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# EDITED TRANSCRIPT

WTW.OQ - Q4 2023 Willis Towers Watson PLC Earnings Call

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## OVERVIEW:

Company Summary

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## PRESENTATION

### Operator

Good morning. Welcome to the WTW Fourth Quarter and Full Year 2023 Earnings Conference Call. Please refer to [wtwco.com](http://wtwco.com) for the press release and supplemental information that were issued earlier today. Today's call is being recorded and will be available for the next 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 factors, investors should review the forward-looking statements section in the earnings press release issued this morning as well as other disclosures in the most recent Form 10-K and 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, sir.

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

Good morning, everyone. Thank you for joining us for WTW's Fourth Quarter and Full Year 2023 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer.

WTW ended 2023 on a strong note and has begun 2024 with solid momentum as we continue to execute on our grow, simplify and transform strategic priorities. In the fourth quarter, our world-class solutions and maturing investments in talent helped generate robust organic revenue growth.

And our transformation program and expense discipline drove adjusted operating margin expansion and solid adjusted diluted earnings per share growth. Our performance steadily improved throughout 2023. And today, WTW is stronger, more resilient and better positioned to achieve our goals.

We delivered 6% organic revenue growth in the fourth quarter with an adjusted operating margin of 34.2%, up 180 basis points over the prior year. Adjusted diluted earnings per share were \$7.44, an 18% increase year-over-year.

For the full year, we had organic revenue growth of 8% above our mid-single-digit target. We also drove 110 basis points of year-over-year margin expansion to achieve an adjusted operating margin of 22%, fulfilling our commitment of annual margin expansion. Our adjusted diluted earnings per share were \$14.49, an 8% increase over the prior year.

We believe these results are the product of our strong global client model, our strategic investments in talent and technology and our team's hard work and relentless focus on best-in-class delivery.

The progress we see within WTW and the enthusiastic response we're receiving from clients give us confidence that our strategies, our people and our investments are aligned with areas that we believe to be the greatest opportunities to drive sustainable profitable growth and create shareholder value over the long term.

Let me take a few minutes to share the progress we've made and the opportunities ahead of us across our segments. Throughout 2023, our specialization strategy in Risk & Broking was a key driver of growth for both the segment and the enterprise. Our specialty businesses continue to have significantly higher growth in the rest of the segment. This growth, driven in large part by improved client retention, expansion of existing client relationships and our strength and ability to attract new clients and win back old ones has validated our approach.

As a result, specialization continues to be our primary strategic focus in R&B. It allows us to create value for clients by tailoring solutions that close gaps in their risk management profile. Together with digitization, data and analytics, we can create efficiencies that enable us to provide more timely and effective insurance services.

Our approach to specialization is tailored to each geography in which we operate. In 2023, we built out 12 industry verticals in North America. That process is now complete, with colleagues, processes and infrastructure supporting that alignment. Given the success we've seen to date, we're in the process of launching this industry model across Western Europe, and we'll build out more industry verticals in our international region in 2024.

This model, together with our global reach, has us positioned to win an outsized share of complex mandates such as our recent win of a multiyear construction project for a key player in the European energy sector. Our cutting-edge data and analytics and our ability to bring together superior industry and product expertise from our specialist teams across several countries set our proposal apart.

We're also making good progress expanding into new and differentiated revenue streams such as our new managing general underwriter, Verita, which is growing steadily since its initial launch in September.

Just in the fourth quarter of 2023, we've onboarded brokers, [balanced] premiums and received submissions for both external and our own brokerage clients.

In 2024, we'll focus on expanding our MGA and MGU strategy to additional geographies. In addition to expanding our business platforms and offerings at Risk & Broking, we're continuing to invest in our people to win new business. Our colleagues who joined us during 2022 and 2023 have become increasingly productive and have brought our talent base back to full strength, as evidenced by the segment's strong organic revenue growth in the second half of 2023.

Accordingly, we're now focused on strategic and opportunistic talent investments. These investments should enhance our presence capabilities in the lines of business and geographies that we believe offer the greatest growth and profitability potential. We expect these efforts to continue throughout 2024 and beyond.

Furthermore, we see opportunity for continued strong new business growth as we work closely to help clients manage a complex and challenging risk environment marked by increasingly costly natural disasters, social inflation and geopolitical conflicts.

In HWC, we've leveraged the strength of our portfolio, driving growth through and across health, wealth and career and BD&O. We've made significant progress by staying focused on our core businesses by making connections across the organization where it adds value for clients and by simplifying how we work. For example, we maintained or improved client retention rates across all of HWC, including excellent 98% retention rates for our retirement and outsourcing businesses.

We had a dozen of clients for our signature packaged solutions like our LifeSight master trust and global benefits management offerings. We expanded our relationships with more than 1,500 clients to include at least one new service offering. And we increased the size and scope of our hub teams in key centers around the world to enhance capacity and consistency.

Our intense focus on cross-selling and making it simpler to do business with us is paying off. Across industries and services, more clients are coming to WTW for a full suite of solutions. Just to mention a few from this quarter. We had a software development firm move its global benefits consulting and brokerage work to WTW and appoint us to support their employee experience through our Embark portal and our Engage software.

A major global financial corporation's simple survey request turned into a multiyear engagement for us that includes supporting the client with attracting and pertaining talent and the delivery of a fully integrated total reward solution using one of our portals. And we leveraged our existing pension actuarial and outsourcing relationships with a leading regional health system into support for a rollout of major changes to their health and benefits program, which include the creation of a temporary health and welfare service center.

We're confident HWC will provide a solid foundation for growth in 2024. And as we've discussed on prior calls, complexity in the human capital landscape continues to increase and finding the right solutions to our clients' unique needs in this environment requires a holistic, integrated and consultative approach. Our ability to move quickly and deliver the right resources at speed helps our clients take advantage of changing conditions and creates meaningful opportunities for HWC.

I'll highlight 2 trends we see as tailwinds for 2024. In our health business, clients are continuing to look for ways to address the increasing cost of health care around the world. They're to us for help with more effective plan management and specialty solutions that can improve their population health status. And in our retirement business, clients are increasingly looking to capitalize on the change in the rate environment by derisking their pension plans through annuity buy-ins and buyouts.

With the funded status of the largest U.S. corporate pension plans having ended 2023 at 100%, we expect this trend will support growth in that business during 2024.

We also expect our growing momentum with smart connections this quarter to continue into 2024 and also extends to cross-selling between our 2 segments. We continue to arm all our colleagues with a solid understanding of our full range of services and the tools to identify and facilitate cross-segment opportunities.

Two large client wins in the fourth quarter illustrate the power of this approach, a P&C insurance solution is a major media company that originated with one of our retirement colleagues and a multiyear health benefits design, administration and broking engagement that began with a benefits

review arranged by a CRB column. The progress we've made in enhancing our growth engines at HWC and R&B over the past 2-plus years is also enabling us to drive increased margin expansion.

During the fourth quarter, we saw a continuing improvement in productivity and a tightened focus on cost discipline. Similarly, our transformation program continues to drive a significant benefit to our bottom line, enabling us to finish the year strong and to lay the foundation for another year of adjusted operating margin expansion.

We realized \$37 million of incremental annualized savings from our transformation program during the fourth quarter, bringing the total to \$337 million in cumulative annualized savings since the program's inception. Thanks to the success and momentum of the program, we have been able to identify additional savings and accordingly, are raising our cumulative run rate transformation savings target from \$380 million to \$425 million by the end of 2024.

Looking ahead, we're confident that we're on the right path to achieve our 2024 targets of continued mid-single-digit organic revenue growth leading to at least \$9.9 billion in total revenue, adjusted operating margins of 22.5% to 23.5%, adjusted diluted earnings per share of \$15.40 to \$17 and additional improvement in our free cash flow margin. Andrew will touch on our 2024 guidance in more detail shortly.

In closing, our performance in 2023 reflected our hard work to grow, simplify and transform our business over the past 2-plus years. I'm proud of the progress we've made and excited about the opportunities ahead. Based on our momentum and our healthy pipeline, I'm confident we can deliver continued sustainable and profitable growth in 2024 and beyond. I want to thank our colleagues for their dedication, service and continued commitment to our clients and to WTW.

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

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

Thanks, Carl. Good morning, and thanks for joining us today. As Carl mentioned, we finished the year with strong momentum, putting us in a solid position to achieve our 2024 targets, and I'd like to share some further details on our financial results.

We delivered organic revenue growth of 6% in the fourth quarter, bringing the full year growth rate to 8%. The ramp-up in productivity of our investment hires, our specialization strategy and Risk & Broking and the ongoing demand for our benefits and human capital services in HWC continue to fuel the strong top line growth. Alongside this robust growth, we also drove margin expansion for both the quarter and full year at the enterprise level and in each of our segments. The result was adjusted diluted earnings per share of \$7.44 for the quarter and \$40.49 for the year.

Next, I'll spend some time reviewing our 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 & Career generated revenue growth of 4% compared to the fourth quarter of last year and finished the year with 6% growth.

Going into 2024, we feel confident in the outlook and expect another year of similarly positive results for the segment. Revenue for health increased 6% for the quarter or 5% when excluding the impact of some modest book of business activity. We delivered solid growth across all regions driven by increased brokerage income and the continued expansion of our global benefits management client portfolio in Europe and international. Wealth grew 5% in the fourth quarter. Retirement growth was driven by increased project work related to derisking activity in North America as well as additional project work in the pension brokerage in Europe.

Investments also contributed significantly to growth for the quarter, reflecting new client acquisitions and higher fees. Career delivered 6% growth in the quarter, driven by increased compensation survey sales, executive compensation and Board advisory services and project work related to employee experience. Benefits Delivery & Outsourcing generated 3% growth in the quarter. The increase was driven by higher volumes and placements of Medicare Advantage and life policies in our individual marketplace business and increased project activity and benefits outsourcing.

HWC's operating margin increased 150 basis points compared to the prior fourth quarter to 40.5%, primarily driven by transformation savings. For the full year, HWC's operating margin increased 190 basis points over prior year to 28%. Risk & Broking revenue was up an exceptional 12% on an organic basis for the fourth quarter.

Interest income was \$27 million for the quarter, up \$17 million from the fourth quarter last year. Note that beginning with Q1 2024 results, we plan to include the impact of investment income on organic growth at the segment and enterprise levels in our materials.

For the full year, Risk & Broking grew 10% organically. We are expecting mid-single digit or better organic revenue growth for the segment in 2024, with continued contributions from our investments in talent and platforms as we identify and pursue opportunities in line with our specialization strategy.

Corporate Risk & Broking had another strong quarter, growing 12% and continuing the organic revenue growth trajectory we have seen in the business over the last couple of quarters. Higher levels of new business activity, improved client retention and increased renewable revenue from rate increases drove robust organic revenue growth.

Our specialty lines continue to be major contributors to the strong growth performance, led globally by natural resources, facultative, 'FINEX' Financial Solutions, crisis management and construction. Strong growth across CRB in Europe was led by P&C retail, facultative, Natural Resources and FINEX. North America CRB benefited from strong new business in construction, Natural Resources, marine, aerospace, real estate and hospitality and leisure as we saw strong demand in the industries in which we specialize.

Our international region also contributed with exceptional organic growth, including strong growth across all subregions led by Latin America. In the Insurance Consulting and Technology business, revenue was up 8% over the prior year period on top of a strong comparable, driven by increased sales in Technology Solutions, including strong new business and higher project activity. R&B's operating margin was 32.9% for the fourth quarter, a 460 basis point increase over the prior year fourth quarter.

We continue to see our hiring efforts yield strong results and rising productivity, driving greater operating leverage. The margin also benefited from transformation, continued expense discipline and tailwinds from increased interest income, partially offset by some modest foreign exchange activity and investments in people and technology platforms.

For the full year, R&B's operating margin increased 60 basis points over prior year to 21.8%. As Carl mentioned, we plan to continue to opportunistically invest in talent and strategic initiatives in this segment in line with our previous announcement.

For 2024, we continue to expect margin expansion on a full year basis. Given the business seasonality and uncertain pacing of the investments, please note that the scale of R&B margin expansion may vary from quarter-to-quarter. At the enterprise level, adjusted operating margin for the quarter was 34.2%, a 180 basis point increase over prior year. For the full year, we saw 110 basis points of margin improvement to 22%.

The benefits of our transformation program drove a large part of our margin expansion for the year. We had \$37 million of incremental annualized transformation savings for the fourth quarter, bringing the total of \$337 million since the program's inception.

As Carl mentioned, we are raising our transformation savings target to \$425 million by the end of 2024. The additional savings will primarily come from technology modernization and process optimization which we expect to further reduce our cost structure and help unlock additional long-term growth and cost savings opportunities.

The total amount of cost to achieve is now estimated at \$1.125 billion. Along with their direct return on investment, these additions to the transformation program will serve as a catalyst for additional improvement by creating an infrastructure from which to drive further efficiencies.

Our unallocated net was \$296 million for the full year 2023, an increase of \$31 million over prior year, primarily due to a headwind from a onetime favorable item reflected in the prior year balance. Foreign exchange was a \$0.02 tailwind on adjusted EPS for the quarter and a \$0.06 headwind for the year. At current spot rates, we expect foreign exchange to have a \$0.02 headwind on adjusted EPS for 2024 with no impact in Q1.

We recorded \$109 million in pension income for 2023, relatively in line with our expectations. For 2024, we expect \$88 million in pension income with the decrease driven by market performance and interest rate movements.

Our U.S. GAAP tax rate for the quarter was 15.7% versus 17.7% in the prior year. Our adjusted tax rate for the quarter was 19.1% compared to 22.2% for the fourth quarter of 2022. Our U.S. GAAP tax rate for the year was 16.8% versus 15.4% in the prior year. And lastly, our adjusted tax rate for the year was 20.9%, consistent with prior year.

Notably, there were nonrecurring items in Q4, which resulted in onetime tax items in our 2023 adjusted tax rate. Excluding these benefits, our adjusted tax rate would have been 22.4%, and our adjusted diluted EPS would have been \$14.22. We expect our full year adjusted tax rate in 2024 to be closer to our 2023 adjusted tax rate, excluding these onetime benefits.

In 2023, we returned nearly \$1.4 billion to our shareholders with share repurchases of \$1 billion and dividends of \$352 million. We continue to execute a disciplined capital allocation strategy and currently view share repurchases as an attractive use of capital to create long-term shareholder value. We expect to continue repurchasing our shares in 2024 under our current share repurchase authority of which approximately \$1.3 billion remains. We expect approximately \$750 million of share repurchases in 2024, subject to market conditions, among other relevant factors.

We generated free cash flow of \$1.2 billion in 2023, representing a free cash flow margin of 12.6%, above our target of 12%. The improvement from the prior year was driven by the nonrecurrence of onetime headwinds reflected in the comparable period, operating margin expansion and improvement in TRANZACT's cash flow. These improvements were partially offset by increased transformation program-related costs.

Turning to our 2024 financial targets. We continue to expect mid-single-digit organic revenue growth as we work towards our revenue goal of \$9.9 billion-plus. We expect our adjusted operating margin to expand toward the high end of the 22.5% to 23.5% range. We also expect to deliver on our adjusted diluted earnings per share target of \$15.40 to \$17. Finally, we expect incremental improvement in our free cash flow margin.

Our results for the fourth quarter and full year 2023 are a testament to our continued strategic progress, our operational execution and our colleagues' relentless focus on serving our clients. We are very pleased with our performance and expect our momentum to continue into 2024 as we focus on delivering on our targets.

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

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## QUESTIONS AND ANSWERS

### Operator

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

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

And I'm going to say that it does feel like you finally stabilized the platform last year. So it does -- it should bode well for your future. On the mid-single-digit guidance outlook for '24, inside Risk & Broking, can you give us a sense of how you think the benefit on new business and/or versus rate increases is going to run through the Risk & Broking line. And then on the Health, Wealth & Career, the BD&O line was a little weak in the fourth -- lower in the fourth quarter. Can you talk about your outlook there?

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

So starting with R&B. Let me begin with the effect of rate and which we frankly don't view as a significant headwind or tailwind across the portfolio in terms of how it's mattered for 2023 and going into 2024. The markets remain a bit mixed in terms of what's going on. The effect of, however,

the investment we've made over the last few years in talent and the reorientation of the business towards specialization is what we feel has really made a difference for us and will continue to differentiate us going into 2024.

I mean our approach to specialization sets us apart from others in the industry. We've constructed this around specialized businesses, not just practices, focused around the industry divisions, right? And these are businesses with national or even global P&Ls, dedicated personnel, directly responsible and accountable and that just ties to our specialization approach, which has resulted in our global lines growing much faster than our overall book as we talked about earlier.

With respect to HWC, looking forward, we're very confident in our pipeline, and we do anticipate HWC is going to have mid-single-digit revenue growth in 2024. The current human capital landscape is highly complex as a result of rising health care costs, a changing interest rate environment that impacts pension derisking activity. And we see these trends as tailwinds for '24. And as we mentioned in our opening remarks, we expect our growing momentum with our smart connection strategy to continue in 2024. And these increased cross-selling opportunities will be another HWC revenue tailwind.

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

Okay. That makes sense. I wanted to pivot to the free cash flow margin expectations, Slide 22 of your investor deck. And what I'm focused on is that 16% plus long-term objectives and I was looking for some more color inside some of those comments that you made in the slide about where you're going to get some positive benefits and some negative benefits. And when you think about getting to that 16%, is that like a 5-year target, a 10-year target? Or what kind of parameters are you putting on management around that objective?

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

Yes. Greg, it's Andrew. Thanks for the question. The 12.6% margin in 2023, that was good progress on a year-over-year basis. We do expect incremental improvement in 2024 as we work towards the long-term free cash flow margin target. We expect to see that margin improvement in 2024 and beyond, really through 3 main factors.

So the first one is going to be greater profitability as a result of driving margin expansion. We intend to do this not just through transformation and operating leverage but also by improving our business mix for example, deepening our footprint in the area of MGAs, MGUs, things of that nature.

The second piece is the abatement of the transformation-related spend, which we're expecting through the first half of 2025. The third piece is improved cash conversion in the TRANZACT business which we expect to be positive within the next few years. That's going to come as a result of the maturation of the business as well as the improving -- changing the product mix within that business.

Over the near term, progress on some of those factors is going to be temporarily offset by cash investments in HWC and R&B for product development to support future growth, things like our LifeSight business where we continue to invest new ICT software. And I also mentioned the MGA and MGU business as an example of that.

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**Operator**

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

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

My first question is on the EPS guidance. You guys reaffirmed the guidance that you gave us in July, but it sounds like you expect to come in at the high end of the operating margin target. And pension, I believe, is a little bit favorable relative to the midpoint of the guidance update last summer.

So why not up or tight in the range towards the upside? Do you feel like you could come in towards the upside of the range and maybe there's just some level of conservatism to start the year?

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

Yes. Thanks for the question, Elyse. So we remain confident in the EPS target range of \$15.40 to \$17 for '24 that we had set out. As we laid out in our supplemental materials, you can see the puts and takes there, a meaningful portion coming from operating income, along with the increase in the share repurchase activity that we mentioned about \$750 million expected there. The offset there, as you mentioned, some of the reduced pension income, that's going to be about a 14% share headwind as well as the increase in interest expense and adjusted tax rate. And when we thought through all of those puts and takes, we felt still very confident about landing within the range there.

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

And then my second question is on the share repurchase guidance. So Andrew, I think you said \$750 million in '24, that's lower than what you guys bought back in '23, yet your free cash flow conversion should improve, right, from the '23 level? And then, I guess, even though it's not a '24 event, right, in the first half of '25, right, you guys, I believe, should receive \$750 million from the Willis RE earnout. So why would it buybacks be more than \$750 million in '24 or is M&A part of the equation. I'm just trying to square the free cash flow improvement and the lower level of buyback in '24.

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

Sure. The \$750 million, right, is our expectation for the year. The debt level is lower than in '23, where we did \$1 billion. You have to keep in mind that throughout '23, we took on some incremental leverage in May and throughout the year, capitalized on the opportunity to buy more shares when there was pressure on the stock price. .

So the \$750 million is not necessarily static. We continuously monitor cash levels, market conditions. And if the opportunity presents itself to accelerate share repurchases, we'll take advantage of it, just like we did last year.

We continue, as you might expect, to evaluate all of our options for capital allocation as we always have, which does include share buybacks, internal investment and carefully considered strategic M&A as part of that to ensure that we're maximizing value creation for our shareholders.

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**Operator**

Our next question comes from the line of Robert Cox with Goldman Sachs.

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

Maybe a similar question to when you've already received on free cash flow in some ways. But if I exclude the \$430 million or so cash restructuring charges this year, I get to a free cash flow margin over 17% in 2023. Is that correct? And when you think ahead to a future where restructuring spend is 0, and the TRANZACT free cash flow drag has improved. Couldn't there be meaningful upside to the 16% long-term free cash flow margin target? Am I thinking about that correctly? Or are there any headwinds I'm not considering?

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

I think generally, over the long term, I think you're thinking about the math correctly there, Rob. I focus you on the plus symbol after the 16% that we've got in our materials and our long-term objective there. It does take time for some of those headwinds to abate. Think about TRANZACT, for

example, is that when that turns free cash flow positive, it's still a drag on free cash flow margin, right, because it's not necessarily converting at the same rate as the rest of the business. And of course, the revenue there will continue to grow as well. So there's other dynamics that factor into the margin calculation.

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

Okay. And just a follow-up on expenses in the Risk & Broking business. Could you talk about the incremental expense savings in the quarter versus last quarter, some of the things that you started to enact last quarter? And then just some more color on how sustainable those savings are outside of the transformation program.

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

Yes. There's -- we talked about, I think, ongoing expense discipline across the platform, that's not just specific to R&B. But we balance the focus on expenses with the revenue growth to make sure that we're looking to generate operating leverage on top of the transformation savings across the platform. And obviously, we've been heavily investing in that business, which is weight on that for certain parts during the year. Carl, anything you'd add to that?

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

Yes. I guess as we've highlighted in prior quarters, we have a substantial investment in that business, principally in talent, right? And now that our talent base is back to full strength, right, we're concentrating on strategic and opportunistic hires to capitalize on the opportunities we see ahead and the geographies that we offer the greatest potential for profitable growth, right? So I think it's just a momentum story at this point as opposed to a rebuild story, which leads to a smoother pattern of expense growth.

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**Operator**

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

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

Back just to the free cash flow. I believe you said one of the offsets was cash investments and product development. So I guess, should we be looking at your historical CapEx ratio divided by revenues. And I guess, are you alluding to maybe I'd be -- it'll maybe kind of rise to a bit of a higher level than it is currently as one of the offsets. I don't want to -- or am I splitting hairs in terms of some of your commentary?

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

Yes. No, it's a good question. Just on the -- I'd say on the margin, right, we would expect it to increase a little bit. Just recall, right, it's been somewhat depressed from a spend ratio perspective over the last couple of years. Obviously, there's been a meaningful uptick as it relates to transformation spend and CapEx, but BAU CapEx, as we continue to build out the platform and invest in the future would be a modest temporary offset to some of the tailwinds that I mentioned earlier.

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

Okay. That makes sense. And really good color on the HWC segment. Specifically, it was interesting to hear retirement, I know Willis has a leading defined benefit retirement solutions segment, which I -- I think historically, you guys have talked about that being kind of a not as high of a growth rate or maybe not much of a long-term grower.

But it sounds like you said in the near term, because of the environment, it is a growing business, which is kind of a tailwind to '24. I just want to make sure I'm understanding those comments correctly?

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

Yes, I think you've got that right. We see several factors as working for us going forward. And we do have the market-leading retirement business. Given the economic environment we find ourselves in and the funding status that our pension clients enjoy, right, there still remains a substantial appetite for derisking strategies. And with the funding positions are better, the capabilities to do that is increased. And we're well equipped to help our clients with that journey.

In addition, the investments we've made in growing areas of the pension landscape, such as the LifeSight business, Andrew, talked about just earlier, have enabled our growth in a number of economies where these strategies, master trusts are an attractive place for our corporate clients to gain efficiency in the provision of retirement.

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**Operator**

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

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

I wonder if you could just talk a little bit about the TRANZACT, what your experience was this quarter. The BDO business organic growth was below average for the business as a whole. Did you see any kind of change in that market? And does it influence your long-term outlook for the business?

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

Well, I guess the way we look at it is we run TRANZACT for growth opportunities if they are profitable growth opportunities. And if the spend we're seeing that's necessary to generate a policy commission is economically sensible. We just don't do it. So we manage that business, I think, balancing growth and profits, and we -- this year found ourselves in a place where we made, I think, a very sensible choice given the conditions we're facing.

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

And Mark, just to add one thing to that. If you recall, we had some revenue time into Q3 from that business, which I think we had mentioned on the last call so that did factor into the quarterly growth rate within that component of HWC. So I think the best way to think about it is if you look at the full year growth rate really representative of where we expect the business to head in the future.

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

Understood. And then the strategic client engagement, what was the motivation for that? And are there any particular verticals that you think are most promising?

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

Yes. I think you're referring to the large complex accounts team, is that right?

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

Yes, that's right. .

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

Yes. I mean we think the combination of our global footprint, our specialization approach and our industry-leading analytics offer a compelling proposition to clients facing. The challenge is that this macroeconomic environment can leave them to, right? So to the extent we can help our clients manage things like natural disaster, social inflation, geopolitical complex, right, our customized tools, our specialist approach could help ensure that clients get the best return for their premium dollar across their entire portfolio of risks. That's what that's all about.

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**Operator**

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

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

I had a question you guys had called out, I think it was about a 200 basis point adverse impact to free cash flow margins from TRANZACT in 2022. Could you just level set us on how much of a drag that was in 2023? And then it sounds like you guys are expecting it to be free cash flow positive in the near term, which is a little sooner than I had expected. So if you could just talk about what's driving that, it would be helpful.

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

Yes, sure. We had about 60 basis point year-over-year improvement in the free cash flow margin drag from that business. So quite pleased with the progress that we've made there as that business matures and as we think through the portfolio of products within TRANZACT.

The drivers of getting to free cash flow positive within that business in the next few years is more focused on the product portfolio, different products have different cash conversion profiles. So we seek to balance that appropriately. As Carl mentioned, we run that business for profitable growth. So we're always making trade-off decisions there as part of that, and the business will continue to mature. So we think that will be a contributor to getting us to free cash flow positive into that business as well.

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

Got it. That's helpful. And maybe just, Carl, you had mentioned the specialty businesses have higher growth than the rest of the R&B segment. Could you just put some numbers around that and size how big your specialty businesses are. And what sort of growth rate they're growing at organically?

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

Yes. So I mean, what we classify as our specialized businesses are our global lines amount to about half of the portfolio for the CRB business. And I think we've used nearly twice the growth rate, a fair way of looking at it. So I think you can back into the relative math on that.

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**Operator**

Our next question comes from the line of Andrew Kligerman with TD Cowen.

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**Andrew Scott Kligerman** - TD Cowen, Research Division - MD

So that R&B growth was an exceptional number at 12%. So I'm kind of curious, going forward, looking at new hires, Carl, I think you said that you'd be strategic and opportunistic. How should we think about new hires next year in terms of -- is it going to be flat, up a little, down a little? And then just on the strategic client engagement that you just touched on, again, still not quite clear on how that helps the specialty groups. I mean does it slow them down because now you've got new people involved in the process? Or just want to make sure that -- or understand how that's going to help boost the specialty as opposed to make it a little more complicated.

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

Sure. First of all, with respect to talent acquisition plans, you're correct, I said we're focusing on strategic and opportunistic hiring. We've done -- I think Adam Garrard has done a fabulous job over the last couple of years with this team of building back this business to full strength. But we're always going to be on the prowl for talent, right, if we can find people who are attracted to our proposition, you can add value and revenue, we're going to be and continue to invest in that talent base. With regard to...

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**Andrew Scott Kligerman** - TD Cowen, Research Division - MD

The bias would be slightly up in new hires then? Is that how I should take the opportunistic approach?

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

I think that -- I would anticipate that we are going to continue to be on the lookout for talent and the way we have, right, over the last several quarters, right? And we don't hire just for the sake of hiring, Andrew. We hire for where we can add value.

With regard to our strategic client engagement, I think I'd look at it this way, right? We're trying to deliver best-in-class service to our client base. And that involves making sure we understand their risks better than anybody else. And that is a specialization. And then it's fulfilling their needs, right? There's client engagement, which is equally important. So I view this as an and not a but.

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

And one of the primary focuses of the strategic client engagement concept is really going to be a focus on the industry verticals, but in particular, think about Fortune 1000 type clients where risk profiles may be more expansive and more complex than other organizations.

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**Operator**

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

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

I guess my first question actually goes back to Elyse's question earlier in the call. When we see guidance and we see some of the underlying pieces move a bit, namely, where we're seeing higher expectation of cost saves from restructuring. And at the same time, we see the EPS and margin guidance essentially remain unchanged. I just want to make sure and again, going back to Elyse's question, is there a degree of conservatism in there? Or are you seeing some offsets potentially that are keeping you at the unchanged EPS guidance?

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

Yes. I think it's probably a little bit of both there. We are -- we want to make sure that we are focused on delivering on our commitments for 2024. And we talked about some of the puts and takes that we expect to play through 2024 as well.

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

Okay. And can you maybe elaborate a little bit on kind of what the variables would be that would get you to the upper end versus the lower end of that guidance, what the main variables that you foresee today are.

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

Yes. I think the biggest driver there is going to be organic growth, right, because that will drive incremental operating leverage above maybe what our current expectations might be. So I think that will be the biggest factor there.

**Operator**

Our next question comes from the line of Mark Marcon with Baird.

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

Two questions. First, on the specialty lines, you said you're basically generating 2x the growth of the general lines. How -- to what extent or how long do you think you can keep up that higher level of growth on the specialty lines? In other words, are they still relatively new in the market and this is truly differentiated and this is going to enable you to continue to gain a lot of share? Or did we have a boost because of the talent additions and things will settle out. So how should we think about that from a longer-term perspective?

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

So part of this is strategic, right, in that we are focusing on these businesses, and that's where we are continuing to invest, and we see a return there. We've been a specialist broker for nearly 200 years, right? So I would argue that it's not likely to play itself out over the next couple where we've been doing this very successfully in a very long time. The differentiator for us, remember, is that we're actually organizing the business around this as opposed to on the side of someone's desk. And that enables us to focus on delivering enhanced value through superior analytics and client engagement that we think has a very attractive proposition. We don't see that abating.

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

Great. And then can you just talk a little bit about the pension and retirement business how much of a boost could we end up getting with the change in rates and the ability to derisk. And then to what extent does the -- are you getting any additional engagements just in terms of the news that IBM made with regards to their shift in policy?

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

So I mean, we do see the macroeconomic environment and where the funded position of pension plans are as stimulating demand for buy-ins and buyouts as we've talked about and not just necessarily transacting on them with the analysis that goes into them and the preparation so that we do think that is helpful for us and our clients going into 2024.

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

And some of that will be episodic, right, as clients take on derisking transaction. So it's not going to be any one pattern throughout the year.

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

Yes. And with respect to the clients you were alluding to who is, I guess, reopened their defined benefit plan, this is say, where there's interest out there at least examining this on behalf of other plan sponsors who may be similarly situated. And we're well poised and well positioned to help clients with that evaluation.

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**Operator**

Our next question comes from the line of Meyer Shields with Keefe, Bruyette, & Woods.

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

Two quick questions. First, Carl, you talked about having 12 verticals. And I was hoping you could sort of outline how much of the Fortune 1000 that 12 verticals represent?

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

So I don't think that map is quite right. For instance, one of our industry verticals focuses around alternative capital, [which you have] private equity, right? So this isn't necessarily a public equity strategy nor is it confined to the large market, right? We see -- the industry verticals stretch down to smaller organizations as well. So the answer is there's significant coverage across Corporate America with our industry verticals. Some of them are quite broad and some of them are quite focused on areas where we think we can deliver particular value, say, hospitality.

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

Okay. No, fair enough. Second, and I'm not really sure how to ask this question, but you talked about how Adam's brought back the -- took the [tapping] to full levels. Did we see full productivity from that group overall in either the fourth quarter of '23, over the course of 2023. Is there still some momentum for the -- this newest cadre to expand productivity or (inaudible) margin?

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

Very much the latter. We do see -- while we're very happy with the progress that both our existing colleagues and our newer colleagues have made, we do see increased productivity as being part of the picture for our last cohort of hires. Yes.

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**Operator**

Our next question comes from the line of Josh Shanker with Bank of America.

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

I just want to go back to a question Greg was asking at the beginning about the difference in the growth rates of the various segments. In aggregate, the growth seems pretty orderly, but by segment, there seems to be a lot of volatility. Should we expect in the coming quarters that the segment

organic growth rate will be volatile. Is that the right way to think about how your business operates? Or should we expect there to be a general run rate where there's a trend from the previous quarter that might influence the next quarter?

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

Yes. I think you're asking about sequential growth rates. Parts of our business are seasonal and we do have timing things, which play out periodically between quarters year-to-year. So that is something to keep in mind. And that is why we tend to focus on full year growth rates for our businesses.

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

Does the seasonality shown in 2023 represent a seasonality that we should consider in the 2024 year?

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

For the most part, I think throughout the year, we did call out a couple of unusual things, for example, the timing of BDO between Q4 and Q3 revenue. And I think there were a couple of other things throughout the year. And of course, you got to think about the impact of the book sales where we had some swings in some of the quarters where there were larger amounts of those, but expect to be through that largely going forward.

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**Operator**

Our next question comes from the line of Mike Ward with Citi.

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

I was just curious, the margin guide relatively consistent, but you've spoken to some incremental savings. So just wondering if we should think about those savings maybe being offset by some costs. Could that actually benefit 2025 margins?

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

Yes. So as I had mentioned as a regard -- with regard to the '24 margin target, we do expect to be toward the higher end of that range. There's obviously some benefit from incremental savings that we talked about and the investments that we're making are really for future growth opportunities but also will help us unlock additional operating leverage opportunities in the future. So we do think there'll be continued tailwinds beyond 2024 for some of the investments we're making now this year.

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

Okay. And then you've spoken to some of the book gains in the quarter. Wondering if you could talk about where attrition is running. If 2024 is kind of a normal year, just curious how much of a headwind we should expect this year for book gains?

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

No, we expect to return back towards our historical normal level. So we don't expect any significant headwinds or tailwinds from bookings going forward.

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

I would just add sort of thinking about attrition at the overall level for the company, we are back down to well within the range we've had historically. So a very manageable situation for us.

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**Operator**

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

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

Carl, I'm just curious on the 10% organic growth you had for the year in R&B. You mentioned that it was new business and it was retention. Is there a way to kind of parse that out and how much of the kind of growth was client retention. And are you back to kind of your historical client retention levels? Or is there more room for that to improve?

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

We are back, which is great to see, and that is a result of superior client service, I think on behalf of many, many, many colleagues. I do not rest on our laurels, but it's very nice to be where we are. Our performance in new business has been just really first grade and very proud of the effort of the team has made of representing what we can do with WTW [on the market].

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

Great. And then second question, I'm just curious, with your 2024 outlook, what are the baseline assumption with respect to economic growth and inflation as you kind of look out? Do you expect things to continue the way they are? Any type of change?

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

I think continue the way they are over -- look, not looking too far back in the mirror on that one, right? We're not sort of anticipating incredible economic dislocation nor are we sort of looking toward the incredible geopolitical dislocation, but we do recognize there's a lot of volatility out there. That is not necessarily great for our clients, but it does mean that there's more opportunities for us to help them manage that volatility.

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**Operator**

I'm showing no further questions in the queue. I would now like to turn the call back over to Carl Hess for closing remarks.

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

So thank you all, again, for joining us. I appreciate all of our WTW colleagues globally who work tirelessly to help us end the year on such a strong note. I am proud of everything we've achieved in 2023. I look forward to us keeping up the momentum for 2024.

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**Operator**

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

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