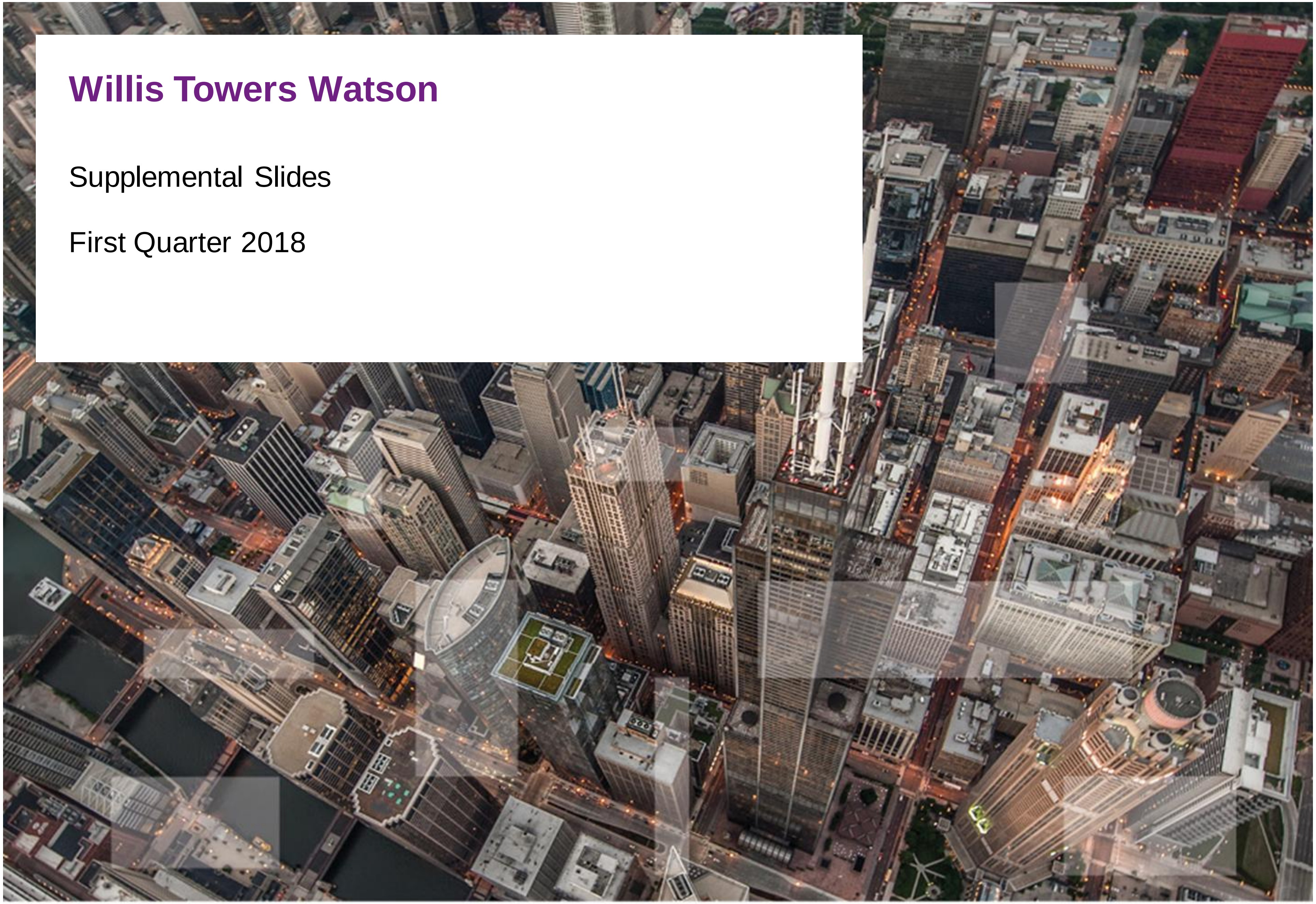
Willis Towers Watson

Supplemental Slides

First Quarter 2018



New Revenue Standard ASC 606

Impact of adoption on condensed consolidated statement of income

Unaudited

	Three Months Ended March 31, 2018		
Statement of Income	**As Reported**	**Balances Without Adoption of ASC 606**	**Effect of Change**
Revenue	$ 2,292	$ 2,551	$ (259)
Costs of providing services			
Salaries and benefits	1,377	1,352	25
Depreciation	49	54	(5)
Income from operations	259	538	(279)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	264	543	(279)
Provision for income taxes	43	96	(53)
NET INCOME	221	447	(226)
NET INCOME ATTRIBUTABLE TO WILLIS TOWERS WATSON	215	441	(226)
EARNINGS PER SHARE			
Basic earnings per share	$ 1.62	$ 3.33	$ (1.71)
Diluted earnings per share	$ 1.61	$ 3.31	$ (1.70)

New Revenue Standard ASC 606

Explanations of the impacts to first quarter 2018 condensed consolidated statement of income

Unaudited

		Increase/(Decrease) for the Three Months Ended March 31, 2018	
Revenue adjustments			
Medicare broking	BDA	$ (73)	Approximately 2/3 of this revenue is now recognized in fourth quarter preceding the policy year. This adjustment is to reflect that pattern and adjust the former ASC 605 more ratable revenue recognition to the pattern where only approximately 1/3 of this revenue will be recognized ratably throughout the year.
Proportional treaty reinsurance broking	IRR	24	The revenue recognition in this area is now estimated and accelerated at policy inception as compared to previously recording throughout a two-year period upon receipt of monthly or quarterly treaty statements. This adjustment reflects the estimated revenue acceleration for those policies incepting before 2018.
Health and benefits broking	HCB	(190)	Adjustment of policies incepting in Q1 to reflect revenue recognition more evenly throughout the year (will more closely align our delivery of services and cash collections on the revenue stream as well.) Due to using the "open contract" expedient, we will not be recognizing approximately $45M of revenue in 2018, from contracts that incepted from February to December of 2017. We will however, return to our normal revenue run-rate in 2019.
Other adjustments		(20)	Less material items, reducing revenue for the first quarter, with no material change by year end.
Total adjustments related to revenue		(259)	
Cost adjustments			
System implementation activities	HCB/ BDA	2	Related to the change in composition of system implementation costs deferred prior to 2018, as prescribed by ASC 606, and the longer amortization period, which will be used based on the expected life of the client
Other cost adjustments	CRB/ IRR	18	Mostly related to the expensing of deferred broking costs on Q1 policy inceptions for IRR ($16M) and CRB ($2M), net of new Q1 deferrals for policies incepting within the next few months.
Total adjustments related to costs		20	
Tax effect		53	
Total net adjustments		$ (226)	

New Revenue Standard ASC 606

Impacts of adoption on condensed consolidated balance sheet and cash flows

Unaudited

Balance Sheet	As of March 31, 2018 As Reported	Balances Without Adoption of ASC 606	Effect of Change
ASSETS			
Accounts receivable, net	$ 2,600	$ 2,584	$ 16
Prepaid and other current assets	439	370	69
Fixed assets, net	926	1,015	(89)
Other non-current assets	532	488	44
LIABILITIES			
Deferred revenue and accrued expenses	1,239	1,348	(109)
Other current liabilities	867	919	(52)
Deferred tax liabilities	711	612	99
Provision for liabilities	624	612	12
EQUITY			
Retained earnings	1,557	1,466	91

Statement of Cash Flows	Three Months Ended March 31, 2018 As Reported	Balances Without Adoption of ASC 606	Effect of Change
Net cash from operating activities	$ 18	$ 28	$ (10)
Capitalized software costs	(13)	(23)	10

This change is a result of moving a portion of capitalized software related to client system implementations from Investing activities to Operating activities within the Statement of Cash Flows.

New Revenue Standard ASC 606

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASC 606

Unaudited

Balance Sheet	Balance at December 31, 2017	Adjustments due to ASC 606	Balance at January 1, 2018
ASSETS			
Accounts receivable, net	$ 2,246	$ 309	$ 2,555
Prepaid and other current assets	430	89	519
Fixed assets, net	985	(83)	902
Other non-current assets	447	39	486
LIABILITIES			
Deferred revenue and accrued expenses	1,711	(74)	1,637
Deferred tax liabilities	615	99	714
Provision for liabilities	558	12	570
EQUITY			
Retained earnings	1,104	317	1,421

New Revenue Standard ASC 606

Explanations of the impacts to retained earnings as of adoption date

Unaudited

		Retained Earnings Increase/(Decrease) at January 1, 2018	
Revenue adjustments			
Medicare broking	BDA	$ 311	Mostly represents $271M of Q4 2017 placement activity for Individual Retirement for which the earnings process is complete for ASC 606; and $40M of previously deferred contingent revenue from placements made prior to 2018, for which the earnings process is also complete for ASC 606.
Proportional treaty reinsurance broking	IRR	50	The revenue recognition in this area is now estimated and accelerated at policy inception as compared to previously recording throughout a two-year period upon receipt of monthly or quarterly treaty statements. This portion represents the revenue that would have been recogized from pre-2018 policies based on the treaty statements that we will be receiving during 2018, and possibly 2019.
Other adjustments	All	28	Smaller less material items
Total adjustments related to revenue		389	
Cost adjustments			
System implementation activities	HCB/ BDA	(46)	Related to the change in composition of system implementation costs deferred prior to 2018, as prescribed by ASC 606, and the longer amortization period, which will be used based on the expected life of the client
Other cost adjustments	CRB/ IRR/ HCB	75	This reflects the capitalization of placement costs incurred in 2017 related to policies that will incept in 2018.
Total adjustments related to costs		29	
Tax effect		(101)	
Total net adjustments		$ 317	

New Revenue Standard ASC 606

Impact of adoption on reportable segments

Unaudited

	Three Months Ended March 31, 2018				
	As Reported	Balances Without Adoption of ASC 606	Effect of Change	
HCB				
Revenue	$ 832	$ 1,022	$ (190)	*a*
Operating income	193	384	(191)	*a, e*
CRB				
Revenue	740	758	(18)	*b*
Operating income	125	146	(21)	*b, f*
IRR				
Revenue	574	539	35	*c*
Operating income	261	241	20	*c, f*
BDA				
Revenue	122	195	(73)	*d*
Operating (loss)/income	(32)	42	(74)	*d, e*

a. Revenue recognition for certain arrangements in our Health and Benefits broking business will now be recognized evenly over the year to reflect the nature of the ongoing obligations to our customers, as well as receipt of the monthly commissions. These contracts are monthly or annual in nature and are considered complete as of the transition date for all contracts entered into for 2017 and prior years. The total reduction to revenue as a result of this change for the three months ended March 31, 2018 was $190 million.

b. Revenue recognition for certain Affinity broking arrangements that were recognized at a point in time on the effective date of the policy are now being recognized over the policy year to reflect the ongoing nature of our services.

c. The most significant change in our IRR segment results is due to the change in accounting for our proportional treaty reinsurance broking arrangements. The revenue recognition for proportional treaty reinsurance broking commissions has moved from recognition upon the receipt of the monthly or quarterly treaty statements from the ceding insurance carriers, to the recognition of an estimate of expected commissions upon the policy effective date. For the three months ended March 31, 2018, ASC 606 revenue was higher than ASC 605 revenue by approximately $24 million related to this adjustment.

d. The majority of revenue recognition within our Medicare broking arrangements in Individual Marketplace has moved from monthly ratable recognition over the policy period, to recognition upon placement of the policy. Consequently, the Company will now recognize approximately two-thirds of one calendar year of expected commissions during the fourth quarter of the preceding calendar year. The remainder of the revenue is recognized consistently with methods used prior to the adoption of ASC 606. During the three months ended March 31, 2018, the accounting for this revenue stream under ASC 606 resulted in a reduction of revenue from ASC 605 of $73 million.

e. *System implementation activities* — For those portions of the business that previously deferred costs, the length of time over which we amortize those costs will extend to a longer estimated contract term. For the 2017 calendar year and prior, these costs were amortized over a typical period of 3-5 years in accordance with the initial stated terms of the customer agreements. Additionally, the composition of deferred costs has been adjusted to reflect the guidance in ASC 606. These adjustments resulted in an increase in expenses of $2 million for the three months ended March 31, 2018.

f. Other arrangements - This guidance now applies to our broking arrangements. The costs deferred for our broking arrangements will typically be amortized within one year. For the three months ended March 31, 2018, these changes resulted in an increase in expenses of $18 million.

New Revenue Standard ASC 606

Unaudited Pro forma* Seasonality Impact to 2017 Segments

	For the Year Ended December 31, 2017									
	As Recast					New Revenue Standard-Unaudited Pro forma*				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Human Capital & Benefits (1)										
Revenue	$ 949	$ 726	$ 733	$ 768	$ 3,176	$ 778	$ 754	$ 767	$ 818	$ 3,117
Operating Expenses	$ 604	$ 602	$ 589	$ 603	$ 2,398	$ 605	$ 603	$ 591	$ 605	$ 2,404
Operating Margin	$ 345	$ 124	$ 144	$ 165	$ 778	$ 173	$ 151	$ 176	$ 213	$ 713
Operating Margin Percentage	36.3%	17.0%	19.7%	21.5%	24.5%	22.2%	19.9%	23.0%	26.1%	22.9%
Corporate Risk & Broking (2)										
Revenue	$ 672	$ 644	$ 600	$ 793	$ 2,709	$ 663	$ 647	$ 602	$ 797	$ 2,709
Operating Expenses	$ 555	$ 540	$ 552	$ 579	$ 2,226	$ 560	$ 533	$ 546	$ 587	$ 2,226
Operating Margin	$ 117	$ 104	$ 48	$ 214	$ 483	$ 103	$ 114	$ 56	$ 210	$ 483
Operating Margin Percentage	17.5%	16.1%	8.0%	27.0%	17.8%	15.6%	17.6%	9.3%	26.5%	17.8%
Investment, Risk & Reinsurance (3)										
Revenue	$ 491	$ 374	$ 321	$ 288	$ 1,474	$ 519	$ 379	$ 308	$ 268	$ 1,474
Operating Expenses	$ 277	$ 285	$ 289	$ 294	$ 1,145	$ 295	$ 289	$ 292	$ 269	$ 1,145
Operating Margin	$ 214	$ 89	$ 32	$ (6)	$ 329	$ 224	$ 90	$ 16	$ (1)	$ 329
Operating Margin Percentage	43.6%	23.7%	10.0%	-2.2%	22.3%	43.3%	23.7%	5.3%	-0.7%	22.3%
Benefits Delivery & Adminstration (4)										
Revenue	$ 181	$ 179	$ 180	$ 194	$ 734	$ 114	$ 106	$ 113	$ 405	$ 738
Operating Expenses	$ 142	$ 144	$ 144	$ 150	$ 580	$ 144	$ 146	$ 149	$ 156	$ 595
Operating Margin	$ 39	$ 35	$ 36	$ 44	$ 154	$ (30)	$ (40)	$ (36)	$ 249	$ 143
Operating Margin Percentage	21.1%	19.3%	20.2%	22.5%	21.0%	-27.3%	-38.3%	-31.4%	61.4%	19.4%
Total WTW Segments										
Revenue	$ 2,293	$ 1,922	$ 1,834	$ 2,043	$ 8,093	$ 2,074	$ 1,885	$ 1,790	$ 2,288	$ 8,038
Move to non-reportable segment	$ 3	$ 4	$ 1	$ 3	$ 11	$ 3	$ 4	$ 1	$ 3	$ 11
Total Recast Revenue	$ 2,296	$ 1,926	$ 1,835	$ 2,046	$ 8,104	$ 2,078	$ 1,889	$ 1,791	$ 2,291	$ 8,049
Operating Expenses	$ 1,578	$ 1,572	$ 1,574	$ 1,626	$ 6,350	$ 1,604	$ 1,572	$ 1,578	$ 1,616	$ 6,370
Move to non-reportable segment	$ (13)	0	$ (5)	$ (14)	$ (32)	$ (13)	$ 0	$ (5)	$ (14)	$ (32)
Total Recast Expenses	$ 1,565	$ 1,572	$ 1,569	$ 1,612	$ 6,318	$ 1,591	$ 1,572	$ 1,573	$ 1,602	$ 6,338
Operating Margin	$ 731	$ 354	$ 266	$ 434	$ 1,785	$ 487	$ 317	$ 218	$ 689	$ 1,711
Operating Margin Percentage	31.8%	18.4%	14.5%	21.2%	22.0%	23.4%	16.8%	12.2%	30.1%	21.3%
Adjusted Tax Rate**	15.6%	29.1%	32.1%	20.6%	21.9%	19.0%	30.2%	39.9%	13.1%	20.9%
US GAAP Tax Rate	11.5%	16.8%	-53.0%	-221.4%	-20.5%	13.0%	0.5%	-20.3%	-50.7%	-31.7%

*Pro forma-as if the new revenue standard was applied to Willis Towers Watson's 2017 recast results. The 2017 recast was a realignment of teams and a refinement of allocations which resulted in some movement of revenues and costs between Segments.
**Non-GAAP measure. See first quarter 2018 press release for definition.

(1) HCB - Reflects effects of H&B Broking moving from point in time revenue recognition more heavily weighted to Q1, to a more ratable method throughout the year. Approximately $59 million of the H&B Broking revenue was excluded from the pro forma revenues due to the method of adoption the Company is undertaking. Also reflects lower cost deferrals, partially offset by longer amortization periods for implementation activities such as in PAG and Hosting.

(2) CRB - Primarily reflects effects of the adjustment for the broking cost deferrals, in that the placement costs are expensed when the revenue is recognized at the inception of the policy periods, with the heaviest activity occurring in the first and fourth quarters.

(3) IRR - Revenue reflects effects of the acceleration of proportional treaty reinsurance and software license sales. Operating expenses reflect the effects of the broking cost deferrals and the expensing at the policy inception dates.

(4) BDA - Reflects adjustments for the acceleration of the Individual Marketplace ("IM") revenues and lower cost deferrals, partially offset by longer amortization periods related to Benefits Outsourcing. IM revenues reflect Q4 placement activity and only about a 30% allocation to the call center activity which is recognized evenly throughout the year.