

Willis Towers Watson(WLTW)

\$204.44 (As of 02/26/20)

Price Target (6-12 Months): **\$215.00**

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: B

Momentum: B

Summary

Willis Towers Watson's earnings of \$4.90 per share beat the Zacks Consensus Estimate of \$4.85 by 1%. The bottom line also improved 22.5% from the year-ago figure on the back of higher segmental revenue contributions. It is well-poised on incremental revenue growth and solid balance sheet. Focus on realizing operational efficiencies, investment in new growth avenues and strength of its client services bode well. Acquisitions have helped it to penetrate deeper into the markets and expand its international presence. Increasing organic commissions and fees, solid customer retention levels, growing new business should help the company to ramp up revenues. Solid balance sheet, steady cash flow ensure effective capital deployment. Its shares have underperformed its industry in past year. However, high costs, exposure to foreign exchange poses risk.

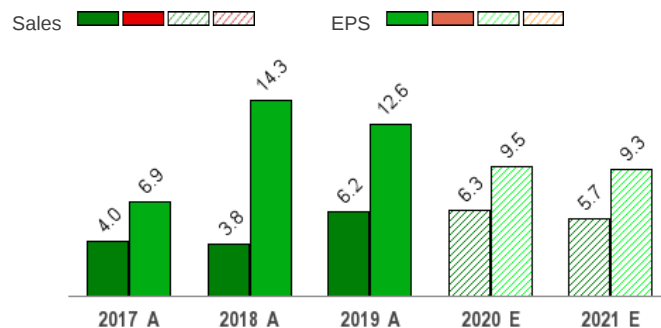
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$220.97 - \$166.51
20 Day Average Volume (sh)	643,532
Market Cap	\$26.3 B
YTD Price Change	1.2%
Beta	0.80
Dividend / Div Yld	\$2.60 / 1.3%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 9% (23 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.0%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	05/06/2020
Earnings ESP	0.3%
P/E TTM	18.6
P/E F1	17.0
PEG F1	1.6
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,644 E	2,344 E	2,216 E	3,053 E	10,155 E
2020	2,478 E	2,189 E	2,093 E	2,825 E	9,607 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	\$3.40 E	\$2.03 E	\$1.69 E	\$6.01 E	\$13.12 E
2020	\$3.16 E	\$1.87 E	\$1.52 E	\$5.46 E	\$12.00 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 02/26/2020. The reports text is as of 02/27/2020.

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.

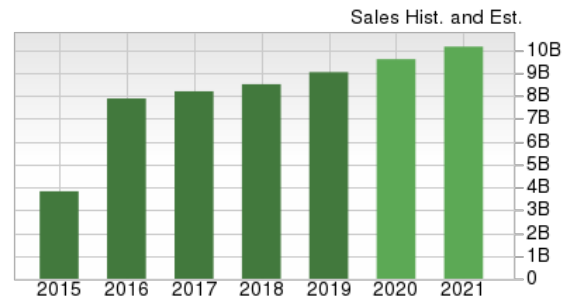
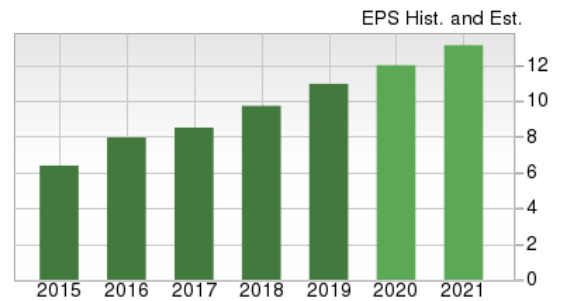
It reports through four operating segments:

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 rallied 18.8% in the past year, underperforming its industry's growth of 23%. Nevertheless, the company's operational efficiencies, investment in new growth avenues and an effective capital deployment are expected to aid shares.
- ▲ 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 eight straight quarters. 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. For 2020, the company expects organic revenue growth of around 4% to 5% and 6% to 7% on an overall constant currency basis.
- ▲ 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. We note that 30 basis points of their margin improvement in fiscal year 2019 was driven by TRANZACT, related to the timing of the purchase. Its revenue growth exceeded the company's expectations. 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. Besides, this merger has generated revenues, cost and tax synergies.
- ▲ Willis Towers has been improving its liquidity while maintaining a solid balance sheet. 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. The company estimates free cash flow in the \$1 billion band during 2020. 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' operating expenses have been rising over the last several quarters, resulting in the contraction of margins. 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.
- ▼ Willis Towers has been witnessing increasing debt level over the last few years inducing interest expense. Long-term debt increased 1.4% year over year in 2018 with debt-to-equity ratio deteriorating 160 basis points. In 2019, the company's long-term debt rose 20.8% from the level at 2018 end with interest expense rising 12.5% year over year. A low interest servicing ability raises financial risk.
- ▼ 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.
- ▼ Willis Towers' return on equity of 13.9% is lower than its industry average of 25.9%. 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 Q4 Earnings Top Estimates, Improve Y/Y

Willis Towers Watson delivered fourth-quarter 2019 adjusted earnings of \$4.90 per share, surpassing the Zacks Consensus Estimate of \$4.85 by 1%. The quarter under discussion witnessed organic revenue growth.

Also, the bottom line improved 22.5% from the year-ago figure on the back of higher segmental revenue contributions.

Quarter Ending 12/2019

Report Date	Feb 06, 2020
Sales Surprise	2.15%
EPS Surprise	1.03%
Quarterly EPS	4.90
Annual EPS (TTM)	10.97

Operational Update

Willis Towers Watson posted adjusted consolidated revenues of \$2.69 billion, up 13% year over year. Moreover, the metric grew 5% on organic basis. The top line also beat the Zacks Consensus Estimate by 2.2%.

Total cost of providing services increased 5.3% year over year to \$2 billion.

Adjusted EBITDA for the fourth quarter was \$930 million, up 20.2% year over year.

Adjusted operating income surged 24.5% year over year to \$809 million in the reported quarter.

Quarterly Segment Update

Human Capital & Benefits: Total revenues of \$865 million were up 3% year over year. Operating margin was 30.1% for the quarter under review.

Corporate Risk & Broking: Total revenues of \$877 million improved 7% year over year. Operating margin was 30.3% in the quarter under review.

Investment, Risk & Reinsurance: Total revenues of \$314 million was up 12% from the prior-year quarter's number. Operating margin was 9.1%.

Benefits Delivery & Administration: Total revenues of \$595 million soared 53% year over year. Operating margin was 52.4%.

Financial Update

Cash and cash equivalents decreased 14.1% to \$887 million from the 2018-end level.

Long-term debt increased 20.8% from the level at 2018 end to nearly \$5.3 billion at the reported quarter-end.

Shareholders' equity increased 4% from the level on Dec 31, 2018 to \$10.4 billion as of Dec 31, 2019.

For 2019, cash from operations declined 16% year over year to \$1.08 billion.

For the same period, free cash flow was \$835 million, down 18% year over year.

The company bought back shares worth \$3 million in the quarter under review.

Full-Year Update

For the full year, the company repurchased shares worth \$150 million.

For the year ended Dec 31, 2019, revenues were \$9.04 billion, up 6% year over year.

Adjusted earnings per share came in at \$10.96, up 12.6% year over year.

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 will be paid with the dividend on Apr 15, 2020.

Willis Towers Expands Modelling Cyber Suite – Jan 28, 2020

Willis Towers boosts its proprietary cyber risk quantification modelling platform, Cyber Quantified.

Willis Towers Inks Deal to Acquire PE Corporate Services – Dec 10, 2019

Willis Towers Watson has entered into an agreement to buy out PE Corporate Services ("PECS"). The details of the transaction have been kept under wraps. The acquisition is expected to be completed before the end of the first quarter of 2020.

The acquisition is a strategic fit as it will help build up human capital, improve the capabilities of Willis Towers Watson South Africa and enable Willis Towers to focus provide its global talent and reward solutions to clients in South Africa and across the continent.

Valuation

Willis Towers shares are up nearly 1.2% in the year-to-date period and 18.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 4.3% and down 5.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 23.7% and 1.6%, respectively.

The S&P 500 index is down 3.3% in the year-to-date period and up 11.1% in the past year.

The stock is currently trading at 16.8x forward 12-month price to earnings, which compares to 20.5x for the Zacks sub-industry, 14.1x for the Zacks sector and 17.9x for the S&P 500 index.

Over the past five years, the stock has traded as high as 18.7x and as low as 10.6x, with a 5-year median of 15.7x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$215 price target reflects 17.7x earnings.

The table below shows summary valuation data for WLTW

Valuation Multiples - WLTW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.79	20.49	14.05	17.88
	5-Year High	18.71	20.92	16.21	19.34
	5-Year Low	10.58	14.49	12.01	15.18
	5-Year Median	15.66	16.67	14.05	17.47
P/S F12M	Current	2.71	3.32	6.55	3.29
	5-Year High	4.12	3.32	6.65	3.43
	5-Year Low	1.75	1.83	5.39	2.54
	5-Year Median	2.3	2.48	6.04	3
P/B TTM	Current	2.54	6.59	2.68	4.51
	5-Year High	4.36	6.95	2.89	4.9
	5-Year Low	1.39	3.32	1.83	2.85
	5-Year Median	2.06	4.48	2.52	3.62

As of 02/26/2020

Industry Analysis Zacks Industry Rank: Top 9% (23 out of 254)



Top Peers

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

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	WLTW Neutral	X Industry	S&P 500	AJG Neutral	AON Neutral	ERIE Neutral
VGM Score	B	-	-	C	C	-
Market Cap	26.29 B	1.96 B	22.59 B	19.55 B	51.52 B	7.35 B
# of Analysts	10	5.5	13	7	9	0
Dividend Yield	1.27%	1.03%	1.92%	1.66%	0.79%	2.43%
Value Score	C	-	-	D	D	-
Cash/Price	0.03	0.07	0.04	0.13	0.02	0.05
EV/EBITDA	13.86	17.14	13.29	16.20	20.87	18.09
PEG Ratio	1.60	1.74	1.93	2.55	1.74	NA
Price/Book (P/B)	2.54	3.13	3.03	3.71	14.97	6.57
Price/Cash Flow (P/CF)	12.19	18.63	12.33	16.58	18.63	23.93
P/E (F1)	17.04	22.22	17.79	24.98	21.36	23.97
Price/Sales (P/S)	2.91	2.91	2.47	2.73	4.68	2.99
Earnings Yield	5.87%	4.50%	5.60%	4.01%	4.68%	4.17%
Debt/Equity	0.60	0.34	0.70	0.73	1.92	0.09
Cash Flow (\$/share)	16.77	2.99	7.02	6.26	11.94	6.65
Growth Score	B	-	-	B	B	NA
Hist. EPS Growth (3-5 yrs)	12.02%	12.02%	10.85%	11.61%	10.83%	15.46%
Proj. EPS Growth (F1/F0)	9.53%	10.33%	6.79%	13.89%	13.60%	6.75%
Curr. Cash Flow Growth	6.15%	9.99%	6.53%	9.99%	-0.54%	34.16%
Hist. Cash Flow Growth (3-5 yrs)	30.62%	10.83%	8.38%	13.27%	3.75%	10.69%
Current Ratio	1.55	1.29	1.22	1.02	1.52	2.10
Debt/Capital	37.66%	24.65%	42.37%	42.25%	65.77%	7.93%
Net Margin	11.55%	10.46%	11.57%	9.34%	13.91%	13.01%
Return on Equity	13.99%	14.14%	16.80%	14.28%	55.95%	30.65%
Sales/Assets	0.25	0.37	0.54	0.37	0.38	1.32
Proj. Sales Growth (F1/F0)	6.29%	6.68%	4.06%	7.81%	5.97%	4.50%
Momentum Score	B	-	-	A	D	-
Daily Price Chg	0.89%	0.00%	-0.98%	-0.03%	0.02%	1.41%
1 Week Price Chg	-2.45%	-1.37%	-0.94%	-1.22%	-1.79%	-2.79%
4 Week Price Chg	-3.87%	-2.87%	-6.27%	5.08%	2.73%	-5.13%
12 Week Price Chg	5.77%	3.44%	-3.33%	12.16%	10.03%	-5.37%
52 Week Price Chg	19.88%	15.24%	6.81%	28.96%	29.97%	-12.76%
20 Day Average Volume	643,532	304,503	2,109,774	815,653	967,915	80,902
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.47%	0.59%	-0.08%	0.59%	0.60%	0.00%
(F1) EPS Est 12 week change	0.52%	0.55%	-0.22%	-0.11%	0.55%	0.00%
(Q1) EPS Est Mthly Chg	2.09%	-0.11%	-0.61%	-0.05%	-0.17%	NA

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	B
Momentum Score	B
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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