

Willis Towers Watson(WLTW)

\$214.75 (As of 01/30/20)

Price Target (6-12 Months): **\$225.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: D

Summary

Willis Towers Watson's shares have outperformed its industry in a year's time. The company is well-poised on incremental revenue growth, cost synergies and solid balance sheet. Focus on realizing operational efficiencies, investing in new growth avenues and strengthening of its client services bode well. Acquisitions have helped Willis Towers 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 its revenues. Solid balance sheet and steady cash flow ensures effective capital deployment. However, escalating operating expenses, rising debt level, higher interest expenses and exposure to foreign exchange volatility remain concerns. Lower return on equity also poses financial risk.

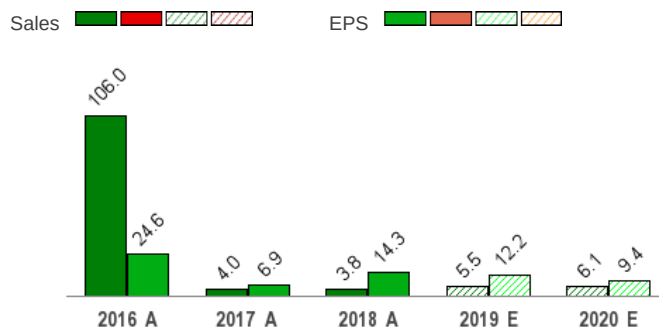
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$215.49 - \$160.00
20 Day Average Volume (sh)	596,086
Market Cap	\$27.6 B
YTD Price Change	6.3%
Beta	0.82
Dividend / Div Yld	\$2.60 / 1.2%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 7% (19 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.8%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,455 E	2,169 E	2,075 E	2,786 E	9,531 E
2019	2,312 A	2,048 A	1,989 A	2,633 E	8,985 E
2018	2,292 A	1,990 A	1,859 A	2,372 A	8,513 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.09 E	\$1.87 E	\$1.47 E	\$5.51 E	\$11.95 E
2019	\$2.98 A	\$1.78 A	\$1.31 A	\$4.85 E	\$10.92 E
2018	\$2.71 A	\$1.70 A	\$1.32 A	\$4.00 A	\$9.73 A

*Quarterly figures may not add up to annual.

P/E TTM	21.3
P/E F1	18.0
PEG F1	1.7
P/S TTM	3.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/30/2020. The reports text is as of 01/31/2020.

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.

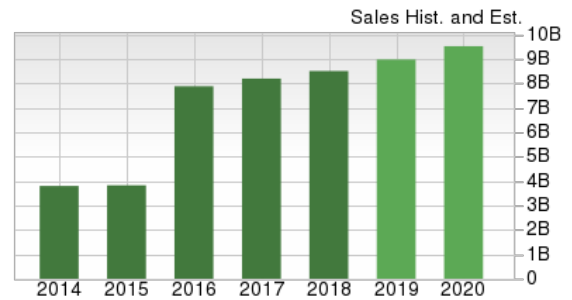
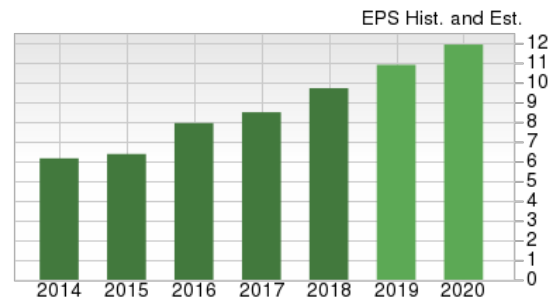
It reports through four operating segments:

Human Capital and Benefits (38% of 2018 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 (34%): 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 (19%): 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 (9%): 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 29.3% in the past year, outperforming its industry's growth of 29%. Moreover, operational efficiencies, investment in new growth avenues and an effective capital deployment are expected to help the stock retain its momentum going forward.
- ▲ 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. Following its third quarter results, Willis Towers continues to project constant currency revenue growth for 2019 in the range of 7-8% and organic revenue growth within 4-5%.
- ▲ Willis Towers' exchange business continues to retain solid momentum. The company maintains a robust 2019 sales pipeline in both middle and large markets. The company remains upbeat about the long-term growth of this business.
- ▲ 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, 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. 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 \$1.1-\$1.2 billion band during 2019, the mid-point reflecting a 12.7% improvement from the 2018 reported figure. In February 2019, the company's board of directors approved an 8.3% 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. Salaries, benefits and other operating expenses of the company rose 1.2% in the first nine months of 2019. The company also estimates around \$20-million cost related to the TRANZACT acquisition. Also, the company expects forex to drag down 2019 adjusted EPS by 15 cents per share.
- ▼ 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. As of Sep 30, 2019, the company's long-term debt rose 22.6% from the level at 2018 end with interest expense rising 11.7% year over year. A low interest servicing ability raises financial risk.
- ▼ The company is exposed to foreign exchange volatility, which is a major concern. In the first nine months of 2019, foreign exchange had an adverse effect of 11 cents per share. For the fourth quarter, it expects forex to have a negative impact of 4 cents per share.
- ▼ Willis Towers' return on equity of 13% 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 Q3 Earnings & Revenues Top Estimates

Willis Towers delivered third-quarter 2019 adjusted earnings of \$1.31 per share, which beat the Zacks Consensus Estimate of \$1.30. The bottom line declined 0.8% year over year.

The company witnessed strong total and organic revenue growth and continued margin expansion.

Operational Update

Willis Towers Watson posted adjusted consolidated revenues of \$1.99 billion, up 7% year over year on a reported basis. Revenues increased 6% on an organic basis. The top line marginally beat the Zacks Consensus Estimate of \$1.98 billion.

Total cost of providing services decreased 2.2% year over year to \$1.9 billion.

Adjusted operating income was \$299 million, up 15.9% year over year. Adjusted operating margin expanded 120 basis points (bps) to 11.6% driven by enhanced margin performance across all segments.

Adjusted EBITDA was \$344 million, up 9.9% year over year. Adjusted EBITDA margin was 17.3%, up 50 basis points (bps).

Quarterly Segment Update

Human Capital & Benefits: Total revenues of \$807 million were up 6% year over year both on constant currency and organic basis. Organic growth reflects increased consulting and brokerage services, growth in specialty products in North America, and expansion of its client portfolio outside North America for both local and global appointments. Operating margin was 27%, reflecting an increase of 200 bps.

Corporate Risk & Broking: Total revenues of \$651 million improved 7% year over year both on constant currency and organic basis. The segment witnessed solid growth across all geographies. Operating margin was 12% in the quarter under review, up 100 bps.

Investment, Risk & Reinsurance: Total revenues of \$325 million increased 5% from the prior-year quarter on a constant basis and 3% on an organic basis. All lines of business contributed to the segment's strong performance. Operating margin was 9.3%, up 20 bps.

Benefits Delivery & Administration: Total revenues of \$179 million improved 42% on a constant currency basis and 2% on an organic basis, driven by continued expansion of its client base and increased demand for project work in the mid-market and large-market spaces. Operating margin was negative 12% compared with negative 26% in the year-ago quarter.

Financial Update

Cash and cash equivalents decreased 16.1% from the 2018-end level to about \$867 million at third-quarter 2019 end.

Long-term debt decreased 22.6% from 2018 end to nearly \$5.4 billion at quarter-end. The company completed \$1 billion bond offering to proactively manage capital structure.

Shareholders' equity increased 0.4% from the level on Dec 31, 2018 to \$9.9 billion as of Sep 30, 2019.

Cash flow from operations was \$620 million in the first nine months of 2019, down 13.4% year over year. Free cash flow was \$445 million, down nearly 12.2% year over year.

The company bought back shares worth \$147 million in the first nine months of 2019.

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	0.33%
EPS Surprise	0.77%
Quarterly EPS	1.31
Annual EPS (TTM)	10.07

Recent News

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.

Willis Towers Declares Quarterly Dividend — Dec 10, 2019

The board of directors of Willis Towers recently declared a quarterly dividend of 65 cents per share for the quarter ended Sep 30, 2019. The dividend will be paid out on Jan 15, 2020 to shareholders of record as of Dec 31, 2019.

Willis Towers Introduces Cyber Policies — Oct 30, 2019

Willis Towers recently launched three new cyber insurance policies for clients across the United States, Canada, the U.K. and Western Europe.

Valuation

Willis Towers shares have gained 29.3% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 29% and 8%, respectively.

The S&P 500 index is up 20.1% in the past year.

The stock is currently trading at 17.84X forward 12-month price to earnings, which compares to 21.05X for the Zacks sub-industry, 14.65X for the Zacks sector and 18.8X 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 15.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$225 price target reflects 18.7X earnings.

The table below shows summary valuation data for WLTW

Valuation Multiples - WLTW					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.84	21.05	14.65	18.8
	5-Year High	18.71	21.05	16.21	19.34
	5-Year Low	10.58	14.49	12.01	15.18
	5-Year Median	15.66	16.65	14.07	17.46
P/S F12M	Current	2.88	3.34	6.53	3.49
	5-Year High	4.12	3.34	6.61	3.49
	5-Year Low	1.75	1.83	5.2	2.54
	5-Year Median	2.27	2.48	6.04	3
P/B TTM	Current	2.76	6.63	2.79	4.48
	5-Year High	4.36	6.63	2.89	4.55
	5-Year Low	1.39	3.32	1.83	2.85
	5-Year Median	2.06	4.44	2.51	3.62

As of 01/30/2020

Industry Analysis Zacks Industry Rank: Top 7% (19 out of 255)



Top Peers

W.R. Berkley Corporation (WRB)	Outperform
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

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	WLTW Neutral	X Industry	S&P 500	AJG Neutral	AON Neutral	ERIE Neutral
VGM Score	D	-	-	C	D	B
Market Cap	27.61 B	2.61 B	23.94 B	18.69 B	50.97 B	7.80 B
# of Analysts	9	5	13	7	8	1
Dividend Yield	1.21%	1.21%	1.77%	1.72%	0.80%	2.29%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.08	0.04	0.14	0.02	0.04
EV/EBITDA	18.32	19.21	14.14	19.19	24.56	19.22
PEG Ratio	1.68	1.83	2.01	2.48	1.77	NA
Price/Book (P/B)	2.76	3.28	3.25	3.80	14.44	6.97
Price/Cash Flow (P/CF)	13.74	18.99	13.56	17.33	18.99	25.38
P/E (F1)	17.89	22.45	18.90	24.25	21.21	25.42
Price/Sales (P/S)	3.17	3.06	2.64	2.61	4.68	3.17
Earnings Yield	5.56%	4.45%	5.28%	4.12%	4.71%	3.93%
Debt/Equity	0.63	0.34	0.72	0.78	1.72	0.09
Cash Flow (\$/share)	15.63	1.65	6.92	5.78	11.57	6.65
Growth Score	D	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	10.97%	12.01%	10.68%	12.01%	10.42%	15.46%
Proj. EPS Growth (F1/F0)	9.43%	9.86%	7.59%	13.23%	13.38%	6.75%
Curr. Cash Flow Growth	2.16%	7.57%	10.81%	12.53%	7.57%	34.16%
Hist. Cash Flow Growth (3-5 yrs)	26.50%	10.69%	8.78%	19.23%	5.07%	10.69%
Current Ratio	1.41	1.40	1.22	1.05	1.38	2.10
Debt/Capital	38.90%	24.65%	42.99%	43.72%	63.22%	7.93%
Net Margin	10.07%	9.34%	11.69%	9.34%	13.79%	13.01%
Return on Equity	13.01%	13.05%	17.33%	14.48%	51.63%	30.65%
Sales/Assets	0.25	0.38	0.55	0.38	0.38	1.32
Proj. Sales Growth (F1/F0)	6.02%	6.48%	4.12%	10.72%	5.79%	4.50%
Momentum Score	D	-	-	D	F	C
Daily Price Chg	0.98%	0.07%	0.36%	1.40%	1.41%	0.63%
1 Week Price Chg	1.96%	0.14%	-1.09%	0.43%	0.74%	-1.28%
4 Week Price Chg	5.13%	2.65%	-0.22%	4.91%	5.19%	2.22%
12 Week Price Chg	16.09%	5.56%	4.08%	10.05%	12.98%	-4.21%
52 Week Price Chg	31.92%	25.31%	16.06%	34.12%	40.58%	15.32%
20 Day Average Volume	596,086	127,346	1,808,632	642,309	666,395	85,811
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.05%	0.00%	0.00%	-0.61%	-0.07%	0.00%
(F1) EPS Est 12 week change	0.03%	-0.12%	-0.09%	-0.69%	-0.12%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.56%	0.00%	NA

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	D
Growth Score	D
Momentum Score	D
VGM Score	D

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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