahead. On July 8, we filed our definitive joint proxy statement -- I'm sorry, on July 8, we filed our definitive joint proxy statement in connection with the proposed combination with Aon. We've continued to work towards obtaining the necessary regulatory approvals and consents, and we'll hold the necessary meetings for shareholders to vote on the transaction on August 26. We remain on pace to close the transaction in the first half of 2021, subject to the satisfaction of the applicable closing conditions. We continue to be excited about this next step in our evolution and about the overall future of this industry.

We design and deliver solutions that help manage risk, optimize benefits, cultivate talent and expand the power of capital to protect and strengthen institutions and individuals. COVID-19 has highlighted deficiencies in the way the world approaches risk. These unprecedented times warrant a reappraisal of how companies assess uncertainty and strengthen the rationale for the combination with Aon. We're eager to bring new and innovative solutions to our clients to meet their evolving needs and solve global problems.

As a general matter, the COVID-19 pandemic did not have a material adverse impact to our financial results for the second quarter of fiscal 2020. However, the pandemic did impact revenue growth, particularly in some discretionary lines, and we expect that the impact of COVID-19 on general economic activity could negatively impact our revenue and results for the remainder of 2020 and potentially even longer.

So now let's move on to our quarter 2 2020 results. Reported revenue for the second quarter was \$2.1 billion, up 3% as compared to the prior year second quarter, up 5% on a constant currency basis and flat on an organic basis. Reported revenue included \$35 million of negative currency movement.

We experienced good financial performance in areas where we have a well-established market position, mature relationships and annuity or compliance-driven business. We didn't perform as well in areas where our revenue is tied to discretionary projects. Our clients are facing tough times and making difficult decisions. In that context, initiatives that are aimed at reducing costs and risks are higher priorities. We continue to work with our clients to find practical solutions for these challenges.

Net income was \$102 million, down 32% for the second quarter as compared to the \$149 million of net income in the prior year second quarter.

Adjusted EBITDA was \$441 million or 20.9% of revenue as compared to the prior year adjusted EBITDA for the second quarter of \$425 million or 20.8% of revenue, representing a 4% increase on an adjusted EBITDA dollar basis and 10 basis points of margin improvement.

For the quarter, diluted earnings per share were \$0.72, a decrease of 32% compared to the prior year. Adjusted diluted earnings per share were \$1.80, reflecting an increase of 1% compared to the prior year.

Overall it was a solid quarter. We grew revenue and adjusted earnings per share and had enhanced adjusted EBITDA margin performance.

Now let's look at each of the segments in more detail. To provide clear comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise. Segment margins are calculated using segment revenue. And they exclude unallocated corporate costs such as amortization of intangibles, certain transaction and integration expenses resulting from mergers and acquisitions, as well as other items which we consider noncore to our operating results. The segment results do include discretionary compensation.

The Human Capital & Benefits segment revenue was down 2% on an organic and constant currency basis compared to the second quarter of the prior year primarily as a result of a decline in demand in our Talent and Rewards business. Talent and Rewards revenue decreased 19%, with the uncertain economic conditions related to COVID-19 having created cost constraints and affecting workforce dynamics at many companies, dampening client need for advisory work globally. The decline was partially mitigated by modest growth in HCB's other businesses.

Our Health and Benefits revenue increased for the quarter. In addition to strong client retention, we had an increase in consulting assignments in North America as well as new global benefit management and local brokerage appointments outside of North America. Retirement revenue increased nominally, mainly as a result of an uptick in funding advice and guaranteed minimum pension equalization work in Great Britain.

Technology and administrative solutions also increased in Western Europe and International attributed to increased project work.

Despite the shortfall in revenue, HCB's operating margin decreased by just 20 basis points compared to the prior year second quarter, and that was as a result of careful cost management efforts. We remain confident about the long-term prospects of our HCB business. Employers experienced unprecedented and significant changes to the ways of working in 2020. Our clients are facing many new challenges as they make plans to restore stability. HCB's experts remain prepared to help them rethink the human capital efforts and employ benefits in the wake of COVID-19.

Now let's look at Corporate Risk & Broking or CRB, which had a revenue increase of 4% on an organic and constant currency basis as compared to the prior year second quarter. North America's revenues grew by 9% in the second quarter from new business wins alongside favorable rates. International and Western Europe's revenue increased 8% and 1% respectively driven by new business and strong renewals. Great Britain's revenue declined 5% for the second quarter primarily due to a decline in marine and retail activity that was related to COVID-19.

CRB revenue was \$701 million this quarter with an operating margin of 19.2% compared to \$690 million of revenue with an operating margin of 15.2% in the prior year second quarter. The margin improvement was due to top line growth alongside cost containment efforts. This year has been and will continue to be an extraordinary time for the insurance industry. CRB is committed to keeping our clients fully informed about what they should expect and how to plan for the uncertainty they're experiencing.

Turning to Investment, Risk & Reinsurance or IRR. Revenue for the second quarter increased 1% to \$413 million, and increased 2% on both a constant currency basis and organic basis as compared to the prior year second quarter. Reinsurance with a growth of 6% continued to lead the segment's growth through a combination of net new business and favorable renewals. Insurance Consulting and Technology revenue was flat as growth in technology sales was largely offset by declines in consulting projects. Investment revenue increased 1%, with the continued expansion of the delegated investment services portfolio. Our Wholesale business was up 1% on an organic basis, mainly from new business wins.

IRR had an operating margin of 28.7% as compared to 26.9% for the prior year second quarter. This improvement reflects top line growth alongside the scaling of successful businesses. We continue to feel good about IRR's growth trajectory. IRR's portfolio of offerings provides clients with the information needed to make strategic decisions in this uncertain and dynamic environment. We have a deep understanding of risk and all the ways that affects capital and organization's financial performance. Our core focus is to provide clients with a superior understanding of the risks they face and then advise them of the best ways to manage the risk of extreme outcomes.

Revenues for the BDA segment increased by 66% on a constant currency basis and decreased 3% on an organic basis from the prior year second quarter. The growth in reported revenues was driven by TRANZACT, which contributed \$87 million to BDA's top line. The decline in organic revenue was primarily due to a shift in timing in our individual marketplace business. The decline was partially offset by Benefits Outsourcing increase in revenue, which was largely driven by its expanded client base.

The BDA segment had revenues of \$209 million with a minus 4.2% operating margin as compared to a minus 20.1% in the prior year second quarter. The margin improvement was primarily driven by the top line growth.

We're optimistic about the long-term growth of this business. In the COVID-19 era, sustaining health benefits is more difficult than ever. BDA solutions empower employers, employees and retirees to navigate the changing world of benefits through a tailored, integrated experience that combines consulting expertise with innovative technology.

Overall I'm pleased with our progress. We delivered steady financial performance across most businesses, modest margin expansion and adjusted EPS growth, all while adapting to the rapidly changing global environment. Now I'll turn the call over to Mike.

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Thanks, John, and I'd like to express my gratitude to all of our colleagues who have shown remarkable resilience as they've continued to collaborate by virtual means and operate effectively through this challenging environment. The second quarter was like -- unlike any other we have seen. I'm extremely proud of our team and our performance. The results demonstrate the durability of our business model and the agility of our colleagues to not only adapt to rapidly changing conditions, but to continue to deliver for our clients while also producing solid financial results.

The second quarter was challenging, but we are reassured by the demand for our services and solutions, for our ability to reduce discretionary expenses and to manage our cash and by our team's overall creativity. We're pleased to see continued overall revenue and underlying adjusted EPS growth and robust free cash flow growth.

Now I'll turn to the overall detailed financial results. I'll start with income from operations. Income from operations for the second quarter was \$163 million or 7.7% of revenue, down 90 basis points from the prior year second quarter income from operations of \$176 million or 8.6% of revenue. Adjusted operating income for the second quarter was \$296 million or 14% of revenue, down 60 basis points from \$299 million or 14.6% of revenue in the prior year second quarter.

Our second quarter 2020 unallocated net expenses grew to \$109 million from \$58 million in the prior year second quarter. The cost in this category primarily relates to corporate functions and other unbudgeted costs that we don't directly allocate to the segments each quarter, including items such as true-ups on benefit and stock compensation expense accruals, incentive accrual adjustments and E&O legal settlement items.

So let me provide additional detail on the increase for Q2. During the quarter, we had a lower-than-normal vacation usage pattern stemming from the pandemic, which required a \$12 million vacation expense to be booked within unallocated net. Likewise, we've had some year-over-year increases related to timing around incentives, E&O accruals and business taxes.

Now let me turn to earnings per share. For the second quarters of 2020 and 2019, our diluted EPS was \$0.72 and \$1.06, respectively. For the second quarter of 2020, our adjusted EPS was up 1% to \$1.80 per share as compared to \$1.78 per share in the prior year second quarter. Foreign exchange had a de minimis impact on EPS for the second quarter.

Our U.S. GAAP tax rate for the second quarter was 42.2% versus 19.7% in the prior year. Our adjusted tax rate for the quarter was 22.2%, up slightly from the 21.4% rate in the prior year. The current year U.S. GAAP effective tax rate is higher due to a \$35 million discrete tax expense primarily related to an incremental Base Erosion and Anti-Abuse Tax or BEAT recognized during the second quarter in connection with the temporary income tax provisions of the CARES Act. The temporary provisions of the CARES Act are applicable to tax years 2019 and 2020. Utilizing these temporary provisions, the company will realize a cash tax benefit in 2020 of approximately \$40 million.

Turning to the balance sheet. As the COVID-19 situation continues to evolve, I believe that we are well positioned to navigate the uncertainty that lies ahead. We ended the second quarter with a strong capital and liquidity position, with cash and cash equivalents of \$1.1 billion and full capacity in our undrawn \$1.25 billion revolving credit facility. We aim to continue to maintain a strong and durable balance sheet and are looking to conserve cash in the current environment by leaning into our cost and efficiency initiatives. We will continue to monitor the situation and intend to take appropriate measures to further reduce cash outflow and preserve adequate liquidity if demand for our solutions or services deteriorates.



For the second quarter of 2020, our free cash flow was \$593 million versus \$287 million in the prior year, bringing our year-to-date free cash flow to \$550 million, an increase of 201% from the \$183 million for the first half of the prior year. The year-over-year improvement in free cash flow is due to a combination of our cash process improvements, prudent working capital management, and disciplined approach to managing spend.

In terms of capital allocation, we paid \$171 million in dividends and did not repurchase any shares in the first half of 2020. As a reminder, given certain prohibitions in the transaction agreement in connection with our pending business combination with Aon, we do not expect to repurchase any shares during the remainder of 2020.

As John mentioned earlier, the economic fallout from COVID-19 generally had no material impact on the company's overall financial results for the second quarter of 2020, but we believe this is not indicative of its potential impact on the company results for the remainder of the year and beyond. The duration of the pandemic, the full magnitude of its economic impact and the subsequent speed of recovery remain unknown. Considering this uncertainty in the economy, we previously withdrew our original guidance for 2020. We continue to be unable to predict the extent of the impact of COVID-19 pandemic. The company will reassess this position once we have a clear understanding of the depth, duration and geographic reach of the pandemic.

In the meantime, we remain focused on maintaining a strong balance sheet, liquidity and financial flexibility. The changes brought on by COVID-19 pandemic are and continue to be formidable, but I'm very proud of the leadership and personal sacrifices demonstrated by our colleagues in supporting our clients during these very difficult times. The second quarter results are a direct reflection of the continued support from our clients, our colleagues and all our stakeholders.

Overall we delivered solid financial performance in the second quarter. Despite the near-term uncertainty in the global market, I remain confident in the underlying fundamentals of our business. And now I'll turn the call back to John.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Thanks very much, Mike. And now we'll take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Mark Marcon with Baird.

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

Congratulations to everybody. The performance was better than what we were looking for. It looks like results were very resilient in the face of COVID. Can you talk a little bit about like how much of the strong performance this quarter was a reflection of just the way the contracts kind of lay out in terms of how far in advance they're set up and how they continue through the quarter, and how we should think about potentially in whichever divisions where we should be most sensitive to potentially a little bit of a drop-off as the COVID impact ends up coming through? And then I have 2 follow-ups.

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Sure. Mark, thank you for the kind comments upfront there. As we've spoken about in the past, we looked at it at the beginning and the outset of the year. We have line of sight to 80%, 85% of our revenue base for the year. And obviously Q1 and Q4 tend to be outsized quarters for us. But we feel pretty good about the multiyear arrangements that we have in place, whether they're in our retirement business or the retention rates that

we have in our CRB business and reinsurance businesses overall. But obviously in our talent rewards business as we commented on here where people have more discretionary ability, we've seen a decline in people taking on those particular projects that we've seen overall.

So I think on one hand, we feel very good about the industry we're in and our line of sight in terms of what our revenue looks like. But clearly we're seeing fall-off as it relates to those discretionary projects. And equally as it relates to the insurable base overall as you're not taking on new construction projects, or you're seeing that discretionary activity decline as we touched on as it relates to the marine business, et cetera, those are the areas that we see that have a more discretionary view.

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

Got it. And with regards to the Talent and Rewards, is there a potential for ramping up in certain practice areas, like say, diversity and inclusion, given the current environment? And could that potentially be an opportunity as a practice area to scale up?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes. Yes, it is, Mark. But John, do you want to comment on that?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

No, go ahead. I'll go ahead. Thanks, Mike.

I would just say, yes, I think so. And Mark, one of the things we've seen in other downturns, whether it's the early 2000s or the financial crisis or even some of the other since then is Talent and Rewards is very sensitive, and we can see some of the revenue declines can be reasonably steep in the beginning just as we saw in this quarter in certain aspects of Talent and Rewards, but it's also an area that can ramp up relatively quickly when times get better. And in today's times, there are really quite challenging Talent and Reward issues, whether it's diversity and inclusion, whether it's how you handle the pandemic, whether it's how you reimagine work for the future. So I think there's a lot of opportunities for us to scale that up over the coming years.

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

Great. And then with regards to reimagining work for the future, you referenced this in the beginning. John, can you talk a little bit more about how you -- what potentially we could end up seeing in terms of changes and how that could end up impacting the cost base?

And then lastly, it sounds like everything is on track with Aon. Is there anything that you can envision at this point that would set that off or put it off track?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. So maybe I'll just deal with that first, and then I'll come back to the workplace. I mean frankly and I think we referenced this in our prepared remarks, what has happened in terms of the economic turmoil that we've had from the lockdowns and some of the other changes that we've seen over the last couple of months have really deepened our appreciation for the merger. We see that there's more innovation required.

And the basic thesis of this merger was, as we said, not about getting bigger, but about getting better, about providing more innovative solutions. And the one thing we've seen over the last few months is the world needs more innovative solutions. So there's -- we actually are more excited about the merger today than we were on in the beginning of March, when we announced it. And frankly we were pretty damn excited then, so I think that's just been redoubled.



In terms of the workplace of the future, I think, Mark, we we're trying to take a quite thoughtful approach to what we're doing here. And one of the things that means is we don't actually know what the answer is yet. And let me explain about that.

We know that we're not going to go back to the pre-COVID world of work. But we also know that we're not going to be -- the way we're working today is not the way we're going to be working in the future also. And so it's going to be something in between.

And what we're trying to do is understand -- we -- I mean it's been incredible the way our colleagues have embraced working from home and some of the adversity we had there. But that's not a sustainable way of working, and what we need to do is to figure out what we can do in the future. But we do know working from home will be a bigger part of it. We just don't know exactly how that will play out. There will probably be impacts on real estate, probably impacts on location, but we don't know exactly what they are yet.

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

I appreciate the wise comments. Thank you, and congrats.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Thanks, Mark.

Operator

Your next question comes from the line of Elyse Greenspan with Wells Fargo.

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

John, last quarter you had said in a worst-case scenario, your business could decline in the double digits organically over the preceding 3 quarters. Obviously, the Q2 was much better than that, the point that you made earlier, the resiliency of your businesses. But now one quarter in and recognizing there are some lags in some of the businesses, it would seem like that worst-case scenario even for the back half is no longer on the table.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

I -- so -- Elyse, thanks for the question. Yes. By the way, I would say just -- you talked about the resilience of our businesses, and I would say yes. But I would also just comment on, I think Mike mentioned this, the resilience of our colleagues, just amazing the way they've stepped up during this time.

I think yes, it's -- the worst case I was looking at was a decline, I think, during the second quarter and then going into the back half of the year. The one caution I would give to that is the situation is a little bit uncertain with potential second waves, with more and a return to some of the lockdowns. So we're still a little uncertain, but I'm nowhere near as pessimistic as I was -- or at least I don't worry about the downside as much as I did 3 months ago, say.

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

Okay. That's helpful. And then in terms of the Talent and Rewards business, it sounds like the slowdown there obviously much very immediate in terms of what we saw the reaction to COVID. Is that business more pronounced, meaning a greater percentage of HCB in the second quarter than



other quarters? I'm just trying to get a sense if that won't be as much of a headwind in the third and the fourth quarter just due to percent of businesses?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

No. We don't expect it -- if there's a bigger impact from it, it won't be because of the concentration of TR. I mean it could be that as you go longer into some lockdowns, you get more projects canceled. But it's not a concentration issue.

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

Okay. That's helpful. And then in terms of the Aon transaction, you guys have laid out close for the first half of next year which you reaffirmed, I believe, in your opening comments. Can you just know from your side of things, just give us an update where do we stand with the regulatory process or things about where you thought we would be at this point, recognizing it's still ways away from the deal closing? And just what are kind of next steps in the regulatory process from the timeline that you could provide?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes, sure. So as you know, there are several global antitrust filings that are required in connection with the transaction. And the specific process that we have to do varies by jurisdiction. But we're still planning to submit all of our required filings in the various jurisdictions, and we expect to have clearances in the first half of 2021. I will say -- this is a complex undertaking. But there's nothing that has happened so far that has been any surprise to us, and we're continuing to work with the regulators cooperatively. So we have no change to our plans as to when we expect to finish.

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

Okay. That's helpful. One last question on allocated line. I appreciate the added color this quarter just given the volatility there. Mike, just what -- given what you know now, is there anything that we should be thinking about that could artificially inflate those kind of corporate nonsegment expenses in the back half of the year?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

No, Elyse. I don't -- we don't see that to be the case, no.

Operator

Your next question comes from the line of Dave Styblo with Jefferies.

David Anthony Styblo - *Jefferies LLC, Research Division - Equity Analyst*

I know you guys are not providing full year guidance, but I was just curious if you had a sense of some of the key levers within there that really will affect the outlook. Starting maybe on the organic growth side, obviously, you guys are up 2% year-to-date. At this point, how much visibility do you have to the back half of the year? And are you expecting that to turn negative for the rest of the year as the delays kind of on the broking side come in and then discretionary spend on consulting remains under pressure?

And then maybe you can give us some color about the expense initiatives you've undertaken. I imagine you guys are probably pretty quick to ratchet down expenses on the [T&E] side and so forth. But where do you see those trending over time?

And at the end of the day, is it reasonable to think that you guys can roughly maintain an EPS that's comparable to what you had in '19? Or are there other major factors that we should be thinking about that?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

So Dave, thanks for the question. I mean I guess I'll try to give you a little bit, but it's going to be difficult. I mean the reason we pulled the guidance was for that very reason in terms of making those estimates.

On the revenue side, I guess I'd really go back to John's earlier comments of what he said. I mean he was more pessimistic as it relates to the second quarter, but feeling better as it relates to the top line for the full year. But it's just difficult to predict, I mean, in terms of what's happening. Obviously, we have line of sight to, as I say, a lot of our business in terms of renewals, whether that we -- and have a great line of sight. We're seeing greater retention activities going on in our business, particularly on our CRB business. The -- we're seeing the insured base going down. We're seeing rates come up a bit. And obviously we're seeing retention rates going up overall.

We're getting smarter and more creative in terms of how it is that we work and close on new business and doing that remotely. And that's across all our businesses overall. So on the top line, I guess I'm trying to -- again, there's a reason we pulled the guidance. And I'll give you as much color as we can, again, about what our recurring revenue base would be picking up on John's comments and what's that look like from a revenue standpoint.

On the costs side, we went after pretty quickly as we saw things change in terms of what we could do on all cost actions that made sense. We wanted to make sure that we are balancing the short-term and long-term investments in terms of not making cost decisions that were going to impact the business for the long term. But in the short term where discretionary cost and activities did happen, that we would indeed make those decisions, and we have. And we've seen that -- you've seen that offset as it relates to our overall cost base.

I would also go back and say, the TRANZACT deal that we closed at the end of last year. And that business overall has been very helpful to us in our BDA segment in terms of -- we're continuing to see the growth of that business overall. And we continue to believe that we'll continue to see what we had highlighted the rationale for that deal. And it continues to exceed our expectations, and that management team overall is doing one heck of a job.

So I'm trying to give you -- I know you're trying to get those line items. I'm trying to give you as much color as I can. But at the same time, there's a reason we pulled the guidance, Dave, so I'm sorry I can't be more helpful there.

David Anthony Styblo - *Jefferies LLC, Research Division - Equity Analyst*

Sure. That's fair.

In terms of just customer demand, I know usually in an environment like this, retention rates go up. I am curious though as a larger broker in the industry, and you guys can provide more insight and information and solutions to the gamut of services that an employer might have, are you guys seeing any sort of new business uptake from employers who might be just looking for a more sophisticated broker that can service things in an environment where there's a lot more challenges going on, like we're in now?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes. I mean I think clients are always looking for different solutions, right? I mean they're seeing a hardening market. And so they're evaluating what alternatives and what other solutions people can bring to their challenges that they may be dealing with. And the creativeness of our teams has been outstanding, and we've seen that in what's happening and delivered in our CRB business. But frankly in our reinsurance business, and I would tell you I think the creativity of our colleagues across Willis Towers Watson, one of the hallmarks of our culture in terms of being creative and bringing innovative solutions to bear.

So in an environment like this, where people are being challenged and want a different opinion, we're really primed and well positioned to be able to help them think through those solutions. And I think that's reflected in what you're seeing delivered in our results overall. So that would be my comment. I don't know, John, anything you'd add to that?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. I mean I think Mike, you have that here. What I would say is that every day, I see things come across my e-mail of new business wins that we've had. And our colleagues have adapted to going after new business in a virtual way and have become very successful at that. But the fact remains new business is not as robust as we -- as it was in the pre-COVID era. That's just a fact of life that not as many people are going out to bid. So we become successful in doing this where we can, but it's not as big a feature as it had been.

David Anthony Styblo - *Jefferies LLC, Research Division - Equity Analyst*

Got it. And my last one real quick, just on TRANZACT. Can you talk about what the (inaudible) same-store basis was year-over-year? And there has been some overhang on the group, at least for some of the other publicly traded. Because one of your peers is experiencing significantly higher churn right now, and it's shortening the duration and pressuring unit economics. It seems like that might be a company-specific challenge going on, but I'd be curious just to hear what is your churn on the [MA] business right now? How long are they on with you for? And are you guys experiencing any uptick in churn from the market dynamics right now?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Okay. So look, we -- our churn is something that we've looked at for quite a while here. And we're a firm with lots and lots of actuaries. And so one of the things we've done over the time is analyze that. We've actually used outside advisers to analyze that too. And unlike some others in the market, we haven't changed our churn assumptions just arbitrarily. We've continued to monitor that quarter to quarter. We do some actuarial analysis. We're actually slightly conservative in our estimates. So we feel pretty good about the kind of numbers we have here, and we don't expect any change.

Operator

Your next question comes from the line of Greg Peters with Raymond James.

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

I was wondering if you could provide us some perspective on how the positive pricing trends in Property & Casualty have affected your Corporate Risk & Broking and Investment, Risk & Reinsurance segments. And then in the slide deck, you did note in CRB that part -- there was some pressure in Great Britain. And John, it seems like if I reflect back on the last several years, that more often than not, Great Britain has been a source of some challenges for the company. Maybe that impression is wrong, but maybe you could provide some perspective on that as well.

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes, so maybe starting with the second point first. I mean just as it relates to Great Britain, you're looking at continued market conditions, Greg, that have been happening. And I think our -- what we are seeing at least and other competitors have reported their results have equally seen Great Britain as a market at this time has been a bit more down a bit just in terms of what's happening in that market.



The good news is obviously we operate in many markets. And some -- as you see, Latin America is up and North America has been strong overall. So I think it's just at this point in time in terms of where it's been, but Great Britain has been a very good market for us for a long time. It's just kind of where we are in its current cycle.

As it relates to rating and rates, I mean I would say what you're seeing is, and John kind of alluded to this, so you're seeing retention rates of our clients are up on a year-over-year basis. And you're seeing the insured base itself is down in some of the transient type of work that we had had or we would insure overall, but your obviously P&C rates increasing. And depending on whether you've had a loss or not a loss is obviously impacting those rates. But we're seeing the positive impact of that tailwind on those rates.

So try to give you some color to it, but I would wrap it up and say, overall, we're very pleased with what the CRB business has done, what our colleagues have done there in terms of delivering results. So hopefully that gives you some color to it.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. And I would just add that, Mike, you sort of touched upon this. But look, Great Britain has been impacted by some -- we talked about the marine, some of the global aerospace and things like that, that have impacted Great Britain in this quarter. But Great Britain is one of the great reservoirs of our talent and our intellectual capital, and it's a key part of the business. We don't have any concerns about GB.

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

Okay. I know this has probably been incorporated to some degree in the results already. But given the dynamics and requirements of ASC 606, I'm curious how you're thinking about the assumptions that you laid out in the first half of the year, especially in the context of all the uncertainty as we go into the back half of the year, and if there's any potential reset issues or challenges you might be dealing with from an accounting perspective?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

No, Greg. I thank you for the question. But right now, no. I mean we do not see that to be the case. We, I believe, in terms of -- thought about all the various options upon its adoption. We had a lot of discussion and talked about 606 over the last couple of years. But right now based on our estimates and what's -- how we've projected things, we don't see anything unusual coming through 606.

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

Got it. I guess the final question just from a sequencing perspective, and I know, John, you did provide some comments, but I just wanted to confirm that from a shareholder vote perspective, that the shareholders will be voting on this transaction with Aon before we know if there's any antitrust issues that forced the spinoff of some businesses. Just wanted to confirm that that's the case.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. In all the transactions I've done, that's been the case, I think. All these big transactions, we've always had the shareholder vote before we got the antitrust approval. In this case, this one is no exception.

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

Got it. Well, listen, congratulations on the results. And John, stay safe. There's a hurricane headed your way. So be well.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. I'm hoping it's going to miss me, Greg, but we'll see.

Operator

Your next question comes from the line of Mark Hughes with SunTrust.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

In the 83(b), I think in the last recession, you benefited from some restructuring activity. I wonder if you could comment on the potential opportunity here in this cycle? And then what would be the timing? If you did start to see more wholesale changes, the Talent and Rewards issues that emerge with restructuring, when would that normally kick in?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. Thanks. And I think if we look back to the last several downturns that we've seen, we would expect that the Talent and Rewards revenue decline would probably persist through at least the third quarter, maybe into the fourth quarter and then really be picking up during the first half of 2021. That would be consistent with, say, the early 2000s. That would be consistent with the financial crisis. And so that's what we see.

The one thing that makes this a little difficult as I was saying, is that we don't know what the effect of the lockdowns is going to be in the second half of this year. And so if we see particularly in the U.S., states going back and having a second wave of lockdowns and everything, that could have an impact that we wouldn't -- we haven't factored in right now. That would change the whole timing of everything there.

But I think we're -- as I said earlier, there are a lot of human resource challenges and opportunities that are here in this current environment. They're not going to go away. And I think especially in 2021, we would expect to see corporations going out to address all those. And frankly it's one of the things that, as I said earlier, the ability to offer innovative solutions when we get together with Aon, that combination is going to be even more powerful in this regard.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

And then on TRANZACT, I think you said it was an \$87 million contribution. Could you give the year ago results for TRANZACT as a stand-alone?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

We did not. We did not do that. No. Let me remember, we acquired them over the third quarter last year, right, so we just -- yes, we have not disclosed that.

But I got to tell you, I mean, we're -- but going back on that \$87 million, the business is growing nicely. And I'd just reiterate the comments I mentioned earlier. We're very pleased with TRANZACT, what it's doing, the team that's been in place and the results that they're delivering. And it's profitable, so we're very pleased with TRANZACT.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Yes. I mean I think that is the key thing, is that it's -- that this is a nicely profitable business that we have here.

Operator

Your next question comes from the line of Meyer Shields with KBW.

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

I wanted to see if I can focus on one element of typical organic growth, and that's just negotiating higher revenues on the work that you're doing for your clients. I was wondering whether that is being impacted -- that specific force is being impacted by the current recession?

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Meyer, I...

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

(inaudible)

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Go ahead. No, go ahead, John.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

I was going to say, look, we're in a competitive industry. And when we -- I talked earlier about doing new business on a virtual basis, but we have to -- when we're doing that, we have to come out with competitive offerings. And that means we have to make sure that we're offering the most value for the services we're providing. And we feel we continue to do that. It's not -- that is not much different now than it was 6 months ago.

Michael J. Burwell - *Willis Towers Watson Public Limited Company - CFO*

Yes. And I was just going to add to your comments, John. I mean at the end of the day, we believe we have very good margins overall in our HCB business as we look across the industry. And as John said, it's obviously competitive and we will be competitive, but it's ultimately about value. And as our clients continue to see that value versus the cost equation, and they've continued to reward us based on that value.

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

Okay. Understood. That's helpful.

Second question, can you share how the Willis Towers Watson employees reacted when Aon first announced its temporary salary reductions and then pulled them back? Is that -- was there any impact on employee morale or sentiment there?

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

That wasn't something that we discussed in the company generally. I mean I'm sure individual colleagues were discussing that, but it wasn't something that we did any kind of survey or anything on.

Operator

There are no further questions at this time.

John J. Haley - *Willis Towers Watson Public Limited Company - CEO & Executive Director*

Okay. Well, thanks very much, everybody, and we look forward to updating you on our third quarter earnings call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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