

Towers Watson & Co.  
Form 10-Q  
February 05, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2014  
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-34594

TOWERS WATSON & CO.  
(Exact name of registrant as specified in its charter)

|  |                                      |
|--|--------------------------------------|
| Delaware   | 27-0676603                           |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 901 N. Glebe Road Arlington, VA                                | 22203                                |
| (Address of principal executive offices)                       | (zip code)                           |
| (703) 258-8000   |                                      |
| (Registrant's telephone number, including area code)           |                                      |

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of January 30, 2015, there were 69,568,719 outstanding shares of Class A Common Stock at a par value of \$0.01 per share.



TOWERS WATSON & CO.  
 INDEX TO FORM 10-Q  
 For the Three and Six Months Ended December 31, 2014

|   | Page      |
|---|-----------|
| <u>PART I. FINANCIAL INFORMATION</u>  | <u>1</u>  |
| <u>Item 1. Financial Statements (Unaudited)</u>   | <u>1</u>  |
| <u>Condensed Consolidated Statements of Operations — Three and Six Months Ended December 31, 2014 and 2013</u>            | <u>3</u>  |
| <u>Condensed Consolidated Statements of Comprehensive Income — Three and Six Months Ended December 31, 2014 and 2013</u>  | <u>2</u>  |
| <u>Condensed Consolidated Balance Sheets — December 31, 2014 and June 30, 2014</u>  | <u>3</u>  |
| <u>Condensed Consolidated Statements of Cash Flows — Six Months Ended December 31, 2014 and 2013</u>                      | <u>4</u>  |
| <u>Condensed Consolidated Statements of Changes in Stockholders' Equity — Six Months Ended December 31, 2013 and 2014</u> | <u>5</u>  |
| <u>Notes to the Condensed Consolidated Financial Statements</u>   | <u>6</u>  |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                      | <u>25</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>41</u> |
| <u>Item 4. Controls and Procedures</u>  | <u>42</u> |
| <u>PART II. OTHER INFORMATION</u>   | <u>42</u> |
| <u>Item 1. Legal Proceedings</u>  | <u>42</u> |
| <u>Item 1A. Risk Factors</u>  | <u>42</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | <u>42</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>  | <u>43</u> |
| <u>Item 4. Mine Safety Disclosures</u>  | <u>43</u> |
| <u>Item 5. Other Information</u>  | <u>43</u> |
| <u>Item 6. Exhibits</u>   | <u>44</u> |
| <u>Signatures</u>   | <u>45</u> |
| Certifications  |           |

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

## TOWERS WATSON &amp; CO.

## Condensed Consolidated Statements of Operations

(In thousands of U.S. dollars, except per share data)

(Unaudited)

|   | Three Months Ended<br>December 31, |           | Six Months Ended December<br>31, |             |
|---|------------------------------------|-----------|----------------------------------|-------------|
|   | 2014                               | 2013      | 2014                             | 2013        |
| Revenue   | \$957,922                          | \$888,155 | \$1,836,029                      | \$1,698,094 |
| Costs of providing services:  |                                    |           |                                  |             |
| Salaries and employee benefits  | 556,319                            | 526,731   | 1,089,847                        | 1,027,150   |
| Professional and subcontracted services   | 71,630                             | 69,074    | 133,835                          | 130,474     |
| Occupancy   | 36,756                             | 34,782    | 72,829                           | 68,327      |
| General and administrative expenses   | 82,100                             | 85,038    | 157,534                          | 153,807     |
| Depreciation and amortization   | 44,107                             | 43,296    | 88,976                           | 86,681      |
| Transaction and integration expenses  | —                                  | 808       | —                                | 808         |
|   | 790,912                            | 759,729   | 1,543,021                        | 1,467,247   |
| Income from operations  | 167,010                            | 128,426   | 293,008                          | 230,847     |
| Interest income   | 894                                | 560       | 1,957                            | 1,089       |
| Interest expense  | (2,186)                            | (2,027)   | (4,514)                          | (4,463)     |
| Other non-operating income  | 34                                 | 5,652     | 865                              | 5,690       |
| INCOME FROM CONTINUING OPERATIONS<br>BEFORE INCOME TAXES                                      | 165,752                            | 132,611   | 291,316                          | 233,163     |
| Provision for income taxes  | 55,372                             | 42,283    | 99,434                           | 57,091      |
| INCOME FROM CONTINUING OPERATIONS   | 110,380                            | 90,328    | 191,882                          | 176,072     |
| (Loss)/income from discontinued operations, net of tax<br>of \$0, \$38,286, \$0, and \$40,837 | —                                  | (403)     | —                                | 2,041       |
| NET INCOME BEFORE NON-CONTROLLING<br>INTERESTS  | 110,380                            | 89,925    | 191,882                          | 178,113     |
| Less: Income attributable to non-controlling interests  | 204                                | 3,737     | 148                              | 3,711       |
| NET INCOME (attributable to common stockholders)  | \$110,176                          | \$86,188  | \$191,734                        | \$174,402   |
| Basic earnings per share (attributable to common<br>stockholders):                            |                                    |           |                                  |             |
| Income from continuing operations   | \$1.58                             | \$1.22    | \$2.74                           | \$2.43      |
| Income from discontinued operations   | —                                  | —         | —                                | 0.03        |
| Net income  | \$1.58                             | \$1.22    | \$2.74                           | \$2.46      |
| Diluted earnings per share (attributable to common<br>stockholders):                          |                                    |           |                                  |             |
| Income from continuing operations   | \$1.57                             | \$1.21    | \$2.72                           | \$2.42      |
| Income from discontinued operations   | —                                  | —         | —                                | 0.03        |
| Net income  | \$1.57                             | \$1.21    | \$2.72                           | \$2.45      |
| Dividends declared per share  | \$0.15                             | \$0.14    | \$0.30                           | \$0.14      |
| Weighted average shares of common stock, basic (000)  | 69,875                             | 70,809    | 70,029                           | 70,805      |
| Weighted average shares of common stock, diluted (000)  | 70,262                             | 71,213    | 70,429                           | 71,130      |
| See accompanying notes to the condensed consolidated financial statements                     |                                    |           |                                  |             |



## TOWERS WATSON &amp; CO.

## Condensed Consolidated Statements of Comprehensive Income

(In thousands of U.S. dollars)

(Unaudited)

|   | Three Months Ended<br>December 31, |            | Six Months Ended December<br>31, |            |
|---|------------------------------------|------------|----------------------------------|------------|
|   | 2014                               | 2013       | 2014                             | 2013       |
| Net income before non-controlling interests                             | \$ 110,380                         | \$ 89,925  | \$ 191,882                       | \$ 178,113 |
| Other comprehensive (loss)/income, net of tax:                          |                                    |            |                                  |            |
| Foreign currency translation  | (79,502 )                          | 17,825     | (184,833 )                       | 88,735     |
| Defined pension and post-retirement benefit costs                       | 2,844                              | 3,419      | 5,719                            | 6,531      |
| Hedge effectiveness   | 92                                 | (12 )      | 898                              | (1,030 )   |
| Available-for-sale securities   | (107 )                             | 36         | (235 )                           | 222        |
| Other comprehensive (loss)/income before<br>non-controlling interests   | (76,673 )                          | 21,268     | (178,451 )                       | 94,458     |
| Comprehensive income before non-controlling interests                   | 33,707                             | 111,193    | 13,431                           | 272,571    |
| Comprehensive (loss)/income attributable to<br>non-controlling interest | (288 )                             | 3,321      | (399 )                           | 3,097      |
| Comprehensive income (attributable to common<br>stockholders)           | \$ 33,995                          | \$ 107,872 | \$ 13,830                        | \$ 269,474 |

See accompanying notes to the condensed consolidated financial statements

## TOWERS WATSON &amp; CO.

## Condensed Consolidated Balance Sheets

(In thousands of U.S. dollars, except share data)

(Unaudited)

|   | December 31,<br>2014 | June 30,<br>2014 |
|---|----------------------|------------------|
| Assets  |                      |                  |
| Cash and cash equivalents   | \$621,391            | \$727,849        |
| Fiduciary assets  | 19,793               | 12,010           |
| Short-term investments  | 45,438               | 122,761          |
| Receivables from clients:   |                      |                  |
| Billed, net of allowances of \$9,977 and \$8,075  | 539,738              | 507,213          |
| Unbilled, at estimated net realizable value   | 308,243              | 314,020          |
|   | 847,981              | 821,233          |
| Other current assets  | 126,833              | 124,645          |
| Total current assets  | 1,661,436            | 1,808,498        |
| Fixed assets, net   | 375,210              | 374,444          |
| Deferred income taxes   | 63,439               | 79,103           |
| Goodwill  | 2,192,431            | 2,313,058        |
| Intangible assets, net  | 604,518              | 657,293          |
| Other assets  | 439,852              | 395,390          |
| Total Assets  | \$5,336,886          | \$5,627,786      |
| Liabilities   |                      |                  |
| Accounts payable, accrued liabilities and deferred income   | \$378,502            | \$404,760        |
| Employee-related liabilities  | 386,450              | 518,532          |
| Fiduciary liabilities   | 19,793               | 12,010           |
| Term loan - current   | 25,000               | 25,000           |
| Other current liabilities   | 39,996               | 74,297           |
| Total current liabilities   | 849,741              | 1,034,599        |
| Revolving credit facility   | 50,000               | —                |
| Term loan   | 187,500              | 200,000          |
| Accrued retirement benefits and other employee-related liabilities  | 699,857              | 768,024          |
| Professional liability claims reserve   | 235,554              | 225,959          |
| Other noncurrent liabilities  | 271,008              | 288,255          |
| Total Liabilities   | 2,293,660            | 2,516,837        |
| Commitments and contingencies   |                      |                  |
| Stockholders' Equity  |                      |                  |
| Class A Common Stock — \$0.01 par value: 300,000,000 shares authorized; 74,552,661 issued and 69,699,937 and 70,338,891 outstanding | 746                  | 746              |
| Additional paid-in capital  | 1,865,888            | 1,849,119        |
| Treasury stock, at cost — 4,852,724 and 4,213,770 shares  | (362,989)            | (286,182)        |
| Retained earnings   | 1,893,545            | 1,722,927        |
| Accumulated other comprehensive loss  | (367,606)            | (189,702)        |
| Total Stockholders' Equity  | 3,029,584            | 3,096,908        |
| Non-controlling interest  | 13,642               | 14,041           |
| Total Equity  | 3,043,226            | 3,110,949        |
| Total Liabilities and Total Equity  | \$5,336,886          | \$5,627,786      |
| See accompanying notes to the condensed consolidated financial statements   |                      |                  |





## TOWERS WATSON &amp; CO.

## Condensed Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

(Unaudited)

|  | Six Months Ended December |             |
|--|---------------------------|-------------|
|  | 31,                       |             |
|  | 2014                      | 2013        |
| Cash flows from/(used in) operating activities:                                      |                           |             |
| Net income before non-controlling interests  | \$ 191,882                | \$ 178,113  |
| Adjustments to reconcile net income to net cash from/(used in) operating activities: |                           |             |
| Provision for doubtful receivables from clients                                      | 11,157                    | 566         |
| Depreciation   | 54,160                    | 49,097      |
| Amortization of intangible assets  | 34,816                    | 38,022      |
| Gain on sale of discontinued operations, pretax                                      | —                         | (18,480)    |
| Provision for deferred income taxes  | 24,569                    | 51,276      |
| Stock-based compensation   | 18,414                    | 11,509      |
| Other, net   | 535                       | (1,619)     |
| Changes in operating assets and liabilities  |                           |             |
| Receivables from clients   | (76,970)                  | ) 47,340    |
| Fiduciary assets   | (7,783)                   | ) 110,743   |
| Other current assets   | (15,117)                  | ) (858)     |
| Other noncurrent assets  | 717                       | (5,139)     |
| Accounts payable, accrued liabilities and deferred income                            | (31,885)                  | ) (44,160)  |
| Employee-related liabilities   | (104,651)                 | ) (224,683) |
| Fiduciary liabilities  | 7,783                     | (110,743)   |
| Accrued retirement benefits and other employee-related liabilities                   | (78,919)                  | ) (104,386) |
| Professional liability claims reserves   | 15,427                    | 2,887       |
| Other current liabilities  | 14,682                    | (762)       |
| Other noncurrent liabilities   | (18,528)                  | ) (256)     |
| Income tax related accounts  | (38,389)                  | ) 1,599     |
| Cash flows from/(used) in operating activities                                       | 1,900                     | (19,934)    |
| Cash flows from/(used in) investing activities:                                      |                           |             |
| Cash paid for business acquisitions  | (1,255)                   | ) (210,814) |
| Cash transferred with discontinued operations  | —                         |             |