

Willis Towers Watson (WTW): First Take: 1Q25 EPS Miss on HWC Organic Growth and FCF, Margins and R&B Organic Growth Stronger

WTW 1Q25 adjusted EPS of \$3.13 missed Visible Alpha Consensus Data of \$3.20 and our \$3.48 estimate. The miss versus the street was primarily driven by lighter HWC organic growth (+3% vs +4.8% VA Cons) and a greater headwind from FX (-2% revenue impact vs VA Cons -1%), partially offset by a modest beat on the adj. operating margin (21.6% vs VA Cons 21.5%) while core broking organic of +8% beat VA Cons of 7% (headline +7% R&B organic). WTW maintained all main guidance items including \$1.5bn FY25 baseline share repurchases (\$200mn in 1Q25 lighter than VA cons \$365mn), ~100bps of average annual R&B margin expansion over the next three years, and incremental annual margin expansion in HWC. Free Cash Flow of -\$86 was lighter than expected (GSe -\$8 and VA Cons \$39) in WTW's lightest FCF quarter seasonally, with lower FCF primarily driven by the absence of cash collections related to TRANZACT, and increased compensation payments. Overall, we expect investors to have a negative initial reaction to results due to lighter than expected HWC (consulting) organic growth which could amplify lingering fears around this business amidst macro economic uncertainty. We do think the HWC result overshadows a very strong corporate R&B organic of +8% or greater, which is flat-to-higher QoQ relative to deceleration at peers. On the call we will look for 1) updated expectations on 2025 organic growth relative to long-term organic guidance, 2) Impact to FCF and plans for capital deployment, and 3) trajectory of margins and sizing the impact of FX headwinds on margins in the quarter.

Health, Wealth, and Career: \$311mn operating income compared to \$325mn Visible Alpha Consensus Data, GSe of \$335mn and \$336mn PY.

- **Organic growth: Organic growth of +3% was lighter than VA Consensus of 4.8% and GSe of 4.5%. Excluding the impact of investment income of \$7mn (GSe \$8mn), and book settlements (\$2mn vs GSe \$0) core organic growth excluding investment income was a similar ~3%, still missing our estimate (4.6%).**

- Health organic growth of +6% is lighter than mgmt HSD expectations and FY24 despite an easier 1Q comparable. Growth was driven by solid client retention, new business and geographic expansion.
- Wealth organic growth of +2% decelerated 1pp QoQ (+3% in 4Q24) with growth driven by higher levels of retirement work in Europe, an increase in

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the Investments business due to capital market improvements and growth from WTW's LifeSight Solution.

- Career organic growth of +1 % was flat QoQ (+1 % in 4Q24) despite management previously highlighting expected timing benefits from delayed project work from 4Q24. This growth, however, compares to -1 % at MMC on an easy comparable.
- BD&O organic growth of +1 % accelerated 3pp QoQ (-2 % in 4Q24) in the first quarter for the business without TRANZACT (sale closed 1/2/2025).

- **Adjusted Operating Margin: The 26.7% margin expanded 160bps YoY, beating VA Consensus by 10bps and missing our estimate by 60bps.** WTW attributes the YoY improvement primarily to transformation savings and the Sale of TRANZACT, and we estimate core margin expansion was actually negative excluding TRANZACT impacts and book sales, likely due to lower operating leverage.

Risk & Broking: \$226mn operating income compared to Visible Alpha Consensus and Gse of \$227, and \$203mn PY (+11 % YoY).

- **Organic growth: Organic growth of +7% was in-line or modestly better than VA Consensus (est. 6.7%). Excluding a roughly ~60bps YoY headwind from investment income (\$22mn vs GSe \$26mn) and a 20bps headwind from book settlements (\$0mn vs Gse \$4mn) organic growth was ~8% (~1pp stronger than our 6.8% estimate).**

- Corporate Risk & Broking core organic growth of ~8%+ (GSe, excl book sale headwinds) was flat or stronger than the 8% in 4Q24, and stronger than our 7% expectations. Growth was primarily driven by higher levels of new business activity and strong client retention globally.
- The Insurance Consulting and Technology business (11 % of segment annual revs) grew +3% organically versus 0%/11 % in 1Q24/4Q24. Recall, we estimate this business is roughly 50% insurance pricing and reserving software, and 50% consulting work for insurance carriers. Growth in the quarter was driven by the consulting and technology practices.

- **Operating Margin: The operating margin of 22.0% improved 120bps YoY, a 10bps miss versus VA Consensus and GSe.** WTW attributed the expansion to operating leverage driven by strong organic revenue growth and savings from the Transformation program, which were partially offset by headwinds from decreased interest income and foreign currency fluctuations. **Notably, core margin expansion excluding estimated transformation savings, headwinds from book sales and fiduciary investment income was +160bps, better than our 100bps estimate.**

Exhibit 1: WTW Quicktake

\$ mn except per share data

WTW Earnings Variance Table

Period Actual / Est	1Q25 Actual	1Q25E GSe	1Q25E Cons.	4Q24 Actual	1Q24 Actual	Reported Earnings Performance			
						vs Prior Q	vs Prior Yr	vs Cons.	vs GS Est
CONSOLIDATED INCOME STATEMENT									
Commissions and fees	2,192	2,256	2,255	2,994	2,314	-27%	-5%	-3%	-3%
Total revenue	2,223	2,286	2,255	3,035	2,341	-27%	-5%	-1%	-3%
Commissions and fees growth	-5%	-2.5%	-2.5%	4.0%	5.6%	-900bps	-1061bps	-246bps	-250bps
Currency Impact	-2%	-1.2%	-1.2%	-1.0%	0.2%	-100bps	-220bps	-78bps	-78bps
M&A, acquisition (+), Divestiture (-)	-8%	-6.8%	-6.2%	0.0%	0.0%	-800bps	-800bps	-185bps	-124bps
Organic growth	5%	5.5%	5.7%	5.0%	5.0%	-30bps	-30bps	-99bps	-84bps
Salaries and benefits	1,324	1,299	1,285	1,367	1,342	-3%	-1%	3%	2%
Other operating expenses	365	421	402	518	457	-30%	-20%	-9%	-13%
Amortization	48	42		50	60	-4%	-20%	NA	14%
Depreciation	54	54		54	59	0%	-8%	NA	0%
Depreciation and amortization	102	96	110			NA	NA	-7%	6%
Interest	65	65	65	66	64	-2%	2%	-1%	0%
Total Expenses	1,655	1,694	1,704	1,835	1,775	-10%	-7%	-3%	-2%
Adj. Operating Income	480	512	484	1,096	483	-56%	-1%	-1%	-6%
Adj. Operating Income margin	21.6%	22.4%	21.5%	36.1%	20.6%	-1452bps	96bps	11bps	-82bps
Adj. EBITDA	532	566	544	1,151	546	-54%	-3%	-2%	-6%
Adj. EBITDA margin	23.9%	24.8%	24.1%	37.9%	23.3%	-1399bps	61bps	-19bps	-84bps
Adj. Net income	316	348	321	811	325	-61%	-3%	-2%	-9%
Free cash flow	(86)	(8)	39	543	(36)	-116%	139%	-323%	965%
SHARES, PER-SHARE, ROE & KEY DATA									
Weighted average shares outstanding, diluted	101	100	101	102	104	-1%	-3%	0%	1%
Buybacks (\$ mn)	200	325	365	395	101	-49%	98%	-45%	-38%
Dividends per-share	\$0.92	\$0.93	\$0.91	\$0.88	\$0.88	5%	5%	1%	-1%
Op EPS	\$ 3.13	\$ 3.48	\$ 3.20	\$ 7.97	\$ 3.13	-61%	0%	-2%	-10%
LT Debt	4,761	5,309	5,548	5,309	5,307	-10%	-10%	-14%	-10%
LT debt-to-capital	36.7%	39.9%		39.8%	35.7%	-315bps	102bps		
Net debt-to-Adj. EBITDA	1.5x	1.5x		1.3x	1.7x	12%	-14%		
HEALTH, WEALTH, AND CAREER									
Revenue	1,165	1,228	1,225	1,853	1,336	-37%	-13%	-5%	-5%
Organic growth	3%	4.5%	4.8%	3.1%	4.4%	14bps	-121bps	-159bps	-130bps
Operating income	311	335	325	776	336	-60%	-7%	-4%	-7%
Operating Income margin	26.7%	27.3%	26.6%	41.9%	25.1%	-1518bps	155bps	13bps	-60bps
RISK & BROKING									
Revenue	1,027	1,028	1,030	1,141	978	-10%	5%	0%	0%
Organic growth	7%	6.8%	6.7%	7.0%	8.2%	-3bps	-118bps	34bps	21bps
Operating income	226	227	227	383	203	-41%	11%	-1%	-1%
Operating Income margin	22.0%	22.1%	22.1%	33.6%	20.8%	-1156bps	125bps	-5bps	-9bps

Source: Visible Alpha Consensus Data, Company data, Goldman Sachs Global Investment Research

Exhibit 2: Valuation and Key Risks

	GS Rating	4/23/2025 Current Price	12-Month Price Target	Valuation methodology	Upside risks	Downside risks
Insurance Brokers						
WTW	Buy	\$325.68	\$389	EV-Adjusted EBITDA valuation: * 13.8x EV-Adj. EBITDA multiple * \$3,007mn Adj. EBITDA * \$4,192mn Net Debt		We see the primary downside risk as weak execution on turnaround initiatives set in place. Should the company not be able to achieve its hiring goals and retain producer talent, our organic growth estimates would likely be too high. If the company can not produce cost savings outlined in its transformation initiative, or generate additional efficiencies, our margin estimates would be overstated.

Source: FactSet, Company data, Goldman Sachs Global Investment Research

WTW	12m Price Target: \$389.00	Price: \$325.68	Upside: 19.4%
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Buy		GS Forecast			
Market cap: \$36.9bn 3m ADTV: \$216.0mn United States Americas Insurance M&A Rank: 3	Net prem. (\$ mn)	12/24	12/25E	12/26E	12/27E
		—	—	—	—
	Adj. net inc. (\$ mn)	1,665.0	1,693.1	1,900.5	2,115.0
	EPS (\$)	16.29	17.32	20.18	23.16
	P/E (X)	17.0	18.8	16.1	14.1
	P/B (X)	4.0	4.1	3.7	3.3
	ROE (%)	(1.2)	20.7	22.4	23.0
	Dividend yield (%)	1.3	1.1	1.2	1.3
		12/24	3/25E	6/25E	9/25E
	EPS (\$)	7.97	3.48	2.66	3.02

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 23 Apr 2025 close.

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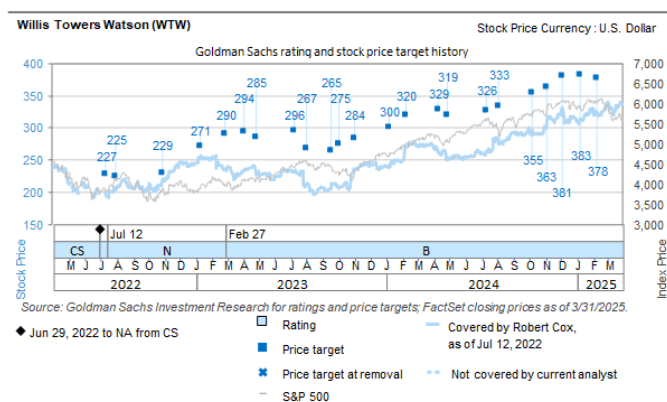
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