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WLTW - Q1 2020 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Co. reported 1Q20 reported revenue of $2.5b, net income of $313m and diluted EPS of $2.34.

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PRESENTATION

Operator

Good morning, and welcome to the Willis Tower and Watsons (sic) [Willis Towers Watson] First Quarter 2020 Earnings Conference Call. Please refer to our website for the press release and supplement information that was issued earlier today. Today's call is being recorded and will be available for the next 3 months on our website. Some of the comments in today's call may constitute forward-looking statements within the meanings 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 of the earnings press release issued this morning as well as other disclosures in our most recent Form 10-K and in other Willis Towers Watson's SEC filings.

During the call, we may discuss certain non-GAAP financial measures. 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 John Haley, Willis Towers Watson's Chief Executive Officer. Please go ahead.

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

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

So before we get into our first quarter performance, I want to start by talking about COVID-19 and how we're managing Willis Towers Watson during this global pandemic.

First of all, I hope all of you and your families are staying healthy. The safety and well-being of our colleagues has been our primary focus as the COVID-19 crisis escalated, and we've mobilized to mitigate the risk to our colleagues. The COVID-19 pandemic did not have a material adverse impact to our financial results for the first quarter of fiscal 2020. However, we expect that the impact of COVID-19 on general economic activity could negatively impact our revenue and results for the remainder of 2020. We're closely monitoring the spread and impact of COVID-19, while adhering to governmental health directors -- directives, excuse me.

We've implemented restrictions on business travel, office access, meetings and events. We have thorough business continuity and incident management processes in place, including split team operations for essential workers and work-from-home protocols, which are now globally effective. We're communicating frequently with colleagues, clients and critical vendors, while meeting our objectives via remote-working capabilities, overseen and coordinated by our incident management response team.

Before the pandemic, we were already experienced in working virtually and had implemented collaboration technologies and infrastructure for remote working that we believe are effective. Currently, more than 90% of our 45,000 colleagues are working remotely. For example, our top leaders are spread across the globe, and we've effectively operated this way as a management team for a number of years, so we were able to mobilize quickly to address this situation and the agility of our colleagues is remarkable.

I'm extremely proud of the way our colleagues have adapted. They continue to demonstrate their resilience and their commitment to support our clients' needs and one another.

As you well know, we're in the business of providing solutions. We help clients optimize their benefits. We help them manage their risk. We help them develop their people. We help them make sure that they deploy their capital to protect and strengthen their institutions. These are valuable contributions during good times, and they're even more valuable during difficult times. We feel that our services and solutions are highly relevant to our clients, especially now. Willis Towers Watson will continue to be a source of support and a trusted partner to our clients as they navigate these unprecedented disruptions.

While the long-term effects of this global crisis will take some time to manifest, we are focused on finding innovative ways to add value in an increasingly unpredictable and competitive marketplace. We will continue to be at the forefront of the issues and pressures our clients are facing, and we're structuring our services to meet those needs. I think Willis Towers Watson and our colleagues are going to be a great part of our clients' future success stories.

Overall, from a business continuity perspective, we have maintained a high level of productivity to date despite the recent disruptions brought on by the pandemic. Against this extremely challenging backdrop, we reported a solid first quarter, but we realized that the extent to which COVID-19 could impact our business and financial position will depend on future developments, which are difficult to predict. For that reason, we're taking a proactive approach to safeguard our company against this future uncertainty.

We're entering this challenging environment from a relative position of strength, so maintaining our financial and operational performance momentum is paramount. We're prepared to take swift actions as necessary to help mitigate adverse consequences and preserve our margins in the event that we might sustain a prolonged negative impact to our operations.

We will continue to monitor the situation and assess possible implications to the company and our stakeholders. Mike will provide further insight about the team's evaluation of contingency plans about capital and liquidity and the company's balance sheet shortly.

We're a conservatively managed company with a strong foundation. While the current economic backdrop is challenging, we believe that we're well positioned to manage through this crisis and emerge successful. I have confidence in our colleagues, our strategy and in the strength of our business.

Managing the impact of the COVID-19 pandemic was not the only development for the company in the first quarter. On March 9, we announced the entrance into a definitive agreement between Willis Towers Watson and Aon, which provides for the combination of Willis Towers Watson and Aon in an all-stock transaction.

The combination with Aon is a natural next step in our journeys to service our clients in the areas of people, risk and capital. Both firms have a shared belief in offering clients strong expertise, innovation, data-driven insights and market-leading products and professional services. This deal gives us the opportunity to accelerate our growth strategy through innovation and collaboration. We're very excited about this step and what it means for Willis Towers Watson, for our colleagues and for our shareholders as the next step of significant value creation.

We expect the transaction to close in the first half of 2021, subject to the receipt of required shareholder approvals, required regulatory approvals and the satisfaction of other customary conditions to closing. So now let's move on to our quarter 1 2020 results.

I'm pleased to report that despite this difficult environment, we've continued to deliver on our strategy and commitments, generating solid results for the first quarter of 2021 -- 2020, excuse me. Reported revenue for the first quarter was $2.5 billion, up 7%, as compared to the prior year first quarter, and up 8% on a constant currency basis, and up 4% on an organic basis. Reported revenue included $34 million of negative currency movement. Once again, this quarter, we experienced growth on an organic basis across all of our segments.

Net income was $313 million, up 7% for the first quarter as compared to the $293 million of net income in the prior year first quarter. Adjusted EBITDA was $680 million or 27.6% of revenue as compared to the prior year adjusted EBITDA for the first quarter of $601 million or 26.0% of revenue, representing a 13% increase on an adjusted EBIT-dollar basis and 160 basis points of margin improvement. For the quarter, adjusted diluted earnings per share were $2.34, an increase of 6% compared to the prior year. Adjusted diluted earnings per share were $3.34, reflecting an increase of 12% compared to the prior year. Overall, it was a solid quarter. We grew revenue and earnings per share and had enhanced adjusted EBITDA margin performance. Now let's look at each of the segments in more detail.

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

The Human Capital & Benefits, HCB segment, revenue was up 4% on an organic and constant currency basis compared to the first quarter of the prior year. The Health and Benefits business delivered strong performance again this quarter, generating revenue growth of 7%, with increased project activity and product revenue continuing to drive revenue expansion in North America, while new local country wins and global benefit management appointments contributed to the growth outside of North America.

Talent and Rewards revenue increased nominally, mostly from increased benchmarking survey sales, which were largely offset by a decline in advisory activity as companies began pulling back on discretionary spending in the latter half of the quarter. Retirement revenue increased 1%, mainly as the result of an uptick in funding advice, guaranteed minimum pension equalization and other project work in Great Britain and funding work in Canada.

Technology and Administration Solutions revenue increased 11% as a result of new business activity and project work in Great Britain. HCB's operating margin improved by 30 basis points to 25% compared to the prior year first quarter. This improvement reflects top line growth alongside careful cost management efforts. HCB is our largest segment, and we're confident about the future prospects of all of the businesses within it.

In a business environment highly impacted by COVID-19 and the related economic downturn, employers look for ways to protect employees, customers and operations while managing costs. HCB's experts are well positioned to provide advice and solutions to help businesses react, adapt and sustain through the crisis. Now let's look at Corporate Risk & Broking, or CRB, which had a revenue increase of 4% on an organic and constant currency basis as compared to the prior year first quarter.

North America's revenue grew by 11% in the first quarter. The growth was driven from the gain on a book of business sale alongside new business wins. Western Europe contributed 5% revenue growth driven by strong renewals. Their growth was led by strong renewals, including improved facultative business. Great Britain and International's revenue declined 3% and 2%, respectively, for the first quarter. Now these results were negatively impacted by a change in the remuneration model for certain lines of business. This change, which is neutral to our operating income, results in lower revenue and an equal reduction in salaries and benefits expense. Absent this change, Great Britain's revenue increased by 6% and International's revenue grew by 1%, primarily from new business with strong performance across most lines of business, including financial solutions, FINEX, PC Hub and aerospace.

CRB revenue was $739 million this quarter, with an operating margin of 17.2%, which is materially flat compared to a 17.4% in the prior year first quarter.

Turning to Investment, Risk & Reinsurance, or IRR. Revenue for the first quarter increased 6% to $615 million on a constant currency basis and increased 5% on an organic basis as compared to the prior year first quarter. Reinsurance with growth of 7% continued to lead the segments growth through a combination of net new business and favorable renewals. Insurance Consulting and Technology grew by 5%, mainly from technology sales. Investment revenue increased 6% with continued expansion of the delegated investment services portfolio. Our wholesale business was up 12% on an organic basis, mainly from new business wins. IRR had an operating margin of 45.1% as compared to 42.7% for the prior year first quarter. This improvement reflects top line growth alongside the scaling of successful businesses. We continue to feel good about IRR's growth trajectory. IRR's portfolio of offerings unlocks potential and creates sources of value for our clients by focusing on their business priorities, capital strategy, operations, technology, risk and people. All of these are elements which remain important in an increasingly uncertain and competitive marketplace.

Revenue for the BDA segment increased by 71% on a constant currency basis and 1% on an organic basis from the prior year first quarter. BDA's expanded mid- and large-market client base and increased project work resulted in the segment's growth. We continue to see strong demand for Benefits Outsourcing's core services, resulting in several new client wins. The BDA segment had revenue of $231 million, with a minus 4.7% operating margin, up over 10% from a minus 15.3% in the prior year first quarter. The margin improvement was primarily driven by the top line growth. We're optimistic about the long-term growth of this business. BDA offers practical solutions, which enable planned sponsors to honor their commitments to employees and retirees, while reducing long-term financial liabilities and administrative burdens. It also helps millions of individuals optimize today's health and welfare opportunities for a better tomorrow.

So overall, I'm very pleased with our progress. We produced strong revenue growth in the first quarter. We had steady financial performance across all businesses, meaningful margin expansion on an organic basis and significant adjusted EPS growth, all while adapting to the rapidly changing global environment. So now I'll turn the call over to Mike.

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

Thanks, John. And I'd like to express my gratitude to our 45,000 colleagues for delivering another good quarter despite the difficulties we're experiencing as a result of the COVID-19 pandemic. I would also like to thank our clients for their continued support and trust in us. Helping clients solve complex problems is at the heart of everything we do at Willis Towers Watson, and we fully intend to continue being a reliable source of strength for the clients we serve around the world as they confront their unique pandemic-related challenges. Our first quarter represented a good start to the year with strong organic revenue growth, robust margin expansion and underlying adjusted EPS growth.

Now I'll turn to the overall detailed financial results. Let me first discuss income from operations. Income from operations for the first quarter was $360 million or 14.6% of revenue, down 90 basis points from the prior year first quarter income from operations of $359 million or 15.5% of revenue. The decline was principally due to a noncash charge, which resulted from the abandonment of internally developed software that was no longer commercially viable. Adjusted operating income for the first quarter was $525 million, up $33 million from $492 million in the prior year first quarter. Adjusted operating income margin remained flat at 21.3% of revenue. Adjusted operating margin would have been 40 basis points higher if we had normalized for the acquisition of TRANZACT.

Now let me turn to earnings per share. For the first quarters of 2020 and 2019, our diluted EPS was $2.34 and $2.20, respectively. For the first quarter of 2020, our adjusted EPS was up 12% to $3.34 per share as compared to $2.98 per share in the prior year first quarter. Foreign exchange was aligned with our expectations, resulting in a net unfavorable impact of approximately $0.03 for the quarter.

Let me turn to our effective tax rate. Our U.S. GAAP tax rate for the quarter was 20% versus 18.8% in the prior year. Our adjusted tax rate for the first quarter was 20.4%, up slightly from the 20.1% rate in the prior year first quarter. The prior year effective tax rate was lower primarily due to discrete valuation allowance releases in certain non-U. S. jurisdictions.

Turning to the balance sheet. As the COVID-19 situation continues to evolve, I believe we are well positioned to navigate this uncertain period of time. We ended the first quarter with a strong capital and liquidity position. The broad and global nature of the pandemic has had a profound impact on our clients and broadly reduced liquidity around the world. We believe our business model is resilient, and we have completed comprehensive operational and financial planning to prepare for all scenarios, including the possibility of a deep and long economic downturn impacting the industries and markets we serve.

Understanding the impact this can have on Willis Towers Watson, we are proactively managing our balance sheet to help maximize our financial flexibility. To that end, we exited the first quarter with ample liquidity, with cash and cash equivalents of $898 million and $850 million of capacity on our undrawn revolving credit facility. We aim to continue to maintain a strong and durable balance sheet and are looking to conserve cash in this current environment by leaning into our cost and efficiency initiatives. These actions include implementing a series of cost management strategies, including hiring and travel freezes, reducing our variable cost structure for discretionary spending categories and curtailing some of our capital expenditures.

In addition, we continue to monitor the situation and take appropriate proactive measures to further reduce cash outflow and preserve adequate liquidity if demand for solutions or services deteriorates.

For the first quarter of 2020, our free cash flow was negative $43 million versus negative $105 million in the prior year. Q1 is our seasonally lowest quarter from a cash flow standpoint due to the impact of incentive compensation payments. The year-over-year improvement in free cash flow is primarily due to more timely billings and collections.

In terms of capital allocation, we paid approximately $84 million in dividends and did not repurchase any shares in the first quarter of 2020. As a reminder, given certain prohibitions as a result of the transaction agreement, in connection with our pending business combination with Aon, we do not expect to repurchase any shares during the remainder of 2020.

Let's talk about our full year 2020 guidance. We are not yet seeing signs of a real slowdown in the business, but the signs of economic concern are all around us. As John mentioned earlier, the economic fallout from COVID-19 had no material impact on the company's financial results for the first quarter of 2020, but this is not indicative of its potential impact on the company results for the remainder of the year.

The duration of the pandemic, the full magnitude of its economic impact and the subsequent speed of recovery remain unknown. Considering this uncertainty in the economy, we are withdrawing our previous provided guidance for fiscal year 2020. Since we are unable to accurately forecast the impact of these factors, we believe that it's impractical to provide detailed financial guidance at this time.

The company will reassess this position once we have a clear understanding of the depth, duration and geographic reach of the pandemic. However, I want to reassure you that we remain agile and disciplined in the way we allocate our resources to ensure business continuity and efficient operations, while maintaining -- still maintaining a very strong balance sheet.

So overall, we delivered solid financial performance in the first quarter. Despite the near-term uncertainty in the global market, I remain confident in the underlying fundamentals of our business. We've been through challenging times before as a company, and we believe we're well positioned to manage through the current situation and emerge even stronger. We believe that, fundamentally, our business is strong. We believe we manage our operations well, and we have a diverse portfolio of businesses that help us through difficult times. We believe our portfolio of businesses is both resilient and flexible. We believe that our experience, our dedication and our operational strength will enable us to weather these tumultuous times and to continue to create long-term value for all our stakeholders.

So now I'll turn the call back to you, John.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Shlomo Rosenbaum with Stifel.

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

John, I just -- given the pending business combination with Aon, I want to just ask you to maybe comment on what you're seeing in your business right now versus kind of Aon's comment that they had, their public announcement, that they're going to be broadly reducing salaries in anticipation. I'm not sure if it's anticipation or if there's something already going on over there. Is there kind of a strategy difference or end market difference? Or since you're merging with them, what is your take on that versus what's going on internally in your business?

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

Yes. So I think, Shlomo -- thanks for the question. So first of all, even though we're merging and maybe especially because we're merging, we have to make sure that we manage ourselves as independent competitors during this time running up to this. And so we're not able to collaborate on anything, like, how we're handling the market or clients or strategy or anything like this, so we have to come to completely independent solutions. And so I can't -- it's really hard for me to say a lot about what went into Aon's thing. I think, as Mike said, when we looked at it from our standpoint, we wanted to take whatever actions we needed to, and we have been very strong in terms of cutting down -- attempting to cut down really on all discretionary spending that we have. We want to really cut that to the bone. We want to look to protect our cash flow. We think if we do these things, our judgment is that, if we can do those successfully, they will probably be sufficient.

But the fact of the matter is, we just don't know whether we will have to take -- stricter action depends on, in part, on how successful we are with these initiatives we have, and in part, on exactly what the pace of COVID-19 looks like. If we have a V or a U recovery or a W recovery, all of those are different scenarios. And I think what Mike was emphasizing in our discussion is, we think we remain agile, and we think we remain ready to react to that.

But basically, the way we approach this was to say, our first and foremost priority is the safety and well-being of our colleagues. The second priority is then making sure we manage the financial health of our business, and that includes making sure we take care of our colleagues from a benefit and compensation standpoint, too.

So while there are clearly circumstances where we would contemplate something like that, we're hoping to avoid them.

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

Okay. Great. I appreciate that color. And then just one thing on TRANZACT. Can you provide us with what the growth was in the last year quarter? I know you didn't own them, but just so we get a sense of how that is growing. And if there -- the improvement year-over-year in operating margin for the BDA segment, does that have to do with operating leverage, with the change in kind of the seasonality a little bit of the business because of TRANZACT? If you could give a little bit of clarity over there, that would be helpful.

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

Yes. Mike, do you want to take us through that?

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

Yes. Sure, John. Shlomo, thank you for the question. When you look at TRANZACT, overall, we have almost 50% of our revenues for the BDA segment really come in the fourth quarter, which obviously encapsulates TRANZACT, and although we are seeing nominal losses in the first quarter, being very pleased with what's happened with TRANZACT. So we're seeing, obviously, carrying the expenses in the earlier period. So small changes and lost quarters really don't really impact it as much as what we see really happening overall.

So TRANZACT continues to grow very nicely for us. We had 57% growth, and it continues to be very, very strong. So again, just looking at the year, Shlomo, obviously, over 50% coming in the fourth quarter overall for the BDA segment transacting a big piece of it, obviously, we saw some -- continue to see growth with it, and we're very pleased with the performance of TRANZACT.

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*

Glad to hear that everybody is doing well. And I had 2 broad sets of questions. One would basically be, if you could give us a little bit of color with regards to how we should think about the economic downturn? John, over the course of your career, you've been through multiple recessions. Obviously, this one is deeper. Can you just go through a little bit in terms of what you've seen, segment-by-segment, in terms of second half of March, early April impacts? What your vertical exposure is? And based on your experience, how you think those different segments are going to end up performing, and how they're going to end up reacting? That's the first set of questions.

And then the second set of questions is basically along the lines of what -- how the associates are feeling with regards to -- since the Aon announcement and since they've had time to digest that, how they're feeling about it, and if COVID ends up being really significant, how could that end up impacting the transaction.

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

Sure. Thanks very much, Mark. And what I'll do is, I'll start with your first question about our colleagues around the world. And then I'll make a couple of comments, but I'll ask Mike to take us through the details of what we were seeing in March as a result of COVID.

So first of all, I think when we announced the deal on March 9, and of course, that was just when, particularly in Europe and in the U.S., all of the lockdowns and shelter in place was just beginning to be announced that week coming out. So it was not a great time for us to be able to get out and talk to our colleagues overall about this. But we have been able, I think, to communicate, we had a couple of meetings that very first week, and then we've been able to communicate with folks virtually.

I think one thing that was interesting to us is how quickly our colleagues got what we were trying to do with this combination. And I suspect being home in the midst of all these lockdowns and with this uncertainty from COVID-19, maybe actually helped in some ways because the whole notion of what we're trying to do here is not to be getting bigger, but to be getting better and to be building a new firm that is more innovative and more able to address new and emerging client needs than either of the 2 predecessor firms were. And I think when you see what's happening with the result of COVID-19, it actually strengthens the case for a firm with that kind of broad, innovative capability.

And frankly, having been through a couple of these big mergers before, there's always a time in the very beginning where people are asking questions about what does this mean and how does this fit. I think we've seen a positive embracing of this deal much faster than I had expected, and I think that's in large part due to people being able to see the promise of what we'll deliver together.

So it's still early days, but I think we've had a number of sessions where Greg Case and some of the senior leaders have been able to talk to some of our folks, and we've had some sessions where I've been able to talk to some of the Aon folks, and I think we're seeing a lot of excitement from both sides about that.

So we continue to be, I think, more excited and more convinced about the rationale for this deal today than we were the day we announced it, and we were pretty excited about it that day. So I think, generally, we feel about as good as we think we probably could.

Let me just say, you're right, I've -- one of the advantages of having been around a long time is that you've seen lots of different scenarios, different recessions, different downturns. I think this COVID-19 one is probably more difficult and more challenging, certainly at least to predict than any of the ones we've been through before.

I think the financial crisis is the most recent one in memory, but that was one that we actually -- Willis Towers Watson managed through, both Willis and Towers Watson managed through that financial crisis pretty well. We have large recurring revenues, 80% to 85% of our revenues, we pretty much know before we start the year. So that's a big help. I think this crisis, though, is a little bit harder because we're seeing -- it's the effect on the general economy. It's whether we have clients that are going to go out of business, that -- those are the kind of imponderables that we have to deal with that make this a little bit more challenging.

I think we saw some impact. It's hard -- Mike's going to -- I'll ask Mike to take you through some of the details, but it's actually hard to strip out some of the COVID impact in the first quarter. We certainly know it's affected us in Asia. And in fact, when you see particularly in CRB, when I was going through some of the growth rates you saw, International was the lowest. Traditionally, that's our highest growth rate in CRB, but we had some impacts from Asia there because February and March was when they were hit by a lot of their lockdowns. It's actually a little bit hard for us to completely isolate that.

But Mike, can you take us through some of the segment by segment?

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

Yes, John. So if -- and I'll maybe take it from the HCB segment and give you in each of the segments a little bit further color what we're seeing by line of business. So if you look at our Retirement business, from a risk standpoint, what we're seeing is, we continue to see a lower interest rate environment. So we expect bulk lump sum activity to increase. However, some sponsors may be hesitant and have been hesitant, given the reduced funding stats that they see in their plans. But nonetheless, some maybe wish to act, and they may do it this year or -- and looking at their ROI or they may be thinking about this over the longer term. But we continue to see opportunities for people to look at BLS work, bulk lump sum work, that have diversified allocation strategies and liability-driven investment strategies, such that they can limit the damage to their funding levels. And so we continue to see that as an opportunity.

In our Health and Benefits business, our [HCB] business, we see revenue opportunities around off-cycle products, bundled solutions and voluntary benefits. We've also been seeing rather high H&B retention rates in some of the geographies, obviously, due to COVID. I'm not putting any kind of changes high on their list, and this is obviously helping to offset the risk of reduced new business sales. From a challenge standpoint, unemployment, with the increases in unemployment and the ultimate result in lower commission -- it has an impact on lower commission revenue just in terms of thinking about it.

From a CRB segment standpoint, we're seeing opportunities in risk analytics services, our risk management consulting activities. We are seeing, obviously, in the aerospace industry, and John mentioned this, just in terms of general economic conditions or you're seeing stuff as it relates to hospitality areas, and even to some degree, the global FINEX and finance solutions, lower deal volumes and lower M&A activity, obviously, having some impact overall.

If you look in our IRR segment, our reinsurance business, clients are using reinsurance as protection. Damage to investment portfolios and consequent drop in capital surplus means most clients are likely repaying their current levels of reinsurance purchased. We're obviously continuing to see rate increase and a tailwind from rate. And obviously, we are seeing some risk as pressure from clients are continuing to look for ways to look at reductions.

And back to the earlier question around TRANZACT, has been very strong for us in our BDA segment. The retiree client interest, there continues now to be a continued uptick and people looking at cost savings. And obviously, we present, in our BDA segment, real opportunity for people to manage their costs, particularly in a pre- and post-65 through our exchange operations.

So hopefully, to give you some feeling, flare, what's actually happening across our segments without going in any more detail, John, I guess I think I pause there and just to kind of hopefully gave some color to the question.

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

That's terrific. Can I just ask one quick follow-up? Can you just talk about what your percentage exposure is to the areas that seem to be the most affected, whether it's aerospace, hospitality, global finance, maybe some real estate companies, how are you thinking about that?

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

So let me just comment on that overall. By client, there's no client that even gets up to 1% of our revenues. So when we look at it by industry, we don't have high exposure to any particular industry with the exception of insurance, really the financial, generally, but insurance, in particular, but it's not -- that's not an area that we've seen has been particularly affected by this. So we're not particularly worried about any industry effects, Mark.

Operator

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

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

My first question, I understand there's a lot of uncertainty out there right now and get the desire to want to pull the outlook for the year. But I guess, could you give us a sense, like, as you say see things, even if it's a big range or maybe it's more qualitative throughout your different businesses, how does the organic -- the level of slowdown potentially in organic growth that we could see over the next 3 quarters?

And then as part of that question, is there a lag in some of your businesses, meaning that we could actually see -- potentially see more of a slowdown in the third than what we might see in the second quarter?

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

Yes. So Elyse, let me just say, I think the reason we did -- the reason we did pull the guidance is because we saw -- the uncertainty had what we considered a relatively wide range. Now having said that, we're very fortunate. There are some industries, like aviation or hospitality or others, that have really seen enormous hits to their revenue. And we're very fortunate in the sense we're not going to be seeing that. But on the other hand, could we see our revenue decline from what it would have been, maybe even at a double-digit rate for the remainder of this year? That's not impossible. We think that's on the more extreme scenarios. But depending on how bad do you think the hit is going to be to general economic activity, certainly, we do well when the economies are doing well, and we do less well when the economies are doing poorly.

So we -- as we looked at it, that's kind of the range we thought about, could we get to a double-digit decline, that's pretty extreme, but it's not impossible. So those are the kinds of things that we looked at it.

We didn't attempt to do much more than that, Elyse. We did some scenario planning on this, but there are just so many variables there that we quickly found we couldn't get to too much more than that. But I think the good news is, we're not -- I guess, as I said, we're not in some of these really distressed industries where they're going to see enormous hits to their revenue. We don't see that.

As I mentioned in the beginning, the kinds of services that we provide are services that our clients need in difficult times as well as in good times. And so we, for the most part, see those continuing.

Now in terms of, are there some lags? I think the one area that probably comes to mind the most is, as we've always seen in our Human Capital & Benefits area, in our Talent and Rewards, it's the most discretionary of all the services that we have. And it's the one where clients will sometimes end up delaying or maybe canceling projects when there is difficult economic activity.

So could we see that occur in the -- lead into the third quarter from the second quarter? Yes. And that's something that we've seen in prior downturns.

The one thing that makes it a little bit different here is that we see some upsides for this kind of work also because clients are faced with new -- having new ways of working, having new deals that they're going to be working out for their employees, and we think there may be some opportunity to help clients with that as we go through. So maybe this is -- Talent and Rewards has some upside that we wouldn't normally see in a downturn.

For most of the rest of our businesses, I don't think we see that kind of a lag. I think it's going to be more or less tied to the overall economic activity. I think sometimes in a downturn with Retirement, we can see that we actually have a little pickup in activity right in the beginning because our clients are very concerned with their funded status, with their contribution levels, with their accounting cost, so we actually get a bit of a pickup of that, at least in the very early months of a downturn. And so that might make the third quarter a little worse than the second, but it might be because the second quarter has a bit of a pickup.

So I hope that's helpful.

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

John, maybe I'd just add one comment to yours there is that I think it's also just to emphasize the point you made, which is, yes, when you look at our business, for example, in our HCB business, we have a lot of work that is nondiscretionary and repeat. For example, in Retirement that we have going on are recurring work, if you think about it. And the nonrecurring work or discretionary projects, yes, you're definitely seeing slow up and the timing of that is debatable, but it's being replaced by COVID-related support work.

The agile of our colleagues and the way they're responding and supporting our clients in the marketplace is truly amazing and what they're doing in terms of replacing that revenue. So sorry, John, I just want to emphasize that point you made.

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

Yes. Thanks very much, Mike. And I think one of the -- as is usual with most things about COVID, so Mike is right on point with what he's saying. The only difficulty is, as to how that -- does that outweigh some of the downturn from some of the discretionary projects that get delayed or not? We don't know the relative size of those movements, Elyse.

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

Okay. That's helpful. And if we look at the BDA segment for the quarter, the margin actually did better year-over-year and better than I would have thought. And as I recall, with your original guidance for 2020, you had pointed to TRANZACT as being a hindrance to margins in the first part of the year just due to how that business comes online. But did the BDA segment, like, perform? Was there something going on within that quarter? Or is it just ongoing improvement maybe in the business away from TRANZACT?

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

I mean, I think they just had a good quarter is what we would say. I think the biggest point we wanted to make in the -- in thinking about the impact of TRANZACT or this year versus last year is that last year, we had TRANZACT only at the end of the year, and of course, that's when it's highly profitable in those quarters. And this year, we had them for the full year, and we do have the negative. But still compared to an improvement in BDA, and frankly, BDA is a business that we expect to be strong this whole year.

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

That's helpful. And one last question. Have you guys ever disclosed your transportation and entertainment costs as a percent of your expenses? Or is there some way you can give us some concept, some way to kind of understand how much your expense base could benefit from the slowdown in T&E cost due to COVID and the lack of traveling?

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

I don't think we have ever disclosed that. The -- we've seen our -- our travel costs, so we actually have guidance out for our folks not to be traveling right now. And as we start to see things opening up, obviously, we'll be relaxing some of that. But throughout most of the world, we have people not traveling. I think one of the things we expect is, as we come back, and we actually have a task force working on this, we don't think we're going to return to the same ways of working. We think there are some things that we are doing with virtual meetings and with work-from-home that will become a feature of what we do. And so even when we come back, we will be traveling again, but we probably won't be traveling the same way or as frequently as we did. And so we'll have to see how that impact -- impact all pays out.

But for the moment, we've had a reduction in our travel and entertainment expense. Of course, we've had some increase in the cost for our web hosting and some of our virtual meeting, but it's been a net savings.

Operator

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

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

I realize that you are limited in what you can comment about the pending transaction. But I'm curious if you anticipate any slowdowns with regulatory approvals as a result of COVID. And with the stock down as much as it is and the market's obviously moved down too, but since the announcement, I never really envisioned that the company would be sold at a price below $200. Can you update us on shareholder feedback?

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

So I think, first of all, Greg, on the regulatory front, the regulators are working virtually. And I think they are, like a lot of other people, it's -- some of this is new to them, but I think they've become pretty good and reasonably efficient at that. At the margin, will that mean that things will be a little bit slower? Perhaps, but I think we don't see this as being an enormous impact.

I think with regard to the feedback from shareholders, we've had pretty positive feedback from shareholders. I think they see the value of the opportunity. And they feel pretty good about what we can accomplish as a combined firm. And as I said, I think they see this as the next step in the evolution.

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

And then my second question is just around ASC 606. Obviously, when you're setting up the revenue assumption and the accounts receivable, net revenue you -- there's embedded assumptions around numbers of employees, et cetera, especially like in HCB. And with the dramatic rise in unemployment, I'm wondering about how you think your ASC 606 assumptions might change through the year as a result of just the chaos that's unfolding.

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

Mike, do you want to comment on that?

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

Yes. Yes. I will, John. Yes, we really don't see a meaningful change as it relates to it. In terms of thinking about it, Greg, I mean, it's a good question. It's something we're obviously looking at. But at this stage, right now, we don't see a meaningful change as it relates to the numbers.

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

Okay. And I guess the final question I should ask is -- and I know you covered this a little bit on your -- in your comments, John, but I feel like there's, among the corporate world, there's a growing sense of social responsibility because of this rising unemployment. And do you think that's going to impact synergy objectives when we think out a year or 2, just because it seems so relevant with a number of companies in the industry with [no] layoff pledges, et cetera. And I ask the same question of Marsh as well. So I thought I'd throw it at you, too.

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

Yes. I mean, I think -- we want to make sure that we have -- we don't want to have people that are -- that we don't have work for in the thing. And I think some of our synergy targets are probably around that. A lot of our synergy targets are also around non-people-related costs also. But I think we'll take this all into account. But we want to be a company, a Willis Towers Watson has always been and I think Aon has been, and I think the combined firm will be a company that offers meaningful work and meaningful jobs and has great opportunities for our colleagues.

And I was asked earlier about how our colleagues feel about the combination. And I think one of the things that's been very positive is, people see the increased opportunities that are going to be coming from the combination of the firms, and so I think that's the excitement.

Operator

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

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

You guys had earlier talked about 80% to 85% of revenues, knowing that those -- what those are going to be for the year. Can you parse that down a little bit more so that we could understand what types of projects within there still might get pushed out? For example, does that include things like in Talent and Rewards, where there's an annual survey that's done to benchmark employee pay or salary? And other types of works that would be at higher risk of getting pushed out? And then if you could provide some color about the other 15% to 20% that's not known or renewable every year. What types of projects those are? So that we could just have a sense for puts and takes as you're evaluating the risk going forward?

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

Sure. Yes. Why don't, Dave, -- thank you for the question. So let's just think about it, then I'll try to hit the highlights versus every single line of business here. But if you look at our HCB segment, think about Retirement, whether they're being done for trust or for a client, they're done every year. So we have multiyear arrangements that are in place, and we can never take for granted servicing clients. But we have multiyear arrangements that are in place in terms of doing that, so I don't know what the -- you think about it, maybe 70-30 or something like that, that's recurring, nonrecurring interest in terms of thinking about that.

And if you look at it nonrecurring, they're thinking about, do they do bulk lump sum work, as I mentioned in my earlier comments, or other types of projects. And you're seeing some of that retrench in terms of the nonrecurring side of that equation.

Or -- but equally, if you look at our TAS business or you look at our Talent and Rewards business, people are thinking about how do they manage their workforce, how do they deal with COVID-19. And so we're seeing the nature of those projects either shut off but change, but those annual surveys are very important to the client base in terms of what they're looking for.

So we have multiyear arrangements sitting in HCB. We feel -- although the mix is changing, you are seeing some questions around some of that discretionary spend, but people are looking at how do they manage COVID-19 and we're putting solutions on the table.

If you move to our CRB segment, I think, obviously, you're seeing general economic conditions. I think John mentioned this in his comments. I mean, look, if you're not putting up a construction project or obviously, you're seeing aerospace or hotels and anything related to the hospitality or entertainment spot are out there, but yet people still are looking at insurance. They may not buy as much insurance, but they still look at insurance needs, and we're seeing that, and we're obviously seeing -- we're very fortunate to see a bit of a tailwind on price.

In reinsurance, when you think about that, our retention rates are going up really high because it's not first on people's mind to say, "I'm going to change my relationship. I really want to manage that relationship." And if you look at our IRR segment, in particular in reinsurance, again, the people are keeping their relationships in place, they're multiyear to be there. Our investment business are multiyear relationships that are there, that are included. So in our BDA segment, our long-term relationships in terms of various agreements and arrangements that we have on our exchanges.

So yes, like as John said, it's 15%, 20% that's discretionary, but we feel pretty good about it. We're very fortunate to be in this situation to help our clients be successful and manage through it. But we are thinking about how it is that we manage the changing nature of the work and obviously meaningfully going after discretionary spend to make sure that we manage our cost base aligned with where our revenue is.

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

Okay. And then the second one would just be on transaction with Aon. What gets you guys comfortable with potential overlap risk on the reinsurance book? How do you guys characterize that market and to the extent that you would be concerned about divestitures?

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

So look, we've had some extraordinarily good advice on the antitrust from some of the leading law firms in the world. And we feel pretty good about our ability to bring the 2 firms together.

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

Okay. And then lastly, just on TRANZACT -- I appreciate the year-over-year growth color there. I am just wondering about the impact of corona there. What -- how is your ability then to transition all those folks to work from home and not miss out on potential call volume? And then also on the demand side, as seniors are deciding not to shop as much given some of the comments that we've heard out of Humana about a slowing sales cycle, curious what you guys are seeing from those trends as of going into April. I know March was obviously strong year-over-year. But is the slowdown perhaps in some senior buying manifesting down in TRANZACT right now?

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

So Mike, do you want to take that?

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

Yes. If I could, John. I mean -- so Dave, thanks again for the question. I think Gene and his management team in BDA have done an outstanding job of reacting to the changes that have been happening from COVID-19 and being able to work remotely. In John's prepared remarks, he talked about 90%, 95% of our people, our colleagues, are working from home, and that includes TRANZACT. So much so that it's really between Gene and his leadership team, and even specifically drilling again into TRANZACT, have done a really good job of migrating the business to be able to run virtually. And it's truly impressive, frankly, how well they've been focused on serving clients and their ability to do it and such comes back to some of the things John said is we're really asking ourselves, what should be the ongoing business model going forward based on the work that they've done.

So I think kudos to our team and the agility of the management team, we feel good about how well they've reacted to it. And just -- we feel very good about what that means, and we're very blessed and lucky to have that team in the way that they've responded.

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

And I guess the other thing I'd add is that we have not seen a decline in senior buying as a result of this. I think there's some impact that make some seniors a little less reluctant to buy. But on the other hand, we see more people at home with time to look at these opportunities also. So we don't foresee that as being a major issue. As I said, we expect BDA to be strong throughout the remainder of the year.

Operator

This concludes today's question-and-answer session. I would now like to turn the call back to John Haley for closing remarks.

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

So thanks very much, everyone, for joining us on the call today. Again, as I said at the beginning, I hope you and your families all stay safe, and we look forward to updating you with our second quarter results. So long.

Operator

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