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WTW.OQ - Q3 2021 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Co. reported that 3Q21 reported revenues were \$2b, net income (including discontinued operations) was \$919m and diluted EPS (including discontinued operations) was \$6.99.

CORPORATE PARTICIPANTS

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Carl A. Hess *Willis Towers Watson Public Limited Company - President*

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PRESENTATION

Operator

Good morning. Welcome to the Willis Towers Watson Third Quarter 2021 Earnings Conference Call. Please refer to the 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 review the forward-looking statements sections of the earnings press release issued this morning as well as other disclosures in the most recent Form 10-K and 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 the other information regarding these measures, please refer to the most recent earnings release and other materials in the Investor Relations section of the company's website.

I will now turn the call over to John Haley, Willis Towers Watson's Chief Executive Officer. Please go ahead.

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

Thanks very much. Good morning, everyone, and thank you for joining us for our third quarter 2021 earnings call. Joining me today are Andrew Krasner, our Chief Financial Officer; and Carl Hess, our President and our future Chief Executive Officer.

Today's call will be my last earnings call as CEO of this great company. Willis Towers Watson looks remarkably different than it did 22 years ago when I first started as CEO of Watson Wyatt and even more so than when I started at the Wyatt Company 44 years ago. It's been an amazing journey, and it underscores the resilience of this extraordinary organization. The combination of our exceptional people and strong value has enabled this

company to reinvent itself and to continually evolve. Our history has been defined by constant innovation and change. Together, we forged the legacy of quality service and solutions with strong client relationships and have built a Willis Towers Watson culture of resilience, inclusion and client focus.

I'm proud of what we have achieved, and I feel fortunate to have had the opportunity to take the company this far with all of you. At the end of this year, I'll officially pass the baton to Carl Hess. Now is a time of reinvigoration for Willis Towers Watson. Carl is a great leader, focused on driving results and accountability by engaging colleagues. He has a wealth of knowledge and experience, and he has the skills to best lead the company during this transformative time. I have every confidence that Carl will be successfully creating a new way forward and leading Willis Towers Watson and our top talent to an even brighter future.

As we bring our new leadership team into place, we're also building One Willis Towers Watson. One WTW is about working across businesses, geographies and functions to achieve more and to be better. We're starting from a position of strength and recognize our potential. We're executing on our plan. We're focused on a bold new vision to be the best company in the business. We plan to drive change through new priorities to grow, simplify and transform. We'll grow by investing in talent, by capturing market share, by innovating, by expediting capabilities in evolving markets and by bringing curated solutions to clients.

We'll simplify by delivering more efficiently through technology and through standardization. For example, we've already begun by developing a plan to streamline to 2 business segments and 3 geographies at the beginning of 2022 and appointing a new global leadership team. We'll transform colleague and client experiences by streamlining our infrastructure, by fortifying our operations and by evaluating our real estate needs. While there's no doubt work ahead of us, we have confidence in our plan, One WTW, and most importantly, in our colleagues.

As we continue to look ahead, I'm especially excited about the industry-leading work we've done and will continue to do in addressing climate risk. We recently launched climate transition pathways, an accreditation framework that provides insurance companies and financial institutions with a consistent approach to identifying which organizations have robust transition plans, transition plans that are aligned to the Paris Agreement. And it supports the role as stewards and transition to a low-carbon economy.

We also partnered with Contigo to launch an innovative family of climate transition indices, driven by a next-generation methodology that directly quantifies the impact of the Paris-aligned climate transition on equity valuations.

We intend to continue this momentum. Next week, we'll probably participate in the 26th United Nations Climate Change Conference of the Parties, or COP26. COP26 will bring together world leaders, government representatives, businesses and citizens to collaborate on how to tackle the many facets of climate change and plan for action.

Now let's move to our third quarter results. Please note that all metrics referenced are on a continuing operations basis, except where specifically stated otherwise. Reported revenue for the third quarter was \$2 billion, up 4% as compared to the prior year third quarter, up 3% on a constant currency basis and up 7% on an organic basis.

Net income, which includes discontinued operations, was \$919 million, up 672% for the third quarter as compared to \$119 million of net income in the prior year third quarter. It should be noted that GAAP profitability measures include the \$1 billion in proceeds received in connection with the termination of the proposed business combination with Aon.

Adjusted EBITDA was \$427 million or 21.6% of revenue for the third quarter as compared to \$372 million or 19.6% of revenue for the same period last year, representing a 15% increase on an adjusted EBITDA dollar basis and 200 basis points of margin improvement.

For the quarter, diluted earnings per share, which include discontinued operations, were \$6.99, an increase of 140% as compared to the prior year. Adjusted diluted earnings per share were \$1.73 for the third quarter, reflecting an increase of 32% compared to \$1.31 in the prior year. Overall, it was a strong quarter. We grew revenue. We enhanced margin, and we increased earnings per share.

Now let's look at each of the segments in some more detail. To provide clear comparability with prior periods, all commentary regarding results of our segments will be on an organic basis, unless specifically stated otherwise. Segment margins are calculated using segment revenue and 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 or HCB segment revenue was up 6% on an organic basis and 5% on a constant currency basis compared to the third quarter of the prior year. This result represented sequential revenue improvement compared to our prior quarter, which was driven by continued increased demand for advisory services.

Talent and Rewards revenue increased 22%, driven by strong market demand for broad-based rewards advisory work, coupled with talent and compensation products inclusive of compensation surveys, hiring assessments and employee listing and engagement offerings.

Our Health and Benefits revenue increased 5% for the quarter. We continue to grow revenue from advisory work in North America, driven by U.S. legislative changes and strategic benefit reviews. Revenue also grew outside of North America as a result of global benefit management and local brokerage appointments.

Retirement revenue was flat compared to the prior year, with funding and guaranteed minimum pension equalization work in Great Britain, offset by declines in North America as less favorable market conditions for derisking work drove lower demand for bulk lump sum work.

Technology and Administration Solutions revenue grew 9%, primarily due to increased project work and new business activity in Great Britain.

HCB's operating margin increased by 210 basis points compared to the prior year third quarter as a result of continued sustainable expense reduction efforts. We're pleased with HCB's sequential improvement and with their margin growth. Historically, HCB has had industry-leading margins, and we believe that trend will continue. HCB's talent base remains stable, and overall market tailwinds should continue to drive organic growth momentum for HCB. Both our near-term and long-term outlook on HCB remain positive.

Now let's look at Corporate Risk & Broking, or CRB, which had a revenue increase of 6% on an organic and constant currency basis as compared to the prior year third quarter. North America's revenue was up by 12% in the third quarter, driven by new business, particularly in M&A, FINEX, Construction and Aerospace lines. International and Great Britain's revenues increased 4% and 2%, respectively, for the third quarter. The revenue increases were primarily driven by growth in the retail and FINEX insurance lines.

Revenue for Western Europe was up nominally due to growth in Poland and Sweden being largely offset by the departure of senior staff, which pressured business in certain geographies. CRB's revenue was \$697 million for the quarter, with an operating margin of 16.3% compared to \$647 million of revenue with an operating margin of 12.5% in the prior year third quarter. The 380 basis point margin improvement mainly reflects the continuation of effective cost containment and, to a lesser degree, the benefit of gains from book of business sales and settlements.

From time to time, colleagues who manage client relationships leave the company. When we lose colleagues such as those, it may result in them joining competitors. The impact of this on revenue may be delayed. This dynamic, which was most pronounced in our Corporate Risk & Broking segment in the second and third quarters of 2021, has caused CRB's organic growth to trail industry expected averages so far in 2021, and we expect the gap to narrow by the end of the first half of 2022.

During the third quarter, we focused on stemming attrition and hiring health. On a net basis, core CRB headcount is down about 100 colleagues or just under 1% as compared to the third quarter of last year. We have executed on our incentive plans, which provide both short-term and long-term retention benefits, and we believe attrition rates have already peaked for CRB. So while we may have some transitory headwinds ahead of us, we expect that the worst of the business disruption is behind us, and our longer-term outlook for CRB remains positive.

Now turning to Investment, Risk & Reinsurance, or IRR. Revenue for the third quarter was \$172 million, an increase of 10% on an organic basis and a decrease of 24% on a constant currency basis as compared to the prior year third quarter. IRR revenue excludes the reinsurance line of business,

which has been reported as discontinued operations. It also excludes revenue from Max Matthiessen, which was sold in September of 2020; and Miller, IRR's wholesale broking subsidiary, which was sold in March of 2021.

The Insurance Consulting and Technology business, with revenue growth of 18%, led the segment's growth, with increased demand for advisory work alongside technology sales. The Investment business grew by 6% from performance-based new business and growth in delegated assets under management. IRR had an operating margin of 12.9%, up 360 basis points as compared to 9.3% for the prior year third quarter. The strong margin expansion was a result of careful cost containment efforts, coupled with solid top line growth.

Revenue for the Benefits Delivery & Administration, or BDA, segment, increased by 7% on an organic basis and constant currency basis from the prior year third quarter. The growth in revenue was largely driven by Individual Marketplace, primarily by TRANZACT, which contributed \$111 million to BDA's top line this quarter, with growth in Medicare Advantage and Life products.

The Benefits Outsourcing business also contributed to the increase in revenue, which was largely driven by its expanded client base.

The BDA segment had revenue of \$242 million, with a minus 7.9% operating margin as compared to revenue of \$226 million and an operating margin of minus 5.3% in the prior year third quarter. The margin decline was largely due to our increase in sales capacity ahead of the 2022 annual enrollment period, which will usher in expansion opportunities for both our Individual Marketplace and Benefits Outsourcing lines of business. We continue to feel positive about the momentum of our BDA business going into the fourth quarter, which is our seasonally strongest quarter.

So in conclusion, overall, I'm very pleased with our results this quarter. We delivered strong overall financial performance with top line growth, margin expansion and EPS growth, all while undergoing a massive shift in our go-forward strategy. In closing, I'd like to express my deepest gratitude to our colleagues, our clients and our shareholders for their trust in Willis Towers Watson and for the opportunity to be CEO of this extraordinary organization. I believe the company is well positioned to meet the opportunities and challenges that lie ahead, and it's been a privilege to serve you.

Now I'll turn the call over to Andrew.

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

Thanks, John. We all wish you the best in your retirement at the end of the year. Good morning, everyone. Thanks to all of you for joining us.

First, I'd like to extend my appreciation to all of our colleagues. We have asked a lot of our teams, and our colleagues continue to pull together and deliver. I'm proud of all the work they have done to continue supporting our clients, each other and the communities in which we work and live.

As John noted, we continue to make progress in the third quarter, highlighted by another quarter of strong organic revenue growth, continued operational improvement and effective capital management. We are reassured by the continued improved demand for our discretionary services and solutions and by our ability to generate profitable growth.

Moreover, we feel we are well positioned to execute on the long-term goals we announced during the Investor Day meeting that we hosted last month. We are excited about the early progress we are making with our transformation efforts. The investments we're making to transform our operations will create better scalability, more flexibility and enhanced colleague and client experience. Through streamlining global platforms, right-shoring operations, rationalizing real estate and modernizing IT, we expect to deliver \$300 million in expected cost reductions and contribute 300 basis points of margin improvement toward our fiscal year 2024 adjusted operating margin target of 24% to 25%.

Now I'll turn to the overall detailed financial results. As a reminder, you can see the detailed quarterly continuing operations results for 2020 and 2021 year-to-date on Page 9 of the supplemental materials.

Income from continuing operations for the third quarter, which included the \$1 billion termination fee, was \$1.1 billion or 57.3% of revenue, up from the prior year third quarter income from operations of \$66 million or 3.5% of revenue. Adjusted operating income for the third quarter was \$264 million or 13.4% of revenue, up 120 basis points from \$231 million or 12.2% of revenue in the prior year third quarter.

For the third quarters of 2021 and 2020, our diluted EPS from continuing operations were \$7.8 and \$0.91 respectively, and that 2021 figure includes the \$1 billion termination fee.

For the third quarter of 2021, our adjusted EPS was up 32% to \$1.73 per share as compared to \$1.31 per share in the prior year third quarter. Further, discontinued operations represented a \$0.09 loss on a diluted EPS basis for the third quarter of 2021 and \$0.02 of diluted EPS basis for the third quarter of 2020. Total diluted EPS, including both continued and discontinued operations, increased to \$6.99 for the third quarter of 2021 compared to the prior year third quarter of \$0.93.

Foreign currency rate changes caused an increase in our consolidated revenue of \$27 million or 1% of revenue for the quarter compared to the prior year third quarter, with negative \$0.01 headwind to adjusted diluted earnings per share this quarter.

Our U.S. GAAP tax rate for the third quarter was 22.5% versus 26.6% in the prior year. Our adjusted tax rate for the third quarter was 23.3%, down from 29.3% in the prior year, which was elevated due to the unfavorable impact of nonrecurring discrete items.

Turning to the balance sheet. We ended the third quarter with a strong capital and liquidity position, with cash and cash equivalents of \$2.2 billion and full capacity on our undrawn \$1.5 billion revolving credit facility. We also successfully reduced our leverage profile by repaying \$450 million of bonds outstanding during the quarter.

Willis Towers Watson remains well positioned from a liquidity perspective. We aim to continue to maintain a strong and durable balance sheet and believe we have significant financial flexibility.

Free cash flow, which includes discontinued operations, was \$1.7 billion in the first 9 months of 2021 compared to \$1 billion in the same period of the prior year. The increase in year-over-year free cash flow was due to the receipt of the termination fee, net of increased transaction and integration fees of \$942 million. This was partially offset by net legal settlement payments of approximately \$185 million for the previously announced Stanford and Willis Towers Watson merger settlements and higher incentive compensation of approximately \$189 million. Absent these items, free cash flow would have been \$1.2 billion or up 17.3% versus the prior year.

In terms of capital allocation, we paid \$275 million in dividends for the 9 months ended September 30 and repurchased 4.5 million shares for \$1 billion. At our recent Investor Day, we communicated that we expect to generate \$10 billion to \$11 billion of cash through 2024. We remain committed to deploying net capital into share repurchases to capitalize on short-term price weakness. At current price levels, Willis Towers Watson stock continues to be our highest return opportunity, and we have significant resources to capitalize upon that.

As part of our Investor Day discussion, we communicated approximately \$4 billion of near-term share repurchase activity. With the first \$1 billion completed, we will commence repurchases with the remaining component of that in 2021 and expect to conclude that during 2022.

Looking ahead to the fourth quarter and full year, we recognize that the company's recent strategic shifts, alongside unique macroeconomic factors, have created complexity in setting expectations for our performance for the year. This year, our core performance metrics have been clouded by discontinued operations reporting a onetime \$1 billion termination fee, divestitures and a still evolving economic recovery. So we would like to clarify and say that for the full year 2021, we expect to produce around 6% organic revenue growth and an adjusted operating margin of 19.5%, 20% on a continuing operations basis. We expect this to be the new baseline to begin the path to our fiscal year-end 2024 goal of 24% to 25% adjusted operating margin.

Please note that the 2021 margin guide includes the negative impact of stranded costs from the sale of Willis Re, which we intend to rightsize during the period in which we received cost relief under a transition services agreement. Going forward, we prefer to keep the focus on long-term value drivers of the business and will not continue providing quarterly or annual guidance.

We are very pleased with these third quarter results, and they are a direct reflection of our resilience and our focus on strategic priorities. We have strong momentum, solid financial results, a robust balance sheet and an excellent team, which gives me confidence in our ability to continue driving value for all our stakeholders. As I think about our future, I'm excited to continue to work with Carl and the rest of the leadership team to drive the company forward and explore the opportunities ahead. I have confidence in our leadership team, Willis Towers Watson's talented colleagues and in our strong culture.

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, Andrew. And as I mentioned at the beginning of the call, we have Carl Hess on the line with us also. We anticipate that most of your questions are going to be about what our results need for the future. And so while I may chime in from time to time, Carl and Andrew are going to be answering the vast bulk of the questions. So let's turn to your questions.

QUESTIONS AND ANSWERS

Operator

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

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

My first question is just on the organic guide and also the view for CRB. So you guys put out a 2021 guide of 6% organic, which would imply 6% in the fourth quarter, given the year-to-date was 6%. So I just want to make sure that, that thinking is correct.

And then the second question, within CRB, you alluded to an impact from departures having peaked, but you did say that growth there could be compressed through the first half of next year. So should we think that CRB could, as a segment, remain kind of within that 6% organic for the next 3 quarters?

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

Yes. Sure. Thanks, Elyse. This is Andrew. So I'll take the first part of your question around organic growth for the rest of the year. I think you're thinking about that properly in terms of where we would expect Q4 to align relative to our stated guidance of 6% for the full year.

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

And this is Carl, Elyse. With respect to sort of the outlook for CRB on the revenue side, we have seen a mitigation of the departures we talked about at Analyst Day, and we're getting back on the front foot with respect to hiring. There have been some encouraging trends in the business as we look toward new hires, less terminations where we've actually in Q3 now seen hiring exceeding terminations for the organization. As we know that hiring precedes revenue when it comes to people, but that will help us going into '22 and forward.

We look -- new business results for CRB have remained strong and are up on last year, thanks to a strong client and sales management discipline and I think a validation of our global light of business model. While we have seen some revenue gains that are through book sales that have impacted the business, those are a continuation of last year. It's on a new phenomenon. And in general, it leads us to thinking that our CRB is going to continue to grow, but probably be at the lower end of the industry averages through the first half of 2022.

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

And then John had said that you guys are down 100 colleagues within CRB this Q3 versus last Q3. What was the peak, I guess, if you were going to look at the peak over the past couple of quarters, what would that number have been when it was kind of the worst of the departures just so we can get a sense of like the hiring back that you guys have done?

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

So I mean the -- I think it's hard to pin down, but what we've seen is Q3 departures are lower than Q2 departures. So we think we're past the peak on that. And the other side of that, hiring was very low during the period of the business combination, what was out there. That has resumed with a vengeance, not just hire we've already made but the hire we continue to plan to do. So our open recs are well open -- well increased from where they were a year ago at this time.

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

And one last one. There was good margin improvement in the quarter and in the guide for the full year as well. Is there -- are margins been inflated by the level of departures and the lab with hiring, meaning is that a headwind to next year's margin? Or do you think once the revenue growth gets back on track with the industry that, that will kind of offset any expense impact from hiring?

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

Yes. I mean I think what we're willing to say about the margin is that we're very happy with the margin improvement that we've seen through the first 3 quarters. We remain positive about our margin outlook. We do expect to deliver margin improvement in Q4. But we do expect sort of, as business activity continues to ramp up, that there will be some slowing of the rate of margin improvement.

Operator

Next question, we have Mark Marcon.

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

First, John, congratulations on a stellar career. It's been a pleasure working with you over the decades. Wondering if you can talk a little bit about the -- just kind of the pace of the margin expansion as you progress from this year to your longer-term '24 targets. How should investors just kind of think about that sort of pacing? How much of it is going to be back-end loaded just in terms of framing appropriate expectations as we start focusing on next year and the following year?

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

Yes. I saw -- Mark, it's Carl. I think 2 parts to that, right? There's the margin improvement we get -- expect to get through operating leverage in the business, which I think we would say should be relatively constant through the period, maybe some short-term headwinds looking into the first half of '22 as we've already identified, but no reason that shouldn't be relatively steady phenomenon throughout that period.

Then there's the effect of the transformation program that we started to lay out at Analyst Day. And we do think, like many transformation programs, right, the costs tend to be front loaded and the rewards a bit backloaded.

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

Got it. And so it would be reasonable to assume that first half of next year, probably margins are going to be a little bit on the tepid side. And as we go out and for the full year, probably not a lot of improvement. And then the bulk of the improvement really more in the '23, '24, back half of '23 and going into '24. Is that fair?

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

I think what we'd say about margins in the future is that we'd refer to the Investor Day materials and that we're targeting the 24% to 25% by the end of fiscal '24.

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

Okay. Great. And then with regards to CRB, just in terms of the departures that have already occurred, how would you characterize the revenue impact that is going to occur in the future with regards to that group?

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

I think I'd point out that sort of book sales, right, which impact the cost side, I think, obviously, revenue multiples on book sales vary, but with a pretty well-known range, right? I mean book sales make up less than 1% of the revenue we're talking about. So you can take your multiples on that, but I don't think the answer in a macro level isn't significant for the enterprise.

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

Great. And then which part of the business are you the most excited about within HCB at this point in terms of future growth?

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

Well, so for the current HCB, right, we identified at Investor Day that we think our Health and Benefits business is one where we see significant opportunity, both from a scope perspective and a scale perspective in terms of what we can do for the enterprise. That being said, we think all our HCB businesses are valuable contributors to the portfolio. We've got a market-leading retirement business. Our Talent and Reward business has had a phenomenal rebound last year, and there's great demand for its services and we think has a lot of prominence in what we do and helps us with all our buyer hubs with respect to human capital benefits. And we've got a very, very strong technology administration services business that continues to gain market share. So there's a lot to like across that entire portfolio.

Operator

Next question, we have Mike Zaremski with Wolfe Research.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Follow-up on the margin guidance, and thanks for all the good color. Specifically, if I understand correctly, you're saying that the near-term margin guidance includes a negative impact from the stranded costs. So are we going to be able to kind of quantify those stranded costs and kind of know how to back them out? Or I'm assuming they were contemplated in the long-term margin kind of guidance that you guys have laid out. I just want to understand how material that is and if it's something that we should be thinking about as we think through our numbers.

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

Sure. That's not something we're going to quantify right now, but as you alluded to, is absolutely contemplated in the longer-term guidance of 24% to 25%.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Okay. Got it. And maybe sticking with some of the \$750 million of cost. I guess will -- I know in the distant past, there's -- rating agencies have looked at -- have not kind of excluded some of those charges. I'm curious if those charges will be included in the kind of the rating agency governors on how they calculate leverage when we think about buybacks potential.

And then also as related to the cost program, it looks like a lot of the -- you'll be shedding a lot of your leases if you look at the 10-K. So I just want to be clear. It seems like Willis is directionally moving towards more of a remote work flexibility environment versus peers. I just wanted to see if any -- if that's the right way to think about things.

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

Yes. On the first part of your question, we don't expect there to be any impact from the restructuring efforts on our ability to repurchase shares. As to the specific rating agency calculations, that may be a question for them about how they're going to treat that. But again, we don't expect that to be a headwind for any of our share repurchase activities or capital allocation plans. I'll ask Carl to chime in on the real estate point.

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

I think we've had 45,000 colleagues that have adapted marvelously to the new ways of working that we were afforded voluntarily or not as a result of COVID. We have come through, not just ably but in a stellar fashion with respect to how we're able to team up with each other and serve our clients. And the lessons we've learned with respect to how we can employ technology to continue to collaborate and have excellent client service, we're taking those lessons, and we will be implementing those in our real estate portfolio, as you correctly identified. We're going to turn our real estate footprint into collaboration space rather than come to the office space.

Operator

Next, we have Mark Hughes with Truist.

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

Congratulations, John. In the HCB space, the great resignation here, how long do you think this momentum could last? You talked about a sharp recovery turnaround. Do clients expect these tight labor market conditions to persist? How do you see it playing out?

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

Could you clarify? I'm not sure you're talking about our workforce or our clients' workforce and the demand for our services.

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

Yes. Talking about your clients' workforce and their demand for your services. Just what are you hearing from your clients about how long they think this will persist. And then obviously, that impacts your revenue opportunity, so just some perspective on the durability of this upswing.

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

Yes. So I mean there's no question that our demand for talent and rewards has been driven by strong demand for work that includes tightening labor markets, and that affects our compensation survey business, hiring assessments, employee engagement work. All of these have seen strong demand because of that. We anticipate that to continue, given labor markets continue to be quite tight. And we are making sure that we're adequately resourced to be able to meet that demand across the organization.

We don't think that some -- there's a combination of both short-term and near-term economic effects that are going to affect this. You tell us when vaccination rates globally are to a point where supply chains are undisrupted, and we'll give you some insight into what that means for some of the global talent markets. But certainly, we think this is a good tailwind for our business, and we're doing our best to maximize the value we can bring across the portfolio to us.

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

Fair enough. And then the -- in CRB, what was the North American organic? What were those regional numbers you gave, I think, North American, international and Great Britain?

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

We're getting that. Just a second. Yes, so North America revenue was up 12%.

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

International, 4%; Great Britain, 2%; Western Europe, basically flat, up nominally.

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

Great. And then one final question. I think you had talked last quarter about the equalization work, the pension equalization work in Great Britain that there was visibility for that to be strong in next year, perhaps. Is that still the case?

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

Yes. We do think that we'll be seeing higher levels of work related to equalization and expect additional work from schemes that are better funded. And of course, the markets have been kind to pension schemes globally this year. That's remained to be true, as we said it after Analyst Day.

Operator

Next, we have Paul Newsome with Piper Sandler.

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

Just a little bit of a follow-up on the wage inflation question. Are you seeing in your business globally some of these concerns that it's just getting more costly to hire people or keep people broadly? And I guess, just leading with that, is that something that you need to manage through or seeing it any place?

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

So we're on the market for new talent across the organization. So we're definitely noticing that there are areas of our business that are definite hot markets for talent. And I think you probably heard that from a number of people in our industry over the last week or so. We are a global business. We are able to source talent globally, and that does assist us in that. We can drop a wide range of talent pools as we manage the organization, and it gives us great resources across the organization to be able to staff engagements to make sure we're meeting client demand. We do factor this into our planning as a business. And the management team has been through a few market cycles with respect to talent and I think is very well prepared to deal with it.

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

Is there any reason why the issues in staffing has been focused on the CRB business versus the commercial insurance business versus other lines of business? Is there anything sort of you think is sort of unique or different about your businesses that may have kept them a little bit more isolated than the commercial businesses?

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

I think there are a number of our businesses that are extremely team oriented in the way they're constructed and served. So if you -- as an extreme example, our technology administrative services business, right, where our -- each of our relationships with our clients are long-term contracts, typically 5 to 7 years, and very much not dependent on any individual team member being with the firm, right? They're extremely institutional.

At the other end of the scale, you might have mid-market CRB, where it's a very relationship-centric business and maybe a single face to the client. So just fundamentally different sort of dynamics in terms of where the economics the relationship lie.

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

Congratulations to John.

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

Thank you. Thank you.

Operator

Next, we have Greg Peters with Raymond James.

Marcos Costa Holanda - Raymond James & Associates, Inc., Research Division - Senior Research Associate

Marcos calling in on behalf of Greg Peters. You mentioned CRB growth maybe lower the industry over the next couple of quarters. As you hire, is it right to expect that growth may accelerate as you go towards 2024 towards your \$10 billion target?

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

Yes.

Marcos Costa Holanda - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. And then while I understand the nature of reinsurance -- the reinsurance business and how it's more of a stand-alone business, it is margin accretive. Can you clarify the benefits of divesting the reinsurance business and the ongoing progress there?

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

So the reinsurance business has been historically more profitable than the average. As you pointed out, it is a bit of a stand-alone. It's got a different buyer hub than most of the rest of the company. We talked earlier about sort of cost pressures, right? One of the major -- in fact, the major cost in our reinsurance business is the people. And this is an area where compensation costs have been increasing much faster than the rest of the industry. It's very possible look to a future where those margins are significantly eroded due to higher compensation costs, and that's a problem that will no longer be ours.

In addition, at this point in time, right, \$1 of every \$6 or \$7 in the reinsurance market is provided by the capital markets, not traditional reinsurance. Our margins and everybody else's margins for providing services through the capital markets are much lower than they are through traditional reinsurance brokerage. And so that's an additional headwind for that business that we won't have to face.

With respect to the divestiture, that is progressing as we thought it would. The timing that we've talked about is unchanged and that we -- the deal is subject to required regulatory approvals and clearances as well as other customary closing conditions, and we expect it to be cleared no later than the end of the first quarter of 2022.

Marcos Costa Holanda - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. I appreciate that. And maybe just a point of clarification. In the press release, you mentioned gains connected to settlements in CRB. Can you clarify if that was part of organic growth or just a part of segment income?

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

Yes. That is in the revenue figures for the segment.

Operator

Next, we have Ryan Tunis with Autonomous Research.

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

Question for Carl. Appreciate that it sounds like some of the hiring trends are headed in the right direction. But I'm more interested in kind of understanding how that headwind is working its way into organic. Would you say that this quarter's organic growth trend kind of reflects the full -- the fully loaded impact of some of the attrition issues you've had earlier this year? Or do you think that, that headwind -- do you expect that headwind to grow a bit more as we get into the first half of 2022?

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

Yes. I think as John had alluded to in his prepared remarks, in terms of that dynamic, we expect to be towards the lower end of industry average growth rates through the first half of next year and do expect that gap to narrow as we progress throughout the year.

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

Got it. And then on BDA, I'm far from an expert in this business. In fact, I barely know how to model it, so I was hoping you could maybe help me in terms of how to think about fourth quarter organic. I mean the comp looks difficult at plus 16%. But the year before, it was plus 3%. I'm just trying to get a feel for what are the type of range of outcomes that we can expect given that difficult comparison a year ago?

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

So a couple of things maybe as color, right? One is we have begun staffing a bit earlier this year in our TRANZACT business to make sure we're fully staffed for the ramp-up for the '22 annual enrollment period to capitalize on market demand. We also acquired Omni Direct, which is a full-service direct response media agency focusing on the Hispanic market in July of last year, and that's driven higher growth revenue -- revenue growth opportunities in TRANZACT, although it's somewhat lower margin.

Q4 is the seasonally highest quarter for our revenue there, right? Revenue is close to 50% for the year. And our revenue growth is tied to the lead acquisition cost, so that operating income dollars will grow commensurate to the revenue dollars growth. But overall, operating margin should remain about constant.

If you sort of look back, right, our year-to-date growth has -- was materially impacted by our strong Medicare Advantage open enrollment period in the first quarter. That was highly correlated to the 2021 a year ago, right, fourth quarter '20 annual enrollment period. We had significantly higher Medicare Advantage revenue growth in the annual enrollment period last year, plus 57%, and that led to strong revenue growth in the open enrollment period in the fourth quarter, plus 65%. We anticipate continued strong double-digit growth in Q4, but note that we have a strong comparable from last year with a higher base of revenues we're building off. And the annual enrollment period in Q4 this year is not correlated to the first quarter open enrollment period.

Operator

Next, we have Meyer Shields with KBW.

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

Longer-term question, I guess, for Adam. There's obviously a lot of focus on CRB margins. And I think most of it has been focused on expenses. And I was wondering, is there a revenue component that also contributes to maybe the margin differential between Willis and other leading brokers?

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

Sorry, it's Andrew. Can you clarify what you mean by revenue component?

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

Yes. I guess to put it as bluntly as possible, is there any element of Willis' insurance brokers charging less than some other competitors?

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

No.

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

Okay. That's certainly helpful. And then second, small...

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

And hopefully quite clear.

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

I'm sorry?

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

I said and hopefully quite clear. Sorry.

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

Yes. It seems pretty unequivocal here. Is there maybe a ballpark in the impact of the settlements within CRB and the impact on the margins?

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

Yes. Sure. So the impact on margins is -- CRB produced about a 380 basis point of margin improvement during the quarter. The book sales, which we alluded to earlier, contributed about 170 basis points. So without that component, there still would have been a 210 basis point of margin improvement in that segment.

Operator

Next, we have Shlomo Rosenbaum with Stifel.

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

Most of my questions have been answered. I just want to ask one question. Just in terms of TRANZACT growth, and how should we expect that to continue over the next -- going into 2022? You talked a little bit about some of your expectations in the fourth quarter. So it's been a very strong business in -- but it's getting to become a bigger business. And I was just wondering how well we should think about that in the context of the runway ahead of you.

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

I think we had some comments during Analyst Day that we still think remain very germane. First of all, as I said a couple of minutes ago, right, on the very short term, there tends to be a strong correlation between the first quarter activity to the prior fourth quarter. That is the open enrollment period will definitely influence the annual enrollment period. Looking forward, right, we see this as a tremendous large addressable market, and

we think we have a great position in it. We, to a certain extent, can control our destiny in terms of how big we want this to be. And as Gene Wickes said during Analyst Day, it is about making sure that we sort of make sure what the picture we have for growth makes financial sense for the enterprise. And we work with Gene to make sure that we maximize the potential of that.

Carl A. Hess - *Willis Towers Watson Public Limited Company - President*

Thank you. Great you can join us. And with that, before I pass it back to John to wrap up, at least I think Andrew and I here would like to say thank you, John. 84 calls, and these are very big shoes of yours we're going to try and fill going forward. You have done tremendous things for this organization, and we are all very grateful for what you have done to lead us all this time.

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

Well, thanks very much. I appreciate that, and thanks to all the analysts for joining us on this call. I would like to say it's been a pleasure to work with you over the years. From day 1, I've been impressed with the quality of our analysts and the work they've done. I haven't always necessarily agreed with your conclusions, but I have always admired the intelligence and the dedication that you bring to your craft. So thanks very much, and good luck going forward. And then Carl and Andrew will be updating you on our next call. So long.

Operator

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

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