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WTW.OQ - Q3 2023 Willis Towers Watson PLC Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2023 / 1:00PM GMT

OVERVIEW:

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PRESENTATION

Operator

Good morning. Welcome to the WTW Third Quarter 2023 Earnings Conference Call. Please refer to wtwco.com for the press release and supplemental information that was issued earlier today. Today's call is being recorded and will be available for the next 3 months on WTW's website.

Some of the comments in today's call may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties. Actual results may differ materially from those discussed today, and the company undertakes no obligation to update these statements unless required by law.

For a more detailed discussion of these and other risk investors should review the forward-looking statements section of the earnings press release issued this morning as well as other disclosures in the most recent Form 10-K and in other Willis Towers Watson's SEC filings.

During the call, certain non-GAAP financial measures may be discussed. For 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 Carl Hess, WTW's Chief Executive Officer. Please go ahead.

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

Good morning, everyone. Thank you for joining us for WTW's Third Quarter 2023 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer. We had a strong third quarter, delivering 9% organic revenue growth and adjusted diluted earnings per share of \$2.24, maintaining our top line momentum as we continue to execute on our strategic priorities.

Excluding book of business activity, organic revenue growth at the enterprise level would have been 10%. This solid result was fueled by the great efforts of our colleagues, the strength of our global client model, the investments we've made in talent and technology and the resiliency of our business. Notably, our bottom line performance this quarter was driven by 170 basis points of year-over-year adjusted operating margin expansion.

The positive impacts of both our recent cost saving measures and the growing productivity of our new hires led to a strong finish for the quarter. Additionally, we realized \$23 million of incremental annualized savings from our transformation program during the third quarter. This brings the total to \$300 million in cumulative annualized savings since the program's inception.

We are well positioned for further adjusted operating margin expansion over the long term, driven by organic revenue growth from our unique offerings and strategic hires, the continued progress of our transformation program and a strengthened focus on cost discipline.

In the near term, we expect year-over-year margin expansion for the fourth quarter and the full year as a result of operating leverage and increasing contributions from our expense management initiatives. We're pleased with our third quarter performance and our progress gives us confidence in our ability to drive profitable growth and create value over the long term.

As I touched on last quarter, our focus on specialization in our Risk & Broking segment has been one of the key drivers of our strong organic growth. We've generated substantial momentum by developing innovative products and services, engaging in strategic partnerships, and building platforms like MGAs, MGUs and affinity products. For example, one of our major client wins for the quarter included an affinity solution that delivers compelling insurance products via digital channels to customers of a major manufacturer of luxury vehicles. This showcased our specialized expertise in the automotive industry and high net worth personal lines of business as well as our successful track record in global affinity insurance programs.

Our strategic focus on specialization continues to drive strong growth in our specialty lines, which continue to grow much faster than our average R&B growth. As we've mentioned last quarter, based on the strong market response we've seen to date, we're expanding our pursuit of these initiatives. For example, we recently announced that WTW will launch Verita, a new MGU focused on select industries which will further advance our specialization strategy and risk and broking in North America. Verita will initially focus on the industry verticals of real estate, hospitality and leisure, financial institutions and professional services.

Our deep knowledge of these industries together with our insurance expertise will enable Verita to have a comprehensive understanding of our clients' risks. This will allow us to offer best-in-class holistic insurance solutions while maintaining underwriting discipline.

The target customers for Verita are growing companies seeking more flexible, tailored insurance solutions. And overtime, we aim to expand Verita into more industries as we grow the platform.

Our analytic tools and expertise in insurance advisory and brokerage give our clients confidence that they're getting the best value for their premium dollars. This quarter, our portfolio was expanded to include the global actuarial review for a leading P&C insurer and the brokerage of a global renewal energy program by a world-class player in the energy sector.

Data analytics and specialty expertise are also key growth drivers for our Health, Wealth and Career segment. For example, we've had record success for our compensation benchmarking participation in sales with more than 43,000 companies participating in our surveys at the end of September. And we've introduced new talent intelligence reports, which examine hot skills and high-demand jobs across industries to help our clients make better informed decisions on work and rewards issues.

We've also continued to build our health care benchmarking and specialty services. Earlier this year, we enhanced our pharmacy offering with an expansion of our Rx Collaborative and a new product for mid-market organizations. This past quarter, we launched 2 new pharmacy partnerships to help plan members save on costs. Another key to our HWC success is the differentiated smart connections we're making across businesses and geographies. A client's simple request for data can lead to additional consulting opportunities for us. It's also done to enhance our solution systematically.

Our updated workforce management offering, which combines financial analysis, health assessment and communication tools is but one example that led to millions of dollars of incremental revenue this past quarter. Another example is our LifeSight solution, our defined contribution pooled employer plan. We've expanded LifeSight to the U.S. earlier this year and are pleased to report that we've contracted with our first U.S. client while we added clients with \$2.5 billion of asset value in Great Britain, Ireland and Belgium.

Across WTW, the confluence of innovation and collaboration is driving consistent, sustainable growth. I'm energized by how our journey to 1 WTW is increasingly delivering new opportunities made possible by bringing together our diverse capabilities. Finally, I want to touch on capital allocation. As we've said in the past, we'll continue to take a balanced approach with a focus on allocating our capital to the highest return opportunities.

In the third quarter, we bought back \$350 million of stock and expanded our repurchase authorization, demonstrating that share repurchases remain our top priority.

As we enter the fourth quarter, I'm encouraged by the strong client response to the hard work we've done growing, simplifying and transforming our business. We continue to see momentum building as our unique offerings help clients evaluate and manage their risks and opportunities in a complex macro environment. We are committed to harnessing this momentum to drive greater operating leverage over time. We believe that our transformation program and disciplined expense management, combined with consistent and sustainable growth opportunities will support near-term and long-term margin expansion.

I want to thank our colleagues for their performance this quarter. I'm truly appreciative of their dedication, service and continued commitment to our vision. Now before turning it over to Andrew, I'd also like to acknowledge the escalating conflict in the Middle East, the violence, devastation, loss of life and impact on innocent civilians are profoundly saddening. Our primary focus in times of tragedy is on the safety of our colleagues and their families. Thankfully, our colleagues who work in the region continue to be safe. We remain in regular contact and are providing the assistance they need. We support all of our colleagues and clients as well as their friends and family in the region as they cope with this difficult situation.

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

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

Thanks, Carl. Good morning, everyone. Thanks for joining us today. As Carl mentioned, our third quarter revenue was up 9% on an organic basis. And excluding book of business activity, organic revenue growth would have been 10%. This growth reflects the increasing productivity of our new hires and the impact of our strategic focus on specialization and risk and broking and increased demand from clients seeking solutions to manage the impact of inflation on health care costs, pensions, retirement plans and human capital in HWC.

I'm very pleased with the progress of our transformation program, which delivered \$23 million of incremental annualized savings during the third quarter. This brings the total to \$151 million in cumulative annualized savings this year. Our progress on the transformation program and our strength and focus on cost management will help us drive continued operating leverage.

I will now discuss our detailed segment results. Note that to provide comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise. Health, Wealth and Career generated revenue growth of 9% on an organic basis and 8% on a constant currency basis compared to the third quarter of last year. We feel confident in our pipeline and anticipate that the segment will finish off the year with good results and in line with historical trends.

Revenue for health increased 7% for the quarter or 8% without considering the impact of book of business activity. We delivered solid growth across all regions, driven by the continued expansion of our global benefits management client portfolio, new local clients, expanding consulting work for existing clients and increased brokerage income.

Wealth grew 7% in the third quarter. The growth was primarily attributable to strong momentum in return with increased derisking activity and consulting work in North America. Retirement also grew in Europe as a result of derisking work, regulatory compliance support and pension brokerage. Investments grew as a result of new client acquisitions and higher fees, which more than offset headwinds from the negative impact

of capital market performance. Career delivered 8% growth in the quarter, driven by increased compensation survey sales, executive compensation work and other word-based advisory services, including paid transparency work, and change communication services.

Benefits delivery and outsourcing generated 14% growth in the quarter. The increase was driven by strength in outsourcing for new clients and increased compliance and other project activity and individual marketplace with growth from higher volumes and placements of life and Medicare Advantage policies.

As a reminder, we typically generate about 50% of the revenue for our individual marketplace business during the fourth quarter, and we expect the growth next quarter to be relatively in line with historical trends. HWC's operating margin increased 350 basis points from the prior year third quarter to 23.8%. This margin increase was attributable to both improved operating leverage and transformation savings. Operating leverage was driven by a positive spread with revenue outpacing expense growth and some timing between quarters.

Risk & Broking revenue was up 10% on both an organic and constant currency basis compared to the prior year third quarter. Excluding the \$10 million year-over-year impact from book of business activity, risk and broking grew at an exceptional 12%.

As a reminder, there were about \$10 million of book of business sales in R&B in the fourth quarter of 2022. We currently expect a similar amount of book of business settlements next quarter, and therefore, do not expect a meaningful year-over-year impact from book of business activity in Q4. However, the timing for settlements can be difficult to predict and may drag into the following year.

Corporate Risk and Broking had another strong quarter delivering organic revenue growth of 10% and continuing the positive growth trajectory we have seen over recent quarters. Excluding book of business activity, CRB grew at 12%. This result was primarily driven by strong new business growth and improved client retention. Pricing had a moderate positive impact on the quarter.

Interest income was up \$19 million for the quarter due to higher rates and the reclassification of interest income previously recorded in corporate. As noted last quarter, due to the cessation of the co-broking agreement with Gallagher, interest income directly associated with risk and broking fiduciary funds is now allocated to the segment.

The exceptional growth in Q3 was also driven by continued strong return on investment in our specialty lines. Globally, the strongest growth came from our facultative financial solutions, natural resources, surety and construction lines of business.

Europe had an exceptional quarter with double-digit growth in a number of countries led by our P&C retail and direct business as well as construction, aerospace and financial solutions. International also contributed to strong organic growth led by Latin America.

North America benefited from strong new business and increased client retention across most lines of business despite headwinds in our M&A business and from the impact of book of business activity.

In the Insurance Consulting and Technology business, revenue was up 9% over the prior year period, driven by increased sales in technology solutions, including strong new business and higher project activity. R&B's operating margin was 15.7% for the third quarter, an increase of 200 basis points compared to the prior year third quarter. The expected ramp-up in production from our strategic hiring efforts drove greater operating leverage while tailwinds from increased interest income were offset by headwinds from gain on sale activity and foreign currency.

Increased contribution from transformation as well as targeted expense management measures we put in place earlier this year also contributed meaningfully to margin expansion. We are beginning to see our expense management actions deliver results including coordinated efforts on reducing spend for internal travel and vendor spend. We continue to expect these actions to benefit our margin next quarter.

Turning back to enterprise level results. Our adjusted operating margin was 16.2%, a 170 basis point increase over prior year. Excluding book of business activity, the margin would have increased 220 basis points year-over-year, benefiting from transformation savings as well as the impact of interest income. The net result was adjusted diluted earnings per share of \$2.24.

Foreign exchange had a minimal impact on EPS for the third quarter. Assuming today's rates continue for the remainder of the year, we now expect a foreign currency headwind on adjusted earnings per share of \$0.07 for the year. Our U.S. GAAP tax rate for the quarter was 15.5% versus 0.7% in the prior year.

Our adjusted tax rate for the quarter was 24.3% compared to 16.8% in the prior year reflecting the nonrecurring nature of discrete tax benefits reflected in the prior year rate. We continue to expect the full year adjusted tax rate to be modestly above the prior year.

Our strong balance sheet gives us continued confidence in our ability to execute a disciplined capital allocation strategy that balances capital return to shareholders with internal investments and strategic M&A to deploy our capital in what we believe to be the highest return opportunities.

During the quarter, we paid \$88 million in dividends and repurchased approximately 1.7 million shares for \$350 million. As Carl mentioned, we continue to view share repurchases as an attractive use of capital to create long-term shareholder value. Last month, we raised our repurchase authorization by \$1 billion of which approximately \$1.5 billion remains. In the first half of the year, we had about \$450 million of share repurchases. We expect a similar amount for the second half of the year, subject to market conditions, among other relevant factors.

Additionally, we repaid \$250 million of debt that matured during the quarter with a portion of the proceeds from our May debt issuance. Year-to-date, we have generated free cash flow of \$707 million compared to free cash flow of \$337 million during the same period in the prior year. The improvement of \$370 million was due to the nonrecurrence of prior year headwinds, including realized losses on foreign currency hedges, payments made in the prior year for certain discretionary compensation and taxes for onetime gains recorded in connection with the Willis Retail and the deal termination payment. These tailwinds were partially offset by increased transformation program-related costs.

We are very pleased with our improving business performance and expect this momentum to continue for the rest of the year. I am very proud of the leadership team and the resolve of our colleagues and the continued support of our clients. Our investments in talent, innovation and operational transformation have helped drive organic revenue growth, and we are confident that this will translate into sustained growth in margins, EPS and free cash flow.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of C. Gregory Peters from Raymond James.

Our next question or comment comes from the line of [Kristen Guethoff] from Wells Fargo Securities.

Unidentified Analyst

A quick question on the -- so the full year R&B margin expansion for the full year. So if we do the math, that kind of implies over 30 bps expansion in the Q4. And assuming the math is correct on that, like what is going to be the biggest driver of that in terms of -- is it coming from organic revenue growth? Is it lower growth in expenses? And for that full year margin expansion, is that inclusive of the higher interest income?

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

Yes. Thanks for your question. Yes, it is on a reported basis the full year margin expansion expectation and that is something that we still expect to see for the full year. That, we believe, will be driven by a number of factors. First of all, Q4 has the most operating leverage built into it. It's

historically R&B's highest revenue quarter with the most new business opportunities, and we expect to continue with strong organic revenue growth for the rest of the year.

So the potential to drive operating leverage on our fixed expense base is greater.

We also expect to see continued impact of our actions to mitigate some of the expense headwinds. The results of those we've already begun to see this quarter. There are also continuing benefits from our transformation program. And additionally, the strategic hires that we've made have begun to contribute to our performance in a very meaningful way, which you can see this quarter in organic growth. We continue to expect a ramp-up in production, which we anticipate will cover the increase in expenses, especially in Q4 when we seasonally have the most revenue.

Unidentified Analyst

Makes sense. And then for my second question, there's been talk about Willis looking to get back into the reinsurance broking business. Can you comment on this or provide any color on whether or not you would consider reentering the business?

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

Sure. Thanks for the question. Reinsurance is a natural fit with retail broking businesses. And many of our peers operate these businesses. We did so successfully as well. And with our noncompete with AJG soon expiring, we are able to add reinsurance to the universe of capital allocations that we consider. We've remained well connected to the reinsurance markets. We have both a deep understanding of the strategic value of reinsurance brokerage for our business and a healthy appreciation for current market conditions as well.

So I think I'll look at it this way, I'm not going to comment on any hypotheticals regarding capital allocation decisions or potential M&A transactions. And when evaluating our opportunity here, we look at it compared to any other opportunity we might have as a business, the full range of capital allocation opportunities we have, including share repurchases, as we've said in prior quarters, and we'll only pursue something if the expected returns and value creation potential for compelling versus other options we have. So I think I'll leave it at that.

Operator

Our next question or comment comes from the line of Mr. Gregory Peters from Raymond James.

Our next question or comment comes from the line of Mr. Rob Cox from Goldman Sachs.

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

My first question on organic growth. Year-to-date organic growth is 8%, accelerated across the board in the quarter. And comments in the presentations were for expectations for the client pipeline momentum to continue. So in that context, should we be interpreting the mid-single-digit guidance for the full year as conservatism? Any more color on that would be appreciated.

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

Well, I mean, we're quite pleased with our progress and the growth we've shown this year. We see potential upside, and we feel optimistic about the path to achieve that upside to our originally stated objectives. We're looking to capitalize on momentum and there are a number of ways we're trying to do that. Our strategic focus on specialization in R&B continues to drive growth in our specialty lines that substantially outpaced R&B as a whole.

We are seeing stronger growth in HWC, which is supported by increasing demand in a complex macro environment, for example, health care cost inflation that and the changing ways of working are fueling demand for what we offer in terms of smart advice, creative solutions, better data and analytics.

And in our wealth business, right, the investment portion of these if capital markets remain relatively stable, we should see some improvement there as well.

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

And just to add to that, in Q4, if you think about sort of the segment expectations, in HWC, we're expecting organic revenue growth in line with Q4 rates for the last several years. In Risk and Broking, again, we're confident that we'll continue with the robust organic revenue growth that we've seen so far this year. And of course, all of that feeds into margin.

Year-to-date, we've generated adjusted operating margin expansion of 70 basis points at the enterprise level. and we continue to expect adjusted operating margin expansion for the full year.

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

Got it. I appreciate all the color. And then maybe just on buybacks. I think you had previously guided to a similar level of buybacks in the back half of the year. but you're running well ahead of that sort of thus far. Can you talk about how you view share buybacks from here, and kind of your updated outlook on buybacks in Q4 and beyond?

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

Yes, sure. We, going into the quarter, have a baseline of \$100 million or so of share repurchase expectations, but we do constantly look for opportunities to deploy capital to the highest return opportunities. And depending on market conditions, et cetera, return profiles, we'll look to be opportunistic to do more if it's appropriate.

Operator

Our next question or comment comes from the line of Mark Hughes from Truist Securities.

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

The visibility for the derisking to continue, how much of a pipeline do you have there? And how are market conditions contributing to that?

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

Yes, I mean, market conditions have been reasonable especially with respect to bulk lump-sum activity. And with pension funds in general, still better funded than they were in prior years, we are seeing people looking at annuity purchase and buyout options as well. Part of our strong results in BD&O during the quarter was a result of preparation with bulk lump-sum programs. And while those conditions may be more temporal, we do think that plan sponsors have more options and we'll consider their options, and we are fortunate that they use us to consider those options.

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

And then Verita, you talked about the meaningful expansion there. When will that be big enough to kind of influence organic growth?

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

It's early days yet, right? We think we have a very good proposition. For Verita, we are launching it at a controllable size across a number of industry verticals. If the reception is as we hope, we'll be looking to expand that to additional industries and additional geographies over time.

Operator

Our next question or comment comes from the line of Michael Zaremski from BMO.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

I guess I'm back to the commentary about reinsurance. Clearly, we all appreciate that that's a great business. You're -- you guys did a great job in that business in the past. So it makes sense what you're saying. I guess my question is, given it's -- reinsurance has a great margin profile, it's seen by some investors as being maybe an expensive proposition to get into -- to grow into over time. Would -- so if that was the path Willis took, is it -- could it be done within the context of guidance -- for the '24 guidance? Or is that sacred? Or is this like a board-level conversation where you might be willing to change that guidance, if the decision was to go -- to make this a big commitment?

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

No, I think the way I would phrase is we -- it's within the context of the guidance we had, right? This is a strategic direction, and we look at what the potential path of spend and revenue might be in the context of our overall strategy. And yes, it's an attractive business, but there are other attractive possibilities as well. We just -- we want to be judicious how we approach any such decision.

Michael David Zaremski - *BMO Capital Markets Equity Research - MD & Senior Equity Research Analyst*

Okay. That's helpful. And I guess switching gears a bit. There's a lot of -- we can clearly see that margins improved more than expected this quarter, which is great to see. And you had a lot of commentary about strengthened discipline on costs and -- but you've also had this expense program in place for a while. Just kind of -- did something change recently that you've put they're just more hitting the bottom line? Or is it really just the -- an operating leverage and the strategic hires and that dynamic really taking fold?

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

Yes. It's actually all of that, right? So if you -- clearly, with the strong organic growth combined with the expense discipline and the transformation results, we generate strong margin accretion. We've been maintaining discipline with respect to our cost structure, especially as the inflationary environment has put pressure on some of our costs, right. We did take some specific actions regarding travel expenses, looking at vendor spend and some targeted management of marketing costs. In addition, as specifically related to the transformation program, now that we've optimized processes and improved our technology as part of that program, you've been able to take some workforce-related actions which enhanced, I think some of the levers that you're seeing come through.

Operator

Our next question or comment comes from the line of Shlomo Rosenbaum from Stifel.

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

I just wanted to ask a little bit about some of the comments on timing of expenses benefiting margins in health and welfare segment. Can you just give us a little bit more detail on what that was and how investors should consider that with regard to the fourth quarter expectations. And similarly, sometimes, there's timing items that benefit organic revenue growth, like the survey work can sometimes move between third and fourth quarter, where you end up with software sales or something. Was there anything unusual in terms of any of those things. So just kind of timing in both expenses and revenue.

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

Yes, sure. Why don't I take you through the pieces of HWC's organic growth, right? So it was 9% for the quarter. Across the segment, there was strong demand driven by the complex macro environment, our strategic focus on cross-selling and data and analytics. And we feel very confident about the pipeline that we'll be able to finish off the year with good results in line with recent historical trends for Q4 growth. Within BDO, which had 14%, there was organic growth driven by new clients and increased compliance and other project activity in outsourcing and growth from higher volumes and placements of life and Medicare Advantage and individual marketplace.

In wealth, 7% was generated from higher levels of retirement work in North America and Europe, along with new client acquisitions and higher fees and investments health, which was 7% or 8%, excluding the book of business headwinds. There was organic growth driven by continued expansion of our global benefits management client portfolio, new local clients, expanded consulting work for existing clients and increased brokerage income. Career, which was 8% had organic growth driven by increased compensation survey sales, executive compensation and other reward-based advisory services, including pay transparency and some change in communication services.

Within BD&O, right, which had the 14% growth, I think, it's important to point out what was driving that and what we might expect going forward. So that was driven, like I said, by both project work and outsourcing as well as TRANZACT. TRANZACT's growth for the quarter is also timing related. And given that this is one of their lowest revenue quarters a year over a year impact becomes magnified. And again, the best way to think about TRANZACT growth is on a full year basis, and we expect that to be substantially similar to the full year 2022.

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

A couple of points of color commentary in there to address sort of Q2, Q3, Q4 differential. I mean, you talked about our survey business, demand for there has actually stayed quite strong, and that's the fastest-growing area within career. Within health, right, the uptick in health care costs did cause quite a bit of activity during the quarter. I think that as you look to further out from managing health care costs will continue to be a priority for our client base.

But now we're into sort of enrollment season and largely sort of build those design actions, which were taken during Q2 and Q3 in [participation] of enrollment that's not a Q4 activity typically for our client base. So -- and then in retirement, the business has an awful lot of delivery during the summer months and sort of effective strategic projects and some of the derisking activity we talked about earlier in the call. So we're very comfortable with longer-term prospects for the business.

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

What about the expense items, though? That's part of like the question. I see a lot of -- some of this you're discussing the revenue, but were there some expense items, it seems like we're moving back timing of something. Could you just discuss what exactly that meant?

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

Yes, not -- nothing of note. It was primarily the expanded growth in the top line that was really flowing through to the margin is what you're seeing.

Operator

Our next question or comment comes from the line of David Motemaden from Evercore ISI.

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

I just had a question on the R&B segment organic growth. I'm wondering if you could just size the contribution to organic growth from the new hires or the ramp-up of the hiring that you guys have done over the last several years. And also just wondering, I think we're 9 to 12 months into the ramp-up period. So we kind of passed the peak incremental contribution of the new hires. And so we'll just continue to get contribution going forward, incremental contribution going forward, it will just be at lower levels? Or am I not thinking about that right?

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

Yes. So we're not going to get into the specific contributions of recent hires. But to your latter point, we're 12 to 18 months in, if you think about for the first cohort of folks that we had hired and those are at or near expected production levels. However, we did hire right after that first round of hiring as well. It's been a continuous process. So we do expect increasing contributions from enhanced productivity from those hires as time progresses. So we do think there's more room to run there.

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

Got it. But the big cohort, I guess, is fully ramped as what it sounds like, is that correct?

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

We -- the hiring process was a bit more continuous than that. So there's not just one big lump of people all hired in the same quarter, it was a more gradual buildup I think you (inaudible) sort of -- the way you're phrasing it. So I think we still, as we said, see potential for increased productivity from the group as a whole.

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

Got it. Understood. And then just my follow-up. So I heard the commentary on the individual marketplace driving the Health, Wealth, Career, organic and the 14 in BDO was TRANZACT was a driver there. It didn't look like that had as adverse of an impact to free cash flow as I would have thought. So was there anything you did in the quarter to help minimize that impact? Or was it just too small of a revenue contribution number given what you said about it being a small base that it just didn't really have an impact on free cash flow in the quarter.

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

Yes. I think 2 things there. One, it is a relatively small contributor in that quarter overall. The second thing I'd say is one of our key focus areas has been to work to improve the free cash flow dynamics around TRANZACT. And that includes balancing our Medicare Advantage portfolio with the mix of products that have different or better free cash flow conversion profiles, things like life insurance policies. So reorienting the portfolio a bit has helped enhance that profile of that business, and that's one of the steps that we're taking to get that business to be free cash flow positive over the next few years.

Operator

Our next question or comment comes from the line of Yaron Kinar from Jefferies.

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

I have a follow-up question on one of the comments you made on maybe curtailing T&E expenses and vendor spend. How do you -- obviously, one of the challenges you have as managers is balancing between organic growth, margin improvement and free cash flow. Ultimately, pushing that lever, I would think could impact organic growth to some extent. So how do you think about the 2 and the impact you would have on organic?

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

Yes, good question. And the answer is, we are balancing between things, but there are places that are just simply going to be easier to come than others, right? Internal travel isn't directly tied to client revenue, going to see clients is. So we've just asked people to be smart about how they spend their travel dollar and just being a bit better organized can help, right, tailoring several client visits together perhaps combined if you're a senior [management] with an office visit can be a far more productive spend. And I'm really pleased how our team has responded to the call for better discipline to spend.

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

That makes sense. And then maybe going back to the appetite for the reinsurance business or getting back into that business. I think one of the challenges that we've looked at from the outside is just scalability and also the absence of any very large assets that you could pursue inorganically. So assuming that it is something that you'd want to pursue, ultimately, does that have an impact on the business over the next few years? Or is it really going to be in build-out mode for a very long time before we actually see more substantial results.

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

Yes. If it's something that we decide to act upon that we would expect to do so in a very thoughtful manner, recognizing the obligations and commitments that we've made and we'll do so in a very disciplined fashion. And we recognize the -- what the inorganic options look like and have to balance that from a strategic perspective with what an organic build might look like and the time scale for that. We just got to be disciplined and thoughtful about how we approach that, if that is something that we decide to act on in the future.

Operator

Our next question or comment comes from the line of Michael Ward from Citi.

Michael Augustus Ward - *Citigroup Inc., Research Division - Research Analyst*

I was just wondering if you could maybe unpack the sources of organic growth acceleration in CRB, which global lines you see as driving organic growth the most over the next 12 months?

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

Yes. So if you look at our global lines, right, there -- in general, we're having great success in the marketplace. Probably the biggest differentiator is what's happening in rate. And I think it's pretty well known that D&O market, particularly, has seen significant rate reductions, which does have an effect on our overall revenue in the area. .

So good results despite a headwind from rates in that particular line. We are seeing very good success across all our global lines. And I think, it's -- what we say is where we specialize, we win, and that's a good testament to that. Probably the other area I'd call out is facing a headwind has been in our M&A business, where simply there's been much less M&A activity.

And so as a result, our revenues in the area along with everybody else, have been under pressure. Of course, this is a very interest rate-sensitive business. So we've seen some benefit on the interest income side of the balance sheet that mitigates that.

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

Yes. And we did see solid performance across the broad portfolio across all geographies. We did have a large increase in new business, which we were very happy to see and -- versus prior year, and we also had really strong retention rates, which did contribute to the top line. And we do see very clearly the benefits of the specialization and focus. And we did see double-digit growth across almost all of our global lines of business this quarter.

Michael Augustus Ward - *Citigroup Inc., Research Division - Research Analyst*

Awesome. And then maybe the cash flow improvement in the quarter. It was up over \$200 million, I think, with \$75 million from working capital. Just wondering any actions you can call out and if you could quantify the transformation cash flow impact.

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

Yes. So the improvement of [\$370 million] was primarily due to the nonrecurrence of some of the prior year headwinds. We talked a little bit about the FX hedges. Discretionary comp payments made in the past and some taxes. And that -- those tailwinds were partially offset by the increased transformation program-related costs. We're continuing to expect an incremental increase of approximately \$150 million in cash spend related to the transformation program, and that's for the full year.

Operator

Our next question or comment comes from the line of Mark Marcon from RW Baird.

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

Carl, Andrew, followed you since the very first days of Watson [what]. I don't think I've ever seen a quarter where we had such a broad-based improvement with regards to the organic growth rates across every single line of business. I'm wondering, was there anything that has changed internally in terms of incentive systems discussions with regards to goals, objectives that led to such a broad-based improvement. You mentioned that you're becoming more disciplined in terms of T&E, but I'm wondering if that's part of a broader focus on operational discipline.

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

We are trying to become a more disciplined organization. I think I've been saying that since we first announced the growth, Simplify and Transform program in late '21. We are -- I'm very proud of the efforts that our colleagues have made to produce these results. And that's not me and Andrew, right? That is 46,000-plus plus all pointing in the right direction. And it's nice when the stars align. But no, there's nothing in terms of underlying change in compensation programs, et cetera, that's driving this, it's 46,000 people's [heart].

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

Always interesting when 46,000 all change over the course of a couple of quarters. So the second question is the guide for the full year basically implies a decel, you mentioned that is conservative. Obviously, BDO and TRANZACT or a huge swing factor with regards to the fourth quarter. Can you just discuss -- we only have 2 months and a few days left in this quarter. Can you just discuss how does the enrollment season look? What are the trends? Is that the biggest swing factor that is basically keeping you from raising the full year guide given the strong momentum that we currently have.

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

Yes. I think it's still way too early enrollment season to make any predictions about trend, et cetera, we paid for some while, and I think it's a bit of a (inaudible). With respect to sort of how we think demand is for the -- within the businesses, I think we alluded to that at a reasonably detailed level earlier in the call. There is some activity that we enjoyed during the summer that especially with respect to, as I said, a benefit redesign and derisking that just we don't expect to be as big a force in Q4. And then BDO will do what BDO does in enrollment season.

Operator

Our next question or comment comes from the line of Meyer Shields from KBW.

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

I have been a little bit lumpy today. I guess first question, with regard to TRANZACT, I understand it's still sort of generating negative cash flows. Do we have line of sight in terms of when the annual negative cash flows don't get worse on a year-over-year basis?

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

When it won't -- sorry, I just to make sure I understood your question, when it won't get worse on a year-over-year basis?

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

Right. In other words, there's -- I'm looking at 2 hurdles. One is obviously, ultimately, is cash flow positive. But before that, I would imagine that it generates negative cash flow, but not as much as the prior year.

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

Yes, that's right. It's becoming incrementally better every year until we get to being cash flow positive. So we do expect positive trajectory from that business as we evolve the portfolio and take other actions.

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

Okay. And then I just want to clarify something because I may be misinterpreting it. But on the last quarter call, I think when you talked about some of the nontransformational expense efforts, the expectation was that would be clearer in the fourth quarter than in the third. And I just wanted to see whether that's still the case or whether it proved out faster than expected?

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

Yes, I think some of it did prove out faster than expected, but we do expect that benefit to carry through to the fourth quarter and there may be a bit more to go there in some of the areas, but very happy with the progress that we've made so far.

Operator

Our next question or comment comes from the line of Brian Meredith from UBS.

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

Carl, just curious, like nominal GDP has stayed, I think, better than people kind of anticipated, although I know there are some people saying that it's going to slow down at some point next year. What are your clients saying? And what's your kind of crystal ball looking at, I don't know about GDP? And then how does that factor into your 2024 guidance? Maybe you can just remind us on that, particularly with respect to revenues.

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

Yes. So I mean as a company, right, we are well positioned to weather macroeconomic uncertainty. And I think if you ask a prediction from me on GDP, I think I'll go with it's uncertain. But there's a range of actions that I think we're actually in pretty good shape to handle both WTW and our predecessor companies have been able to grow revenue during recessions.

Our clients are facing many uncertainties in this macro environment, some of our clients have to navigate rising -- sustained rising commercial insurance rates that the industry has been enjoying amidst the current conditions, insurers are still pushing for premium increases, and that caused even greater challenges for our clients as they try and navigate complex risks, but right, our customized tools, our specialist approach in R&D ensures that the clients get the best return for their premium dollars across the entire portfolio risk. And I think that helps us positioned very well.

On the HWC side, these same economic issues can cause our clients to have a more intense need for sound advice and risk management solutions, whether it's pension derisking or coping with health care inflation. So our clients look for help in navigating these issues and that creates opportunities that drives demand for our services around benefits, pensions and workforce management.

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

Got it. And then my second question, there's been some chatter, I think, this quarter about some of the major brokers getting back in the wholesale insurance brokerage business. I'm just curious what your thoughts are with respect to -- is that an opportunity maybe for you all to get back into.

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

We don't speculate about potential transactions and would sort of wholesale a transaction, not an extension of what we're doing.

Operator

Our next question or comment comes from the line of Joshua Shanker from Bank of America.

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

I was wondering if you can give any color. I mean you have a bunch of different businesses on the broking side. How are things looking in middle market here in the United States? How are things looking in your, I guess, I would call them international businesses in some of your places where

you're dominant and (inaudible) and whatnot. Can you give us a little color on the geographical differences in performance? I know you say it's broad-based, but I mean not everything is moving at the exact same gearing, I assume.

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

Yes, there are some differentiators in our results around the world, right? For the first point out, we don't have a dominant business anywhere, but we have strong businesses in many places. Growth has been, I think, quite good in both international and Europe.

And we are seeing our U.S. business performed very well in the revamp we've done over the last months to reorganize the business across industry lines. Andrew did talk a little bit that in the beginning of the call about relative performance in the geographies. But we do see that our specialty-led approach has really led to very good results in a number of countries within Europe, strong results in Latin America. And as I said, the North America revamp we've made is working well.

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

And just a quick modeling question. Should we assume in 2024 that the book of business sales are basically run their course?

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

Yes. I think that's a fairly safe assumption at this point in time. We do expect it to look like the historical average. I did mention in my prepared remarks that we did expect a bit in Q4. Some of that timing as always can be uncertain, and it can slip, but it should not make a material difference to 2024.

Operator

Our next question or comment is a follow-up from Mr. Shlomo Rosenbaum from Stifel.

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

I had a couple of just kind of housekeeping questions, probably for Andrew. Just first, just on the move up in interest rates in September. Is there kind of any update that we should think about in terms of pension income expectation for 2024. And then also, the nonoperating income line seemed to have spiked up a little to \$66 million in the quarter. I don't know if that's from the gain of sale that got adjusted out of the net income. But is there something material in that line item that spiked it positively in the quarter?

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

Yes. So first, on the pension side, as we've mentioned before, the increase in interest rates and declining capital market return did create a significant headwind to some of the pension income dynamics. We continue to expect pension needs of about \$112 million in 2023. And for 2024, we'll update our expectations there on our fourth quarter call after the annual remeasurement process. However, based on current market conditions, we don't expect the pension headwinds to subside. And on your question related to the other income line item, the big component that you're seeing there is a gain on the sale of our Saville assessment business.

Operator

I'm showing no additional questions in the queue at this time. I would like to turn the conference back over to Mr. Carl Hess for any closing remarks.

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

Thank you all again for joining us today. We do appreciate the continued support of all of our stakeholders. I especially want to reiterate my thanks to all WTW's colleagues around the globe for their continued hard work and dedication, the results of which are evident in this third quarter performance. I am proud of their results, and I look forward to working together to keep the momentum going as we finish the year strong. Have a great day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.

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