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# Willis Towers Watson Public Limited Company (WLTW) CEO John Haley on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

*Press Release* *10-Q* *Slides*

EPS of $1.31 beats by $0.01 | Revenue of $1.99B (6.99% Y/Y) beats by $7.43M

## Earning Call Audio

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00:00 -56:15

Willis Towers Watson Public Limited Company (NASDAQ:WLTW) Q3 2019 Earnings Conference Call October 31, 2019 9:00 AM ET

**Company Participants**

John Haley - Chief Executive Officer

Mike Burwell - Chief Financial Officer

Rich Keefe - Head of Investor Relations

**Conference Call Participants**

Mike Zaremski - Credit Suisse

Mark Marcon - Baird

Elyse Greenspan - Wells Fargo

Shlomo Rosenbaum - Stifel

Greg Peters - Raymond James

David Styblo - Jefferies

Tobey Sommer - SunTrust

Yaron Kinar - Goldman Sachs

Meyer Shields - KBW

**Operator**

Good morning. Welcome to the Willis Towers Watson Third Quarter 2019 Earnings Conference Call. Please refer to our website 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 three months on our 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 risk 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, investor should review the forward-looking statements section of the earnings press release issued this morning. As well as other disclosures in our most recent Form 10-K and other Willis Towers Watson SEC filings.

During the call, we may discuss certain non-GAAP financial measures. For reconciliation of non-GAAP measures as well as other information regarding these measures, please refer to the most recent earnings release and other materials in the Investor Relations section of the company's website.

I'll now turn the call over to John Haley, Willis Towers Watson's, Chief Executive Officer. Please go ahead.

**John Haley**

Okay. Good morning. Hello, everyone. Thanks for joining us on our third quarter earnings call. So with me here today is Mike Burwell, our Chief Financial Officer; and Rich Keefe Head of Investor Relations. We'll start by providing an overview of our results for the third quarter of 2019 and then we'll discuss the outlook for the remainder of the year.

For the third quarter of 2019, we continued to deliver solid financial performance with 9% overall constant currency revenue growth, 6% organic revenue growth, and 120 basis points of adjusted operating margin expansion. Likewise, we had revenue and operating margin growth in each of our business segments again this quarter.

Overall, this marks the fifth consecutive quarter, in which we generated organic revenue growth of 5% or greater along with improved margins. Our third quarter results reflect our focus to deliver consistent financial results across the company and create value for our client's, colleagues and shareholders.

This has been another successful quarter for Willis Towers Watson. We continue to see solid performance in key high value-added areas. And, of course, we also completed the acquisition of TRANZACT, which generated measurable revenue growth in the two months that followed.

Overall, I'm pleased with the progress we've made toward our full year goals. We continue to see strong demand for our services and solutions. I feel good about our business and our ability to deliver a solid fourth quarter.

Before taking you through the details of our third quarter results, I'd like to tell you about some exciting work we're doing related to climate resilience as part of a public-private collaboration along with leading organizations from across the global financial sector, various governments and other international institutions.

Climate change poses a global threat from the world's most vulnerable nations to even the most advanced economies' critical infrastructure. I'm honored that Willis Towers Watson recently participated in the UN Climate Action Summit, launching the coalition for climate-resilient investment.

At launch, the coalition already had commitments from over 30 organizations across the infrastructure investment value chain with assets totaling -- under management totaling US$5 trillion and those numbers are growing.

We believe there is a crucial need to better understand the risk posed by climate change to our societies and economies and to reflect proper pricing for climate risk and financial decision making. This will better direct investments towards infrastructures capable of withstanding a changing climate. Providing a methodology to quantify the economic and financial benefits will enable financial markets to embed resilience upfront.

To that end, Willis Towers Watson as part of the coalition is committing to three main initiatives. The first is the development of analytical tools, including a physical risk pricing framework and the methodology to prioritize national resilient investment needs. Pricing the risk posed by climate change will create opportunities to build a network of resilient infrastructures in high, medium and low-income countries, enabling us to better prevent future human and financial disasters. The second is the creation of innovative investments such as resilience bonds. There are six country pilot projects where innovations such as these will be trialed. The third is working in close collaboration with other related initiatives such as the coalition for disaster-resilient infrastructure and the coalition of finance ministers for climate action.

Working with the coalition we'll be able to harness a unique combination of the rapid advancement of climate risk analytics, coupled with ambitious regulatory and investor-led initiatives, so that vulnerable geographies continue to attract investment and the infrastructure is built to withstand future climatic risks. We're well-positioned to do our part to help prevent human and financial disasters, transform mainstream infrastructure investment and drive this shift towards a climate-resilient economy for all countries, all of which is aligned with our purpose to create clarity and confidence today for a more sustainable tomorrow.

So now, let's turn to our third quarter results. Reported revenue for the third quarter was $2 billion, up 7% as compared to the prior year third quarter and up 9% on a constant currency basis and up 6% on organic basis. Reported revenue included $36 million of negative currency movement. Once again, this quarter, we experienced growth on an organic basis across all segments and all geographies.

Net income was $80 million, up 74% for the third quarter as compared to $46 million of net income in the prior year third quarter. Adjusted EBITDA was $344 million as compared to the prior year third quarter, adjusted EBITDA of $313 million, representing a 10% increase. For the quarter, diluted earnings per share were $0.58, an increase of 76% compared to prior year. Adjusted diluted earnings per share were $1.31. Reported revenue for the first nine months of 2019 increased 3% as compared to the same period in the prior year, increased 6% on a constant currency basis and was up 5% on an organic basis.

Now, let's look at each of the segments in more detail. To provide clear comparability with prior periods all commentary regarding results of our segments will be on an organic basis unless specifically stated otherwise. Segment margins are calculated using segment revenues and exclude unallocated corporate costs such as amortization of intangibles, certain transaction and integration expenses resulting from mergers and acquisitions as well as other items, which we consider noncore to our operating results. The segment results do include discretionary compensation.

Revenue for our largest segment Human Capital & Benefits or HCB was up 6% on an organic and constant currency basis compared to the third quarter of the prior year. For the first nine months of 2019, HCB revenues grew 4% organically. The Health & Benefit business grew 7% this quarter. New business and product revenue continued to drive revenue expansion in North America. While our increasing market share and global benefits management appointments and new local and regional wins contributed to the growth in other geographies.

Health & Benefits revenue growth was also aided by the lower revenue comparable in the prior year third quarter. The prior year results reflect the impact of adopting new revenue standard, ASC 606, which resulted in certain revenue not being recognized. Talent and Rewards revenue grew 9% as a result of increased advisory work in North America and International. Technology and Administration Solutions revenue increased 11% this quarter. This growth was built on new business activity, primarily in Western Europe and Great Britain on top of high client retention rates.

Retirement returned to revenue growth this quarter with an increase of 1%, which was primarily driven by robust pension derisking activity in the large plan market. HCB's operating margin improved by 160 basis points to 27% compared to the prior year third quarter. As a trusted adviser, HCB combines research data and strategic insight to address our clients' most complex workforce challenges. Employers must constantly adapt to the inevitable changes brought on by today's business landscape. As HCB's results indicate, the segment is well-positioned to continue growing profitably, while providing solutions that keep pace with our clients' evolving values.

Now, let's look at our Corporate Risk & Broking or CRB, which had a revenue increase of 7% on a constant currency and organic basis as compared to the prior year third quarter. For the first nine months of 2019, CRB revenues grew 5% organically. North America's revenue grew by 9% in the third quarter, primarily as a result of new business and improved retention. The International regions revenue climbed 14% compared to the prior year. There was notably strong performance in construction and natural resources in Central and Eastern Europe, Middle East and Africa, combined with the continued momentum in Latin America, particularly in Brazil and in Central America and the Caribbean.

Western Europe contributed 2% revenue growth with the growth driven by strong new business in France, Denmark and Iberia. Great Britain had 2% revenue growth, driven by new business in aerospace construction and FINEX.

CRB revenue was $651 million, with an operating margin of 12% as compared to an 11% operating margin in the prior year third quarter. The margin expanded due to top line performance coupled with continued cost management efforts. We're pleased with the CRB top line growth for the year, as well as the margin expansion for the quarter and the overall year. CRB continues to make solid progress towards profitable growth.

Turning to Investment Risk and Reinsurance, or IRR. Revenue for the quarter was $325 million, an increase of 3% on an organic basis and 5% on a constant currency basis, as compared to the prior year third quarter, with meaningful growth across all core businesses.

For the first nine months of 2019, IRR revenues grew 5% organically. Reinsurance with growth of 3% continued to lead the segment's growth, through a combination of net new business and favorable renewals. Insurance Consulting and Technology grew by 4%, mainly from technology product sales. Investment revenue increased 2% with continued expansion of the delegated investment services portfolio.

On an organic basis, wholesale revenue increased by 2%, driven by growth in specialty. Overall, the wholesale business was up 14%, including the results from Millers acquisition of Alston Gayler. Our Max Matthiessen business grew 1%, primarily from increased commission income.

IRR had an operating margin of 9% for both the current year and the prior year third quarter. Overall, we're pleased with the financial results of our IRR businesses. We expect a solid finish to the year, as the segment remains focused on executing against its goals, while continuing to develop innovative products and solutions which will drive long-term performance.

Revenues for the Benefits Delivery and Administration segment, or BDA, increased by 42% from the prior year third quarter on a constant currency basis. On an organic basis, revenue grew 2% compared to the prior year third quarter.

BDA's expanded mid and large market client base and increased project work led the segment's growth. We continue to see strong demand for benefit outsourcing's core service offerings resulting in several new client wins.

The segment's third quarter growth was muted due to a revenue timing shift in individual marketplace. For the first nine months of 2019, BDA revenue grew 6% organically. BDA's operating margin improved by 14% to a negative 12% compared to a negative 26% in the prior year third quarter. Top line growth and greater operating leverage both contributed to the segment's margin improvement.

TRANZACT's revenue growth tracked nicely in the two months following the acquisition. We are very encouraged by TRANZACT's performance in their first couple of months with us and we continue to be excited about their future prospects, as this business continues to gain momentum.

So in summary, I'm very pleased with our continued progress. We delivered another quarter of solid financial performance and we expect a strong finish in the fourth quarter, placing us on track to deliver another positive financial performance for 2019.

For the full year, we continue to expect strong revenue growth, meaningful margin expansion and significant EPS growth. Finally, I'd like to thank our colleagues for their continued client focus, collaboration and engagement and congratulate everyone on a good quarter.

Now I'll turn the call over to Mike.

**Mike Burwell**

Thanks, John, and good morning to everyone. Thanks to all of you for joining us. I'd like to add my congratulations to my fellow colleagues for another good quarter, as well as thank our clients for their continued support and trust in us.

Now let's turn to the financial overview. Our third quarter continued to represent more positive results, recognizing it's our seasonally lowest quarter with strong organic revenue growth and robust margin expansion.

Let me first discuss income from operations. Income from operations for the third quarter was $107 million, or 5.4% of revenue, up 450 basis points from the prior year, third quarter income from operations of $17 million or 0.9% of revenue. Adjusted operating income for the third quarter was $231 million or 11.6% of revenue, up 120 basis points from the prior year of $194 million or 10.4% as a percentage of revenue.

Now let me turn to earnings per share or EPS. For the third quarters of 2019 and 2018, our diluted EPS was $0.58 and $0.33 respectively. For the third quarter of 2019, our adjusted EPS decreased nominally by less than 1% to $1.31 per share as compared to $1.32 per share in the prior year third quarter.

Foreign currency caused a decrease in our consolidated revenue of $36 million for the quarter compared to the prior year third quarter with a $0.01 positive impact to adjusted diluted earnings per share this quarter. As previously guided, we continue to be adversely impacted by a decrease in non-cash pension income and a higher adjusted income tax rate this year.

For the third quarter of 2019, reduced pension income resulted in $0.10 adjusted EPS decrease compared to the prior year third quarter. While the higher adjusted income tax rate in the third quarter of 2019 also resulted in a $0.10 adjusted EPS decrease compared to the prior year third quarter.

Excluding the combined headwinds from the reduced pension returns of $0.10, higher taxes of $0.10 and TRANZACT dilution of $0.04, our underlying adjusted EPS growth compared to the prior year third quarter would have been approximately 15% higher.

Turning to our effective tax rate. Our U.S. GAAP tax rate for the third quarter was 20.4% versus negative 28.1% in the prior year third quarter. Our adjusted income tax rate for the third quarter was 22.2%, up 15 -- from 15.9% in the prior year third quarter.

As a reminder, the prior year third quarter included a one-time tax benefit from the release of a valuation allowance on certain state deferred tax assets. We continue to evaluate the impact of global tax reform on our effective tax rate including the effect of new taxes associated with computations for changes resulting from updated interpretations and assumptions issued by the taxing authorities. As a result, the effective tax rate is subject to movements and we will continue to update as more analysis and information becomes available.

Moving to the balance sheet. We continue to have a strong financial position. As a reminder in the first quarter we implemented the new lease accounting standard. This result had no material impact to our operating income but did result an increase in liabilities on our balance sheet, which were largely offset by a corresponding increase in assets. The gross-up totaled approximately $1.5 billion.

During the quarter, we successfully issued a $1 billion in senior notes comprised of $450 million of 10-year notes and $550 million of 30-year notes. We are very pleased with the results of this financing. We feel that this transaction helps with our efficiency of our capital structure and provides additional financial flexibility.

The bond proceeds were used to prepay a portion of the amount outstanding under our term loan commitment resulting from the TRANZACT acquisition and repaid borrowings under our revolving credit facility.

During the quarter, we generated $262 million of free cash flow, up from the prior year third quarter free cash flow of $253 million, bringing our year-to-date free cash flow to $445 million, a decrease in free cash flow of $507 million for the first nine months of the prior year. The year-over-year decline in free cash flow is primarily due to higher cash tax payments for income taxes resulting from U.S. and global tax reform, 2019 first quarter bonus payments and working capital changes.

We're expecting free cash flow to finish strongly in the fourth quarter which is our highest generating quarter. In terms of capital allocation, we paid approximately $85 million in dividends and repurchased $96 million of Willis Towers Watson stock in the third quarter of 2019.

For the first nine months of 2019, we repurchased approximately $147 million in Willis Towers Watson stock and paid approximately $245 million in dividends. We remain committed to deleveraging in the near-term and returning our leverage ratio to historic levels.

As we move ahead into the fourth quarter, let's review our full year 2019 guidance. For the company, we continue to expect constant currency revenue growth for 2019 to be in the range of 7% to 8% and organic revenue growth in the range of 4% to 5%. Full year adjusted operating income margin is expected to be around 20%.

The adjusted effective tax rate is still expected to be around 22% excluding any potential discrete items. We continue to look at tax planning strategies which might lower the rate on a longer-term basis. We'll provide an update on this in our fourth quarter earnings call. We expect free cash flow to be in the $1.1 billion to $1.2 billion range for the current year.

Now moving on to transaction and integration expenses. We expect to incur about $20 million of cost as a result of the TRANZACT acquisition, primarily related to transaction costs associated with the deal. Foreign exchange was $0.01 tailwind to adjusted EPS in the third quarter of 2019 but with a $0.11 headwind to adjusted EPS for the first nine months of 2019. We expect FX to be around $0.04 headwind adjusted EPS for the remainder of the year, resulting in an overall headwind of around $0.15 for the full year 2019. We continue to expect adjusted diluted earnings per share to be in the $10.75 to $11.10 range for the full year 2019.

In summary we've seen good acceleration in revenue growth and positive operating leverage this quarter which should continue to position us well to execute on our plans this year. I'm pleased with the results and continued momentum of our businesses. There's still a lot of opportunity ahead and we remain focused on driving execution.

Now I'll turn the call back over to John.

**John Haley**

Thanks, Mike. And so with that, I'd like to open the call to your questions.

**Question-and-Answer Session**

**Operator**

[Operator Instructions] Your first question comes from Mike Zaremski.

**Mike Zaremski**

Hey, good morning. First question when we think about the guidance range in 4Q any kind of items we should be thinking about the biggest drivers from high versus low end? I know there's a lot of visibility on a good part of your business given the recurring nature of it. Just kind of curious if there's maybe some technical items accounting items we should be thinking about? Or is it just blocking and tackling and seeing how revenues turn out?

**John Haley**

Yes. Mike I don't think there's anything that we would point to like that. I think it will be a quarter with the normal sorts of things. I mean, there's always issues around particularly in CRB when you can recognize revenue for projects. If something gets delivered December 30 versus January 3rd or something like that there's issues when things go into quarter. But that's it. Mike is there anything...

**Mike Burwell**

Yes. The only thing that I would add to your comments John, would be the annual enrollment period that we – that you see happen. But again, it's blocking and tackling as you said John. It's just a normal process. But obviously with TRANZACT being on board and what we do overall in Benefits Delivery and Administration obviously that will drive in the fourth quarter.

**John Haley**

Yeah. I mean the fourth quarter is a really big quarter for us. So it's an outsized importance for the rest of it. But there's nothing that we think is a special feature I guess that we would direct your attention to.

**Mike Zaremski**

Okay. Understood. And the last question in terms of the big decrease in interest rates globally kind of this year versus last year. Does that offer any kind of tailwinds to your defined benefit consulting practice in 4Q I guess? And also kind of related maybe for Mike should we be thinking about an impact to 2020 expenses or free cash flow as a result of that? Thanks.

**John Haley**

Yeah. So I think the level of interest rates with lower interest rates, it can have a negative effect on how well-funded a plan appears to be. So that's a bit of an issue. I don't think that necessarily drives a lot of extra activity one way or another though. The – and it's not so much the level of interest rates as it's sort of the path they've been following that can lead to increased bulk lump sum work. And I think we called out that we did see some increased bulk lump sum work in the third quarter this year. We expect to see maybe not as much but still some increased bulk lump sum work year-over-year in the fourth quarter. So we're seeing that effect but not particularly big effects one way or another.

**Mike Burwell**

Yes John. And I a would just add when you look at we run – and think about our guidance for the year. And as you said a big portion of it comes in the fourth quarter in terms of revenue and profits. And we're up 150 basis points of margin improvement for the first nine months. We'll update everyone on our year-end call in terms of what we think about in terms of looking at fiscal year 2020 and beyond.

**Mike Zaremski**

Thank you.

**Operator**

Your next question comes from Mark Marcon from Baird.

**Mark Marcon**

Good morning. Nice quarter. I was wondering if you could talk a little bit about what you're seeing in HC&B with regards to the more discretionary elements given the macro environment? It sounds like everything is going really well. Just wondering if there's any headwinds out there that you sense or the level of confidence in terms of being able to navigate the environment?

**John Haley**

Yes, Mark thanks for the question. I think that sort of the way you've phrased it reflects how I feel about that. I was talking with someone the other day and saying that I thought that given some of the noises you hear about macro environment things are going surprisingly well in HCB generally. And as you noticed talent and rewards which is really the most discretionary part that we have there it was up -- I think it was 9% for the quarter. So, we're not seeing a pullback of that.

I think there's probably a couple of effects from that. But one of them is I think over the years, we have really delivered on the value of our talent and rewards business in both good times and bad times and it's becoming a more critical part of what I think and players are looking to. So, maybe we still have opportunities to do that across all the different macroeconomic environments. Mike anything you'd like to add?

**Mike Burwell**

No, John I think you covered. I mean the only -- maybe one comment I would just say is our retirement business, the team continues to work very hard and is well-received in the marketplace. And so we see that continuing into the future.

**Mark Marcon**

Terrific. Mike can you talk a little bit about the free cash flow guidance for this year. It's a pretty wide range with one quarter to go. It sounds like maybe there's some timing aspects. But longer term multiyear we're still looking at 15% or better. But just wondering if you could just elaborate?

**John Haley**

Maybe I'll just make a quick comment before I turn it over Mike -- and then Mike will jump in on some of the details. But I think Mark, you're right; it is a relatively broad range. And we're on pace for about $1.1 billion we think right now. But we have some opportunities we think to -- and Mike will talk a little bit about them to get it up above that.

We've been hit by greater cash tax payments this year than we originally expected. And so that's been a real drag here and that's not going away. We're going to have that -- that's going to be there for the rest of the year. But we have some working capital efforts that we think we could maybe improve. Mike do you want to--

**Mike Burwell**

Yes, John. So, I'd just emphasize that point. So, one fourth quarter is a very large quarter. When you look at us in terms of free cash flow. As you probably know Mark, it was greater than $500 million last year for us. It was over half our free cash flow. And so that -- as John talked about pacing that's going on there. We did have higher cash tax payments that happened in the current year.

As you saw our effective rate was up on a year-over-year basis and that ultimately translated into more cash tax payments as we filed our returns in the various countries in which we operate.

We are very focused on our working capital management. It's something that we are continuing to focus on and believe that we will see those improvements. And that's why we gave that collective range in terms of where we are.

**Mark Marcon**

Terrific and then lastly can you just talk a little bit about--

**John Haley**

By the way Mark could I just -- maybe just to interject one point that I don't think we addressed in your question. We do feel good about the 15% going forward generally. Yes.

**Mike Burwell**

Thanks John.

**Mark Marcon**

Great. And then can you just talk about TRANZACT, I mean it sounds like that's got good momentum. And just how you see that building out over a multiyear horizon?

**Mike Burwell**

Yes, I mean thank you for asking Mark. I mean we are very excited about TRANZACT and to have them in the fold. I mean that started obviously when we were going through the process. And working that as Gene Wickes and the team were really going through that. And what we continue to see was a very strong market.

We see that 10,000 retirees are hitting every single day. When we look at our enrollment level they continue to move at a very, very strong pace. The management team at TRANZACT is doing a great job and being supported by others in BDA. And so all signs are just really, really positive in terms of what we're seeing. So, very strong market we're seeing -- what we've got set up both in terms of technology that people want to be able to come online and think about Medicare Advantage or Medicare Supplement policies and programs, or whether they want to call an agent.

We feel very well positioned in terms of supporting that and we're seeing that already starting out. And obviously we'll report that in the fourth quarter, as we go through the open enrollment period that started here in mid-October. So, I got to tell you, we couldn't be more excited about having TRANZACT in the family. And early signs are very positive, which is what we thought and -- when we brought them and did the acquisition.

**John Haley**

Yes. I'd just say from my perspective, there were three things we liked about it. We liked the business model. We liked the management team. We liked the people. We feel better about all three of them today than we did when we did the deal.

**Mark Marcon**

Great to hear it. Thank you.

**Operator**

Your next question comes from Elyse Greenspan from Wells Fargo.

**Elyse Greenspan**

Hi. Good morning. My first question, I guess, just following up on the TRANZACT deal. Is there any way -- I know, it's only numbers for two months, but could you give us a sense of both, A, what the revenue growth was for those two months?

And then, also, I know, TRANZACT did, as you would expect it to follow the same seasonality as BDA in terms of losing money in every quarter, but the fourth quarter. Is there a sense -- could you just give us a sense of what the drag on earnings was in the third quarter?

**Mike Burwell**

Yes, Elyse. So just going back, I mean, what we said, if you go back, originally on TRANZACT was that we would have 25% to 30% CAGR growth rates for TRANZACT and that's what we had anticipated happening. And frankly, that's what we're seeing. Really running at those rates so far and that's not changing in terms of what we had said and that was reflected in our revised guidance that we did at the end of the second quarter.

**John Haley**

But the fourth quarter is really the big quarter.

**Mike Burwell**

The fourth quarter is a big quarter. But we anticipated moving in that direction. On TRANZACT impact in the third quarter was a $0.04 dilution. And, I guess, it was highlighted in my comments. So that's how we saw for the third quarter.

**Elyse Greenspan**

Okay. That's helpful. Thanks. Sorry, I missed that number. And then, on the pension side, I know, the question was asked a little bit earlier in terms of the impact of interest rates. But, obviously, equity markets have been up, while interest rates have gone down this year.

I'm just trying to get a sense, I know, you said you want to wait until the fourth quarter. But could you just help us think about the opposing impacts and how we should think about the potential impact on pension income for 2020?

**John Haley**

Yes. Elyse, we'd like to be more helpful. But, frankly, we don't do continuous valuations of the plan. And it's -- there's a complex center between them, they're moving in opposite directions. I think if you were to ask us right now as a rough guess, we expect the situation will look better at the end of this year than it did at the end of last year. But beyond that, there's -- the situation is so volatile anyway. I mean, last year the fourth quarter completely changed everything for us. So we don't bother trying to do projections mid-year.

**Elyse Greenspan**

Okay. And then in terms of the organic revenue, you guys are at 5% year-to-date. You left the guide at $0.04 to $0.05 -- 4% to 5%, I'm sorry. Does anything -- I know you guys don't always update that every quarter. Does anything indicate to you that Q4, would it be as good as what you've seen for the rest -- for the other three quarters of the year?

**John Haley**

No. I think, we said, we expect to be where we were for -- we expect to hit our yearly target. So, yes. And there's nothing that suggest -- I mean, look, we said two things and I think at the beginning of year. One was we said, we put our growth rate at 4% to 5%; we felt we would grow at.

And there was some question about whether the market, generally thought they were going to grow faster. And we said, well, look we're budgeting for 4% to 5%, because that's the basis on which we think it's the most prudent to budget. But we also think we'll do at least as well as the market. And I think both of those are still true.

**Elyse Greenspan**

Okay. And then one last thing, on the unallocated expenses, I know that that bounces around a little bit between what goes to the segment and what goes to the corporate level. Was there anything one-off in that number in the quarter? Or just typical seasonal -- typical quarterly volatility?

**Mike Burwell**

Yes. Typical volatility for the quarter, Elyse. I mean, it was nothing of any -- just normal.

**John Haley**

There was no one big item there.

**Mike Burwell**

No big item there, no.

**Elyse Greenspan**

Okay. Thank you very much.

**John Haley**

Thanks, Elyse.

**Operator**

Your next question comes from Shlomo Rosenbaum from Stifel.

**Shlomo Rosenbaum**

Hi. Thank you very much for taking my questions. Mike, can you talk a little bit what was the timing issue that impacted the IRR growth? And how should that impact the fourth quarter?

**Mike Burwell**

Yes. So we think about IRR Shlomo, you got to look at the comp. I mean, if you looked at the comp last year it was 9% that happened. So we had -- looking at 3% for the current year I mean, the third quarter is one of our lower quarters for the business overall. So we're not uncomfortable with what's happened in terms of looking at that. So you look -- I think you got to really look at the business on an annual basis. And when you look at it year-to-date standpoint, we're at 5% and we continue to believe in IRR in terms of where it is. So I just think it's just kind of where we stand. And we had a very difficult comp looking at it compared to the prior year.

**Shlomo Rosenbaum**

So revenue recognition was not something that was signed, but just wasn't recognized it was just -- the item was just a tough comp year-over-year?

**Mike Burwell**

That's correct.

**Shlomo Rosenbaum**

Okay, okay. Thanks for clarifying that. And then John, when you're having a big acquisition, a key question is retention of both the key people and then also the broader base. Is there -- and can you just comment on what you're seeing in the first couple of months over there?

**John Haley**

I mean, I think -- thanks Shlomo for the question. Look as I mentioned earlier, we liked the business model. We liked the management team. We liked the people at TRANZACT. And we continue to feel really good about all three. One of the reasons we were excited about it was we just thought there was a good fit between us and we thought TRANZACT fit well within our structure and would be a valued part of -- we thought they would like being part of Willis Towers Watson. So far that's been realized.

**Shlomo Rosenbaum**

Okay. So you're comfortable with the retention that you've had in terms of the employees?

**John Haley**

Yes, we are.

**Shlomo Rosenbaum**

Okay, good. And then just the growth was very good in the brokerage side. Clearly in line to better than some of the comps publicly. Is there any indication in terms of competitively that you guys are doing better? Or can you just comment on that side of it?

**John Haley**

No, I don't think we have much we can comment on that. I mean, I do think you saw -- look North America had a fantastic quarter. North America CRB as well as our International both very strong growth rates. And those were something that I think coming into the year, we expected both of those regions to do very well. We think we have a great value proposition there. And so we think that's going to be something that we're going to be able to sustain, I mean maybe not at the exact levels we're at, but we expect to get very good growth from both of those regions. And we expect to see CRB generally grow very strongly.

**Mike Burwell**

Yes. And I would just add John to your comments, I mean, we've also saw the 1% margin improvement as well. So we continue to focus on, the CRB team continues to focus on -- continue to see margin improvement in that segment as well as all our segments, but just to highlight.

**John Haley**

And that's going to be a multiyear phenomenon. I think we'll continue to see margin improvement year over year over year.

**Shlomo Rosenbaum**

Okay, great. And if you don't mind me just squeezing in one last one. Just in terms of business momentum, it seems to be pretty good. Do you see the business momentum carrying forward kind of sustainable at current levels? Do you see a higher risk, less risk going forward? Just what's your good sense John?

**John Haley**

So I mean, I think this is -- I think we're where we wanted to be as a business. When we first did the merger back in beginning of 2016 and we were looking at what we could put together and the kind of momentum we could achieve this was where -- this is the kind of position we wanted to be in. We feel good about where we are. We're very pleased with the results. But frankly, we're not satisfied. We think we can see more improvement in the future. So there's -- every business has to deal with the changes in the macroeconomic environment and we'll be the same as others. And that will contribute to ups and downs but we feel like we're well placed to deal with it.

**Shlomo Rosenbaum**

Great. Thank you so much.

**Operator**

Your next question comes from Greg Peters with Raymond James.

**Greg Peters**

Hi, good morning. I'm going to start with a housecleaning item. In your slide deck presentation, I think you mentioned John on the call you said that -- well you pointed out to a higher debt at the end of the third quarter. And I assume that was used in part to finance your acquisition. And at the time of the acquisition, I thought you said you were going to suspend share repurchase and use that free cash flow for the acquisition. So I'm trying to reconcile that.

And then in the language used in call and on your slide deck, you said return leverage -- the leverage ratio to its historical level. And I'm wondering what you meant by that? And then not to pile on, but I wanted to -- the language seems to have adjusted a little bit in your free cash flow guidance where you accelerate to 15% or better longer term. I thought it was 15% or better for the next three years. So if you can add some color to that that would be helpful.

**Mike Burwell**

Sure. Why don't we unpack those? So first is on the debt itself. So we had borrowed and we had a term loan outstanding from the acquisition of TRANZACT. As you can see in our cash flow statement we paid $1 billion -- roughly $1.3 billion round numbers for TRANZACT. We had taken a term loan for $1.1 billion. We had taken out financing -- or we had gone to the market and done financing, of which we termed out a portion of that $1.1 billion and we paid off any outstanding amounts we had on our credit line.

So that's why -- that then -- if you looked at it on a pure debt-to-EBITDA ratio Greg, it went from two point -- up to 2.7. We historically have been in the 2.1% to 2.3% range, which I would say historically, which is where we'd like to get back to.

We said on purchase of shares, share repurchases that we would buy shares in the marketplace to make sure that we weren't anti-dilutive given our employee benefit plans that we have to be in place. And we had estimated those go from time to time. In this case as we said for the third quarter, year-to-date share repurchases have been $147 million. And that then, therefore, covers those repurchases consistent with what we had said previously.

On our free cash flow we -- I guess when we think about longer term, you asked the question as it relates to three years or longer term. Right now, we're saying three years is long -- in our mind a bit longer term. If you want to go beyond that I guess right now, we're saying three years. That's where we have been in terms of 15% or better.

**Greg Peters**

Great. Thank you for the clarification. I'm going to circle back to the HCB business, because I used to think of it as a single-digit organic revenue growth business. And clearly that's changed this year. And so as I'm thinking about it, I'm wondering if the calculus has changed behind the business as we think about 2020 and 2021. Or will next year just be difficult comps because Talent and Awards has a tendency to be more volatile?

**John Haley**

Yeah. I mean -- so Greg I would say, I don't think the business -- it's a mid-single-digit growth business just on average. But I think that means that there are some years you can see growth up in the high single digits where we are now. So that's not particularly surprising. It will be a slightly more difficult comp for us. But overall we feel pretty good about the business. And frankly we feel pretty good about the prospects for next year too.

**Greg Peters**

Yes. A final point, I'd like to add just to get some clarification on is that you're reporting margin improvement without any major corresponding restructuring plan or big restructuring charges that are flowing through your income statement. So I was wondering if you could give us some color on the drivers of this margin improvement. I think you mentioned in the slide deck it's sustainable. Can you give us, sort of, size up what the opportunity is going forward? That would be helpful.

**John Haley**

Do you want to take that Mike?

**Mike Burwell**

Yeah. So when -- we'll, obviously, update as we -- as you rightly pointed out, we're up 150 basis points through the nine months and 120 basis points in the third quarter as it relates to margin. It starts, obviously, Greg with the revenue growth. And I think as John commented on in terms of what we're seeing in terms of revenue growth and then driving that operating leverage is managing our cost base.

And so our leadership team and operating committee very focused as well as all our colleagues are very sensitive to managing our cost base and driving our revenue growth. So we'll update guidance at Q4 in terms of what we see going forward, but our track record has been to continue to deliver that revenue growth and that operating margin. And so we're very focused on managing that differential.

**John Haley**

And by the way Greg just one thing -- to be clear, as we think about this going forward, we may very well have some restructuring programs that we'll put in place. But what we think we're not going to do is, we're not going to be trying to exclude them from income and try to play games like that. If we have restructuring programs, we'll just tell you about them and tell you what they cost.

**Greg Peters**

Right. So if I should assume if you're able…

**John Haley**

Greg?

**Mike Burwell**

Greg, we lost you there.

**Operator**

I'm sorry. Your next question is from David Styblo from Jefferies.

**David Styblo**

Hi, there. Thanks for the question. I'm sure we'll get Greg back here in a second. I'm showing late so I apologize if this was asked, but I wanted to talk a little bit about HCB again there, and make sure I understand the organic growth. To what extent if at all was that lifted by ASC 606? What was the impact from that?

**Mike Burwell**

So, overall that was roughly 2% of that or $48 million for the year-to-date period through 9/30/2019.

**David Styblo**

Okay. And was this…

**Mike Burwell**

And you'll see that in the -- if you look in our Q&A in the press release, you'll see it in there Dave.

**David Styblo**

Okay. Got it. But then as for the third quarter specifically?

**Mike Burwell**

Rich will get that back to you. I think it's $14 million, I think is the number. $14 million, yes.

**David Styblo**

Okay. Great. Thanks for that. And then I guess it sounds like there's been some questions on that free cash flow that I caught towards the end here. I guess, the $1.1 billion to $1.2 billion implies that year-over-year growth rate of maybe 8% to 18%. So it seems like you're possibly going to be below your 15% annual target. If it does fall short of that goal, can you help us understand what some of the factors might be? What perhaps part of that might be due to TRANZACT transaction costs, which were obviously not known when you provided that guidance initially?

**Mike Burwell**

Yes. I would say really there are three things that would impact it. One would be additional cash tax payments; two, would be for some reason we weren't as successful as we anticipate being, as it relates to working capital; and three, the TRANZACT costs that were never anticipated or forecasted at the outset of the year.

**David Styblo**

Right. Okay. And then lastly obviously organic growth was broadly strong across the larger segments. I guess, if you could give us an update on what you're seeing from a competitive standpoint? And to the extent that you still might be benefiting from dislocation from mergers among competitors versus the background of -- the backdrop of the macroeconomic background being maybe a little bit stronger in price hardening versus just core fundamentals that you guys are doing with retention and new business wins?

**Mike Burwell**

Yeah. Thank you for the question Dave. I mean, look we have very strong competitors. They're well-run companies with good management teams, but we love our team and what our team's doing in the marketplace and how we're competing.

And so as John and I have reiterated that we aren't going to underperform to the market. And when you look at where we are through the nine months of this year, and we're right at or above where our competitors are from organic growth rate standpoint.

So, when we look at it across our portfolio we feel very good of where we sit from a competitive standpoint. And I think John made it in his comments, you look at the last five quarters our revenue growth has been at least 5% overall, and we continue to see margin improvements. And so we're very proud of what our teams have been doing and how well they're doing in the marketplace. So, hopefully, it gives you some color Dave.

**David Styblo**

Yeah. It does. Thanks much.

**Operator**

Your next question comes from Tobey Sommer from SunTrust.

**Tobey Sommer**

Thank you. With respect to the TRANZACT business, I was wondering if you could share with us your thoughts of what the different versions of Medicare for all could mean for that business? Any color you can give or perspective would be helpful. Thank you.

**John Haley**

Yeah. So I mean, I think, we've -- I know there's been a lot of concern about the potential for Medicare. Of course, Medicare for all is a pretty ill-defined concept. The proposals vary tremendously in scope and there's a lot of unknowns. So for us to speculate on exactly what the outcome would be, it's pretty hard at this moment.

I guess, I would say though we've actually thought about a lot of some of these different scenarios as to what they could mean. We think the most reasonable thing is that changes in the country's health care model would create some new client needs.

And given our positioning and especially, our positioning post the TRANZACT acquisition we feel pretty good about our prospects. Now some of the really extreme versions of this are ones that frankly, which would be bad I think for everybody and for the country. I just don't think there's much chance of those coming into force, but you know, who knows.

**Tobey Sommer**

Okay. Thank you for that. In the HCB segment, your growth has I think been quite impressive. Could you describe how much of that is being driven by market phenomenon and increases in demand and maybe contrast that to headcount growth where you're able to attract seasoned talent from competitors who for whatever reason may not be as attractive platforms these days?

**John Haley**

Yes. I mean I don't think we have that right off hand. I would say our growth in the Talent and Rewards has been modest. There's a significant portion of that. That's just come from demand and from winning work overall.

**Tobey Sommer**

Thank you.

**Operator**

Your next question comes from Yaron Kinar of Goldman Sachs.

**Yaron Kinar**

Thank you. Good morning. Start off with the free cash flow, I guess, beating a dead horse here. I guess, just to clarify on Greg's previous question. When you talk about the 15% long-term growth there. I think in the past you had said it would be 15% or better over a long-term period as well as each of the next three years. Is that each of the next three years still true today?

**John Haley**

Well I mean look looking for -- we just gave you the guidance for 2019. If you're looking -- if we're talking about over the course of the next couple of years here, we're saying we think those are going to be 15%. We -- I hope we didn't give the wrong impression. We never expected to be giving free cash flow forecast for the next 20 years.

**Yaron Kinar**

No, no I understood. But I think when we were looking at the initial guidance for free cash flow for the next three years I think one of the comments that was previously made was both in aggregate and for each of the years. And it sounds like that at least for the next two years you still expect at least 15% or better for each of those years.

**John Haley**

That's correct.

**Yaron Kinar**

Okay.

**John Haley**

Yes.

**Yaron Kinar**

And then on the higher cash tax payments was that just a function of earnings coming in from higher jurisdictions or higher tax jurisdictions than you anticipated? Or is there something else driving the increase?

**Mike Burwell**

I think it's two points. The first one Yaron is the one you had said right? It's higher income in those higher tax jurisdictions than what we originally anticipated. But -- and the other piece of it is until you file the returns and you go through the adjustments you go through the process we had -- just had some of that happen as well in terms of just going through the process itself. So that drove our higher tax payments. So those two points.

**Yaron Kinar**

Okay, okay. And then if I can sneak one more in the ASC 606 accounting catch up. So do you still expect a roughly $10 million that is yet to come in to come in the fourth quarter?

**Mike Burwell**

Yes.

**Yaron Kinar**

Okay. And that is basically all kind of almost full margin as well, right?

**Mike Burwell**

Looking forward to that.

**Yaron Kinar**

Okay. Thank you.

**Mike Burwell**

You’re welcome.

**Operator**

Your next question comes from Meyer Shields from KBW.

**Meyer Shields**

Great, thanks, good morning. So two probably nitpicky questions the first is there any way of teasing out the contribution of Facultative placements within CRB's organic growth in the quarter?

**Mike Burwell**

Yeah. Meyer, we really don't disclose that. As you said, Facultative is included in our CRB business and as you try to think about comparabilities and to others. But yeah, we don't disclose it.

**John Haley**

I think generally though, we -- as we look at this and it's probably not true every quarter. But annually, our growth tends to be about the same or we think even sometimes higher than the others. So what we try to do as much as we can of an apples-to-apples comparison. But it's difficult.

**Meyer Shields**

Okay. No, that's perfectly fair. Thanks. Second question just, I'm trying to distinguish this. Obviously, the reimbursable expenses and other sort of augmented the organic growth for the quarter.

And I was wondering if you could break out how much of that is reimbursable expense? And how much of it is other than actually stayed with the company?

**Mike Burwell**

Yeah. Meyer, I mean, look there's a variety of little things that are included in there in the various pieces. There's nothing that jumps out at you or really is driving it in either period of time.

**Meyer Shields**

Okay thank you so much.

**Mike Burwell**

You're welcome.

**Operator**

Ladies and gentlemen, this concludes today's Q&A session. I would now like to turn the call back over to Mr. John Haley.

**John Haley**

Okay, yeah. So thanks everyone for joining us this morning. And we look forward to updating you on our fourth quarter call in February 2020. It's no long.

**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.