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WTW.OQ - Q4 2022 Willis Towers Watson PLC Earnings Call

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OVERVIEW:

Co. reported 4Q22 organic revenue growth of 5% and adjusted diluted EPS of \$6.33. Expects 2023 organic revenue growth to be mid single-digit.

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PRESENTATION

Operator

Good morning. Welcome to the WTW Fourth Quarter 2022 Earnings Conference Call. Please refer to wtw.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 WTW 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 in the company and the company undertakes no obligation to update these statements. One moment. Thank you.

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 in today's company and undertakes no obligation to update these statements unless required by law. For more details discussed of these and other risk factors, Investors should review the forward-looking statements section in the earnings press release issued this morning as well as other disclosures in 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 the non-GAAP measures as well as other information regarding these measures, please refer to the most recent earnings release and other materials in the Investor Relations section of the company's website.

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

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

Good morning, everyone. Thank you for joining us for WTW's Fourth Quarter 2022 Earnings Call. Joining me today is Andrew Krasner, our Chief Financial Officer. In 2022, we focused on executing against our growth, simplify and transform strategic priorities, continuing to bring the best of WTW to our clients and generating value for our shareholders. I'm proud to say that we delivered on all of these commitments. Today, we are stronger, more resilient and better positioned than we were a year ago, and I'm excited about what we will achieve going forward.

Our fourth quarter performance reflects the momentum we've been building and is a solid finish to a great year. In Q4, we delivered 5% organic growth which brought our full year organic growth to 4%, in line with the mid-single-digit forecast for 2022. We also saw a modest margin expansion, despite significant headwinds from prior year book of business settlement activity, which is expected to normalize going forward. We generated adjusted diluted earnings per share of \$6.33, up 12% over the prior year fourth quarter. We also continued to execute against our capital allocation strategy completing another \$440 million in share repurchases in the fourth quarter, bringing our full year total to \$3.5 billion.

Our transformation efforts continue to have a significant impact. During the fourth quarter, we realized \$49 million of incremental annualized savings. This brings the total to \$149 million in cumulative annualized savings since the program's inception and positions us well to achieve our 2024 target of \$360 million. In advancing our simplified goals, we further refined our organizational structure by consolidating our Asia and Australasia operations into one Asia Pacific region. This streamlined unit will be better able to leverage shared resources and to seamlessly serve clients in the region. Simon Weaver, who is previously the head of AustralAsia will lead the new integrated region and be responsible for driving growth through closer collaboration across the business.

For our grow initiatives, we remain focused on driving better outcomes for our clients through our innovative and differentiated offerings. Most recently, we launched a customized online platform for the aviation sector which gives our clients access to WTW's expertise across the globe, 24/7. Tailored to the unique challenges and needs of the sector, this platform allows airline and aviation-related clients to share technical expertise, news and insights, strengthening the breadth and depth of our client and industry relationships. We also advanced our grow initiatives with the recent introduction of WTW's collaboration with Liberty Specialty Markets and Markel. Together, we launched the pilot phase of an innovative digital commercial insurance platform. This is a significant step forward in our broader strategy to transform our digital capabilities across the entire value chain. The venture will improve connectivity, giving brokers efficient, flexible trading options.

Elsewhere within Risk and Broking, the ongoing rollout of our industry specialization strategy in CRB is producing great results with our global lines of business driving high single-digit organic growth. We're also excited by the traction our growing initiatives have gained within Health wealth and Career. Our focus on making connections across our businesses produced meaningful benefits in the fourth quarter with a noteworthy portion of our discretionary project sales referred by other businesses.

In 2022, we made significant investments in rebuilding our talent base. WTW hired over 9,700 colleagues last year, demonstrating the appeal of WTW as a destination for talent. Our investment has translated into revenue growth in 2022, and we expect this to continue throughout 2023. We also saw the benefit of our retention efforts with voluntary attrition remaining in line with macro trends. As a result, WTW finished the year with 46,600 colleagues around the globe, an increase that has restored our headcount to 2019 levels despite the divestitures made since that time.

Overall, I'm pleased with our fourth quarter performance. The progress we have made to date, executing our strategic priorities to grow, simplify and transform gives us confidence that WTW is on the right path to drive sustainable growth and value creation.

In the year ahead, we're focused on further accelerating our growth, driving greater operating leverage and prioritizing cash generation. The current complex economic environment supports our ambitions. Our clients are facing many uncertainties, including inflation, rising interest rates, softer GDP growth, a tight labor market, ESG risk and potential recession. The regulatory focus on pensions in an uncertain economic environment is also heightened. As we've seen historically, such volatility can create strong demand for specialist work and products that our unique combination of businesses provide. I'm pleased with our ability to help clients evaluate their risks and opportunities in these complex environments.

For example, recent market dynamics have provided defined benefit plan sponsors for the increased funding levels, which in turn has created flexibility to explore a range of potential alternatives including modifications to investment strategies as well as pension risk transfer options. We've seen a significant increase in pension risk transfer projects, many of which evolved over multiple years and require a high degree of specialization.

In addition, we're seeing increased interest in clients reviewing their nonqualified benefits as well as investigating programs to manage their workforces, additional areas in which we are ideally placed to help.

Many of our clients also continue to navigate sustained rising commercial insurance rates. Across various lines, insurers are pushing for premium increases. This causes even greater challenges for our clients as they try to manage complex risks. We're well positioned to help clients through this difficult rate environment. Our customized tools ensure that clients get the best return for their premium dollar across their entire portfolio of risks. We call this Connected Risk Intelligence and believe it represents the future of financially efficient insurance buying. At the same time, we continue to build momentum.

Our recent hires are becoming more productive. We're getting faster, more agile and better connected and our transformation program is delivering. We see continued demand from clients seeking our solutions to manage their unique challenges, which strengthens our conviction in achieving mid-single-digit organic revenue growth in 2023. We expect to deliver another year of operating margin expansion led by an incremental \$100 million in annualized transformation program cost savings and improved free cash flow. Andrew will share more details on our outlook for the year, but in short, we're driving hard to achieve our long-term targets.

In closing, our performance in 2022 demonstrated our focus on delivering on our commitments and our pursuit of profitable, sustainable growth. We believe that robust client demand in the face of a complex risk environment and the successful execution of our strategy will continue to drive momentum and we remain focused on achieving our goals and creating shareholder value.

Last, but certainly not least, I want to thank our colleagues for their performance this year. I sincerely appreciate their dedication, service and continued commitment to our clients. And with that, I'll turn the call over to Andrew.

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

Thanks, Carl. Good morning, everyone. Thanks to all of you for joining us today. As Carl mentioned, we finished the year on a high note and our outlook for 2023 is positive. Now I'd like to share some further details on our financial results.

The fourth quarter was in line with our expectations, with revenue up 5% on an organic basis. For the year, organic revenue growth was 4%, and we had solid growth across our portfolio of businesses. For the quarter, adjusted diluted earnings per share were \$6.33, an increase of 12% over the prior year. For the year, adjusted diluted earnings per share were \$13.41, representing 16% growth over the prior year.

Now on to our detailed 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. The health, wealth and career or HWC segment generated revenue growth of 5% on an organic and constant currency basis compared to the fourth quarter of last year. Excluding the year-over-year headwind from book of business settlement activity, HWC's organic revenue grew 6%.

Revenue for health was flat for the fourth quarter primarily due to a strong comparative arising from book gains in the prior year. Excluding this activity, health revenue grew 6%, primarily driven by portfolio growth and new client appointments in Europe and international as well as increased project work in North America related to helping clients manage increasing costs and implementing legislative changes.

Wealth grew 5% in the fourth quarter. The growth was primarily attributable to higher levels of project work actuarial valuation activity and new administration clients in North America and a combination of regulatory and settlement work in Great Britain. This growth was partially offset by a nominal decrease in our Investments business, which was pressured by declines in capital markets, an expected headwind we mentioned during our third quarter earnings call. The Wealth business finished the year with a strong fourth quarter, offsetting declines experienced earlier in 2022.

Career experienced 9% growth in the fourth quarter. This growth was largely driven by strong client demand for talent and compensation products, including compensation benchmarking surveys and advisory work, as well as employee engagement offerings, which we expect to continue this year. Benefits Delivery and Outsourcing generated 6% revenue growth in the fourth quarter. The increase was largely driven by individual marketplace,

with strong growth from higher volumes and placements in Medicare Advantage policies. As expected, TRANZACT delivered double-digit growth in its seasonally strongest quarter and for the full year. Driven by a supportive macro environment and our focus on profitably growing the business.

Technology and Administrative Solutions revenue also increased primarily due to new client appointments and increased project activity. We continue to see growth opportunities for these businesses and expect that they will continue their growth trajectory into 2023. HWC's operating margin was 39% for the third quarter compared to 38.2% in the prior year fourth quarter. Excluding the impact of book of business activity, HWC's operating margin was 39% compared to 37.6% in the prior year fourth quarter.

For the full year, HWC's operating margin was 26.1% compared to 25.6% in the prior year. The 50 basis point improvement was due to improved operating leverage and transformation-related savings. Risk and Broking revenue was up 5% on an organic basis and 3% on a constant currency basis compared to the prior year fourth quarter. Excluding the headwind from book of business settlement activity, R&D's organic revenue increased 6%. Corporate Risk & Broking or CRB, organic revenue increased 3%. Excluding book of business settlement activity, CRB's organic revenue growth was 5%. The business generated growth across all regions, driven by new business wins in construction, natural resources and aerospace. Excluding headwinds from prior year book of business settlements, North America revenue increased with notable growth in construction. Europe and international also made strong contributions to CRB's growth with new business in construction and aerospace.

In the Insurance Consulting and Technology business, revenue was up 17% over the prior year fourth quarter, benefiting from the timing of software sales, which had originally been expected earlier in the year as well as increased advisory work. For the year, ICT delivered strong growth of 9%, in line with our long-term expectations for this business. R&D's operating margin was 28.3% for the quarter compared to 30.1% in the prior year fourth quarter. Excluding the impact of book of business activity, RMB's operating margin was 27.6% for the quarter compared to 28.3% in the prior year fourth quarter. For the full year, RMB's operating margin was 21.2% compared to 23.4% in the prior year. The decline in margin was due to our significant investments in talent. We expect these investments to continue to gain momentum in 2023 as the contributions of these hires become more meaningful.

Now let's turn to the enterprise level results. Adjusted operating income was \$882 million for the quarter with 32% of revenue, a 20 basis point improvement over the prior year. For the year, adjusted operating margin was 20.9%, a 100 basis point improvement over the prior year. Our improved adjusted operating margins primarily reflect the benefits of strategic portfolio management which were realized at the corporate level, alongside transformation program savings, which were realized at the segment level, but in some of our businesses were more than offset by our increased investments in talent during the period.

As Carl mentioned, during the fourth quarter, we realized \$49 million of incremental annualized savings. Transformation savings will continue to be a key aspect of our ongoing margin expansion efforts as we're encouraged by the results this year, which exceeded both our original \$30 million target for 2022 and our most recent forecast of \$110 million for the year. To date, our transformation savings have outpaced our original expectations from a timing perspective, driven primarily by accelerated workforce savings, technology savings from migrating operations to the cloud and reductions in our overall real estate footprint.

For 2023, we expect our transformation program to deliver approximately \$100 million in incremental run rate savings by the end of the year with continued contributions from real estate, technology and process optimization. Foreign currency was a headwind on adjusted EPS of \$0.25 for the year, largely due to the strength of the U.S. dollar. Assuming exchange rates remain at current levels, we expect foreign currency to be a \$0.06 headwind in Q1 of 2023, but only a \$0.01 headwind for the full year. We generated free cash flow of \$674 million for 2022 compared to free cash flow of \$1.9 billion in 2021. This decrease was primarily due to the receipt of the \$1 billion termination fee in the comparable period and the absence of cash generation from the divested treaty reinsurance business.

Looking ahead, growing earnings and generating healthy free cash flow remain our priorities. Our U.S. GAAP tax rate for the fourth quarter was 17.7% versus 20.8% in the prior year. Our adjusted tax rate for the quarter was 22.2% versus 21.1% in the prior year, with the difference primarily due to the geographic distribution of profits. For the year, our U.S. GAAP tax rate was 15.4% versus 19.9% in the prior year. Our adjusted tax rate for the full year was 20.9%, more in line with the 20.7% rate in the prior year.

In 2022, we returned a significant amount of capital to our shareholders, paying \$369 million in dividends and repurchasing 15.7 million shares for \$3.5 billion. We will continue to pursue a disciplined capital allocation strategy that balances capital return with internal investments and strategic M&A to deploy our capital in the highest return opportunities. While we expect share repurchases to remain the primary avenue for capital deployment, we continue to evaluate all our options to create value for shareholders.

Turning to our 2023 guidance. Based on current market conditions, we expect to deliver mid-single-digit organic revenue growth alongside adjusted operating margin expansion despite continued investments in long-term growth. We also expect an improvement in free cash flow now that onetime cash outflows primarily related to our divested treaty reinsurance business are behind us. As I mentioned earlier, we expect to see \$100 million in incremental annualized transformation program savings. With respect to noncash pension income, we expect to see a decline due to market volatility and interest rate movements.

For 2023, we expect about \$112 million in pension income as compared to \$271 million in 2022. I'd like to note that despite this dynamic, the funded position of our plans has improved. We remain focused on our long-term targets and recognize that to achieve them, we will need to build on prior momentum and continue to accelerate revenue, margin and cash flow growth. Each of these areas remains the subject of significant management attention.

Overall, it was a strong quarter and year for WTW with performance that aligned with our expectations. Our results reflect a lot of hard work, which included vigorous hiring efforts, investments in technology, successful transformation initiatives and the unwavering dedication of our colleagues. We ended the year in a solid position, and I'm confident that we will continue to build momentum in 2023 as we work to achieve our long-term targets.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Elyse Greenspan with Wells Fargo.

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

My first question. Can you guys just give us the impact of the book gains and the fiduciary investment income on both your revenue and margins for the fourth quarter as well as for the full year?

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

Yes, sure. Thanks, Elyse. It's Andrew. I think, as you point out, it's meaningful to talk about those 2 components that underlie the revenue growth figures for the quarter. As you know, we had headwinds from gain on sale activities, and these were partially offset by sort of investment income. The tailwind from investment income was \$24 million for the quarter and \$43 million for the full year. And that was partially offset by the headwinds which we had from the gain on sale activity which was \$65 million for the quarter and \$63 million for the full year.

I think it's also important to note that we still would have had mid-single-digit organic growth and margin expansion absent those items.

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

Okay. And then my second question is on free cash flow, right? Given where you guys were for 2022, I mean you're still-- you're running short of that 3-year target that you guys have laid out. And so -- could you just get -- is there a line of sight to getting into that free cash flow target? And can you just talk through some of the ways you're looking to improve your free cash flow in '23 and '24?

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

Yes, sure. As we discussed on the last call, we faced more headwinds on free cash flow than we originally anticipated, including our exit from Russia and timing differences from cash payments made in 2022 on both the termination fee and the Willis regain. Nonrecurring working capital items, including these tax payments and other economic factors had a meaningful impact on free cash flow in 2022.

Looking ahead, we've not provided any annual free cash flow guidance, but we do remain committed to achieving our cumulative 3-year free cash flow target of \$1.3 billion to \$5.3 billion. We're focused on free cash flow generation, we understand what is required to reach that target from where we are today, and we are lining things up to get there. We expect the one-off items and the related headwinds to abate. We are optimizing the cash generation profile of our business portfolio, and we're focusing on tactical working capital improvements as well.

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

And then just one more quick one. So you did revise your '24 EPS target last quarter. But then this quarter, right, you gave us the pension income guide, which is lower pension income for '23. Is that embedded within the guide, the \$ 1,750 to \$ 2,050, right? That pension income will be lower, you would have a lower base in '23 and still be able to get to that 24% EPS target?

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

So Elyse, we've not adjusted our 2024 pension income assumption for the current headwind we've got in 2023. As we've seen during the last 12 months, a lot can happen when it comes to external factors, so a lot can change over the next 2 years as well. We do remain focused on driving organic growth, operating leverage and cost savings to achieve our long-term EPS target.

Operator

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

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

For my first question, I'm going to focus in on both the adjusted operating margin. If I look at the full year and your results, it's up 100 basis points from prior year. And in your prepared remarks, you talked about all the new hires that you successfully executed on last year. Can you talk about how those hires affected the margin results, the margin expansion results in '22? And I guess when I'm thinking about '23 and '24 as those employees get the new hires get more -- get onboarded and they become more productive in year 2 and year 3, maybe there's some tailwind on margin from that. So some perspective there would be helpful.

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

Yes, Greg. So with regard to talent, I mean, we're really pleased with the progress we've made on our higher efforts during the year. Net hiring for the year is positive. Our headcount is up by almost 2,500 to 46,600 employees, which is kind of back to 2019 levels, and that's despite the divestitures we've made since then. We do expect the contribution to the improvement in our talent base fee become more meaningful into 2023, and we've already seen positive trends as we progress through 2022. I think that's reflected in the revenue growth numbers start from quarter-to-quarter.

We're continuing to hire opportunistically in the number of open positions and base position, of course, are going to vary at any given time based on our needs. But we're really encouraged by the progress we've made, and we're going to continue to focus on expanding our talent base as necessary to achieve our growth targets. You'll probably see some further detail on our high reprinting goals in our 10-K, which will be filed later in the month.

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

And just a point of clarification on that. I sort of viewed '22 as like a hiring super cycle for you guys -- is it -- when I think about '23, is it more -- are we back to more normalized run rate type of additions? Or are you still -- would you still think of '23 is still looking out to make a substantial addition to your workforce?

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

Well, we are continuing to hire opportunistically, as I said, Greg. And yes, there's always going to be some areas in a firm that is the span of services we do where you look and say, okay, we need to kind of advance what we're doing more substantially than others. But I think we're opportunistically is key, right? Whereas coming into 2022. As we talked about in earlier calls, we had more pronounced needs across the organization.

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

Yes, that makes sense. Okay. My second question, I guess, is my third technically, but my last question will be on organic revenue guidance. You provided the mid-single-digit guidance and I know you don't want to get mired down in the detail, but I'm wondering if you could give us some idea of how you think the pieces inside Health, Wealth and Career and Risk and Broking might perform in '23 in the context of the '23 guidance.

And I guess the reason why I'm asking about this, as I look at the ICT results that were really strong, and I'm just wondering if that's something like that can sustain itself?

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

Yes. Thanks for that. We remain confident in our ability to get to the mid-single-digit growth in 2023 and beyond. That's demonstrated by the organic revenue growth that we achieved this year, reflecting all of the momentum in our businesses. The continued growth from clients seeking our solutions coupled with our robust pipeline and investments that we're making in our talent strengthens our conviction in our ability to achieve that mid-single-digit organic revenue growth in the future.

Our focus remains on enterprise level, long-time organic -- long-term organic revenue growth target in the mid-single digits. And specifically regarding thoughts around the growth profiles of each of our businesses. Probably best to refer you back to our Investor Day materials from September of 21, where we did set some of that out business by business of what we expect long term for each one of those components.

Operator

And for our next question. Our next question comes from the line of David Motemaden with Evercore.

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

I was just wondering if you could size the benefit that the favorable ICT timing had an organic revenue growth in R&D in the quarter? And maybe just talk about how much of a headwind that would be in the first quarter of '23?

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

Yes, it's Andrew. I assume you're referring to the comment about the timing of the ICT software sales? Is that right, David?

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

Yes.

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

That's -- so that was stuff that actually we had expected earlier in the year that ended up occurring in the fourth quarter just to when sales cycles close, et cetera. So I think it's best to look at that business on a full year basis, and that's in line with our expectations of how that business has performed over the longer term.

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

Okay. Got it. That's helpful. And then just looking at the R&B organic growth, I think it was 6% excluding the book of business drag and I'm calculating around a 2-point also a 2-point benefit from fiduciary income. So I'm getting to around 4% organic if I take out book of business impacts and fiduciary impacts, which is about the same as it was last quarter.

So I guess I'm wondering why we didn't see that -- or I guess, first, is that right? And if so, why we really didn't see that growth accelerate versus the third quarter?

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

Yes. So I think the first point of clarification there is around the risk and broking growth rates. So 5% organic, a 6% organic, excluding the gain on sale and 6% excluding gain on sale and investment income. So it would have been 6% with or without the tailwind from investment income within that line of business.

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

Okay. Great. I missed that.

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

No problem.

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

And I guess maybe just one more I'll sneak one in. Could you just size the adverse impact that the divested reinsurance business in Russia had on free cash flow this year? Because it does feel like a pretty big ramp to get to the low end of the free cash flow target over the next couple of years. So maybe just help us get a sense for what a more normalized free cash flow number would look like if we didn't have those items would be helpful?

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

Yes. We did talk a bit about this on the call, the last quarter. So I think we disclosed that the Russia business had about 1% of our total revenue base and a margin of more than double the enterprise margin. So there is some pretty healthy EBITDA cash flow associated with that. Additionally, we did write off a large amount of receivables that were associated with that business, which we were unable to collect. So there's a fairly sizable headwind, which presented itself from the divestiture and write-off of that business.

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

Yes, just for clarity, that was our insurance broking business, not reinsurance broking which we or any of that would have already been divested with the Bollore divestiture.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Michael Zaremski with BMO.

Michael David Zaremski - *Wolfe Research, LLC - Former Research Analyst*

I promise to just hold it to a one question and a follow-up. First question, I just wanted to -- I heard the answer to Elyse's question about the pension income being factored into your long-term guide and it can be volatile. But I just want to be clear, it's a meaningful headwind in 2023. And so are there other levers that you're pulling more so than you had kind of previously expected in '23 to be able to show margin improvement?

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

So just to clarify on the size of the headwind, as you'll see in our 10-K, pension income for 2022 was \$272 million. and we're guiding for \$412 million in 2023. So that, I think, shows you the product quantitative basis what we're facing. We do look at all levers available to us as we run this company. And to the extent we've got a headwind in the other direction, we search for what we can do elsewhere. That feels like how you manage the company every day. And just as we've seen during 2022, we can get all sorts of headwinds and directions, expected or not. We think the benefit of running the diversified portfolio we have, gives us the opportunity to adapt this.

Michael David Zaremski - *Wolfe Research, LLC - Former Research Analyst*

Okay. And my follow-up, just curious, some of your peers have publicly talked about looking for ways to bring employees more back to the office and to better collaborate. I believe Willis has always kind of been collaborative and a more virtual environment. And you've been clear that a lot of the cost -- some of the cost saves will come from less real estate. But any changes in kind of in your view on the meaningfully lower real estate footprint and kind of just the overall firm's view of remote work?

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

So we absolutely have adapted really well to remote work, but we recognize the benefit of in-office collaboration as well. None of that is incompatible with a reduced real estate footprint and we are, I think, extremely successfully navigating back to work, back to collaboration and the flexibility that the workplace at tomorrow really wants from their. So, I'm really happy with how our colleagues have adapted and kept up to great work as they do, both in office and remote. I've seen no lag in how we're able to perform for our clients, and I think that's demonstrated by our results.

Operator

Thank you. (Operator Instructions) Our next question. Our next question comes from the line of Paul Newsome with Piper Sandler.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Good morning. Thanks for the call. I wanted to revisit the gain of the book sales impact. And if you could just give us a little bit more, maybe just walk us through, again, what the comparisons will likely be prospectively if we continue to have negative comparisons. And one thing I'm not sure if I have it in my mind and maybe some others are not quite getting is I think there's 2 impacts. One is the actual comparison of having a gain a year ago versus not having today. But is that there also an impact of not having that book any more prospectively over the next year versus a year ago. And so how should we think about sort of those 2 pieces? And how long we will be talking about book gain comparisons.

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

Yes. So you're absolutely right. There is a second component, right, of the revenue that does bleed off, and that is sort of excluded from what we've been talking about in terms of the gain on sale headwinds that we've experienced in some of our businesses. We do expect that level of book sales to normalize going forward. And if you look back pre-2020, you can start to get a sense of what that normalized level looks like, and we do expect to be getting there in relatively short order as the events from '21 get further and further away.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

So does that mean that we're essentially normalized into '23? Or Gerald going to be talking about this in the next couple of quarters?

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

I think we put a book gains began to normalize as we progress through 2022, and we expect them to be in line with historical levels in 2023 as 2021. So there may be some quarterly headwinds as that normalization continues throughout 2023. And we'll -- as we have been -- provide detail on what that looks like.

Jon Paul Newsome - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

That was it. I'll see my second question to Luis.

Operator

Thank you. Stand by for our next question. Our next question comes from the line of Andrew Kligerman with Credit Suisse. Andrew just to see if you're on mute.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Sorry about that. I have been reading a lot about these net hires, particularly in the summer, you mentioned that construction and aerospace was quite strong. Could you give a sense of the kind of impact on volumes, sales commissions that these hires might have in '23 and '24 as noncompetes roll off? Because it looks like you had a very good result this quarter, but the real impact of these hires is something we should be thinking more about as 2023, 2024 numbers. Am I thinking about that right?

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

Yes. I think that is right, Andrew. I mean we bring people on. We don't expect them to be fully productive from day 1. It's typically about 12, 18 months before they're fully productive. And so someone we brought on during the summer kind of -- we expect to be hitting their stride in Q3,

Q4, the following year in full, right? Do take those -- because of the timing of renewals, right, they -- and bunching around the end of the year, right? So that's where you might get some variation in that -- how many months as opposed to the efficacy of the particular individual, right? But you're absolutely right that someone we brought on who's a great front office talent in 2022, we'll be hitting their stride in 2023 and beyond.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

So it just sort of seems like the focus on the call of these book of business gains, it seems like we're getting closer to normalized. It's just not something to focus on. This is where the focus should be. So my next question is on the Medicare Advantage sales. It was kind of interesting to read about some of the smaller public players that are very focused on it. They all seem to be seeing improvements in volumes and margins. And a lot of folks just kind of write this business off as a very low-margin business.

But could you talk a little bit about the margins of Med Advantage as compared to the overall HWC segment? And could you talk a little bit about the prospects that you were seeing in the quarter and an opportunity for continued growth.

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

Yes. Sure. It's Andrew. So we're not going to get into the specific margins of specific products, but we are pleased with the level of profitability that we are seeing in that product and that business overall as it is a portfolio of different products, of course, primarily MA, but there is a nice balanced portfolio there as well.

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

Yes. And I guess as far as the prospects, I mean, first of all, we have continuously run this business for sustainable growth, and that means looking for growth opportunities that are profitable rather than growth for growth's sake. That philosophy has served us, I think, very well and it's one we will be continuing.

But the overall backdrop for that business remains very strong and our relationship with a variety of partners does position us well from a macro perspective, I've cited this before, but when you have 10,000 people becoming newly eligible for Medicare every day, it is quite a tailwind for the industry. Medicare enrollment is projected to grow 7.6% per year over the decade. And the percentage of Medicare eligible people who buy an MA plan rather than just use traditional Medicare is rising, it's expected to grow from just over 40% to more than 50% by 2030. So those are all, I think, good conditions for our business.

Operator

Please stand by for our next question. Our next question comes from the line of Rob Cox with Goldman Sachs.

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

Just on the Wealth segment, you talked about a number of tailwinds and noted that some of these projects could last years. So I'm curious if you could talk about how long you expect to benefit from sort of the stronger PRT levels and really the regulatory-driven work?

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

Yes. So whenever we have a change in regulation, there's typically a multi-quarter bump as clients trying to analyze and determine actions to take with respect to the change in the environment. The improved funded status of pension plans that we've seen during 2022 gives them additional

flexibility to consider risk transfer options. And while as I noted, there's always chance for the economic climate and the funded status for those plans to change over time. That's typically something we see a multi-quarter benefit from as well, right?

And again, even if the fund as does change to economic conditions, that creates fresh volatility that clients need for analyzing. So we think our strong position in all elements of servicing pension funds in the industry, we see some resilience to the results going forward.

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

Got it. And -- maybe just switching over to the transformation program. Any chance you could give us an update on kind of more finally, where these transformation savings are benefiting the margin between corporate and the 2 segments so far in the program?

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

Yes. We've seen in your benefit from our strong transformation performance across the portfolio of businesses and in the corporate segment, what you're seeing play out primarily in the corporate segment is the fact that would be a reinvestment need and the talent, things of that nature is not as pronounced as it was, for example, in Risk and Broking. Hence, the transformation savings there more than offset by the investment hiring and to a lesser extent, in HWC where there was margin expansion and the transformation savings were a driver of that.

But again, there was some level of reinvestment there, just not to the same extent that you would have seen in Risk and Broking.

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

Appreciate the answer.

Operator

Thank you. Our next question comes from the line of Joshua Shanker with Bank of America.

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

I don't know what I'm going to find out asking this question, but learn something. When you look at the organic growth you're experiencing right now, can you talk a little bit about customer growth versus inflation versus product sales. And the mix of growth, what is actually growing when we try and break out the successes of the year?

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

So there's -- there are -- all of the above, right, does play into how we grow, right? We've talked on prior calls about how various parts of how we price are in place in sensitive, whether it's rates in our consulting business or asset values that underline insurance and thus, the commissions we receive. We have also talked about the fact that we're back in the marketplace, right? During the period where we were involved with Aon, we stopped receiving RFPs, and that came back to us beginning with the fourth quarter of 2022, we've enjoyed the success winning new clients. And over the course of emerging from that experience, our retention rates of existing clients have also improved. And that's a credit to the hard work of all our colleagues, making sure that our well-earned reputations for superior client service is maintained.

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

When you're talking about client wins here, to what extent are they new clients to work in? Are they clients who might have been lost during the Willis and uncertainty period that you won back? And can you sort of give examples on what areas of the market you're seeing that market share gain within the space?

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

Yes. So I mean, it's a mix of all of the above, I think. We have a lot of clients, and so you're going to have a lot of examples on the direction. If you look at various parts of our business, some of them are just much more naturally sticky than others, right? We've got a client of BDO, who's in an outsourced benefits relationship with us, typically with a 3-, 5-, 7-year contract. That business was extremely resilient during all of this and has looked resilient going forward, but we continue to add new clients in the mix as well.

Our CRB business is where we saw the most volatility in the client mix, and that's one where I think -- our colleagues did a great job retaining clients, but it was under pressure. Now that we have a clear course and destiny. We've seen client retention and client attraction both up as well as new expansion of existing client relationships. So there's a lot in the hood. We have a lot of variation in the businesses, but the direction, I think, is encouraging across the pest.

Operator

Please stand by for our next question. Our next question comes from the line of Brian Meredith with UBS.

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

Andrew, just a quick question here on fiduciary income. You probably some nice disclosure in your Q last quarter on the tailwind from every 25 basis points. If I take a look at that, it would look like it's probably a 50, call it, basis point tailwind to organic growth in '23, just given where short-term rates are and maybe a little more meaningful for margins. Do I have that right?

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

I think directionally, you're getting there. Remember, it does take time for investments to turn over. So the portfolio has to work through in that as well. But I think directionally, that's consistent with how we're thinking about things.

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

Great. That's helpful. And then my second question -- go ahead, sorry.

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

Yes. No, I was just going to say the other thing, don't forget, we'll have some gain on sale headwinds that continue through next year, right, that will temper that from a margin perspective.

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

Right, right, right. I got that. The second question would be a number of your, call it, peer companies or competitor companies highlighted the headwind from transactional business this quarter and maybe in the first quarter. Do you have a big transactional business? Was that a headwind at all this quarter to organic revenue growth and potentially first quarter?

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

So we do have a transactional business of a successful one. I'm glad to say. And we faced the same headwinds as others. We're -- we didn't think about that as we've talked about our expectations.

Operator

Please stand by for our next question. Our next question comes from the line of Mark Hughes with Truist.

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

Yes. Thank you. Small question, in the transact business, anything that you saw around expected lifetime value seems like enrollment season, people were more productive about new business. Did that have an impact on the persistency of the -- of your customers there?

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

Yes. We have taken actions, Mark, and to try and do our part to help with persistency, including working with carriers on sort of their customer treatment to make sure that customer satisfaction is as high as possible. And we're happy that those actions seem to be fruitful, and we'll look to maintain that sort of thing going forward, including post-placement customer support on our end. We continue to examine our lifetime values, which, of course, are subject to outside actuarial estimate. And I think that we remain happy with how we're going. I mean persistency has improved. And so no signs that we have anything but to continue our actions and continue to improve, how we go about that business to keep the numbers going forward.

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

And you say persistency has improved?

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

I did.

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

Yes. Okay. Thank you very much.

Operator

(Operator Instructions) Our next question comes from the line of Derek Han with KBW.

Unidentified Analyst

How do you think about buybacks to current valuations and just the way you think about buying back stock versus reinvestments for this year?

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

Yes, sure. As we've got a fairly disciplined approach to capital management that does begin with looking at share repurchases and as the primary use of cash. And given current valuations, we do continue to think that is a very attractive return although we do need to look at our portfolio of potential investments through a strategic lens and you need to continue to reinvest in the business organically or inorganically as appropriate to ensure that we're investing for growth in the future.

Unidentified Analyst

Got it. That's helpful. And then my second question is more on a high level. At your last Investor Day, you talked about kind of moving upstream to larger accounts. Can you just give us an update on how that's progressing? And how that's contemplated in your mid-single-digit organic growth guidance for this year?

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

We're happy with how we continue to be a large account reference there was principally across the R&D portfolio, right? Our existing HWC business skews large accounts to begin with. With respect to how we're progressing in large market, I think I'd just point to the fact that we're growing and large market is very much a part of that. Some of the talent we brought on focus is there. But we think we play well across all market segments, and that's a strength we have for us.

Operator

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

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

I've got 2. One, when we take a look at Health, Wealth and Careers. Most of the business is cyclically insensitive and across the board. But you do have some cyclically sensitive elements within that business. I'm wondering what you're seeing just in terms of client behavior buyer intentions in that area? And then I have a follow-up with regards to cost synergies.

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

Yes. So typically, our career business is the one that's seen the most volatility to it through the economic cycle. We not see all that much of it this time as employers are trying to adjust to the quota but new normal work. And you even see that despite threat of recession in the job numbers that we posted here in the U.S. We've also taken measures over the years to make that business some of us economically sensitive, switching to software and technology as part of the offering and to focus on some of the parts of the business that are also less economically sensitive like executive compensation as part of the mix. So not declaring victory, but I think we've made strides in removing some of the sensitivity there. The higher demand has been holding up well, we think.

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

That's terrific. And then with regards to the incremental cost synergies that you ended up achieving. Did that come primarily from real estate or personnel or a combination thereof? And what's going to drive the \$100 million of additional cost reductions next year and any change to the 2024 run rate savings targets.

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

So no change to the 2024 targets. The amount that sort of got pulled forward in Q4 is really just a matter of certain components moving faster than we've anticipated. And that's come across the portfolio of actions that we've taken, whether it was real estate or technology and optimization or right shoring, things of that nature. So we're pretty pleased that it did come from all components of the program.

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

And that's the expectation for the \$100 million as well in terms of this coming year?

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

Correct. We do expect all components to be contributors going forward.

Operator

Thank you. I'm showing no further questions in the queue. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.

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