

Aon plc (AON)

\$225.03 (As of 02/03/20)

Price Target (6-12 Months): **\$236.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: A

Summary

Aon's fourth-quarter 2019 operating earnings of \$2.53 per share beat the Zacks Consensus Estimate by 1.6% and improved 17.1% year over year, backed by higher revenues and segmental contributions. Its shares have outperformed its industry in a year's time. The company's bottom-line has been growing over the past few years on the back of buyouts and collaborations. Its buyouts are aimed at the expansion of its health and benefits business, flood insurance solutions, and risk and insurance solutions operations. It has been divesting its non-core operations to streamline its business. It has also taken up restructuring initiative to reduce workforce and rationalize technology. Efficient capital deployment bodes well for growth. However, its rising debt bothers. Its geographically diversified operations expose it to forex fluctuations.

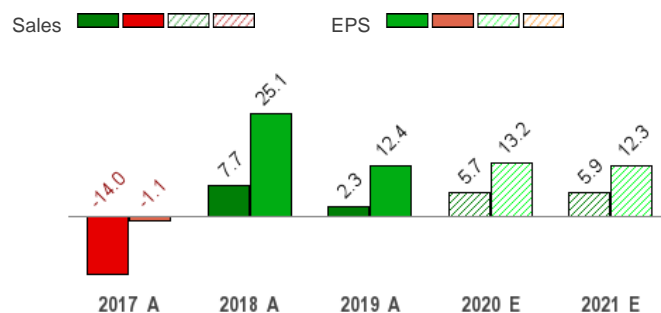
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$227.71 - \$156.09
20 Day Average Volume (sh)	733,093
Market Cap	\$52.2 B
YTD Price Change	8.0%
Beta	0.83
Dividend / Div Yld	\$1.76 / 0.8%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 17% (43 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.6%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	04/24/2020
Earnings ESP	0.2%
P/E TTM	24.6
P/E F1	21.7
PEG F1	1.8
P/S TTM	4.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					12,330 E
2020	3,316 E	2,759 E	2,516 E	3,028 E	11,641 E
2019	3,143 A	2,606 A	2,379 A	2,885 A	11,013 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$4.12 E	\$2.40 E	\$1.93 E	\$3.17 E	\$11.66 E
2020	\$3.71 E	\$2.14 E	\$1.71 E	\$2.83 E	\$10.38 E
2019	\$3.31 A	\$1.87 A	\$1.45 A	\$2.53 A	\$9.17 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 02/03/2020. The reports text is as of 02/04/2020.

Overview

Headquartered in London, Aon plc is a British multinational corporation that offers risk management services, insurance and reinsurance brokerage, human resource consulting and outsourcing services worldwide. The company operates in more than 120 countries. As an insurance broker, Aon utilizes its resources to develop individual as well as group insurance programs. It offers its services globally across personal lines, mid-market companies and multinational companies.

In October 2010, Aon Corporation – a wholly-owned subsidiary of Aon plc – acquired Hewitt Associates, an American company providing human capital and management consulting services. Hewitt merged with the consulting services business of Aon to form Aon Hewitt.

Up to 2016, Aon reported through two segments – Risk Solutions & HR Solutions. In 2017, the company divested its HR business to Blackstone.

Now the company reports through five revenue lines, namely, Commercial Risk Solutions, Reinsurance Solutions, Retirement Solutions, Health Solutions and Data & Analytic Services.

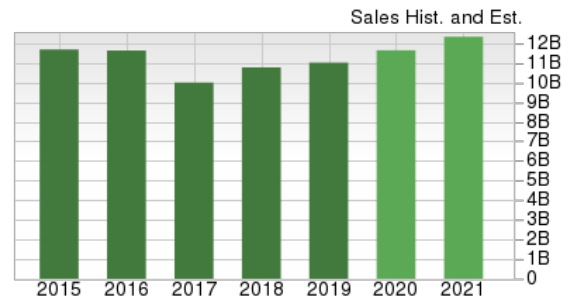
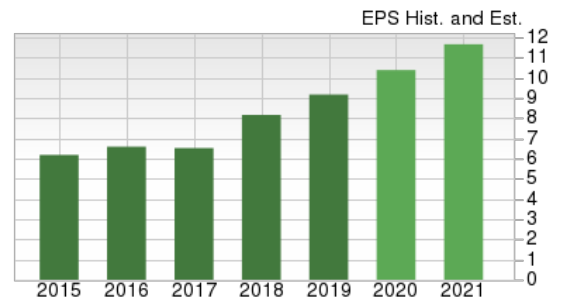
Commercial Risk Solutions (46.2% of 2019 revenues) — This segment consists of retail brokerage, cyber solutions, global risk consulting and captives.

Reinsurance Solutions (6.5%) — This business unit consists of treaty and facultative reinsurance and capital markets.

Retirement Solutions (17.1%) — This deal with core retirement, investment consulting and talent, rewards and performance.

Health Solutions (20.2%) — It deals with health and benefits brokerage and health care exchanges.

Data & Analytic Services (10%) – This segment includes Affinity, Aon InPoint, and ReView.



Reasons To Buy:

- ▲ **Price Performance:** In a year's time, shares of the company have outperformed its industry's rally. Given the company's strong fundamentals, such as steady bottom line and growth initiatives, the stock is expected to continue growing going forward.
- ▲ **Strong Bottom Line:** The company has witnessed a steady bottom-line improvement over the last many years on the back of its strong fundamentals, such as expansions through buyouts and collaborations, divestitures and a solid financial position. In 2019, the same was up 2%, driven by organic revenue growth. Moreover, we expect the company's bottom line to grow in the near term, driven by its core fundamentals, such as a strong capital position and strategic initiatives.
- ▲ **Acquisitions and Partnerships:** Acquisitions and partnerships form one of the main growth strategies at Aon and the company has sealed a number of acquisitions over the past three years. Its acquisitions are mainly aimed at expansion of its health and benefits business, flood insurance solutions, and risk and insurance solutions operations. Strategic collaborations also boost Aon's capacity and makes it one of the largest insurance brokers. In 2017 and 2018, it completed a total of 17 and eight acquisitions, respectively, to enhance its capabilities. In 2019, it acquired businesses for a total valuation of \$39 million. It also completed the buyout of CoverWallet, which helped it expand its position in the evolving commercial insurance market for small and medium-sized businesses. These transactions and alliances are likely to accelerate long-term growth for Aon.
- ▲ **Divestitures:** The company has been divesting non-core operations to streamline its business. During 2010–2015, it divested a total of 27 businesses in the Risk Solutions segment and seven businesses in the HR Solutions segment that generated substantial pre-tax gain. In addition, the company divested a business each from its Risk and HR Solutions segments in 2016 and its benefits administration and HR BPO platform to Blackstone in 2017. The company continued with strategic divestitures in 2019 as well. The sale of businesses will streamline the company's operations, allowing it to focus on more profitable operations, generating higher return on equity.
- ▲ **Restructuring Initiatives:** The company's restructuring efforts to reduce workforce and rationalize technology, which recently ended, aided it to deliver \$529 million of annualized savings in 2019. Aon spent \$1.48 billion on restructuring and related separation costs right from the inception of its restructuring plan through Jun 30, 2019. This investment is driving expense saving as well as helping the company grow. For 2020, the company expects to witness annualized savings of \$580 million.
- ▲ **Strong Capital Position:** The company also boasts a solid capital position. It buys back shares and pays out dividend to enhance shareholder value. In an effort to add shareholder value, the company hiked its dividend by 10% in January 2019.

The company's durability lies in its core business strengthening initiatives, efficient capital deployments, strong cash flow position and cost savings from its restructuring programs.

Reasons To Sell:

- ▼ **High Financial Leverage:** Aon has been issuing debts occasionally to repay outstanding debts. Long-term debt has been continuously increasing since 2014 owing to an increase in commercial paper outstanding. A high level of leverage increases the company's borrowing costs. Interest expenses have been persistently rising since 2014, witnessing a three-year average growth rate of 7.6% through 2017. Although in 2018, the same dipped 1%, it again increased 10.4% in 2019. Moreover, its debt to equity ratio stands at 212.8%, much higher than its industry average of 119.2%. Increase in debt might induce elevated interest burden, thereby weighing on the margin.
- ▼ **Profitability:** Aon's return-on-equity (ROE) doesn't reflect growth potential. The company's trailing 12-month ROE of 13% compares unfavorably with the industry average of 25.9%, reflecting the company's inefficiency in using shareholders' funds.
- ▼ **Exposure to Exchange Rate Volatility:** As a global corporation, Aon is exposed to foreign currency fluctuations and has been facing an unfavorable impact of forex volatility on its earnings per share since 2012. The company suffered a 3% unfavorable impact from forex volatility in 2019. If currency is intact with the current rate, then the company projects an unfavorable impact of 6 cents per share for 2020 and 5 cents for the first quarter of 2020. Aon's business in more than 100 countries makes its financial results sensitive to foreign exchange rate fluctuations, which might distort true period-to-period comparisons of changes in revenues or pretax income.
- ▼ **Overvalued:** Also, Aon's valuation looks expensive at the current level. Looking at the company's forward price-to-book (P/B) ratio, investors may not want to pay any further premium. It currently has a trailing 12-month forward P/B ratio of 15.1X that compares unfavorably with the industry average of 6.6X.

Stiff competition, ongoing legal hassles, high debts and foreign currency fluctuations remain headwinds.

Last Earnings Report

Aon's Earnings Surpass Estimates in Q4, Improve Y/Y

Aon plc's fourth-quarter 2019 operating earnings of \$2.53 per share beat the Zacks Consensus Estimate by 1.6%, primarily backed by higher revenues and strong segmental contributions. Moreover, the metric increased 17.1% year over year.

Total revenues increased 4% to \$2.9 billion including 7% organic revenue growth. However, the metric's uptick was partially offset by a 1% unfavorable impact from adverse foreign currency translation along with 2% dip associated with divestitures, net of acquisitions.

Operating margin grew 20 bps to 18.2% and operating margin, adjusted for certain items, expanded 210 basis points to 27.9%.

Total operating expenses were up 4% to \$2.4 billion, primarily due to a rise in costs related to organic revenue growth, increase in investments, higher restructuring charges.

The adjusted effective tax rate on a comparable basis for the fourth quarter was 15.7% compared with 16.5% in the prior-year period. This contraction was primarily aided by changes in geographical distribution of income and a net unfavorable impact from discrete items.

Quarter Ending 12/2019

Report Date	Jan 31, 2020
Sales Surprise	0.62%
EPS Surprise	1.61%
Quarterly EPS	2.53
Annual EPS (TTM)	9.16

Organic Revenue Catalysts

Commercial Risk Solutions: Organic revenues rose 7% on the back of strong growth across every major geography, highlighted by double-digit growth in the United States and Latin America, new businesses and management of the renewal book portfolio. The segment witnessed a 5% increase in total revenues year over year to \$1.3 billion.

Reinsurance Solutions: Organic revenues improved 17%, driven by double-digit growth in all major businesses, new business generation along with solid growth in catastrophe bonds within capital markets transactions. Moreover, total revenues for the segment increased 15% year over year.

Retirement Solutions: Organic revenues rose 3% year over year, contributed by sturdy growth in every major business, attributable to growth in its rewards and assessment businesses within the Human Capital practice along with significant growth in delegated investment management. However, total revenues dipped 3% year over year.

Health Solutions: Organic revenues were up 5% year over year, led by solid international growth in health and benefits brokerage, especially boosted by a robust uptrend in the United States market coupled with new business generation and double-digit growth in voluntary benefits along with a specific area of consistent investments on the back of buoyant client demand.

Data & Analytic Services: Organic revenues grew 6% year over year owing to international prosperity in Affinity business, particularly in the United States. Results also reflect strength in the Aon Inpoint and ReView businesses, supported by strong retention.

Financial Position

At the end of the quarter, the company's cash flow from operations increased 9% to \$1.8 billion and free cash flow rose 11% to \$1.6 billion.

The company exited the fourth quarter with total assets worth \$29.4 billion, up 11.3% from the level on Dec 31, 2018.

As of Dec 31, 2019, long-term debt stands at \$6.6 billion, deteriorating 10.6% year over year.

Share Repurchase and Dividend Update

The company bought back 2.3 million Class A Ordinary shares for nearly \$450 million in the quarter under review. As of Dec 31, 2019, it had stock worth \$2 billion left under its share repurchase program.

Full-Year Highlights

For 2019, the company's adjusted EPS jumped 12% to \$9.17. Also, total revenues inched up 2% to \$11 billion including 6% organic revenue growth.

Recent News

Aon Pays Quarterly Dividend — Jan 10, 2020

Aon declared a cash dividend of 44 cents per share, payable Feb 14, 2020 to its shareholders of record on Feb 3, 2020.

Aon Acquires CoverWallet — Jan 7, 2020

Aon has completed the pending buyout of CoverWallet, the leading digital insurance platform for small and medium-sized businesses.

Valuation

Aon shares are up 35% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 27% and 6.1%, respectively.

The S&P 500 index is up 17% in the past year.

The stock is currently trading at 21.49X trailing 12-month price to earnings ratio, which compares to 21.23X for the Zacks sub-industry, 14.56X for the Zacks sector and 18.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.85X and as low as 12.97X, with a 5-year median of 16.73X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$236 price target reflects 22.54X earnings.

The table below shows summary valuation data for AON

Valuation Multiples - AON					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.49	21.23	14.56	18.61
	5-Year High	22.85	21.23	16.21	19.33
	5-Year Low	12.97	14.49	12.01	15.18
	5-Year Median	16.73	16.65	14.07	17.46
P/S F12M	Current	4.46	3.39	6.53	3.45
	5-Year High	4.46	3.39	6.62	3.45
	5-Year Low	1.88	1.83	5.39	2.55
	5-Year Median	3.13	2.47	6.04	3
P/B TTM	Current	15.14	6.69	2.77	4.44
	5-Year High	15.14	6.69	2.89	4.54
	5-Year Low	3.83	3.32	1.83	2.85
	5-Year Median	6.35	4.45	2.51	3.61

As of 02/03/2020

Industry Analysis Zacks Industry Rank: Top 17% (43 out of 254)



Top Peers

Arthur J. Gallagher & Co. (AJG)	Neutral
AMERISAFE, Inc. (AMSF)	Neutral
Brown & Brown, Inc. (BRO)	Neutral
eHealth, Inc. (EHTH)	Neutral
Employers Holdings Inc (EIG)	Neutral
Marsh & McLennan Companies, Inc. (MMC)	Neutral
Robert Half International Inc. (RHI)	Neutral
Willis Towers Watson Public Limited Company (WLTW)	Neutral

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	AON Neutral	X Industry	S&P 500	AJG Neutral	MMC Neutral	WLTW Neutral
VGM Score	C	-	-	C	C	D
Market Cap	52.22 B	2.47 B	23.55 B	19.45 B	57.25 B	27.66 B
# of Analysts	9	6	13	7	9	9
Dividend Yield	0.78%	1.21%	1.81%	1.65%	1.60%	1.21%
Value Score	D	-	-	D	D	D
Cash/Price	0.02	0.08	0.04	0.14	0.02	0.03
EV/EBITDA	21.12	18.53	13.97	19.91	18.52	18.34
PEG Ratio	1.82	1.81	1.97	2.57	1.75	1.66
Price/Book (P/B)	15.14	3.25	3.21	3.73	7.21	2.77
Price/Cash Flow (P/CF)	18.84	18.84	13.36	16.65	18.90	13.76
P/E (F1)	21.68	22.39	18.42	25.12	22.39	18.00
Price/Sales (P/S)	4.74	2.94	2.60	2.72	3.44	3.17
Earnings Yield	4.61%	4.47%	5.43%	3.98%	4.47%	5.56%
Debt/Equity	1.92	0.34	0.72	0.73	1.35	0.63
Cash Flow (\$/share)	11.94	1.65	6.92	6.26	6.00	15.63
Growth Score	B	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	10.83%	11.61%	10.68%	11.61%	12.03%	10.97%
Proj. EPS Growth (F1/F0)	13.21%	9.43%	7.59%	13.70%	8.75%	9.43%
Curr. Cash Flow Growth	-0.54%	2.16%	10.81%	9.99%	11.40%	2.16%
Hist. Cash Flow Growth (3-5 yrs)	3.75%	10.83%	8.78%	13.27%	9.25%	26.50%
Current Ratio	1.52	1.47	1.22	1.02	1.06	1.41
Debt/Capital	65.77%	24.65%	42.99%	42.25%	57.49%	38.90%
Net Margin	13.91%	9.34%	11.69%	9.34%	10.46%	10.07%
Return on Equity	55.95%	13.05%	17.33%	14.28%	29.72%	13.01%
Sales/Assets	0.38	0.37	0.55	0.37	0.53	0.25
Proj. Sales Growth (F1/F0)	5.70%	6.50%	4.12%	10.87%	6.98%	6.02%
Momentum Score	A	-	-	B	F	D
Daily Price Chg	2.17%	1.50%	-1.98%	1.65%	1.42%	1.81%
1 Week Price Chg	3.20%	0.00%	-1.09%	5.90%	-1.77%	1.09%
4 Week Price Chg	7.89%	1.37%	-2.11%	8.89%	1.38%	5.15%
12 Week Price Chg	15.77%	8.53%	2.15%	13.96%	9.71%	15.29%
52 Week Price Chg	34.91%	11.69%	14.15%	35.02%	23.49%	30.09%
20 Day Average Volume	733,093	129,576	1,808,632	702,672	1,473,494	596,440
(F1) EPS Est 1 week change	0.26%	0.00%	0.00%	0.41%	-0.72%	0.00%
(F1) EPS Est 4 week change	0.19%	0.00%	0.00%	-0.20%	-0.53%	0.05%
(F1) EPS Est 12 week change	0.14%	-0.02%	-0.09%	-0.28%	-1.05%	-0.02%
(Q1) EPS Est Mthly Chg	0.03%	-0.07%	0.00%	-0.14%	-0.43%	0.00%

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	B
Momentum Score	F
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.

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