

Willis Towers Watson(WLTW)

\$183.34 (As of 05/01/20)

Price Target (6-12 Months): **\$187.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Willis Towers' first-quarter earnings of \$3.34 per share beat the Zacks Consensus Estimate by 6.4% and improved 12.1% year over year. It is well-poised on incremental revenue growth, cost synergies and solid balance sheet. Focus on realizing operational efficiencies, investment in new growth avenues and strength of its client services bode well. Buyouts have helped the company penetrate deeper into the markets and expand international presence. Increasing organic commissions and fees, solid customer retention levels and growing new business should help the company to ramp up its revenues. Its shares have underperformed its industry in past year. However, higher expenses tend to weigh on margin expansion. Increasing long-term debt and lower interest rate pose financial risks. Exposure to foreign exchange volatility remains a concern.

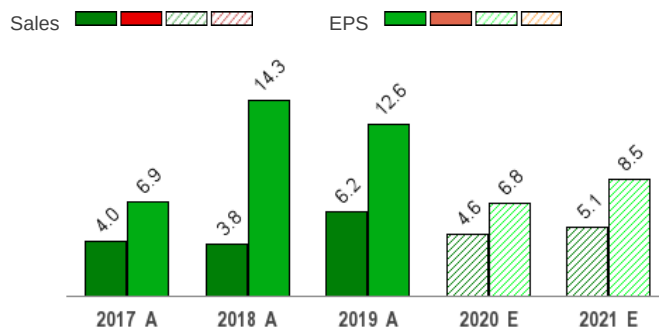
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$220.97 - \$143.34
20 Day Average Volume (sh)	1,221,608
Market Cap	\$23.6 B
YTD Price Change	-9.2%
Beta	0.76
Dividend / Div Yld	\$2.72 / 1.5%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 15% (37 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.4%
Last Sales Surprise	-0.3%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	NA
Earnings ESP	-7.3%
P/E TTM	16.2
P/E F1	15.7
PEG F1	1.5
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,551 E	2,221 E	2,123 E	2,930 E	9,938 E
2020	2,466 A	2,144 E	2,053 E	2,775 E	9,456 E
2019	2,312 A	2,048 A	1,989 A	2,690 A	9,039 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.29 E	\$1.92 E	\$1.59 E	\$5.77 E	\$12.71 E
2020	\$3.34 A	\$1.80 E	\$1.47 E	\$5.34 E	\$11.71 E
2019	\$2.98 A	\$1.78 A	\$1.31 A	\$4.90 A	\$10.96 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/01/2020. The reports text is as of 05/04/2020.

Overview

Willis Towers Watson plc, formerly known as Willis Group Holdings plc, is a leading global advisory, broking and solutions company. With the merger of Willis Group and Towers Watson, the merged entity adopted its new name and began trading under the symbol WLTW on the stock exchange in January 2016. However, London, United Kingdom based Willis Towers Watson was formed in 1828.

Willis Towers caters to the need of designs and delivers solutions that manage risk, optimize benefits, and expand capabilities, among others of large companies and mid-market and small businesses across the world.

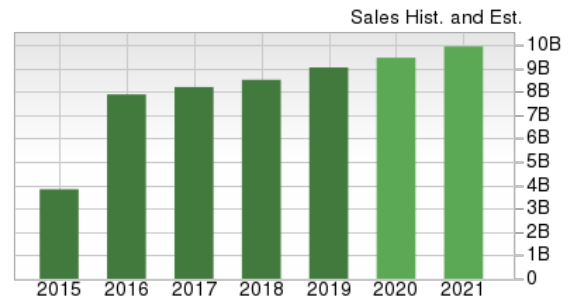
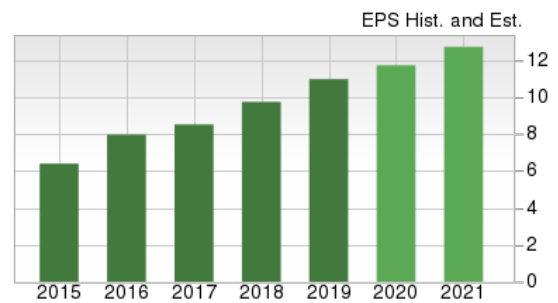
It reports through four operating segments:

Human Capital and Benefits (37% of 2019 revenues): This segment provides an array of advice, broking, solutions and software for employee benefit plans, the human resources organizations and management teams of its clients.

Corporate Risk and Broking (33%): This segment provides a broad range of risk advice, insurance brokerage and consulting services to clients worldwide ranging from small businesses to multinational corporations. The segment delivers integrated global solutions tailored to meet client needs and underpinned by data and analytics. The segment has placed more than \$20 billion of premium into the insurance markets on an annual basis.

Investment, Risk and Reinsurance (18%): This segment uses a sophisticated approach to risk, which helps clients free up capital and manage investment complexity. The segment works closely with investors, reinsurers and insurers to manage the equation between risk and return. Blending advanced analytics with deep institutional knowledge, the segment identifies new opportunities to maximize performance. The segment provides investment consulting and discretionary management services and insurance specific services and solutions through reserves opinions, software, ratemaking, risk underwriting and reinsurance broking.

Benefits Delivery and Administration (12%): This segment provides primary medical and ancillary benefit exchange and outsourcing services to active employees and retirees across both group and individual markets.



Reasons To Buy:

- ▲ Shares of Willis Towers have underperformed its industry in a year. Nevertheless, the company's operational efficiencies, investment in new growth avenues and an effective capital deployment are likely to drive shares in the days ahead.
- ▲ Organic growth in commissions and fees, forming the major component of Willis Towers' revenues continues to post positive numbers. Most of the company's operating regions have experienced revenue growth for the nine straight quarters. As a result, the company's revenues have witnessed a CAGR of 18.9% over the past five years (2014-2019). In first-quarter 2020, the top line exhibited an organic growth of 4% year over year. Commissions and fees associated with business transactions showed improvement backed by organic growth across segments and rich contribution from acquisitions. Its geographic diversification supports overall growth. With solid customer retention levels and growing new business, we expect the company to ramp up its revenues. However, Willis Towers repealed its guidance for 2020 due to the market volatility prevailing on account of the COVID-19 outbreak. Revenues are also expected to remain under pressure for the remaining year 2020 due to the pandemic.
- ▲ Willis Towers' strategic acquisitions have expanded its geographical footprint in the last few years in countries like Italy, Canada, the U.K. and France as well as ramped up product portfolio. In July 2019, the company acquired TRANZACT to speed up its direct-to-consumer U.S. health care strategy as well as strengthen its profile in the health care space. Willis Towers that was formed with the merger of Willis Group and Towers Watson in Jan 2016 is a testimony of its efforts to pursue strategic opportunities that will ramp up its growth profile by combining forces and leverage strengths. This year in March, Aon and Willis Towers entered into an agreement to merge in an all-stock deal, which is expected to serve clients better. The transaction, which is likely to close in the first half of 2021, is anticipated to provide data-driven insights for creating new sources of client value.
- ▲ Willis Towers has been improving its liquidity while maintaining a solid balance sheet. Though the company has current debt amounting to \$697 million as of Mar 31, 2020, cash and cash equivalents came in at \$898 million for the same period. This suggests that the company has sufficient cash reserves to meet its short-term debt obligations. A strong balance sheet and steady cash flow is expected to help the company engage in capital deployment for buybacks, dividend payouts, debt repayments, acquisitions and investments that drive and support growth. In February 2020, the company's board of directors approved a 5% dividend hike. With a solid financial position, we expect the company to continue rewarding its shareholders, retaining investor confidence and attracting potential investors to the stock.

Increasing organic commissions and fees, solid customer retention levels, growing new business, strong exchange business, strategic acquisitions and a solid capital position should aid growth.

Reasons To Sell:

- ▼ Willis Towers' expenses have been rising over the last several quarters, resulting in the contraction of margins. Consequently, total cost of providing services increased 7.8% year over year in first-quarter 2020. Expenses more than doubled in the last five years with net margin contracting 130 basis points. The company also estimates around \$20-million cost related to the TRANZACT acquisition.
- ▼ Despite a strong balance sheet sound enough to cover short-term debts, Willis Towers has been witnessing increasing levels of long-term debts in the last few years inducing higher interest expense. Though long-term debt declined 2.3% in first-quarter 2020, it rose 20.8% in 2019 from the level at 2018 end with interest expense rising 12.5% year over year. Further, the company's times interest earned of 6.6 as on Mar 31, 2020 is lower than the 2019-end figure of 6.7, implying that its earnings are not sufficient to cover interest obligations.
- ▼ The company is exposed to foreign exchange volatility, which is a major concern. Foreign currency caused a decrease in consolidated revenues of \$192 million in 2019 compared with the prior year, with a 16 cents headwind to adjusted earnings per share. Forex impacted the company's earnings by 3 cents in first-quarter 2020.
- ▼ Willis Towers' return on equity of 14.5% is lower than its industry average of 26.4%. Return on equity is a profitability metric that measures how effectively the company is utilizing its shareholders' funds.

Willis Towers' increasing expenses weighing on margin expansion, rising debt level leading to unfavorable leverage ratio, lower interest coverage ratio and adverse forex keeps us on sidelines.

Last Earnings Report

Willis Towers Q1 Earnings Top Estimates, Revenues Lag

Willis Towers Watson delivered first-quarter 2020 adjusted earnings of \$3.34 per share, which beat the Zacks Consensus Estimate by 6.4%. The bottom line improved about 12.1% year over year on the back of higher segmental revenue contributions.

The quarter benefited from strong organic revenue growth, reflecting solid demand for solutions and services across all core businesses.

Quarter Ending 03/2020

Report Date	Apr 30, 2020
Sales Surprise	-0.29%
EPS Surprise	6.37%
Quarterly EPS	3.34
Annual EPS (TTM)	11.33

Operational Update

Willis Towers Watson posted adjusted consolidated revenues of \$2.47 billion, up 7% year over year, on a reported basis. The metric grew 4% on an organic basis. The top line however missed the Zacks Consensus Estimate by 0.2%.

Total cost of providing services increased 7.8% year over year to \$2.1 billion.

Adjusted operating income was \$525 million, up 6.7% year over year. Margin was flat at 21.3%.

Adjusted EBITDA was \$680 million, up 13.1% year over year. Adjusted EBITDA margin was 27.6%, up 160 basis points (bps).

Quarterly Segment Update

Human Capital & Benefits: Total revenues of \$850 million were up 4% year over year both on constant currency and organic basis. On an organic basis, revenue growth was driven by increased consulting and brokerage services, growth in specialty products, and continued expansion of the client portfolio for both local and global appointments. Operating margin was 25%, reflecting an increase of 30 bps.

Corporate Risk & Broking: Total revenues of \$739 million improved 4% year over year both on a constant basis and organic basis. On an organic basis, revenue growth was driven by new business generation along with strong renewals. Operating margin was 17.2% in the quarter under review, down 20 bps.

Investment, Risk & Reinsurance: Total revenues of \$615 million increased 6% from the prior-year quarter on a constant basis and 5% on an organic basis. On an organic basis, all lines of business contributed to the growth. Operating margin was 45.1%, up 240 bps.

Benefits Delivery & Administration: Total revenues of \$231 million improved 71% year over year on a constant basis and 1% on organic basis. The organic growth is driven by its expanded client base and increased demand for project work in the mid-market and large-market spaces. Operating margin was negative 4.7% compared with negative 15.3% in the year-ago quarter.

Financial Update

Cash and cash equivalents increased nearly 1.2% from 2019-end level to about \$898 million.

Long-term debt decreased 2.3% from 2019 end to nearly \$5.2 billion at quarter-end.

Shareholders' equity increased 0.1% from the level on Dec 31, 2019 to \$10.3 billion as of Mar 31, 2020.

Cash flow from operations was \$23 million against cash used in operations of \$47 million in the year-ago quarter. Free cash outflow was \$43 million, narrower than outflow of \$104 million in the year-ago quarter.

Recent News

Willis Towers Watson Hikes Dividend – Feb 26, 2020

The board of directors of Willis Towers Watson recently approved a 5% hike in its quarterly dividend to be paid out on Apr 15, 2020 to shareholders of record as Mar 31. The company will now pay out a dividend of 68 cents per share compared with 65 cents paid out on Jan 15, 2020. Shareholders of record as of Mar 31 was paid with the dividend on Apr 15, 2020.

Valuation

Willis Towers shares are down 11.7% in the year-to-date period and down 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 15.7% and 24.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2.4% and down 19.5%, respectively.

The S&P 500 index is down 9.6% in the year-to-date period and 0.4% in the past year.

The stock is currently trading at 14.57x forward 12-month price to earnings, which compares to 16.59x for the Zacks sub-industry, 15.27x for the Zacks sector and 20.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.71x and as low as 10.58x, with a 5-year median of 15.56x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$187 price target reflects 15.28x forward 12-month earnings.

The table below shows summary valuation data for WLTW

Valuation Multiples - WLTW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	14.57	16.59	15.27	20.8
	5-Year High	18.71	21.01	16.17	20.8
	5-Year Low	10.58	14.5	11.19	15.19
	5-Year Median	15.56	16.66	13.93	17.44
P/S F12M	Current	2.37	2.71	4.96	3.3
	5-Year High	4.12	3.31	6.69	3.44
	5-Year Low	1.75	1.83	4.96	2.54
	5-Year Median	2.32	2.52	6.05	3.01
P/B TTM	Current	2.21	5.09	2.13	3.89
	5-Year High	3.76	6.85	2.90	4.55
	5-Year Low	1.39	3.33	1.71	2.84
	5-Year Median	2.05	4.57	2.52	3.64

As of 04/30/2020

Industry Analysis Zacks Industry Rank: Top 15% (37 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
eHealth, Inc. (EHTH)	Outperform	2
Arthur J. Gallagher & Co. (AJG)	Neutral	3
Aon plc (AON)	Neutral	3
Brown & Brown, Inc. (BRO)	Neutral	3
Erie Indemnity Company (ERIE)	Neutral	2
Marsh & McLennan Companies, Inc. (MMC)	Neutral	3
Everest Re Group, Ltd. (RE)	Neutral	3
W.R. Berkley Corporation (WRB)	Neutral	3

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	WLTW	X Industry	S&P 500	AJG	AON	ERIE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	C	-	-	B	B	B
Market Cap	23.60 B	1.98 B	20.61 B	14.70 B	41.27 B	7.97 B
# of Analysts	9	5.5	14	7	8	1
Dividend Yield	1.48%	1.27%	2.11%	2.32%	0.99%	2.24%
Value Score	C	-	-	C	D	D
Cash/Price	0.04	0.10	0.06	0.18	0.02	0.04
EV/EBITDA	12.40	13.71	11.87	12.56	16.66	18.59
PEG Ratio	1.47	2.04	2.47	1.80	NA	NA
Price/Book (P/B)	2.27	2.51	2.67	2.77	11.99	7.03
Price/Cash Flow (P/CF)	10.63	15.34	10.66	12.54	14.46	23.58
P/E (F1)	15.66	19.90	19.01	19.59	17.55	26.82
Price/Sales (P/S)	2.57	2.50	2.10	2.08	3.72	3.22
Earnings Yield	6.39%	5.03%	5.05%	5.11%	5.70%	3.73%
Debt/Equity	0.60	0.34	0.72	0.73	1.92	0.08
Cash Flow (\$/share)	16.77	2.99	7.01	6.26	11.94	7.55
Growth Score	C	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	12.02%	12.03%	10.88%	11.61%	10.83%	16.20%
Proj. EPS Growth (F1/F0)	6.86%	6.19%	-7.32%	8.41%	10.74%	6.11%
Curr. Cash Flow Growth	6.15%	6.15%	5.92%	9.99%	-0.54%	13.54%
Hist. Cash Flow Growth (3-5 yrs)	30.62%	11.82%	8.55%	13.27%	3.75%	12.81%
Current Ratio	1.55	1.06	1.23	1.02	1.52	2.03
Debt/Capital	37.66%	24.65%	43.84%	42.25%	65.77%	7.80%
Net Margin	11.55%	9.63%	11.08%	9.63%	13.91%	12.79%
Return on Equity	14.46%	14.90%	16.44%	15.33%	55.95%	29.27%
Sales/Assets	0.26	0.37	0.54	0.37	0.38	1.29
Proj. Sales Growth (F1/F0)	4.61%	3.74%	-1.42%	4.79%	3.13%	4.10%
Momentum Score	D	-	-	C	B	B
Daily Price Chg	1.73%	0.00%	-2.39%	-1.47%	1.21%	-3.24%
1 Week Price Chg	-9.30%	-2.46%	-1.74%	-9.95%	-8.00%	-1.99%
4 Week Price Chg	12.55%	3.01%	17.07%	-0.33%	9.80%	10.31%
12 Week Price Chg	-14.65%	-16.79%	-18.53%	-25.32%	-24.80%	8.10%
52 Week Price Chg	-0.12%	-5.27%	-9.82%	-5.30%	-2.16%	-5.25%
20 Day Average Volume	1,221,608	76,144	2,641,413	1,394,453	1,439,897	125,710
(F1) EPS Est 1 week change	-0.95%	-0.92%	0.00%	-2.11%	-0.88%	0.00%
(F1) EPS Est 4 week change	-1.31%	-2.60%	-6.62%	-3.20%	-2.00%	0.00%
(F1) EPS Est 12 week change	-1.54%	-3.69%	-13.28%	-4.23%	-2.39%	-3.16%
(Q1) EPS Est Mthly Chg	-2.16%	-4.31%	-11.97%	-6.64%	-4.39%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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