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WLTW.OQ - Q4 2020 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Co. reported 4Q20 reported revenue of $2.8b, net income of $483m and diluted EPS of $3.66.

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PRESENTATION

Operator

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

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

During the call, certain non-GAAP financial measures may be discussed. For reconciliations of 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

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

Thank you, and good morning, everyone, and thanks for joining us on our fourth quarter 2020 earnings call. Joining me today is Mike Burwell, our Chief Financial Officer. Today, we'll review our results for the fourth quarter and for the full year ended December 31, 2020.

Our overall performance reflects the durability and resilience of our business model. In the fourth quarter, we continue to navigate through challenging economic conditions, and I'm pleased with our financial performance. While our revenue continues to be impacted by the pandemic, particularly in our discretionary lines of business in many of our core businesses, we continue to experience new business generation, strong client retention rates and increased operating leverage.

We continue to reduce our controllable spending and improve our liquidity. We believe our resilience positions us well for the proposed combination with Aon and bringing together the best of both organizations to provide opportunities for clients, for colleagues and for shareholders. As we've continued to navigate through the COVID-19 pandemic and the resulting economic conditions, our colleagues stood in solidary, steadfast in their collaborative spirit across geographies and segments.

They managed to achieve another year of solid financial performance. To all of our 46,000 colleagues around the globe, thank you for all of your hard work. We continue to be grateful for your resilience and your focus.

The ongoing dedication of our colleagues reflects the rich history of Willis Towers Watson. I'm extremely proud to have served this organization in various roles for the last 43 years. It's been a privilege to work alongside my esteemed colleagues and to build what is now Willis Towers Watson. With roots dating back to 1828, the company was formed with the goal of becoming a leading advisory, broking and solutions company. It's especially gratifying to know that almost 200 years later, the future of our business remains bright.

For this company to be even more relevant today than it was at its inception is an honor that few organizations experience. Remaining relevant over hundreds of years is not some serendipitous event. Remaining relevant requires hard work, a genuine desire to find solutions for the industries we serve and constant innovation. Willis Towers Watson's commitment to constant innovation is evident in part in the technology we developed for the insurance industry. Our solutions help both insured and insurers make more informed, data-driven decisions and make them faster.

For example, Connected Risk Intelligence, or CRI, is a platform which brings modern finance approaches to the corporate risk management decision process. Providing clients with the ability to optimize risk financing decisions by taking a portfolio approach allows for optimal risk retention and transfer decisions. This platform has been highly impactful for clients burdened by the hard market in COVID recession. CRI leverages a broad range of data sources and allows organizations to take advantage of insurance market inefficiencies. We also have a platform called core analytics, which consists of risk models, tools and rich data sources that enable deep dives into specific risks and provide insights into risk transfer and mitigation and decision-making. In addition, we have Radar Live, which is a fast, flexible and agile decision engine, which allows prices, rules, adjustments, scores and other metrics developed in analytical models to be deployed by insurance companies directly to their pricing, underwriting and claim systems in real time. Software innovations like these become a launching pad for reaching underserved industries.

Many industries sector face unique risks that lack risk financing and risk mitigation solutions. Small to medium size enterprises in established as well as

emerging markets are particularly underserved. These assets can help underserved industries understand risks that dominate their concerns and quickly form strategies to protect themselves. When I think about the range of capabilities that Willis Towers Watson's brings to the table to help the underserved, and I consider Aon's own data analytics and differentiated software. I see a special opportunity to create a combined firm that we believe will make an even greater difference in the global economy. Underserved organizations often need greater support in controlling and protecting their organization from their main risks.

As a combined firm, we believe our integrated data and advanced analytical capabilities will enable us to serve these industries and geographies, which we believe will allow these organizations to greatly improve the risk investment decision-making and their negotiating power with insurance market. In effect, we believe we will become capable of transforming these clients from buyers of risk to threat protection to sellers of risk. By blending the best of both firms, we can unlock our potential for the benefit of all our stakeholders.

So now let's move on to our fourth quarter results. Reported revenue for the fourth quarter was $2.8 billion, up 3% as compared to the prior year fourth quarter, up 1% on a constant currency basis and up 2% on an organic basis. And that's all despite having a difficult comparable in the prior year of 6% organic growth over the fourth quarter of 2019. Similar to last year, we experienced solid financial performance in areas where we have a well-established market position, mature relationships and annuity or compliance driven business. We faced some headwinds in areas where our revenue was more dependent on discretionary project spending and where macroeconomic factors dampened markets.

Net income was $483 million, down 12% for the fourth quarter as compared to $551 million of net income in the prior year fourth quarter. Adjusted EBITDA was $1 billion or 35.0% of revenue for the fourth quarter as compared to $930 million or 34.6% of revenue for the same period last year, representing a [8%] (corrected by company after the call) increase on an adjusted EBITDA dollar basis and 40 basis points of margin improvement. For the quarter, diluted earnings per share were $3.66, a decrease of 12% as compared to the prior year. Adjusted diluted earnings per share were

$5.23 for the fourth quarter, reflecting an increase of 7% compared to the prior year. Overall, it was a solid quarter. We grew revenue and adjusted earnings per share and had enhanced adjusted EBITDA margin performance. Reported revenue for the full year of 2020 increased 3% as compared to the prior year, increased 4% on a constant currency basis and was up 2% on an organic basis. This was against the prior year comparable of 5% organic growth over the full year of 2019.

So now let's look at each of the segments in some 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, or HCB segment, was down 1% on an organic basis and down 2% on a constant currency basis compared to the fourth quarter of the prior year. This result represents sequential revenue improvement compared to our prior quarter. The Q4 segment revenue decline was driven primarily in our Talent and Rewards business. Talent and Rewards revenue decreased 5% as there was decline in compensation survey sales and an accelerated degree of surveys that shifted revenue to Q3 this year compared to Q4 in 2019. Talent and Rewards experienced improving demand for our advisory services as we progress through 2020.

Our Health and Benefits revenue declined nominally for the quarter. We continue to grow revenue from global benefit management and local brokerage appointments outside of North America. However, this offset is due to a strong prior year comparable in North America. Retirement revenue was flat compared to the prior year, with somewhat reduced derisk activity in North America, being balanced by increased administration work in North America and project consulting work in Western Europe and Great Britain.

Technology and Administration Solutions revenue increased 8%, primarily due to a nonrecurring event in the prior year's comparable. HCB's operating margin increased by 120 basis points compared to the prior year fourth quarter as a result of careful cost management efforts. We are really pleased with HCB's sequential improvement and strong margin growth. We remain confident about the long-term prospects of this segment.

Now let's look at Corporate Risk & Broking, or CRB, which had a revenue decrease of 1% on an organic and constant currency basis as compared to the prior year fourth quarter. North America's revenue was up by 7% in the fourth quarter, driven by new business and strong renewals across almost all lines. Revenue for Western Europe decreased 4% as the macroeconomic impact of COVID-19 put pressure on certain insurance lines, notably P&C. Great Britain and International's revenue declined 6% and 8%, respectively, for the fourth quarter. Their results were negatively impacted by a change in the remuneration model for certain lines of business. This change, which is neutral to operating income, results in lower revenue and an equal reduction of the salaries and benefits expense.

Absent this change, Great Britain's and International's revenue declined modestly due to headwinds from onetime nonrecurring placements in the prior year in the construction and natural resource insurance lines, coupled with pressure on airline volume-driven commissions as departure volume remain well and premium returns are common.

CRB revenue was $888 million for the quarter, with an operating margin of 32.3% compared to $877 million of revenue, with an operating margin of 30.3% in the prior year fourth quarter. The margin improvement was primarily driven by effective cost containment efforts. We're pleased with CRB's performance for the year, and we're looking forward to its future growth prospects. The pandemic and the hard insurance market have depleted the financial resilience of many organizations. Against this complex economic backdrop, CRB's global team of dedicated experts stand ready to partner with clients to help reimagine and rethink their approach to risk management.

Turning to Investment, Risk and Reinsurance, or IRR. Revenue for the fourth quarter was $292 million, an increase of 1% on an organic basis and a decrease of 9% on a constant currency basis as compared to the prior year fourth quarter. Reinsurance with growth of 22% continued to lead this segment's growth through a combination of net new business and favorable renewals. The growth was partially offset by declines in other businesses, with reduced demand for discretionary work having negatively impacted revenues in both the Insurance Consulting and Technology and Investments business, which were down 4% and 2%, respectively.

The wholesale business was down 17% on an organic basis. Although it's reported as organic, about half the decline was because we transferred wholesale special contingency risk business to the CRB segment in the fourth quarter. The remainder of the revenue decline was largely caused by COVID-19-related pressure on marine and insurance energy lines. As a reminder, we sold the Max Matthiessen in September 2020, and its revenue is not reflected in our quarter 4 results.

IRR had an operating margin of 11.0% as compared to 9.1% for the prior year fourth quarter, having thoughtfully reduced the expenses to increase profitability. During this challenging time and extended period of uncertainty, IRR remains committed to helping clients navigate the changing landscape by focusing on their business priorities, capital strategy, operations, technology, risk and people.

Revenue for the Benefits Delivery & Administration, or BDA segment increased by 16% on both a constant currency and organic basis from the prior year fourth quarter. The growth in revenue was largely driven by individual marketplace, primarily by TRANZACT, which contributed $279 million to BDA's top line this quarter, with growth in Medicare Advantage products. The Benefits Outsourcing business also contributed to the increase in revenue, which was largely driven by its expanded client base. The BDA segment had revenue of $693 million, with a 50.7% operating margin as compared to 52.4% in the prior year fourth quarter. The margin declined as TRANZACT's rapid growth outpaced the rest of the segment. We continue to be optimistic about the long-term growth of our BDA segment. The pandemic threated the well-being of people all over the globe. In this time of heightened stress and uncertainty, BDA empowers employees and retirees by providing easy access to the tools they need to understand their benefits options and to take control of their health care.

Overall, I'm very pleased with our results this year. We delivered steady overall financial performance with modest margin expansion and adjusted EPS growth despite the lingering economic turmoil. Our colleagues showed great resilience in adapting and rising to the challenges 2020 brought, and I could be prouder of how we came together to achieve these results.

Now I'll turn the call over to Mike.

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

Thanks, John. And good morning, everyone. Thanks to all of you for joining us. I'd also like to echo John's sentiments and extend my gratitude to our colleagues for another solid quarter and also to thank our clients for their continued support and trust in us in this challenging environment. I'm proud of our leadership, our colleagues and the overall resiliency that is demonstrated by our businesses.

So now let's turn to our financial overview. In the fourth quarter, we continue to face some headwinds from COVID-19, but we are reassured by the demand for our services and solutions and by our ability to reduce discretionary expenses and to manage our cash. We were pleased to see another quarter of solid revenue growth with underlying adjusted EPS growth and outstanding free cash flow improvement.

So now I'll turn to the overall detailed financial results. There are a couple of significant charges incurred in the fourth quarter that we consider noncore to our operations. In addition to the $45 million in transaction integration expenses primarily related to our pending combination with Aon, we also recorded a $50 million provision for significant litigation and $24 million of restructuring costs. The restructuring costs were incurred in connection with our assessment of our ongoing strategy in certain businesses. We realigned resources across different geographies and service lines, primarily within our Talent and Rewards business, to better prepare for future market demands. All of these noncore charges, the transaction integration expenses, the provision for significant litigation and the restructuring costs had a negative impact on our GAAP profitability measures for the fourth quarter and the full year. However, these charges were adjusted from our non-GAAP profitability measures for the same periods.

Income from operations for the fourth quarter was $587 million or 21.2% of revenue, down 430 basis points from the prior year fourth quarter income from operations of $687 million or 25.5% of revenue. Adjusted operating income for the fourth quarter was $820 million or 29.7% of revenue, down 40 basis points from $809 million or 30.1% of revenue in the prior year fourth quarter. Income from operations for the full year 2020 was $1.2 billion or 12.6% of revenue, down 210 basis points over the prior year of $1.3 billion or 14.7% of revenue. Adjusted to the operating income for the full year of 2020 was $1.9 billion or 20.1% of revenue and down 20 basis points from the prior year of $1.8 billion or 20.3% of revenue.

For the fourth quarters of 2020 and 2019, our diluted EPS was $3.66 and $4.18, respectively. For the fourth quarter of 2020, our adjusted EPS was up 7% to $5.23 per share as compared to $4.90 per share in the prior year fourth quarter. For the full years 2020 and 2019, diluted EPS was $7.65 and $8.02, respectively. For the full year 2020, adjusted EPS was up 7% to $11.7 per share versus $10.96 per share in the prior year. Foreign currency rate changes caused an increase in our consolidated revenue of $42 million or 2% of revenue for the quarter compared to the prior year fourth quarter with $0.05 tailwind to adjusted diluted EPS this quarter. Foreign currency rate changes caused a decrease in our consolidated revenue of $10 million for the full year 2020 compared to prior year, with a $0.01 headwind to adjusted diluted EPS overall for the year.

I'd also like to note that our fourth quarter 2020 unallocated net expenses grew $122 million from $57 million in the prior year fourth quarter. As we mentioned at our second quarter earnings call, this cost category relates to corporate functions and other budgeted -- unbudgeted costs that we don't directly allocate to this segments each quarter, including items such as true-ups on benefit and stock compensation expense accruals, incentive accrual adjustments and other items. In Q4, the year-over-year increase mostly relates to incentive accrual adjustments, and discretionary compensation increased alongside improved performance.

Our U.S. GAAP tax rate for the fourth quarter was 19.7% versus 18.3% in the prior year. Our adjusted tax rate for the fourth quarter was 17.8%, down from 19.4% rate in the prior year. For the full year, the U.S. GAAP tax rate was 23.8% for 2020 as compared to 18.8% for the prior year, while the adjusted tax rate was 20.8% compared to 20.3% for the prior year. The current year tax rate was higher as a result of enacted statutory tax rate changes in the U.K., requiring us to remeasure our U.K. deferred tax liabilities and recognize a discrete deferred tax expense of $11 million or $0.08 on an adjusted EPS basis from the third quarter of 2020. Excluding this nonrecurring item, our adjusted tax rate for all the full year would have been approximately 20%.

Turning to the balance sheet. We ended the fourth quarter with a strong capital and liquidity position, with cash and cash equivalents of $2.1 billion and full capacity in our undrawn $1.25 billion revolving credit facility. Willis Towers Watson remains well positioned from a liquidity perspective. We aim to continue to maintain a strong and durable balance sheet and continue pushing forward our cost savings and efficiency initiatives. We continue to monitor the ever-evolving impact of the pandemic and are prepared to take appropriate measures as needed to preserve our financial position.

Lastly, full year free cash flow almost doubled to $1.6 billion from $835 million in the prior year. This far exceeds the $1 billion we targeted as part of our original pre-COVID guidance that we gave during last year's fourth quarter earnings call despite also having paid approximately $7 million in cash-based transaction integration costs. The remarkable year-over-year growth in free cash flow is primarily due to improvements in working capital, coupled with our effective cost contained efforts. The substantial increase in free cash flow is a testament to the hard work of our colleagues, who remain dedicated and focused on improving this performance in this area despite all the additional demands they were juggling in 2020.

In terms of capital allocation for full year of 2020, we paid approximately $346 million in dividends. We do not expect to repurchase any shares in 2021 given certain prohibitions in the transaction agreement with Aon. Pension contributions to our qualified plans totaled $129 million in 2020, and we're currently projecting contributions of $132 million for 2021. We remain committed to deleveraging in the near term. In March, we will use on-hand cash to pay the $500 million in senior notes due. We will also use our cash to fund the $210 million of payments related to the settlement of Stanford and Willis Towers Watson merger-related litigations.

Now as a general matter, the COVID-19 pandemic did not have a material adverse impact to our overall financial results for the fourth quarter of fiscal 2020. However, the pandemic did impact revenue growth, particularly in some discretionary lines, it was -- and we expect that the effects of COVID-19 on general economic activity will negatively impact our revenue results in 2021. The duration of the pandemic, the full magnitude of its economic impact and the subsequent speed of recovery remain unknown. In the meantime, we remain focused on maintaining a strong balance sheet, liquidity and financial flexibility.

The COVID-19 pandemic has caused considerable economic (inaudible), but I'm very proud of our leadership team and the resolve of our colleagues in supporting our clients during these difficult times. These fourth quarter results are a direct reflection of the agility of our global model. Overall, we delivered solid financial performance in the fourth quarter, and I remain confident in our ability to continue driving value for all our stakeholders.

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

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

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

Yes. The cash flow out for 2021, I wonder if you could comment on that. You clearly did quite well this year, are there going to be any sort of reversals or adjustments in 2021 that might restrain that free cash?

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

Thank you for the question, Mark. We -- the team has worked very hard, obviously, in terms of the improvement on a year-over-year basis and very proud of those actions. Obviously, I think we'll have some -- a little higher incentive compensation payments that will get paid out in 2021 from cash. But I think the similar level to where we are in 2020, we're not going to give guidance in terms of 2021. But we're very proud of the performance, and we'd like to believe that we'd like to continue to see that performance into the future.

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

And then maybe just some details on TRANZACT. I wonder with the election ongoing, did the higher ad rates impact your growth there? And also does having to hire agents remotely, did that lead to any operational challenges?

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

I mean I think the ad rates had an impact, although it was an impact that we had expected. In fact, we had alerted, I think, analysts to that coming up. I think the -- we certainly had to be flexible and adapt to the new environment with COVID, but I thought the team did a fantastic job of that, and that's why we had such great results.

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

Yes. And John, maybe I would just add. Mark, just -- I would add 1 thing to John's comments there. I mean just a reminder, right, we acquired TRANZACT, so we only had 5 months of results in the prior year, and we had 12 months of results in the current year. And most of the revenue, obviously, falls in the open enrollment period in the fourth quarter. So that has an impact just in terms of the overall cost base that we had overall in addition to John's comments.

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 was just wondering, from your side of things, John, you can just give us an update on the regulatory process. Expectation is for the transaction of Aon to close in the first half of the year. From where you're sitting, does everything seem on pace, given where you are in the U.S. as well as European and overseas regulators to get this deal closed at some point by the end of June?

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

Yes. Thanks very much for the question, Elyse. And in March of last year when we first announced this, we had said we expect it to close in the first half of the -- of 2021. And that's because this is a complex process and has filings required around the world, we are still on course to close in the first half of 2021. Where we still expect to meet that deadline.

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

Okay. That's helpful. Then moving on within CRB, pretty strong growth, the team that's in North America. And then it sounds like some of the International and GB decline was due to change in this remuneration model. I think this is the second quarter you guys have pointed that out, correct me if I'm wrong, so should we be thinking about this having like an impact on the revenue within CRB in the first half of the year or like confusing that on a timing perspective? And then, I guess for the overall CRB, I think you gave us the International growth ex that impact, but the CRB segment in totality was down 1%, where we it have been kind of excluding this accounting noise in the quarter?

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

Sure. Let me -- I'll let Mike go into some of the details on that but let me just mention. I think you're right, this is the second quarter, we talked about it in -- for 2020 results. Of course, we highlighted that in 2019 when we first made the change and when it had a very positive impact on our -- some of our results there. So we wanted -- we've captured it both times. But Mike, do you want to give the details on that?

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

Sure, John. [Elyse, so if you look at certain operations that we have, we had, had a consolidated entity that we had included, and we had change that remuneration to more of a independent process itself] (corrected by company after the call). And so you don't get the same revenue growth, but you just get the same profitability that's going on there in terms of the change. So it just had an impact on that revenue piece of the equation.

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

But I think the question, Mike, what's the 2021 impact?

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

Oh, the 2021, yes, I will -- I will not comment on projections or anything as it relates to 2021. It ought to be consistent with how we record it in '20 would be the accounting.

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

So with CRB segment, it was down 1% in totality. Where the segment have been around flat, where would be the CRB been if we kind of adjusted for the accounting noise this quarter?

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

I'm not sure I would look at it that way, Elyse. I guess what we looked at was we did see International and GB down overall. The accounting noise is just -- it didn't change the bottom line in terms of where we were. We just saw volumes down there a little bit on a year-over-year basis just in terms of onetime projects that we saw, but the account side of it didn't change the profitability or where we sat.

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

Okay. And then 1 last 1 on free cash flow. You guys obviously pointed out, $1.6 billion, 4Q right, well in excess of the guidance. You guys have been spending many years working to improve the working capital generation of the firm, is it just kind of seeing the fruits of the labor, right, that you guys put in over the last few years? Was there anything specific to 2020 or it just sounds like you guys -- everything you guys have been working on kind of came together, resulting in a big upside versus the initial guidance? Is there any other color you can provide?

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

Well, thank you for the compliment, Elyse. I appreciate that. I think as I mentioned in our prepared remarks, our colleagues have worked extremely hard. And as you pointed out, I mean, this has been an effort that's been going on for several years in terms of improvement around what we could do on working capital, and it's been a great team effort in terms of delivering those results. Also, I mean, we have obviously focused on cost and cost management and cost containment, and that's had a favorability, to some degree when you're not traveling, et cetera, has a benefit to that. But overall, I got to say the majority of it has really been driven by our colleagues and what it is that they've done. So thank you for the comment.

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

And maybe just to put this in a little more context, Elyse, I think back to 2018 and the results we had then and where -- if we had been projecting then to 2020, we probably would have been at a projection of getting to around $1.5 billion kind of constant improvement, we would have expected, and so we came even above what that was. But certainly 2019 was a year that was a bit of a downturn for us in terms of free cash flow, but in terms of a longer run journey as to where we would've expect it to be. We're now in the range we would have expected to be, as Mike said, we think we still have some improvement, but we're really pretty pleased with where we came out, and it's consistent with the longer run journey.

Operator

Our next question comes from the line of Suneet Kamath with Citi.

Suneet Laxman L. Kamath - *Citigroup Inc., Research Division - MD*

I was hoping you'd just give us a sense of, as we move through 2021, any sense around where you think organic growth could be? And in particular, I'm just curious on some of these discretionary businesses that you talked about facing some pressure, how quickly do you see that rebounding?

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

I think that is very dependent on the macroeconomic environment and how that develops. And frankly, a lot of variation in what we think could happen depending on whether there are new variants of the COVID that cause new and more substantial lockdowns or whether the vaccines are relatively effective when we get them. So I think from our standpoint, what we're focused on, and this is one of the reasons why we're not giving guidance for 2021. What we're focused on is making sure we're as flexible and adaptive as we can be so that whatever happens, we can have a good result in 2021.

Suneet Laxman L. Kamath - *Citigroup Inc., Research Division - MD*

Okay. And then secondly, I wanted to pivot over to employee retention. One of your peers talked about a pretty significant level of hiring in the fourth quarter. And given the pending merger, I'm just wondering if you can give some color around what you're seeing, where employee retention levels are, maybe relative to history? Any big changes there?

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

Well, I think for -- if I look at for all of 2020, our turnover was lower in 2020 than it was in 2019. So I think it's running at about the kind of levels we have experienced maybe a little bit below for 2020. I think, as always, we're constantly focused on making sure that we have the right kind of employee value proposition, and that includes compensation and includes career opportunities. It includes exciting work for clients, but we try to make sure that we have a package that's second to none in the industry.

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*

Congratulations on the year considering the environment, particularly on the free cash flow. Wondering just with regards to the merger, I know that you're limited in terms of what you can say. I appreciate that you laid out what the organizational table is going to look like. But just wondering, just what are the biggest hurdles that you can talk about in terms of going forward? And then obviously, there's been a little bit of news just in the industry with regards to Willis to (inaudible) and how we should think about that. Any comments that you could make there be appreciated. And then that's based on, obviously, what's going on with the EC. Any change that we should think about with regards to the new administration in the U.S. and some of the antitrust discussions that they've had?

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

So I think the biggest -- thanks for the question, Mark. The biggest and -- or the most immediate issue we have right now towards moving the transaction along is getting regulatory approvals throughout the world to do that. And we are, as I said in response to an earlier question, we had targeted first half of 2021. We're still on track for that. There's nothing that's happened that has made us think that, that -- we should change that time frame. So we're expecting to get there. Obviously, I can't get into any details about what's going on in the regulatory process. But we knew from the beginning it was a complex merger, and we expected the process to take from March of last year to sometime in the first half this year, and that looks like that's exactly what it will be.

I think after we get the approvals be, the key then is really focusing on making sure that the integration happens correctly and that we hit the ground running, both on day 1 and then in the time immediately after that. And so we've had very good teams working on that. The announcement of the top structure and the top positions on the Executive Committee was an important milestone in doing that. And we just need folks to continue to be focused on making sure we design the company as best we can for success in the future.

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

Great. And can you just talk a little bit about the reinsurance market and just how strong it is now and how people who are focused on the space would think about over the next 12 to 24 months?

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

Yes, Mark, I mean, you look at reinsurance, we're very pleased with the reinsurance results. We touched on the growth rate of 22% this quarter, and we look at it from an annual perspective. And looking at it, it's been a very strong performer overall. Obviously, we've had a pricing tailwind that's been helpful overall, but our colleagues there are really helping our clients and working hard in the marketplace. So we feel very pleased with that business, the leadership and the performance in terms of where it's been delivering. And we're very pleased in terms of how it's measured up versus the marketplace.

Operator

Our next question comes from the line of Phil Stefano with Deutsche Bank.

Philip Michael Stefano - *Deutsche Bank AG, Research Division - Research Associate*

Probably a quick 1 or 2 on numbers questions then maybe a more philosophical one. In the IRR business, you had mentioned that you transferred a -- the wholesale specialty contingency risk business to CRB. I -- can you help us understand how much of an impact that was or what the dollar amount was?

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

Yes. So I'm glad -- it's on -- it was impactful to the wholesale business overall, but to CRB, it was immaterial, very small.

Philip Michael Stefano - *Deutsche Bank AG, Research Division - Research Associate*

Okay. And for the unallocated business, I appreciate the comments, but we've seen some volatility out of that. And at least for me, it's a number that I've struggled with. I mean how can we think about this directionally? Or any framework to help us understand kind of what a normalized or "run rate" corporate expense item or allocation could be?

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

Yes. I mean, obviously, I think when you look at 2020, it's been an unusual year when you think about it. And so what do you have going on in that line item, you have a couple of things. So one, as I said in my prepared remarks, I mean for -- you saw some additional compensation, in particular, incentive compensation that was included in that line item. Also on COVID-19, you had vacations or people weren't taking all their vacations, so we had a little bit additional vacation amounts that we had record in there, and we had some earn-out arrangements overall. So I would look back to prior years in terms of looking at it, but 2020 was an unusual year. So hopefully, that gives you some color in terms of what's actually happening in that line item.

Philip Michael Stefano - *Deutsche Bank AG, Research Division - Research Associate*

Okay. And then the last one, John, in listening to Aon management talk about the combined entities, it feels like there's an expectation of an acceleration of organic growth from your business. And I was hoping you could talk about what do you see in this better together scenario post the merger that could drive organic growth potentially better than you've been able to do on your own?

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

Yes, thanks for that question. So I think when we think about the rationale for the merger, I would sum it up in 1 word, and that's innovation. And I think both Willis Towers Watson and Aon share the view that innovation is needed in our industry, that our industry is not helping clients address a large portion of the risks that they face and that we need to develop their solutions and better products to help them address that. And so the whole notion of why we think we'll be better together is what we can deliver in innovation, and it will be in things like how do we address long tail events like pandemic. It'll be in things like cyber. It will be in things like climate change. Both Aon and Willis Towers Watson are addressing each of these individually, but combined, we think we'll be able to develop solutions that'll have much bigger impact in the global economy.

Operator

(Operator Instructions)

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

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

Great. So two, I think, maybe fairly small questions. First, can you help us think through the impact of a weaker dollar relative to the pound on margins in CRB and IRR?

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

Sure. I mean when we look at it, we have, obviously, a fair amount of expenses that are denominated in pounds. But I would say we have a fair amount that are in euros as well, Meyer. So I think you got to -- you really need to look at our overall view of that. As we look out to the -- as we reflected on our numbers on the current year, you go back and say, okay, for the fourth quarter and you look at what the currency fluctuations where it had $0.05 impact on our EPS for the quarter and $42 million in terms of impact on revenue. So I think our Q1 and Q4 are our largest quarters, so I think that gives you a pretty good framework to think about from an FX standpoint in terms of its impact to the company.

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

Okay. Yes. No, it certainly does directionally. And then second, I guess it's been a while, I was just looking for an update on Telematics Consulting. As we see other companies looking to offer the same sort of services, I was hoping you could just give us an update on how Towers Watson's business is doing that.

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

Meyer, could you just repeat your -- I didn't hear the -- I got cut off or what the actual business unit was that you reflected in terms of consulting?

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

I'm sorry. Telematics Consulting for personal auto insurers.

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

Yes. I mean I think we're -- we are, to my knowledge, we're not really doing that in a lot of detail these days. We really got out of that business, to be fair, so I guess my answer would be nothing.

Operator

And in the interest of time, I would now like to turn the call back over to Mr. John Haley for closing remarks.

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

Okay. Great. Well, listen, thanks very much, everyone, for joining us, and we look forward to updating you on our results on the next call. Have a good day.

Operator

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