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WLTW.OQ - Q1 2021 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Co. reported that 1Q21 reported revenues were \$2.6b, net income was \$736m and diluted EPS was \$5.63.

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PRESENTATION

Operator

Good morning. Welcome to the Willis Towers Watson First Quarter 2021 Earnings Conference Call. Please refer to the willistowerswatson.com for the press release and supplemental information that was issued earlier today. Today's call is being recorded and will be available for the next 3 months on the 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 these 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, and good morning, everyone, and thank you for joining us today on our first quarter 2021 earnings call. Joining me today is Mike Burwell, our Chief Financial Officer. Today, we'll review our results for the first quarter of 2021. I'm pleased with our first quarter financial results and the continued momentum in our business. We generated organic revenue growth of 4% and 110 basis point adjusted operating margin improvement. Each of our operating segments contributed to the margin expansion this quarter, driven by new business generation, strong retention rates and increased operating leverage across our core businesses.

Through the first quarter of 2021, our colleagues continued their tremendous efforts to serve our clients through these challenging times and delivered a strong financial performance. I'd like to extend my heartfelt thanks to all our colleagues for their dedication, professionalism and support of one another. Thank you for continuing to bring your very best on the table every day. Your solidarity and resilience are truly inspiring.

Our accomplishments in quarter 1 are reflective of our purpose and action. The impact of our work extends to the people and our client organizations to each other and to our communities. For many of us, this greater impact is our why. It's the purpose behind the work we do. Creating clarity and confidence today for a more sustainable tomorrow. Grounded in this sense of purpose, we've continued to partner with our clients to help strengthen their resilience and progress towards long-term success.

The events of the past year have sharpened our focus. Our clients, our colleagues and our other stakeholders expect us to conduct our business with integrity and in an environmentally and socially responsible manner with high ethical standards. We take these expectations seriously and have embraced principles that are aligned with our business priorities are consistent with our commitment to ethical and sustainable practices and demonstrate our respect for the communities in which we operate around the globe.

For this reason, Willis Towers Watson has partnered with companies worldwide to increase racial justice by joining the World Economic Forums Racial Justice and Business Initiative. The purpose of this initiative is to build more equitable and just workplaces for professionals with underrepresented racial and ethnic identities. Willis Towers Watson is among 44 founding members, representing 5.2 million employees and 13 industries.

As part of this ongoing global conversation with leading organizations worldwide, we can both learn from them to increase racial diversity and inclusion inside the company and contribute our own ideas to address the issue more broadly. In working towards the goal of improving the communities which we serve, I'm proud to say we recently announced our commitment to delivering net zero greenhouse gas emissions in alignment with the science-based targets initiative by 2015 at the latest, with at least 50% reduction by 2030.

Through improvements to energy efficiency in our operations, leveraging virtual meeting tools, promoting recycling and encouraging our colleagues to adapt environmentally responsible habits, the company aims to minimize its carbon emissions and any other related harmful environmental impacts.

Turning now to our proposed combination with Aon. We continue to be excited about the potential of the combined firm and are committed to its completion. Upon close, we will serve a common purpose, to serve clients and improve communities, blending the best of both of our firms. We'll innovate on behalf of our clients and co-create solutions to address unmet client needs. We will build inclusive and diverse teams, engage colleagues and enable them to deliver their full potential. During the first quarter, we continued to build momentum towards closing the transaction with Aon and made significant progress in our integration planning efforts. We anticipate closing in the first half of 2021, subject, of course, to regulatory approvals.

Now let's move on to our first quarter results. Reported revenue for the first quarter was \$2.6 billion. That's up 5% as compared to the prior year first quarter, up 1% on a constant currency basis and up 4% on an organic basis. In quarter 1, we continued to face some headwinds due to macroeconomic factors such as COVID-19. In the prior year, we only started to see the impacts near the end of the first quarter. We started to experience some improvement in areas where revenue is tied to discretionary project spending.

Similar to last quarter, we experienced solid financial performance in areas where we have a well-established market position, mature relationships and annuity or compliance-driven business. Net income was \$736 million, up 135% for the first quarter as compared to \$313 million of net income in the prior year first quarter. It should be noted, we disposed off our Miller Wholesale business on March 1, 2020, for \$696 million in proceeds and a gain of \$356 million on a tax-free basis or \$2.73 per share.

Adjusted EBITDA was \$730 million or 28.2% of revenue for the first quarter as compared to \$680 million or 27.6% of revenue for the same period last year, representing a 7% increase on an adjusted EBITDA dollar basis and 60 basis of margin improvement. For the quarter, diluted earnings per share were \$5.63, an increase of 140% as compared to the prior year. This included a net \$350 million gain on disposal of operations, mostly resulting from the sale of our Miller Wholesale business.

Adjusted diluted earnings per share were \$3.64 for the first quarter, reflecting an increase of 9% compared to the prior year. Overall, it was a solid quarter. We grew revenue, we enhanced margin performance and we increased earnings per share. Now let's take a 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 they exclude unallocated corporate costs such as amortization of intangibles, certain transaction and integration expenses resulting from mergers and acquisitions as well as other items which we consider noncore to our operating results. The segment results do include discretionary compensation.

The Health Capital & Benefits, HCB, segment revenue was flat on an organic basis and constant currency basis compared to the prior -- the first quarter of the prior year and generated this similar level of revenue with 1 less billing day this year. This result represents sequential revenue improvement compared to our prior quarter, which was driven by increased demand for advisory services across various lines of business. Talent and Rewards revenue decreased nominally, with the uptick in executive compensation and rewards strategy work offset by declines in our traditional survey sales and communications and change management offerings.

Our Health and Benefits revenue was flat for the quarter. We continue to grow revenue from advisory work in North America and global benefit management and local brokerage appointments outside of North America. However, this growth was offset by lower commission-based revenue, which was tied to prior year book sales. Retirement revenue was also flat compared to the prior year, with funding and guaranteed minimum pension equalization work in Great Britain, offset by declines in North America resulting from 1 less billing day and less derisking activity.

Technology and Administration Solutions revenue grew moderately, primarily due to increased project work and new business activity in Great Britain. HCB's operating margin increased by 20 basis points compared to the prior year first quarter as a result of continued expense reduction efforts. We're pleased with HCB's sequential improvement and margin growth. Our long-term outlook on HCB remains positive. The pandemic has changed the needs and demands of workers and workplaces. HCB stands ready to help clients navigate the transition.

Now let's look at Corporate Risk & Broking, or CRB, which had a revenue increase of 5% on an organic and constant currency basis as compared to the prior year first quarter. Great Britain and International's revenue increased 8% and 15%, respectively, for the first quarter. The revenue increases were primarily driven by new business wins, most notably in natural resource and FINEX insurance lines.

North America's revenue was up by 6% in the first quarter, driven by strong renewals across all regions, but also particularly in the FINEX lines. Revenue for Western Europe decreased 2% due to both the timing of some revenue moving to later quarters and the departure of some senior staff, which pressured business in certain geographies. CRB revenue was \$810 million for the quarter, with an operating margin of 20.0% compared to \$739 million of revenue with an operating margin of 17.2% in the prior year first quarter. The 200 basis -- 280 basis point margin improvement reflects the continuation of effective cost containment.

To see the strong top line growth and improved profitability in the first quarter is encouraging, and we remain optimistic about both CRB's short-term and long-term growth prospects. In a world marked by uncertainty, CRB goes beyond the traditional boundaries of insurance products and risk management to deliver services that help organizations prepare for what may lie ahead.

Turning to Investment, Risk and Reinsurance, or IRR. Revenue for the first quarter was \$605 million, an increase of 4% on an organic basis and a decrease of 5% on a constant currency basis as compared to the prior year first quarter. Reinsurance with growth of 4% continued to lead the segment's growth through a combination of net new business and favorable renewal factors. The Insurance Consulting and Technology and Investment businesses also contributed to the segment's revenue growth. Both lines of business were up 8% compared to the first quarter of the prior year, having benefited from increased demand for advisory work.

Insurance Consulting and Technology revenue growth was aided further by increased software sales. The Wholesale business was down 14% on an organic basis. Although that's reported as organic, about half of the decline was because we transferred Wholesale Special Contingency Risks Business to the CRB segment in the fourth quarter of 2020. The remainder of the revenue decline was largely caused by ongoing pressure on various insurance lines from COVID-19. As a reminder, we sold the Wholesale business on March 1, 2021.

IRR had an operating margin of 47.9%, up 280 basis points as compared to 45.1% for the first -- prior year first quarter. The strong margin expansion was a result of careful cost containment efforts, coupled with solid top line growth. IRR helps businesses and communities to sustainably navigate the risks and opportunities ahead. IRR's powerful combination of advisory services, technology solutions and analytical capabilities continues to create value for companies as they reevaluate risk and reinforce resilience post pandemic.

Revenue for the Benefits Delivery & Administration or BDA Segment increased by 23% on an organic basis and 24% on a constant currency basis from the prior year first quarter. The growth in revenue was largely driven by individual marketplace, primarily by TRANZACT, which contributed

\$148 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 \$287 million with a 2.5% operating margin as compared to revenue of \$231 million and a negative operating margin of minus 4.7% in the prior year fourth quarter -- first quarter, excuse me. We continue to feel positive about the momentum of our BDA business for 2021. For many people, the pandemic has highlighted the importance of securing health and wellness plans that meet their individual needs. BDA provides education, communication and decision support tools that empower employers, employees and retirees to navigate the changing world of benefits.

Overall, I'm very pleased with our results this quarter. We delivered strong overall financial performance with top line growth, margin expansion and EPS growth all while continuing to make progress against strategic initiatives and our proposed combination with Aon. Now I'll turn the call over to Mike.

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

Thanks, John, and good morning to everyone. Thanks to all of you for joining us. First, I'd like to extend my appreciation to all our colleagues. We have asked a lot of our teams and our colleagues continue to pull together and deliver. I'm proud of all the work they have done to continue supporting our clients each other and the communities in which we work and live. We're off to a solid start this year. While we continue to face some headwinds from COVID-19 pandemic, we are reassured by the improved demand for our discretionary services and solutions and by our ability to generate profitable growth.

We're pleased to see another quarter of solid revenue growth with underlying adjusted EPS growth, while free cash flow decreased and improved when normalized for certain significant litigation and compensation payments made this quarter. Now I'll turn to the overall detailed financial results.

Income from operations for the first quarter was \$452 million or 17.5% of revenue, up 290 basis points from the prior year first quarter income from operations of \$360 million or 14.6% of revenue. Adjusted operating income for the first quarter was \$579 million or 22.4% of revenue, up 110 basis points from \$525 million or 21.3% of revenue in the prior year first quarter. For the first quarters of 2021 and 2020, our diluted EPS were \$5.63 and \$2.34, respectively, which included the \$359 million gain on disposals.

For the first quarter of 2021, our adjusted EPS was up 9% to \$3.64 per share as compared to \$3.34 per share in the prior year first quarter. Foreign currency rate changes caused an increase in our consolidated revenue of \$86 million or 4% of revenue for the quarter compared to the prior year first quarter with \$0.12 tailwind to adjusted diluted EPS per share this quarter.

Our U.S. GAAP tax rate for the first quarter was 11.5% versus 20% in the prior year. The current quarter tax rate was lower primarily due to the tax-exempt disposal of our Miller Business. Our adjusted tax rate for the first quarter was 20.5%, up nominally from 20.4% in the prior year.

Turning to the balance sheet. We ended the first quarter with a strong capital and liquidity position with cash and cash equivalents of \$2 billion and full capacity in our undrawn \$1.25 billion revolving credit facility. We also successfully reduced our leverage profile by repaying \$500 million of bonds outstanding during the quarter. Willis Towers Watson remains well positioned from a liquidity perspective. We aim to continue to maintain a strong and durable balance sheet and continue pushing forward on our cost savings and efficiency initiatives.

As the economic recovery unfolds, we will continue to monitor the ever-evolving impact of the pandemic and are prepared to take appropriate measures as needed to preserve our financial position. Free cash flow was a negative \$165 million compared to negative \$43 million in the prior year. The decrease in the year-over-year free cash flow was due to the net legal settlement payments of approximately \$185 million in respect to the previously announced Stanford and Willis Towers Watson merger settlement and higher incentive compensation and benefit-related items of approximately \$180 million.

Absent these one-off items, free cash flow would have increased, more accurately reflecting our run rate improvements in working capital and cost containment efforts. We've made tremendous progress to improve our free cash flow in 2020, and we remain dedicated and focused on maintaining our progress in this area in 2021. In terms of capital allocation, in the first quarter of 2021, we paid approximately \$92 million in dividends. We do not expect to repurchase any shares for the remainder of 2021, given certain prohibitions in the transaction agreement with Aon in connection with our pending business combination.

Pension contribution to our qualified plans totaled \$86 million in the first quarter, and we are currently projecting contributions of \$126 million for 2021. As a general matter, COVID-19 pandemic did not have a material or adverse impact on our overall financial results in 2020 or in the first quarter of 2021. However, the pandemic did continue to impact revenue growth, particularly in some discretionary lines, and we expect the effects of COVID-19 on general economic activity may continue to negatively impact our revenue and results for the remainder of 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. We are very pleased with these first quarter results. They are a direct reflection of our resilience and our continued focus on strategic priorities. Our first quarter results were very encouraging. We have momentum, solid financial results and a strong balance sheet and an excellent team, which gives me confidence in our ability to continue driving value for all our stakeholders. And now I'll turn the call back to John.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question will come from Greg Peters with Raymond James.

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

So I'll just ask 3 questions. And first, I realize you're bound by Irish Takeover Law, but I guess it might be professional malpractice if I don't ask you a merger question. Two parts of the merger question. You said in your comments, you're still expecting -- still expect to close in the first half of '21, pending regulatory approval. I'm wondering if I'm not mistaken, the Phase 2 extension from the EC goes into July, so that would imply a second half potential regulatory approval. And the second piece on the merger is, I know you haven't commented on it, but the disclosures in the press suggest that you're going to exceed the revenue divestiture cap in the purchase document. So I was just wondering if you could give us some color on those 2 items.

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

Yes. Thanks very much, Greg. So on the -- first of all, on the EC, I think their extension goes into July. That doesn't mean it has to run that long. It's still possible to close June 30 and be consistent with that extension. So no particular conflict there. And I'm sorry, what was the second question?

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

The second piece is on the divestitures. The leaks to the press given what we're hearing suggests that you might exceed the \$1.8 billion revenue divestiture cap that's in the purchase document. And just trying to reconcile that if -- and your perspectives on that, to the extent you can comment on it?

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

Yes. Actually, as -- and you won't be surprised to hear that we're really not in a position to speculate on any potential divestitures.

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

Yes. I've figured. Okay. Well, let's pivot to the producer retention comment that you made regarding CRB. And let's expand it. Can you just give us an update? I know from time to time, you have comment on an employee retention in the past. Can you give us a sense of how the retention has stacked up through the first quarter? We have seen reports in the press of certain teams leaving. Just curious how the Willis franchise exist today versus where it was a year ago?

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

Yes. So a couple of things. Let me say, first of all, I think our -- when we look at our turnover, say rolling 12 months today compared to where it was a year ago, and I look at it segment by segment, it's pretty much about the same, maybe slightly improved, in general. The 1 segment that is up is BDA. And that's just a function of some of the expansion, I think, of TRANZACT, and we have a lot of turnover, a lot of turnover there.

But overall, our -- if I look at it segment by segment, our turnover is slightly improved. Now at the same time, every time a transaction like a big merger or acquisition gets announced, there are some people that decide they don't want to be part of the new organization. And certainly, we've seen that in some instances. But when we look at it in terms of the overall impact, it's not necessarily showing up as a big overall impact. But we can certainly point to isolated instances where that's happened.

Those are the kind of things we've seen happen before in this business, and we think we're prepared to deal with them, but it is something we continue to look at.

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

Got it. I guess the final question would be on free cash flow. I know you called out the Stanford cash payment settlement in the first quarter. If we exclude that and think about the full year, how are you feeling about free cash flow for 2021 after what was a phenomenal result in 2020?

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

Well, I'll maybe just give you a quick reaction from me, which is that I couldn't be happier with our cash performance in the first quarter. I thought we had a tremendous first quarter last year, and I think we did significantly better this year. So I was really pleased to see what really happened. As Mike mentioned, we did have a couple of things that affected us this year compared to last year. But I see continued progress being made. But Mike, maybe you want to comment on that.

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

Yes. Thanks, John. And thanks for the question, Greg. Yes, I mean, we have put a lot of effort and a lot of focus to have repeatable processes and our colleagues and I'm working very hard and continuing to deliver, as John said, in terms of delivering that free cash flow. So although as you know, Greg, we are not giving any guidance. But nonetheless, we're very pleased with what's happened here for the first quarter. And as I say, I'm very, very proud and pleased with what the team continues to deliver.

Operator

Your next question will come from Elyse Greenspan with Wells Fargo.

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

My first question was going back to, you had mentioned some senior staff departures, right, within CRB, within Western Europe. And I guess tying that together with your response to Greg's question in the far cry that you said with mergers, right, there's always some type of kind of individuals that will choose to leave. Is that the only area, I guess, of your business where you noticed a more significant impact from some employees that might have left the organization?

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

I would have to say, Elyse, I think we've seen -- you might see half a dozen people leave here or half a dozen people leave there. And so you see some isolated ones. I think the Western Europe one was probably the most significant one we saw.

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

Okay. And then as we think about -- you guys mentioned the impact of the economy due to COVID still having an impact on your business, right? But if we look on an overall basis for Willis Towers Watson, right, you guys were created on 4% organic revenue growth, which was an improvement from what we saw in the back 3 quarters of 2020. So would you expect just based over of the fact that vaccines are being rolled out, it looks like the economy will improve. Should we view the Q1 as kind of below bar for the year? And it sounds like there should be some tailwinds to your organic revenue that the other 3 quarters of 2021 should be better than what we saw in the first quarter?

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

Yes. I would say -- so first of all, we haven't given guidance. And the reason we haven't given guidance is because this is such a volatile environment, and it's hard to predict exactly what's going to happen. But I would say this, we feel better about the rest of the year today than we did when we entered 2021. And we also feel very good about our ability to grow with the market and to compete. So we're somewhat optimistic.

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

Okay. That's helpful. And then some -- you were talking through expenses and margins. And it sounds like there was just kind of growth driving margin improvement as well as expense management throughout the different segments. It doesn't sound like there was anything one-off within your margins that we perhaps should think about not continuing, but was there anything COVID related? Or is it just kind of a good expense management quarter and we could think about that continuing from here?

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

Yes. I think the theme that Mike had touched upon was our colleagues throughout the organization embracing what we needed to do during COVID and responding. And we've seen them do that, and we do -- in general, we think these are things that are going to be ongoing.

Operator

Your next question will come from Phil Stefano with Deutsche Bank.

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

So the growth in transactions continues to be fantastic. It's outpacing our expectations. And if I'm not mistaken, this is the first segment operating margin that was positive for BDA outside of a fourth quarter maybe ever. Can you talk about the extent to which transact is helping to drive that? And the extent to which growth can continue to lap the strong growth we saw last year?

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

Mike, do you want to?

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

Yes. Yes. We've really been very pleased with TRANZACT. If you go back when we announced TRANZACT, we were very excited about what they brought to the table in terms of their ability to serve the market. We saw it as a market that was very, very strong, and we had put out there in terms of organic revenue growth and as a pretty formidable view over the next several years in terms of what the CAGR growth rate was going to be and TRANZACT has exceeded it.

So as you said and rightly pointed out in terms of where the margin is in terms of improvement and positive for the first time, other than the fourth quarter happening, TRANZACT has been a big, big contributor of it. So I got to tell you, we see it as doing very well. We really like the transaction -- TRANZACT team. And what they continue to deliver, and we couldn't be happier with their performance.

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

Okay. And so switching gears a bit and just going back to the potential merger with Aon, I understood that you don't want to comment on any potential divestitures, but maybe I'll comment this from a different angle. If I wanted to take a negative lens to view this at, I could argue that the divestitures in a regulatory approval scenario might be at a forced sale price that would be less than you would get and the market otherwise. And if I layer on top of that incentive comp retention awards, how do you think about these dynamics to get the deal done versus the fiduciary duty to maximize value for shareholders?

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

I mean, I think we always have in mind fiduciary duty to maximize value for shareholders. And when we're considering anything, whether it's acquiring a company, divesting a company or just running our business, so we -- that's one of our paramount consideration.

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

And so maybe to press on this just a bit, and then I'll let it go. But is there a level of revenues and price that you could get for potential divestitures, at which this starts to feel like the deal doesn't make sense anymore for the Willis Tower shareholders?

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

Well, I mean, again, I don't want to speculate on things, but let me just address something as a theoretical matter. If you were told you had to give away businesses and couldn't get anything for them, of course, that would seem like that would not be a good thing for shareholders. So clearly, there's some price at which it occurs.

Operator

Your next question will come from Suneet Kamath with Citi.

Suneet Laxman L. Kamath - *Citigroup Inc. Exchange Research - Research Analyst*

I wanted to ask another one on the pending merger. Can you talk about the client reaction to the deal? And obviously, it's been announced -- it's been out there for a year. Are you seeing any concerns around sort of concentration risk with the combined company from your clients?

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

Quite the contrary. Our clients are very excited about the possibilities that the new firm can bring to addressing unmet needs. And you may remember when Greg Case and I first announced this merger, what we talked about was the possibility for innovation, the possibility of the new firm being in a better position to address unmet client needs. Clients have responded quite enthusiastically about this.

And I would say, the fact of the matter is, the businesses we're in across the whole spectrum are all highly competitive businesses, and we don't see any concentration risk.

Suneet Laxman L. Kamath - *Citigroup Inc. Exchange Research - Research Analyst*

Got it. And then on the \$400 million retention payment that was part of the deal, is any of that being paid now, which could be impacting your level of attrition?

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

No.

Suneet Laxman L. Kamath - *Citigroup Inc. Exchange Research - Research Analyst*

So that's all once the deal closes?

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

Any retention payments are at the time the deal closes or after.

Suneet Laxman L. Kamath - *Citigroup Inc. Exchange Research - Research Analyst*

Got it. And just last one on that. Is there an element here where the retention payments are effectively being communicated to employees, but not being paid?

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

Oh, yes, of course. Yes. I mean it wouldn't have any retention effect if they didn't really know what they were getting.

Operator

Your next question will come from Mark Marcon with Baird.

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

John, I just want to start off by saying, we don't know if we're going to have a second quarter call, just given that this is going to end up closing prior. So first of all, congratulations going all the way back to the Watson Wyatt days for all the shareholder value that you've created over multiple decades. It's just been an incredible run. So I just wanted to start with that. Can you just talk a little bit about if there's -- if the client reaction has all been positive, who -- what are -- what would be the the driver behind some of the objections that are out there, just broadly, theoretically?

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

Yes. So first of all, Mark, thank you very much for those kind words. It's been a pleasure to work with you over the years. And I am actually hopeful that this ends up being my last earnings call and that we closed June 30 as anticipated. So I think when regulators look at markets, they go and they talk to clients, they talk to other market participants, they talk to competitors, and they get a wide variety of comments from them.

Sometimes they -- you could hear from a small minority of market participants and the regulators still put some emphasis on that. So there's lots of different ways that you could look at it and at least have the potential to ask some questions about it. But our experience -- and of course, we're probably going to hear from the clients that are the most enthusiastic about it, I get that. But our experience has been that clients are quite excited about the prospects of the combination.

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

Great. And then can you just talk about -- so (inaudible) how big is that now just from a revenue perspective, roughly speaking?

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

Mike, you have the figure on that, don't you? Mike, are you on mute?

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

Sorry, John. Yes. So it's about -- think about it. I don't know, it's in the \$400 million range, something in that range.

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

Okay. And then Willis Re in the U.S., how do -- you wouldn't happen to have that? Would you, Mike?

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

I don't think we've really disclosed that, Mark, and that kind of breakout, sorry.

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

Would you have an estimation or...

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

No, no. We just really have -- sorry, Mark, we really haven't disclosed that.

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

Yes. I think, Mark, it's not that Mike doesn't know. It's that we just haven't disclosed that.

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

Yes. I understand, this is a public forum. And obviously, it's -- I mean it's fairly obvious what I'm trying to get at, just because it does seem like we -- there are some press reports that we're going to be above the merger cap, and there's some that are -- that would suggest that maybe we're going to be below. And so I was just trying to triangulate on some of the pieces.

Is there any comment that you can make just with regards to what seems realistic? Or what the next step? We're -- you've obviously got a long-term track record of success. You think about all of the possibilities. You didn't just -- you're obviously supersophisticated and all of your advisers are as well. So just -- it's hard to imagine that you haven't conceived of some of the possibilities that could come up or -- and some of the next steps to address those.

So just trying to think through like -- I mean, even if we're slightly above the merger cap, I mean, there would be a relatively easy reconciliation on that, wouldn't there?

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

Yes. I mean, I think, Mark -- so first of all, I think you're right, as we think about any of these things with our partners at Aon about whether we might -- whether there might be some remedies that we offer to regulatory authorities. As I said to an earlier question, we always have the best interest of the shareholders in mind and doing something that makes sense. But we've -- we really we're not in a position right now where we can just comment about any potential and certainly not about press reports, which are out there. And sometimes have some elements of truth, but a lot of times are wildly inaccurate.

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

Got it. And just -- I mean, from a purely regulatory strategy perspective, does it make sense to think, okay, the EC was the first priority. Next up is the DoJ. And then after that, we go to some of the smaller countries. And if the DoJ and the EC are both on board, it's going to be hard to imagine that some of the smaller countries would end up proving to be decisive. Is that a reasonable way of think about it?

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

So -- yes. I would say that, certainly, the vast bulk of our business is in the EC, including the U.K. and the U.S. On the other hand, we have been meeting with and addressing regulators in jurisdictions throughout the world. And we're committed to working with all of them. We're committed to making sure they understand the transaction and why this is good for the competitive -- competition in the industry. And we're not emphasizing necessarily one over the other, but it is true that the bulk of our business is in those 2 jurisdictions.

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

Okay. And then, I mean, I imagine that TRANZACT is going better than anybody anticipated, say, 9, 12 months ago. When we take a look at the growth that we're seeing here and the possibilities going forward, I mean, what inning do you think we're in with regards to TRANZACT? And how powerful that could end up being?

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

Yes. So I think we had -- and Gene Wickes and Mike Burwell and I, when we were first looking at this. And Gene and Mike are the ones who really led the charge on TRANZACT, had lost the expectations and TRANZACT has performed way above our lofty expectations. So we couldn't be more pleased with how that has worked out. This is a very dynamic market. There's lots of, I think, growth opportunities. There's lots of potential changes, which could read down to the benefit of organizations like TRANZACT.

So we think we're in the early innings, second, third. I mean, this is -- there's a lot left to play out here yet, I think, Mark.

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

Great. Congratulations to you, John. And also to Gene if he's listening and Mike and everybody else on the team. So congrats. Thanks.

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

Thanks very much, Mark.

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

Thanks, Mark.

Operator

Your final question in queue will come from Meyer Shields with KBW.

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

Two really brief questions, I think. One, John, can you quantify the impact on CRB and its organic growth from that transfer of Wholesale business?

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

Mike, you have that number, don't you?

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

It's really immaterial, Meyer. Very small.

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

Yes. I think we talked about that on the last quarter. We said it was material for the Wholesale business, but immaterial for CRB.

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

Immaterial for CRB.

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

Yes. No, I just want to see whether that held up in the first quarter. Second question...

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

Yes. It does.

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

Okay. Perfect. Can you sort of lay out the time line for when the Western European staff left and when the associated revenues kind of disappeared with that at the same time? Is there a lag?

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

It was the middle of last year sometime, I think, middle to late middle that folks left. But the revenue impact tends to be noticed a little more in the first quarter when you have a lot of the renewals.

Operator

And we have reached the end of our question-and-answer session. I would now like to turn the call back over to John Haley for closing remarks.

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

Great. Well, thanks very much, everybody. This is the time when I traditionally say, we look forward to updating you on our second quarter earnings in later this year. I'm actually hoping the transaction is closed, and we don't have that call. But if not, we do look forward to updating you then. Have a good day.

Operator

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

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