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WTW.OQ - Q2 2024 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning. Welcome to the WTW second-quarter 2024 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded. Please refer to the wtwco.com for the press release and supplemental information that were issued earlier today.

Today's call will be available for the next three months on the WTW's website. Some of the comments in today's call may constitute forward-looking statements within the meaning of the Private Securities Reform Act of 1995.

These forward-looking statements are subject to risks and uncertainties. Actual results may differ materially from those discussed today, and the company undertakes no obligation to update these statements unless required by law.

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

During the call, certain non-GAAP financial measures will be discussed. For reconciliations of the non-GAAP measures as well as other information regarding these measures, please refer to the earnings press release issued this morning and other materials in the investor relations section of the company's website.

I will now turn the call over to Carl Hess, WTW's Chief Executive Officer. Please go ahead.

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Good morning, everyone. Thank you for joining us for WTW's second-quarter 2024 earnings call. Joining me today is Andrew Krasner, our Chief Financial Officer.

We delivered a strong second quarter, headlined by 240 basis points of year-over-year adjusted operating margin expansion, adjusted diluting earnings per share of \$2.55, a 24% increase over prior year, and \$361 million of free cash flow.

These healthy bottom line results were the product of our continued robust organic growth, growing operating leverage across our businesses and the ongoing success of our transformation program.

We are very pleased with our sustained momentum from the success of our strategic initiatives alongside continuing favorable market conditions. Our 6% organic revenue growth in the quarter represents the value proposition of our business, the impact of our investments in talent and technology and the markets we have prioritized.

Based on our strong first half performance and our continued confidence in our outlook and execution, we have raised the low end of our 2024 adjusted operating margin and adjusted EPS target ranges to 23.0% to 23.5% and \$16 to \$17 of EPS, respectively.

In addition, thanks to the success and momentum of our transformation program, we've been able to identify additional savings and accordingly, are raising our cumulative run rate transformation savings target from \$425 million to \$450 million by the end of 2024. We continue to expect mid-single-digit organic growth to achieve revenue of \$9.9 billion plus.

I'm pleased with our colleagues' focus and dedication in executing our strategic priorities. Our results and outlook reflect their hard work in delivering for our clients and driving improved productivity and efficiency. With that in mind, let me share some specifics on our recent progress and the opportunities ahead of us.

As I mentioned, our rising productivity drove greater operating leverage this quarter, significantly bolstering our bottom line performance. Our transformation efforts also contributed substantially to margin expansion. We achieved \$24 million of incremental annualized savings this quarter, bringing the total to \$394 million in cumulative annualized savings since the program's inception.

As we near the end of our three-year transformation program, we're confident that the program has positioned us for further margin expansion over the long term. We now have the organization, processes and capabilities in place, to further optimize our cost structure, increase operational effectiveness, and improve profitability on an ongoing basis.

In HWC, we continue to harness the strength of our portfolio to drive growth. We captured demand and added new clients in each of our core businesses, made many smart connections to better serve our clients' needs across different areas, and introduce new breakthrough solutions. That combination enabled us to achieve 5% organic revenue growth in the quarter, delivering accelerated growth across the health, wealth and career businesses, as we consciously manage BD&O growth to optimize earnings and cash flow.

Growth was led by our health business, which generated 9% organic growth. Across the segment, we continue to see good levels of demand driven by health care inflation, strong employment, elevated pension fund status, new legislative and regulatory requirements, and other complexities in the macro environment.

Our deep expertise and rich experience, combined with our data analytics and software solutions position us well to help clients navigate the dynamic environment. from managing total rewards costs to derisking pension plans.

Our teams have successfully generated buildable upticks in a number of areas. We've added several new global benefits management appointments with organizations that want to better manage costs and also improve their employees' experience. With a favorable interest rate environment, we've helped more clients initiate pension derisking processes through both sums in the US and the newly buy-ins and buyouts in Great Britain.

As we've helped guide clients on the implications of new pay transparency and equity requirements to the EU, more companies have engaged us for broad-based award projects. In response to the strong employment market, we sold more compensation benchmarking surveys and more licenses to embark our employee experience portable.

And our LifeSight master trust in Great Britain continues to grow, having just exceeded GBP 20 billion in assets under management.

Our focus on smart connections across HWC has also continued to pay dividends. This past quarter, we worked with a large airline, which was already a global benefits management client of our health business. This client sponsored a large number of pension plans in multiple countries and needed to help keeping these plans compliant, competitive, and well run.

Our GBM team introduced the claim to our retirement team, which was able to provide a complete solution tailored to their retirement needs. Our strong existing relationship together with our smart connections mindset, helped us win a multiyear contract, and gave our client a more developed service proposition with flexible pricing options.

Another example involves a large automotive retailer, where we secured a health and benefits consulting and brokerage relationship. To improve how their employees value and utilize their benefits, we introduced our employee experience team, who presented a personalized digital approach to communication that helped the plan members break through the complexity of the health care environment.

This generated an interest in learning how we could help them simplify the administration of their benefit plans. And after hearing how our teams could also collaborate to deliver insights to improve the plant's effectiveness and help them reduce overall health care costs, they appointed us as their benefits outsourcer.

In a third example, our segments collaborated when a team at CRB reached out to our health and benefits and retirement experts. Our CRB team who've been helping a client assess and manage integration risks in a newly acquired business recognized that the client needs beyond property casualty risks to also include people risks requiring employee benefits expertise across multiple countries.

We secured this win by offering complete M&A guidance, including strategic planning and brokerage services covering both corporate risk and employee benefits.

We've previously highlighted how HWC has developed breakthrough solutions that are leading the market and delighted to share two more breakthroughs this quarter.

First, knowing how highly employees value flexibility, members of our US retirement team helped one of our clients find a way through complex regulations, and potentially challenging administrative requirements, to introduce a new pension plan feature to help employees better manage their financial situation.

Also, our investments team launched our first ever dedicated private equity pools fund. The fund's innovative semi-liquid structure and nature will be open to wealth and defined contribution plans.

In risk and broking, our focus on specialization, investments in talent and technology and top quality client service continues to sustain client retention rates in the mid-90s, and generate substantial growth opportunities. This is evidenced by the segment's organic revenue growth of 10% for the quarter, fueled by our specialty businesses, which continued to outpace the growth of the rest of the segment.

All of this is the product of our differentiated service offerings and ability to adapt to our clients' changing and complex risks. Our R&D specialization strategy is about delivering tailored solutions that address industry-specific risks and optimizing our client outcome.

One of our client wins this quarter included the insurance placement for an energy supplier who had a challenging loss record and complex risk profile, and was under severe time constraints for securing an insurance solution. Thanks to our deep expertise in the natural resources sector across multiple geographies, we were able to provide the company with complete coverage in just one month.

We continue to make good progress with Verita, our open market MGU in North America. Submission volume continues to increase each month as the brand has expanded across the US, with broad opportunities from different brokers.

The team continues to evaluate and add new products to the platform to further accelerate revenue growth in the second half of the year and beyond.

As we've mentioned, investments in our R&D talent base have also been a significant revenue growth driver for the segment. After a focused effort to replenish our talent base over the past few years, these new hires have become increasingly productive and are contributing to our strong organic growth in this segment.

Our recent hiring efforts have been more opportunistic and strategic with the goal of enhancing our ability to achieve sustainable, profitable growth and create value.

Lucy Clarke, who's recently joined us is one example of this type of strategic hire, Lucy's commitment to specialization, data and analytics and exceptional client service makes her a perfect fit to lead risk and broking.

We expect that our market presence, proven track record and focus on talent will help further drive organic growth and margin expansion in the segment, building on the excellent work Adam Garrard has accomplished over the last 5 years.

We are confident that our strategic investments in talent and technology, along with our specialization strategy, is leading to increased engagement with both new and existing clients. This heightened activity is crucial for driving our organic revenue growth and expanding margins for the rest of the year and beyond.

In conclusion, I'd like to thank our colleagues for their unwavering commitment to WTW and to our clients, which helped us to achieve another solid quarter. We continue to effectively execute on our strategic priorities, setting us up to achieve our objectives for the year.

I'm enthusiastic about our opportunities in the second half of the year, and have confidence that we are on the right path to achieving our goal for 2024. And with that, I'll turn the call over to Andrew.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Thanks, Carl. Good morning, and thanks for joining us today. In the second quarter, we delivered organic revenue growth of 6% and drove adjusted operating margin expansion of 240 basis points, resulting in adjusted diluted earnings per share of \$2.55, an increase of 24% over the prior year.

As Carl mentioned, thanks to our solid results for the past two quarters, and our confidence in what we expect to achieve in the second half of the year, we have raised the low end of our 2024 financial targets for adjusted operating margin and adjusted EPS, bringing the target ranges to 23% to 23.5% and \$16 to \$17, respectively.

In addition, we have been able to identify additional transformation savings and are raising our cumulative run rate target from \$425 million to \$450 million by the end of 2024. The total cost to achieve these savings is now estimated at \$1.175 billion. These additions to the transformation program will help us drive further efficiencies as we remain focused on a strong finish to the program.

Next, I'll spend some time reviewing our segment results. Note that to provide comparability with prior periods, all commentary regarding the results of our segments will be on an organic basis, unless specifically stated otherwise.

Health, wealth and career generated revenue growth of 5% compared to the second quarter of last year, in line with our expectations of mid-single-digit organic revenue growth for the segment for 2024. We noted last quarter that we expected health revenue growth to accelerate. And indeed, the business generated revenue growth of 9% for the quarter in comparison to 3% growth in Q1.

North America generated strong growth as a result of increased project work. In addition, international and Europe delivered double-digit growth driven by strong client retention, new local appointments and the continued expansion of our global benefits management client portfolio.

Wealth grew 5% in the second quarter, driven by strong growth in our retirement business due to new client acquisitions and increased project work including pension derisking work in North America and additional work required in a peak valuation year in Great Britain.

We also delivered solid growth in our Investments business due to improvements in capital markets and growth from our LifeSight solution.

Career delivered 4% revenue growth in the quarter, primarily driven by broad-based compensation assignments in working rewards in North America and Europe, as well as projects related to communication work and employee experience.

We also saw growth in our product revenue with more sales of Embark, our employee experience portal. Our compensation benchmarking participation continues to be elevated over 2023, which should lead to accelerated growth in the second half of 2024.

Benefits Delivery & Outsourcing was flat for the quarter. Solid growth in outsourcing from increased project work more than covered the revenue headwind related to the client we mentioned last quarter, who insourced its health and other benefits administration.

This growth was offset by a decrease in our Medicare-related business, where we deliberately moderated growth to reflect market developments, maximize profitability and improve free cash flow outcomes. Said differently, we do not simply chase growth at any cost in this business. HWC's operating margin was 21.9%, an increase of 360 basis points compared to the prior year second quarter, primarily driven by operating leverage and transformation savings.

Moving to risk and broking, revenue was up 10% on an organic basis for the second quarter with no meaningful impact from book of business activity. Interest income was \$29 million for the quarter, up \$14 million from the second quarter last year.

Corporate risk and broking had another exceptionally strong quarter with organic growth of 11%, primarily driven by higher levels of new business, strong client retention and renewal increases across all geographies.

Our specialty lines continue to be major contributors to the strong growth performance, led globally by our facultative, construction, crisis management and financial solutions teams. Growth across CRB in Europe was led by financial solutions, facultative, FINEX and crisis management.

North America CRB had solid growth, driven by new business and higher renewal business from crisis management, natural resources, construction, real estate, hospitality and leisure as well as health care and life sciences.

Our international region had double-digit organic growth across all subregions, led by countries in Central and Eastern Europe, Middle East and Africa and Latin America.

In terms of rates, we see a continued improving landscape with favorable outcomes for clients. We see a stabilizing and softening market in some of our largest lines of business, such as property, caused by the increasing supply of capacity from insurers. The market for financial lines continues to soften, albeit with slower rate reductions in the past quarter.

An exception to that is cyber where the market is softening faster. Across those specialty lines, we see a mix, for example, in political risks and trade credit, the market is stable with some small premium rises.

The same in casualty where the market remains challenged for primary risks, especially those with North America exposures. Insurance consulting and technology revenue was flat compared to prior year due to temper demand mainly in the consulting business in North America and the UK.

However, we have taken corresponding expense actions to protect our margins. We expect ICT to achieve mid-single-digit growth for the full year.

RMB's operating margin was 20.6% for the quarter, a 450 basis point increase over the prior year second quarter primarily due to operating leverage driven by solid organic revenue growth in CRB, disciplined expense management, interest income, and transformation savings.

Now let's turn to the enterprise level results. At the enterprise level, adjusted operating margin for the quarter was 17%, a 240 basis point increase over the prior year, primarily driven by greater operating leverage and the benefits of our transformation program.

We had \$24 million of incremental annualized transformation savings, bringing the total to \$394 million of cumulative savings since the program's inception. The program continues to better position us to drive operating leverage going forward.

Our unallocated net was negative \$106 million for the second quarter and reflects the inclusion of a \$13 million provision for significant litigation.

We continue to expect the full year 2024 balance to be relatively consistent with 2023. Foreign exchange was a headwind to adjusted EPS of \$0.03 for the quarter. At current spot rates, we expect foreign exchange to be a headwind of approximately \$0.10 on adjusted EPS for the year.

Our US GAAP tax rate for the quarter was 15.6% versus 19.8% in the prior year. Our adjusted tax rate for the quarter was 22.6% compared to 23.7% for the second quarter of 2023. We continue to expect our adjusted tax rate for the year to be close to our 2023 rate, excluding the onetime items we mentioned at year-end.

During the quarter, we returned \$290 million to our shareholders via share repurchases of \$200 million and dividends of \$90 million. We continue to view share repurchases as an attractive use of capital to create long-term shareholder value, and be the central focus of balanced capital allocation.

We continue to expect share repurchases to total approximately \$750 million in 2024, subject to marketing conditions and other relevant factors.

We generated free cash flow of \$361 million for the six months ended June 30, an increase of \$11 million from prior year, primarily driven by operating margin expansion, partially offset by cash outflows related to transformation and discretionary compensation payments.

The free cash flow results for the quarter are in line with our expectation, as free cash flow margin was not intended to be linear for the year. We continue to be confident in our expectations of year-over-year improvement in our full year free cash flow margin.

Our strong top line and bottom line performance this quarter reflects our ongoing momentum, and the exemplary efforts of our colleagues to drive greater productivity and efficiency.

We expect this to continue into the second half of the year and are confident in achieving our 2024 targets. With that, let's open it up for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Elyse Greenspan, Wells Fargo.

Elyse Greenspan - Wells Fargo & Co - Analyst

Thanks, good morning. My first question, just as we think about the updated '24 guidance, what do you guys think is the biggest swing factor on just being able to exceed the EPS guidance you've outlined for '24?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Good morning, Elyse. I guess I'd look at it this way. We're really pleased with our execution in the first half of this year, and we remain optimistic on where we're tracking within the updated guidance.

We do see some opportunities for stronger performance relative to our margin guidance. For example, a better-than-expected productivity from our investment in talent. The timing of transformation savings could have an effect.

We are continuing to find opportunities to trim expenses without impacting growth and productivity, and then, I guess, fourth, maybe I'd identify the potential for rebounding global M&A activity. That creates opportunities for both of our segments, so all these are factors that could potentially lead to some outperformance.

Elyse Greenspan - *Wells Fargo & Co - Analyst*

Thanks. And then my second question is on free cash flow. Carl, you mentioned consciously managing BDO growth, right, to optimize free cash flow. When I look at the cash flow for the quarter, and I kind of adjust for transformation spend, which should be winding down, the conversion was at 21% of revenue, a little bit lower for the first half of the year, given that cash users are higher in Q1.

But it seems like you guys are on your way to being above that 16% target. Am I correct in that assessment, and when we get through transformation spend, is kind of the free cash flow conversion is expected to perhaps be greater than what you've outlined to the street?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, hi Elyse, it's Andrew. The free cash flow margin target of 16% plus was a longer-term target, not something necessarily tied to 2024. We're really pleased with the progress that we continue to make there.

And again, the levers there that will get us to that 16% plus over time are the expansion of the operating margin, I think, which we've demonstrated quite well this quarter. And we'll continue to do that, not just through transformation and operating leverage but also by developing businesses in more profitable markets.

The second item is going to be the abatement of the transformation-related cash outlays, which you mentioned, which we would expect through the beginning of 2025. And then, of course, the improved cash conversion in our TRANZACT business, which we're managing the growth profile there to maximize profitability and cash conversion. So we think all of those things taken together put us on a really solid path to get into that 16% plus over time.

Elyse Greenspan - *Wells Fargo & Co - Analyst*

Thank you.

Operator

Gregory Peters, Raymond James.

Gregory Peters - *Raymond James Financial Inc - Analyst*

Good morning, everyone. So for the first question, I'm going to focus on organic revenue growth. And in both your comments, you called out some, I'd call it, good guys that helps boost organic revenue growth in the second quarter career project for capital markets, bulk lump sum.

So I guess my question on organic is how much of the result from the second quarter and through the first half is sustainable versus onetime in nature? Or put it another way, just trying to figure out what type of recurring aspect of the organic results will continue through next year and beyond.

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Hi, good morning Greg, it's Carl. So let me start with HWC, right? As I mentioned in the prepared remarks, we expect tailwinds that will help sustain us regarding helping clients navigate the current economic environment. That includes work surrounding pension derisking and managing total awards, as you cited.

We see the increased compensation benchmarking participation that we're getting, and that continues to be elevated over the prior year. That creates a pipeline for accelerated growth in the latter half of this year, and our smart connection strategy continues to lead to increased cross-selling opportunities. I highlight a few of those in the prepared remarks.

Moving over to R&B. We're really pleased with the 10% organic growth we delivered in R&B for the quarter, and we continue to expect mid-single digit or better growth for that segment in the full -- for the full year. We're seeing increased contributions from our strategic investments in talent and platforms, and as we continue to pursue opportunities in line with our specialty strategy.

So we're confident we can achieve our 2024 revenue goals with the growing momentum we have with our clients as well as our expected pipeline for the rest of the year. Our client retention rates are strong.

Our book gain activity has normalized down to very manageable levels, and so we're pleased with the organic growth results from this past quarter. They are directly in line with our expectations that we laid out at year-end, right? With mid-single-digit growth at the enterprise level and in HWC and mid-single digit and better growth in R&B.

While some businesses are seeing lower growth, others are seeing higher than planned growth, and overall, we're comfortable regarding our revenue expectations. Look, we've had a lot of positive momentum in our business, largely due to the investments we've made in talent and technology, as well as our growth initiatives focused on specialization and smart connections.

The strategic investments we've made across the business position us, we think very well to pursue opportunities globally, that offer the greatest potential for profitable growth. And as these investments take shape, we expect greater top line contributions.

Gregory Peters - *Raymond James Financial Inc - Analyst*

Okay. For the second question, I'm going to pivot to the slide on the transformation program savings. And I'm citing the last bullet point where you said we're focusing on building an infrastructure from which to drive further efficiencies from. So I mean, we're getting to the point where the transformation program is going to sunset.

You've obviously looked like you're in a position to do really well and get your objectives. But I want to look out beyond that in '25 and '26. And I'm curious what you meant by the statement drive further efficiencies because you put it in bold.

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Sure, Greg. I mean now that WTW is on more stable footing, and some of the simpler parts of the program, like real estate rationalization are mostly behind us. The technology modernization and process optimization phases are our primary focus now.

We expect these actions are going to yield efficiencies as we move forward, and we expect most of the transformation savings from this year will not have a meaningful impact until 2025.

And to bring this a bit to life, right? Some examples include cloud initiatives like migration from data centers and servers and more reliability and cloud-based operations, centralizing and right-shoring support to delivery centers, reducing our application portfolio, renegotiating contracts, and reducing consultant spend.

A lot of these types of undertakings have always been a part of the program, but we've been able to identify additional savings by applying these sort of plans to additional areas in our business. I mean, ultimately, these actions are about simplifying our environment, making it easier to manage, and that will enable us to take advantage of streamlining, automation, and digitization.

That allows us to automate processes, to remove duplication, and operate more efficiency, right, by reducing manual effort, creating faster turnaround times, and these updates will not only reduce costs, but allow us better leverage data, and that, in turn, provides more role in advice and work targeted strategy for our clients and that will drive revenue growth as well, right?

So what we've been doing is laying a solid foundation going into the post the end of the 2024 transformation program. And we think that gives us momentum to continue to drive efficiencies in organization by taking advantage of what we've been able to construct during this period.

Operator

Rob Cox, Goldman Sachs.

Rob Cox - *Goldman Sachs Asset Management LP - Analyst*

Hey, thanks. So yes, I just wanted to ask about transformation cash spend. So it looks like with the updated guide, if I've got my numbers right, that there's a little more than \$160 million in cash restructuring charges left under the program. Do you expect the majority of those cash payments to occur in the back half of 2024?

And just given that there was over \$250 million of cash spending in the back half of 2023, I just want to confirm that, from this point forward, cash restructuring spend is likely to be a year-over-year tailwind to free cash flow?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

I think that's generally -- I would flip that the other way, and don't forget, we're going to have some of that bleed over into 2025 as well, in terms of when the cash goes out the door, versus when it's incurred from a transformation program perspective.

Rob Cox - *Goldman Sachs Asset Management LP - Analyst*

Okay, got it. And then just going back to the moderated growth in individual marketplace, and how it was intentional. Can you just give us a little more color on why you did that in the quarter? Your updated expectations on growth in the back half for this business and the impact that that could have on free cash flow.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, sure. So as we said in our remarks, we deliberately moderated growth in our Medicare-related businesses to reflect market developments, maximize profitability, and improved free cash flow outcomes. And we do remain focused on navigating the guardrails between growth, profitability and free cash flow there. We're not chasing growth in this business and are being thoughtful about acquisition costs.

At the moment, we're seeing some media buying costs increase, and that's really driven by US election media buying, and it's also causing a bit of consumer distraction. So we wanted to make sure we thoughtfully navigated that.

The decrease in our Medicare-related businesses was partially offset by solid growth in outsourcing within that line of business, and that was driven by increased project work, which more than covered the decrease in revenue related to the client we mentioned last quarter, who insured his health and other benefits administration. But overall, we're still confident in our pipeline in HWC, and continue to expect that segment to have mid-single-digit organic revenue growth for the full year.

Operator

Paul Newsome, Piper Sandler.

Paul Newsome - *Piper Sandler & Co - Analyst*

Good morning and thanks for the call. I was hoping you could give us some thoughts on the sort of the issue of the day, which is the outlook for the property and casualty market environment and the problems we've seen in casualty. It seems like pricing is basically kind of moderating in property and kind of not doing much in casualty.

From your advantage point, what do you think is happening, and what do you think might change?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Sure. I guess I look at it this way, right? Overall, we're seeing a stabilizing to softening market and with some differentiation that I'll elaborate a bit on. For property, the global trend is stabilizing to softening, though there was a large amount of nat cat losses in the first half of the year, such as US storms, flooding in Europe, the earthquake in Taiwan.

Natural catastrophe capacity is no longer the main driver of premium increases in this space. But in the casualty market, there's reduced capacity and higher pricing. Looking at financial lines, we do see them continue to soften, but the rate reductions have slowed down this quarter. Although in cyber, the market is softening faster because insurers have been widening their appetite and new capacity entering the market.

We see marine is stable to softening. But geographically, right, there's a softening market in Asia, Australia, LatAm. In Europe, we see generally flat, same true for the UK, and premium rises in North America have slowed to stable.

Many of the current rate increases have been driven by complex risks such as social inflation, geopolitical conflicts, natural disaster. All of this impacts our casualty lines, especially in North America, and globally, with political violence and terrorism.

Looking at it in terms of our results, we don't view rate as a significant tailwind or headwind across our R&B portfolio in terms of how it impacted to our results this past quarter. Our growth was primarily driven by high retention rates and new business as well as the investments we've made over the last few years, and the reorientation of the R&B business towards specialization. We think that's really made a difference for us, and it's going to continue to differentiate for us.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Thank you very much. (inaudible) I'll let other people ask questions. Appreciate the help as always.

Operator

Andrew Kligerman, TD Cowen.

Andrew Kligerman - *TD Cowen Inc - Analyst*

Morning. I'd like to follow up on an earlier question about organic revenue growth. You did 9% in health and then on the other side, in CRB did 10%. So I think about the exceptional talent that you've hired and they really are exceptional. And the numbers have brought the count up.

So when I think of those two low double, high single-digit numbers in health and CRB. How much of that -- and then I put that next to your guidance of mid-single digit or higher in terms of your objective for growth.

Should I think about most of that outsized growth as just kind of the tailwinds of the new talent, and then it just kind of eases into mid-single digit or higher, or do you think those high numbers in those two material subsegments will continue?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Well, I mean, as I've said before, Andrew, right, we do have some positive momentum that results not just from the investments we've made in talent, but what we think is a differentiated strategy that enables that talent to best succeed in the marketplace.

We do think that we still have more productivity we can get from the cohorts of talent we've brought on board over the last several years, and we continue to look for talent out in the marketplace who view WTW as the best place they can use to leverage what they can bring to their client base.

So we think that there's momentum in those businesses. We think our strategy helps us succeed, and we are optimistic that there is continued progress we can make.

Andrew Kligerman - *TD Cowen Inc - Analyst*

That's awesome. And in ICT, so that was flat. And you said it was tempered demand for discretionary services. And I think Andrew said that he expects a pickup in the second half in that area. Could you talk specifically about some of those services that are big at ICT, and why you think that will pick up in the second half?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, sure. ICT comprises about 10% or roughly \$400 million of R&B's annualized revenue, and that's split roughly 50-50 between software sales and consulting revenue. Given its size, a few million dollars in either direction can have an impact on the organic growth rate for the period of a couple of sizable contracts have modified timing period-to-period.

In the first half of the year, we saw some of those large consulting projects being postponed. However, we recognize that the environment for certain advisory work within ICT, they continue to be challenging. So we moderated our growth expectation there accordingly, along the lines of mid-single-digit growth for ICT.

So it's really around the timing of some software sales, which can be chunky from time to time, as well as some of the discretionary spend related to the consulting side of the business and the timing of those projects.

Operator

Mike Ward, Citigroup.

Mike Ward - *Citigroup - Analyst*

Thanks. Good morning. Carl, you mentioned the opportunity to do -- potentially do outperform some of the guidance on the margin. I was wondering if you could quantify potential upside at all to margins.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. We're not going to quantify any potential upside, but I think if I think about how the rest of the year could play out. Obviously, we're very pleased with the 240 basis points of margin expansion we had this quarter. That gives us the confidence in the outlook for the full year, hence the increase in the target range to 23% to 23.5% for the year.

And if you just think about some of the puts and takes for the rest of the year, we expect the run rate transformation savings to be spread ratably over the year. We also anticipate operating leverage on a full year basis as we continue to drive organic growth as well as focusing on cost discipline and operating efficiency.

And just as a reminder, the pacing of book gains and interest income in the comparable period, some of those things may cause the scale of margin expansion to vary quarter-by-quarter. But as you heard me mention, and as Carl mentioned earlier, we do see opportunities to potentially outperform.

Mike Ward - *Citigroup - Analyst*

Okay. Thank you. And then for CRB, we've seen a divergence in the pricing environment for large accounts versus middle market or smaller. I was hoping you could talk about what you're seeing in terms of pricing across your customer segments within CRB overall, I guess?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Yes, sure. I think I talked a little bit about this when I discussed rate a question or two ago. There's certainly more differentiated depending on the nature of the risk and what the performance has been over time where, for instance, cat exposed and cat hit property is clearly a more challenged environment than clients who been relatively loss-free records.

So there is clearly, I think, a desire by markets to continue to differentiate on the pricing that they offer our client base. But we're not seeing the difficulty we might have had a few years ago with capacity in various markets. We're able to achieve, I think, quite good results for our clients. Anticipate that will be the case going forward.

Operator

Mike Zaremski, BMO.

Mike Zaremski - BMO Capital Markets Corp - Analyst

Back to the discussion on what was excellent -- continues to be excellent organic growth in R&B. Just looking through kind of past transcripts and what you said this quarter, you mentioned client retention in the mid-90s, the past couple of quarters and the quarter before that, you've said that retention improved and increased.

Is it fair to kind of assume that retention continues to be a driver of some of the outsized growth? Or am I reading into things too?

Carl Hess - Willis Towers Watson PLC - Chief Executive Officer

I mean, retention continues to be in the mid-90s, which is a level we're very pleased with that business you keep is less business you have to replace.

We think that's a result of the excellent client service we deliver as well as the insights we're able to provide our client base with our risk analytics that we feel are unmatched in the industry. So no question that the retention rates we have are ones we'd like to keep more persistent going forward.

Mike Zaremski - BMO Capital Markets Corp - Analyst

Got it. So that is kind of a, you're at a normalized retention rate, should have been more clear today?

Carl Hess - Willis Towers Watson PLC - Chief Executive Officer

Yes. I mean we're certainly at levels that are consistent with where we were a number of years ago before some of the disruption we had, and the stabilization of the talent base is at the fundamental debt.

Mike Zaremski - BMO Capital Markets Corp - Analyst

Okay, great. My follow-up, just sticking on the R&B segment. Margins improvement was excellent as well. I heard some of the comments, but just want to make sure there's kind of nothing. It was really mostly operating leverage? Or is there something that was onetime?

Or something that was cut in terms of expenses that we should just be careful with run rating? And I know you obviously have guidance out there on the margin, but just curious, just the extent of the margin beat was so much. Thanks.

Andrew Krasner - Willis Towers Watson PLC - Chief Financial Officer

Yes, there was nothing unusual. It was all driven by transformation savings, and operating leverage, and of course, focusing on prudent expense management as part of that.

Operator

Yaron Kinar, Jefferies.

Yaron Kinar - Jefferies Group LLC - Analyst

Thank you. Good morning. I wanted to circle back to the guidance, the updated guidance, specifically the margin guidance. So I think at the midpoint, the new guidance would suggest material slowdown in margin expansion in the second half. Can you maybe talk about that a little bit?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Yes, sure. I think I would bring you back to Carl's comments earlier about sort of continuing to drive operating leverage, transformation program continuing to hit and where we think we might land within that range and the level of optimism around that.

So we feel really comfortable about where we're going to land within that range given the industry dynamics as well as our progress on transformation and operating leverage. And again, we do see the -- yes, sorry, go ahead.

Yaron Kinar - *Jefferies Group LLC - Analyst*

I was just going to say, with that comment of kind of the continued kind of fruits of the transformational program coming through and the scale, why would we see a meaningful slowdown in margin expansion in the second half of the year? Kind of year-over-year relative to where it's been in the first half.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, so we do see the opportunity to outperform that range that we put out there, and Carl went through some of the puts and takes of that earlier about how we might get there around better-than-expected productivity from investment in talent, the timing of the transformation savings, continuing to focus on prudent management of expenses without impacting growth, and then some business factors as well, which could provide some incremental tailwinds.

Yaron Kinar - *Jefferies Group LLC - Analyst*

Got it. So it's a potential upside to that guidance. And my second question, Andrew, you talked about the Medicare-related business. Can you maybe offer some additional color on what you might [buy from] the market developments?

And do you still consider this an attractive long-term business? And maybe, I apologize for throwing in a lot here, but also, what's allowed Willis and TRANZACT to succeed where we've seen a growing list of competitors stumble?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Well, let me address the latter, right? I mean, I think we run a business that's got a couple of differentiating features to it. One is the diversification we've got between product and lead type. And second, I'd probably identify a bit of discipline.

Historically, many of our competitors have gone for growth at all costs, where we've always, I think, tried to pursue a path that looks at growth and profitability and cash spend and try and balance all three for sustainable margins and revenue growth.

And we've got a management team that I think has been very effective over prior years at being able to manage all that. And so there's a certain discipline we've approached that business that hasn't been necessarily present throughout the industry.

Looking forward a bit, right, there's no question that there's, you know, we've seen any share of headlines regarding what's going on here. We've seen the proposed Medicare Advantage rates and what they could have in the business.

That's regarding what sort of commissions that carries data brokers for selling policies. There continues to be some uncertainty on how that's going to play out with the carriers. But I think speculating as to the potential impact on our business regarding commissions be really premature.

We've been managing regulatory changes and their impact over prior years. We've been successfully navigating those changes in the past, and I think we're going to continue to do so.

Carriers have a lot of options for managing their profitability, and while broker commissions could be a lever, there are other options that are going to be far more impactful for them like benefit changes and premium tweaks.

And turning to the final CMS rule for 2025 that addresses marketing of Medicare Advantage plans, that was reduced in early April. The final rule was less onerous than the proposed rule in a number of ways. There's still some uncertainties about how that's all going to be implemented.

But right, the US courts have stayed part of this rule, which means the terms may not -- sorry, will not take effect this year. We remain actively engaged with the carriers in the space.

They have reiterated the important role we play in the distribution of Medicare insurance solutions, and the valuable services we provide to beneficiaries.

So I guess, in sum, we remain confident we'll be able to work effectively with carriers to deliver services, and be compensated fairly as long as we bring value.

Operator

David Motemaden, Evercore ISI.

David Motemaden - *Evercore ISI - Analyst*

Good morning. I had a question just on the head count growth within R&B. It sounds like the productivity enhancement has been exceeded expectations, but I'm wondering as we sort of sunset that or that moderates as employees ramp how you guys are thinking about head count growth within R&B compared to the 2% head count growth in R&B you had in 2023?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

So I mean, after a focused effort over the past few years, we think we've replenished our talent base. We've seen the new hires begin to contribute to our organic growth, as I discussed earlier.

We've had several waves of hiring over the past few years, and so we still have a bit more to go as these cohorts mature to peak productivity.

Currently, our hiring efforts are more opportunistic. They were strategic with a goal of enhancing our ability to achieve sustainable and profitable growth and create value, right?

Our hiring of Lucy Clarke that I talked about during prepared remarks is one example of this sort of strategic hire. We've recently announced a few other strategic hires to support our industry verticals and Verita as well.

With respect to our expense rate base, any incremental investments, whether they're in talent or technology are not going to prevent us hitting our 2024 margin targets, and as Andrew has alluded to, we expect to be toward the higher end of our target margin range in 2024 and expect margin expansion in both segments.

David Motemaden - *Evercore ISI - Analyst*

Got it. Thank you. And then just my follow-up, Wondering if I could get just a little bit more detail on Verita in terms of just how big it is and how fast it's growing. Any sort of numbers you can put around it would be helpful because it sounds like it's been fairly successful.

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. We're very pleased with the growth that we've seen since launching the platform. It's done better than we had initially expected. However, given the overall size of the R&B business, still relatively small and not necessarily moving the needle from an organic growth perspective at this point in time.

Operator

Mark Marcon, Baird.

Mark Marcon - *Robert W. Baird & Co - Analyst*

Good morning and thanks for taking my questions. Andrew, one quick question and then a follow-up for Carl. On the unallocated costs, obviously, they jumped up. You mentioned that there was the legal fee. You did say that for the full year, we should be roughly equal to the level that we saw in 2023. Is that correct?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes, that is correct. So unallocated net was \$106 million for the quarter, which, that's an increase from the \$52 million in the prior year. And it does include that \$13 million provision that you referenced.

Year-to-date, we're at \$162 million. We think that's a more meaningful comparison point given that expectation that '24 should be relatively consistent with the '23 balance, which is about \$296 million.

Mark Marcon - *Robert W. Baird & Co - Analyst*

Great. And then, Carl, we take a look at all the various segments. And with the exception of TRANZACT, which you're moderating on purpose, it seems like the momentum is quite solid.

Obviously, you've got a differentiated strategy. You've made some talent hires. But I'm also wondering, when you internally monitor engagement within the more than 40,000 professionals that you have within the organization.

After several years of change, do you feel like morale engagement has improved significantly. And some of the productivity improvements that we're seeing are basically just due to a widespread increase in terms of confidence and things being more settled?

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

I don't want to give any impression that we're sitting there and thinking we solved everything, that we are arrogant. But I do think organizationally, we're dealing with 46,000 people who got their mojo back, and it shows.

And when I walk the halls of an office, whether it's here today in New York or London or Paris or Hong Kong, people like where they're working and they're enthusiastic about our prospects. And that's a wonderful thing to say.

Operator

Meyer Shields, Keefe, Bruyette, & Woods.

Meyer Shields - Keefe, Bruyette & Woods Inc - Analyst

Thanks. I have two quick questions. I guess the first, because of the strangeness of TRANZACT accounting, can you help us think about how impactful moderating growth could be to the fourth quarter organic growth in Health, Wealth and Career?

Andrew Krasner - Willis Towers Watson PLC - Chief Financial Officer

Yes, sure. If we do continue to see that moderation of growth within the Medicare-related businesses, it could temper some growth within the overall HWC segment. However, we continue to focus on the strong pipeline that we do have in the other businesses there.

It is a portfolio of businesses and believe that I think Carl mentioned earlier, for example, the pipeline and survey work that we expect to take hold as well as some of the project-based work in North America within health. So we're really confident about delivering the mid-single-digit growth for the segment overall for the year.

Meyer Shields - Keefe, Bruyette & Woods Inc - Analyst

Okay. That's helpful. Second question, maybe bigger picture. Can you give us a sense of what Lucy Clarke's priorities are as she comes in, like for the first 12 to 18 months?

Carl Hess - Willis Towers Watson PLC - Chief Executive Officer

Lucy's priorities, sorry, you got a little garbled there for a second. I guess I'd look at it this way, right? I mean we're incredibly excited about Lucy's joined us. She is a perfect fit to accelerate our existing strategy and lead R&B. She's got deep experience in specialization. She's got a proven track of attracting and developing top-tier talents, and she's got a well-honed ability to execute.

Her background is well aligned with our focus on specialization, and our investments in talent and technology. I think Lucy's just joined us this week, right? She's surveying the landscape of the R&B business.

I expect you'll affirm what's working well, use the benefit of her decades of experience in other organizations to see what else we could be doing to modify our approach. But the reason she's joined us is that she believes in our strategy, and I expect that we're looking at fine-tuning that wholesale revolution.

Operator

Mark Hughes, Truist Securities.

Mark Hughes - Truist Securities Inc - Analyst

Good morning. Andrew, anything you can say about the trajectory of unallocated into 2025?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

We're not giving any guidance or financial perspectives for 2025 yet. But again, for 2024, we do expect the balance to be relatively similar to where we landed the year for 2023.

Mark Hughes - *Truist Securities Inc - Analyst*

And then any specifics on the cash spend on the transformation in the second half, and then how much goes into 2025?

Andrew Krasner - *Willis Towers Watson PLC - Chief Financial Officer*

Yes. So we do expect some of the transformation cash spend to bleed over into 2025, and expect some payments to be made from an account of cash basis perspective throughout the third and fourth quarters.

Operator

Thank you. This concludes the question-and-answer session. I would now like to turn it back to Carl Hess, WTW's Chief Executive Officer.

Carl Hess - *Willis Towers Watson PLC - Chief Executive Officer*

Thank you once again for joining us today for our second quarter earnings conference call. I deeply appreciate the dedication of our WTW colleagues worldwide who have made this strong quarter possible. Additionally, I extend my gratitude to our shareholders for their ongoing support.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect.

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