

## Willis Towers Watson

## 4Q23 beat on taxes and margins

Reiterate Rating: UNDERPERFORM | PO: 240.00 USD | Price: 250.46 USD

## Willis Towers Watson reports 4Q23 operating EPS \$7.44

This is a beat vs our forecast of \$7.06 and consensus of \$7.04. The beat was primarily driven by a lower tax rate (+\$0.36/share) and better-than-expected margins (+0.12/share), partly offset by lower “other” income (-\$0.09/share). Both segments contributed to the margin beat. Segment organic growth of +7% was in line with our forecast, with higher growth in Risk & Broking offsetting a miss in Health, Wealth & Career (HWC). Repurchases of \$196mn exceeded our forecast for \$100mn. Guidance across key metrics for 2024 remained consistent.

## Broking organic growth exceeds peer results

HWC organic growth of +4% landed below our forecast of +6% and decelerated sharply vs +9% in 3Q23. The miss is likely attributable to a slowdown in Benefits Delivery & Outsourcing growth of +3% (vs +6% in 4Q22) in its seasonally most important quarter. Stronger organic growth in Risk & Broking (+12% vs estimate +8%) offset the miss in HWC. However, we caution that Willis Towers Watson (WTW) includes fiduciary interest income in organic growth metrics while most peers do not. Excluding fiduciary income, we estimate Risk & Broking organic growth of +10% and consolidated segment organic growth of +6%. These results contrast with hints of a deceleration in broking growth from peers this quarter. WTW expects mid-single-digit organic growth in 2024E, and we forecast +5% accordingly. However, we expect interest income to inflect to a net headwind in mid-2024 as short-term interest rates decline.

## Margin beat in both segments; savings target rises

The adjusted operating margin of 34.2% exceeded our forecast of 33.7%, with greater expansion across both segments. The company partly attributes margin improvement to restructuring savings. WTW has increased its 2024E run rate savings target to \$425mn vs prior \$380mn; however, margin guidance remains flat at 22.5%-23.5%. It is unclear whether the lack of incremental expansion is due to the expected timing of savings or offsetting factors. We forecast +23.0%, at the midpoint of the guided range.

## Price objective to \$240

Our forward EPS forecasts remain flattish upon integrating 4Q23 results into our model. Our PO rises to \$240 from \$233, reflecting 75% the year-ahead S&P 500 P/E multiple (18.3x vs prior 17.5x) on our 2025 EPS forecast. The potential downside return implied by our PO underlies our Underperform recommendation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.41	14.49	15.80	17.48	19.45
GAAP EPS	8.97	9.95	11.60	15.63	17.55
EPS Change (YoY)	15.6%	8.1%	9.0%	10.6%	11.3%
Consensus EPS (Bloomberg)			16.30	18.37	20.25
DPS	3.28	3.36	3.44	3.52	3.60
Valuation (Dec)					
P/E	18.7x	17.3x	15.9x	14.3x	12.9x
GAAP P/E	27.9x	25.2x	21.6x	16.0x	14.3x
Dividend Yield	1.3%	1.3%	1.4%	1.4%	1.4%

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06 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	233.00	240.00
2024E EPS	15.82	15.80
2025E EPS	17.53	17.48
2026E EPS	19.54	19.45

**Joshua Shanker**  
Research Analyst  
BofAS  
+1 347 821 9017  
[joshua.shanker@bofa.com](mailto:joshua.shanker@bofa.com)

**Grace Carter, CFA**  
Research Analyst  
BofAS  
[grace.carter@bofa.com](mailto:grace.carter@bofa.com)

**Joseph Tumillo, CFA**  
Research Analyst  
BofAS  
[joseph.tumillo@bofa.com](mailto:joseph.tumillo@bofa.com)

**Cyril Onyango**  
Research Analyst  
BofAS  
[cyril.onyango@bofa.com](mailto:cyril.onyango@bofa.com)

## Stock Data

Price	250.46 USD
Price Objective	240.00 USD
Date Established	6-Feb-2024
Investment Opinion	B-3-7
52-Week Range	195.29 USD - 258.93 USD
Mkt Val (mn) / Shares Out (mn)	25,863 USD / 103.3
Free Float	99.5%
Average Daily Value (mn)	94.90 USD
BofA Ticker / Exchange	WTW / NAS
Bloomberg / Reuters	WTW US / WTW.OQ
ROE (2024E)	16.9%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Willis Towers Watson

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	8,866	9,483	10,030	10,544	11,121
Net Investment Income	NA	NA	NA	NA	NA
<b>Total Revenue</b>	<b>8,866</b>	<b>9,483</b>	<b>10,030</b>	<b>10,544</b>	<b>11,121</b>
Total Cost of Benefits and Claims	(5,065)	(5,344)	(5,575)	(5,822)	(6,092)
S,G & A (Including Commissions)	0	0	0	0	0
<b>Total Operating Expenses</b>	<b>(7,688)</b>	<b>(8,118)</b>	<b>(8,288)</b>	<b>(7,798)</b>	<b>(8,161)</b>
<b>Pre-Tax Operating Earnings</b>	<b>1,178</b>	<b>1,365</b>	<b>1,742</b>	<b>2,745</b>	<b>2,961</b>
Income Tax Expense	(194)	(215)	(368)	(481)	(527)
<b>Operating Earnings After Tax</b>	<b>1,509</b>	<b>1,536</b>	<b>1,613</b>	<b>1,736</b>	<b>1,884</b>
<b>Net Income (Reported)</b>	<b>1,049</b>	<b>1,055</b>	<b>1,184</b>	<b>2,052</b>	<b>2,201</b>
Diluted Shares	113	106	102	99	97
Operating Earnings Per Share	13.41	14.49	15.80	17.48	19.45
Net Income (Reported) Per Share	8.97	9.95	11.60	15.63	17.55

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	1,262	1,424	1,682	3,120	4,176
<b>Total Assets</b>	<b>31,769</b>	<b>29,090</b>	<b>29,230</b>	<b>30,429</b>	<b>31,257</b>
Reserves	NA	NA	NA	NA	NA
LT Debt	4,471	4,567	5,215	5,865	5,967
<b>Total Liabilities</b>	<b>21,676</b>	<b>19,497</b>	<b>19,501</b>	<b>20,175</b>	<b>20,304</b>
<b>Total Equity</b>	<b>10,093</b>	<b>9,593</b>	<b>9,788</b>	<b>10,375</b>	<b>11,133</b>
<b>Total Equity (Ex FAS 115)</b>	<b>10,093</b>	<b>9,593</b>	<b>9,788</b>	<b>10,375</b>	<b>11,133</b>
Book Value per Share (Reported)	94.54	93.56	98.22	106.88	117.50
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	NM	NM	NM	NM	NM
<b>Combined Ratio</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	2.9x	3.1x	3.0x	3.0x	2.9x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	-1.5%	7.0%	5.8%	5.1%	5.5%
Net Investment Income	NM	NM	NM	NM	NM
Total Revenue	-1.5%	7.0%	5.8%	5.1%	5.5%
Operating Earnings per Share	15.6%	8.1%	9.0%	10.6%	11.3%
Asset	-9.2%	-8.4%	0.5%	4.1%	2.7%
Reported Book Value per Share	-13.3%	-1.0%	5.0%	8.8%	9.9%

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	13.8%	15.6%	16.9%	17.5%	17.8%
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	4.5%	5.0%	5.5%	5.8%	6.1%
Operating Margin	17.0%	16.2%	16.1%	16.5%	16.9%
Long Term Debt to Cap Ratio (Ex FAS 115)	30.7%	32.3%	34.8%	36.1%	34.9%
Net Income % Operating Income	69.5%	68.7%	73.4%	118.2%	116.8%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Insurance - Non-Life

## Company Description

Willis Towers Watson is the world's third-largest insurance broker. The 2016 merger of broker Willis Group and consulting firm Towers Watson created the broking, solutions, and advisory organization that we know today. Following an unsuccessful attempt to combine with peer Aon (2021), the company has established a new go-forward strategy as a standalone company.

## Investment Rationale

We have a cautious view on WTW shares given the numerous changes occurring at WTW and its mixed track record since the Willis/Towers Watson merger. While we have a high regard for the new management team, we believe the combination of rectifying legacy operational challenges and managing fallout from the failed Aon/WTW merger skews risk to downside for the foreseeable future as the company works to reestablish investor trust.

## Stock Data

Average Daily Volume 378,916

## Quarterly Earnings Estimates

	2023	2024
Q1	2.84A	3.24E
Q2	2.05A	2.18E
Q3	2.24A	2.67E
Q4	7.44A	7.76E

## Price objective basis & risk

### Willis Towers Watson (WTW)

Our price objective of \$240 reflects 75% of the year-ahead S&P 500 P/E multiple (18.3x) on our 2025E EPS forecast. While this is lower compared to the historical relative valuation of 90%, we believe the discount is merited in the near term due to a) legacy operational challenges paired with currently high execution risk, b) the presence of a takeover premium for much of 2019-21, and c) substantial international exposures in a volatile geopolitical environment.

Upside risks are accelerated growth recovery, faster-than-expected savings execution, and higher-than-anticipated capital returns to shareholders.

Downside risks are prolonged disruption from recent staff departures, difficulties executing the restructuring program, and escalating geopolitical tensions.

## Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
<b>NEUTRAL</b>				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker



## US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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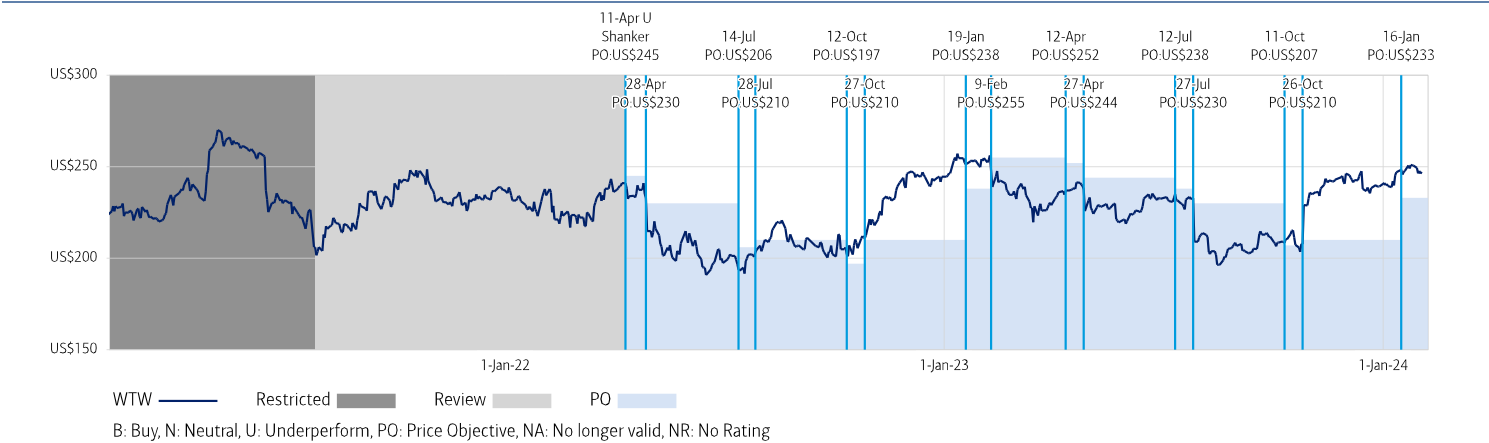
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Willis Towers Watson (WTW) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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