

Willis Towers Watson(WLTW)

\$202.52 (As of 08/05/20)

Price Target (6-12 Months): **\$214.00**

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:B

Value: C

Growth: C

Momentum: A

Summary

Willis Towers' second-quarter earnings per share beat estimates. 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 help Willis Towers to penetrate deeper into the markets and expand its international presence. Increasing organic commissions and fees, solid customer retention levels and growing new business should help the company to ramp up its revenues. Solid balance sheet and steady cash flow ensure effective capital deployment. Its shares have underperformed the industry year to date. However, escalating expenses tend to weigh on margin expansion. Increasing long-term debt and lower interest rate pose financial risks. Also, exposure to forex volatility concerns.

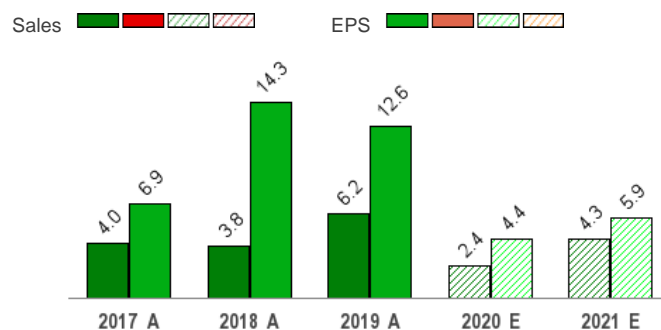
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$220.97 - \$143.34
20 Day Average Volume (sh)	556,479
Market Cap	\$26.1 B
YTD Price Change	0.3%
Beta	0.81
Dividend / Div Yld	\$2.72 / 1.3%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 9% (24 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.1%
Last Sales Surprise	3.2%
EPS F1 Est- 4 week change	1.9%
Expected Report Date	10/29/2020
Earnings ESP	-0.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,522 E	2,188 E	2,070 E	2,878 E	9,658 E
2020	2,466 A	2,113 A	1,979 E	2,694 E	9,258 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	\$3.24 E	\$1.87 E	\$1.46 E	\$5.54 E	\$12.11 E
2020	\$3.34 A	\$1.80 A	\$1.31 E	\$5.03 E	\$11.44 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.

P/E TTM	17.8
P/E F1	17.7
PEG F1	1.7
P/S TTM	2.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/05/2020. The reports text is as of 08/06/2020.

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.

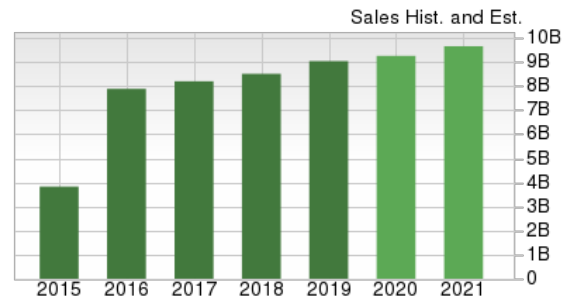
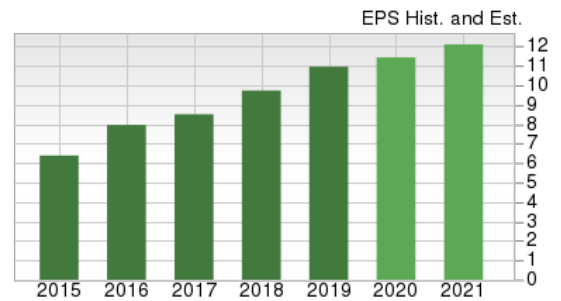
It reports through four operating segments:

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 gained 0.2%, underperforming its industry increase of 0.4% year to date. Nonetheless, operational efficiencies, investment in new growth avenues and an effective capital deployment will continue 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 10 straight quarters, driving topline growth. In first-half 2020, the top line exhibited organic growth of 2% year over year. Its geographic diversification supports overall growth. With solid customer retention levels and growing new business, we expect the company to ramp up its revenues. 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's current debt was \$525 million as of Jun 30, 2020, cash and cash equivalents totaled \$1.1 billion along with full capacity in undrawn \$1.25 billion revolving credit facility at second-quarter end. 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 6% year over year in first-half 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 debt declined 0.4% at second-quarter 2020 end, interest expense rose 11.8% in the first half of 2020. Further, the company's times interest earned of 6.4 in the second quarter 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 the first quarter but had a minimal impact in the second quarter of 2020.
- ▼ Willis Towers' return on equity of 14.3% is lower than its industry average of 27.4%. 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 Q2 Earnings & Revenues Beat Estimates

Willis Towers Watson delivered second-quarter 2020 adjusted earnings of \$1.80 per share, which beat the Zacks Consensus Estimate of \$1.62 by 11.1%. The bottom line improved 1.1% year over year.

The company witnessed solid constant currency revenue growth, which was offset by soft performance of Human Capital and Benefits (HCB) segment.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	3.18%
EPS Surprise	11.11%
Quarterly EPS	1.80
Annual EPS (TTM)	11.35

Operational Update

Willis Towers Watson posted adjusted consolidated revenues of \$2.1 billion, up 3.2% year over year on a reported basis. Revenues increased 5% on a constant currency basis but remained flat on an organic basis. Moreover, the top line beat the Zacks Consensus Estimate by 3.2%.

Total cost of providing services increased 4.2% year over year to \$1.9 billion due to higher salaries and benefits, depreciation, transaction and integration expenses.

Adjusted operating income was \$296 million, down 1% year over year. Margin decreased 60 basis points (bps) to 14% due to lower margin at HCB segment.

Adjusted EBITDA was \$441 million, up 3.8% year over year. Adjusted EBITDA margin was 20.9%, up 10 basis points (bps).

Quarterly Segment Update

Human Capital & Benefits: Total revenues of \$767 million decreased 4% year over year (down 2% in both constant currency and organic basis). On an organic basis, the global impact of COVID-19 negatively impacted demand in the Talent and Rewards business, resulting in the decline of revenues. Operating margin was 20.9%, reflecting a decrease of 20 bps.

Corporate Risk & Broking: Total revenues of \$701 million improved 2% year over year (up 4% in both constant currency and organic basis). On an organic basis, North America continued to lead the segment, followed by International and Western Europe, primarily with new business generation along with strong renewals. The revenue increase was partially offset by a decline in Great Britain, which was primarily due to the impact of COVID-19 on certain insurance lines. Operating margin was 19.2% in the quarter under review, up 400 bps.

Investment, Risk & Reinsurance: Total revenues of \$413 million increased 1% from the prior-year quarter (up 2% in both constant currency and organic basis). On an organic basis, most lines of business contributed to the growth. Operating margin was 28.7%, up 180 bps.

Benefits Delivery & Administration: Total revenues of \$209 million improved 66% (up 66% in constant currency and down 3% in organic basis). The increase was driven by the acquired company, TRANZACT, which generated revenues of \$87 million. Operating margin was negative 4.2% compared with negative 20.1% in the year-ago quarter.

Financial Update

Cash and cash equivalents were \$1.1 billion at second-quarter end, up 22.5% from the 2019-end level.

Long-term debt decreased 4.4% to nearly \$5.1 billion at quarter-end from 2019 end.

Shareholders' equity increased 0.8% from the level on Dec 31, 2019 to \$10.3 billion as of Jun 30, 2020.

Cash flow from operations was \$685 million in the first half of 2020, up 126% year over year. Free cash flow in the first half of 2020 was \$550 million, reflecting a surge of 201% year over year.

During the six months ended Jun 30, 2020, the company did not engage in share repurchase activity.

2020 Guidance

Due to the uncertainties caused by the COVID-19 pandemic, Willis Towers Watson had previously withdrawn its full-year 2020 guidance.

Recent News

Willis Towers Unit Collaborates for ILS – Jul 22, 2020

Willis Towers' reinsurance division Willis Re has teamed up with Willis Re Securities to provide insurance-linked securities (ILS) of €100 million for the insurance arm of Unipol Group (UnipolSai) to ensure effective integration within the overall property catastrophe reinsurance program of UnipolSai.

Willis Towers, The Hartford Partner for Captive Solution - Jun 10, 2020

Willis Towers Watson Public Limited Company has partnered with The Hartford and confirmed the launch of a group captive solution known as Homestead Insurance Company Incorporated Cell (Homestead). It is designed for upper middle-market companies. The newly launched Homestead will reinsure The Hartford, which will issue admitted insurance policies to members.

Valuation

Willis Towers shares are up 0.2% in the year-to-date period and 4.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 0.4% and down 17.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector is up 8.1% but down 8.5%, respectively.

The S&P 500 index are up 3.3% in the year-to-date period and 15.7% in the past year.

The stock is currently trading at 17.44x forward 12-month price to earnings, which compares to 20.65x for the Zacks sub-industry, 16.51x for the Zacks sector and 22.71x 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 15.55x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$214 price target reflects 18.5x 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	17.44	20.65	16.51	22.71
	5-Year High	18.71	21.01	16.51	22.71
	5-Year Low	10.58	14.5	11.59	15.25
	5-Year Median	15.55	16.96	14.21	17.55
P/S F12M	Current	2.76	3.28	6.05	3.63
	5-Year High	4.12	3.31	6.66	3.63
	5-Year Low	1.75	1.83	4.97	2.53
	5-Year Median	2.37	2.56	6.06	3.04
P/B TTM	Current	2.5	6.53	2.42	4.54
	5-Year High	3.74	6.85	2.91	4.56
	5-Year Low	1.39	3.33	1.72	2.83
	5-Year Median	2.05	4.64	2.53	3.73

As of 08/05/2020

Industry Analysis Zacks Industry Rank: Top 9% (24 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arthur J. GallagherCo. (AJG)	Outperform	1
eHealth, Inc. (EHTH)	Outperform	1
Aon plc (AON)	Neutral	3
BrownBrown, Inc. (BRO)	Neutral	2
Erie Indemnity Company (ERIE)	Neutral	3
MarshMcLennan 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	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	B	-	-	D	B	C
Market Cap	26.10 B	1.59 B	22.93 B	20.20 B	45.99 B	10.00 B
# of Analysts	9	5.5	14	7	7	1
Dividend Yield	1.34%	0.82%	1.76%	1.71%	0.89%	1.78%
Value Score	C	-	-	F	C	F
Cash/Price	0.04	0.13	0.07	0.15	0.03	0.02
EV/EBITDA	13.56	17.49	13.16	16.80	18.89	22.96
PEG Ratio	1.65	2.62	2.99	2.62	NA	NA
Price/Book (P/B)	2.50	2.50	3.20	3.65	12.45	8.37
Price/Cash Flow (P/CF)	12.08	17.18	12.45	16.85	16.63	28.66
P/E (F1)	17.60	24.61	21.78	24.83	20.33	39.64
Price/Sales (P/S)	2.82	2.86	2.47	2.89	4.19	3.98
Earnings Yield	5.65%	4.06%	4.33%	4.03%	4.92%	2.52%
Debt/Equity	0.57	0.19	0.77	0.78	1.96	0.08
Cash Flow (\$/share)	16.77	2.99	6.94	6.26	11.94	7.55
Growth Score	C	-	-	D	B	B
Hist. EPS Growth (3-5 yrs)	13.11%	13.11%	10.46%	11.03%	11.54%	15.19%
Proj. EPS Growth (F1/F0)	4.34%	4.78%	-7.14%	16.40%	6.47%	-9.90%
Curr. Cash Flow Growth	6.15%	2.81%	5.47%	9.99%	-0.54%	13.54%
Hist. Cash Flow Growth (3-5 yrs)	30.62%	13.04%	8.55%	13.27%	3.75%	12.81%
Current Ratio	1.62	2.08	1.32	1.09	2.08	1.82
Debt/Capital	36.36%	15.47%	44.59%	43.81%	66.18%	7.36%
Net Margin	11.00%	10.68%	10.15%	10.35%	16.08%	11.76%
Return on Equity	14.32%	13.50%	14.46%	16.01%	64.99%	25.86%
Sales/Assets	0.25	0.35	0.51	0.35	0.37	1.25
Proj. Sales Growth (F1/F0)	2.42%	0.00%	-1.68%	-2.57%	-1.32%	1.15%
Momentum Score	A	-	-	D	B	C
Daily Price Chg	-1.08%	0.00%	0.59%	0.06%	-0.56%	1.34%
1 Week Price Chg	-0.71%	-0.94%	0.14%	3.43%	-0.94%	1.88%
4 Week Price Chg	1.65%	1.53%	5.31%	7.25%	1.53%	12.79%
12 Week Price Chg	2.71%	9.60%	19.84%	22.92%	4.36%	35.67%
52 Week Price Chg	4.74%	4.72%	2.73%	19.44%	6.52%	-1.31%
20 Day Average Volume	556,479	44,497	2,098,555	825,368	1,343,002	44,497
(F1) EPS Est 1 week change	1.85%	1.30%	0.00%	5.95%	0.07%	1.30%
(F1) EPS Est 4 week change	1.93%	2.84%	1.10%	5.95%	0.28%	1.30%
(F1) EPS Est 12 week change	1.71%	2.98%	1.04%	8.18%	0.08%	-15.09%
(Q1) EPS Est Mthly Chg	2.53%	2.87%	0.39%	3.21%	0.00%	0.61%

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	A
VGM Score	B

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.

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