

## Aon plc (AON)

**\$192.84** (As of 08/10/20)

Price Target (6-12 Months): **\$202.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: F

## Summary

Aon's earnings of \$1.96 per share surpassed the Zacks Consensus Estimate by 2.1% and also improved 5% year over year on reduced operating expenses, offset by lower revenues. Its shares have outperformed the industry in a year's time. The company's top-line has been growing over the past few years on the back of buyouts and collaborations. Its position in the evolving commercial insurance market for small and medium-sized businesses also impresses. 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. However, its lack of financial flexibility bothers. Its geographically diversified operations expose it to forex fluctuations. Given the current uncertainty, it deferred its share buyback plan and halted M&A activities.

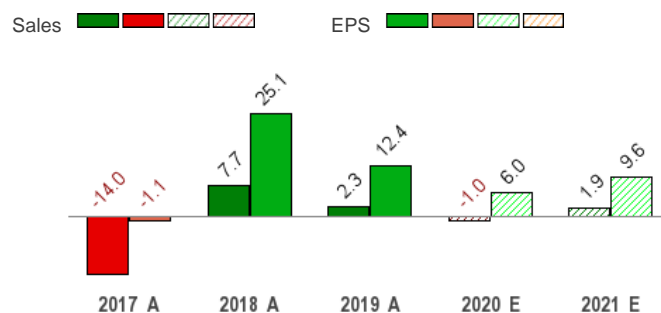
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$238.19 - \$143.93
20 Day Average Volume (sh)	1,344,201
Market Cap	\$44.7 B
YTD Price Change	-7.4%
Beta	0.89
Dividend / Div Yld	\$1.76 / 0.9%
Industry	<a href="#">Insurance - Brokerage</a>
Zacks Industry Rank	Top 12% (30 out of 253)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.1%
Last Sales Surprise	-1.6%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	10/23/2020
Earnings ESP	0.2%
P/E TTM	20.1
P/E F1	19.8
PEG F1	NA
P/S TTM	4.1

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,337 E	2,453 E	2,374 E	2,921 E	11,109 E
2020	3,219 A	2,497 A	2,352 E	2,854 E	10,902 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	\$3.87 E	\$2.06 E	\$1.68 E	\$3.13 E	\$10.65 E
2020	\$3.68 A	\$1.96 A	\$1.53 E	\$2.39 E	\$9.72 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 08/10/2020. The reports text is as of 08/11/2020.

## 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 & Analytics Services.

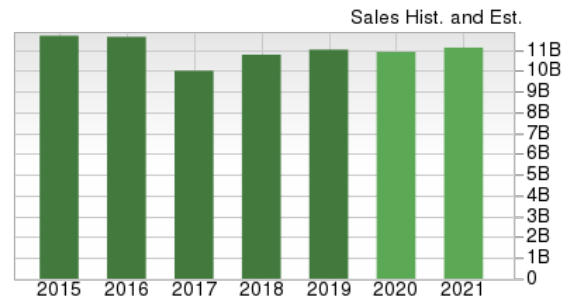
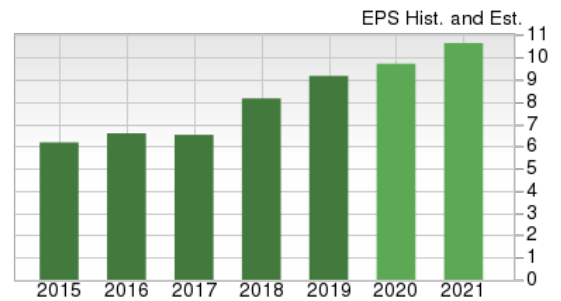
**Commercial Risk Solutions** (46.2% of 2019 revenues) — This segment consists of retail brokerage, cyber solutions, global risk consulting and captives.

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



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## Reasons To Buy:

- ▲ **Price Performance:** In a year's time, shares of the company have outperformed its industry. Given the company's strong fundamentals, such as steady bottom line and growth initiatives, the stock is expected to continue its rally 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. Although in the first six months of 2020, it remained flat, we expect the company's bottom line to grow in the near term, aided 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. Aon also completed six acquisitions during the three months ended Jun 30, 2020. The company made its progress related to the Wills Towers Watson buyout, which is expected to close in the first half of 2021. 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.
- ▲ **Cost-Curbing 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. Moreover, given the current uncertainty revolving around the COVID-19 pandemic, the company initiated reducing its non-compensation costs starting March.

The company's durability lies in its core business strengthening initiatives, inorganic growth initiatives, strong bottom line and cost savings from its restructuring programs.

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## Reasons To Sell:

- ▼ **Weak Capital Position:** Aon has been issuing debts occasionally to repay outstanding debts. Long-term debt has been continuously increasing since 2014 due to an increase in commercial paper outstanding. Interest expenses have been persistently rising since 2014 (except 2018).  
Moreover, its total debt is 68.4% (compared with 71.3% as of Mar 31, 2020) of total capital, higher than the industry's average of 55.1%. As of Jun 30, 2020, it had cash and cash equivalents of \$757 million, lower than its long-term debt of \$7.2 billion. Although the company will not have to pay a major portion of term debt in the upcoming year, we are concerned about its solvency level.
- ▼ **Suspension of Share Buybacks:** Given the COVID-19-led uncertainty, the company deferred its share buyback plan and halted M&A activities. Due to this suspension, the company's bottom line will be bereft of the cushion that share repurchase programs provide.
- ▼ **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 adverse forex volatility in 2019. During the first quarter of 2020, forex had an unfavorable impact of 3 cents per share followed by a headwind of 1 cent in the second quarter. Moreover, management anticipates a negative impact of 2 cents per share on the third and fourth quarters. 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 12 that compares unfavorably with the industry average of 6.5.

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

## Last Earnings Report

### Aon's Q2 Earnings Beat Estimates, Revenues Down Y/Y

Aon's second-quarter 2020 operating earnings of \$1.96 per share, which surpassed the Zacks Consensus Estimate by 2.1%. Further, the bottom line improved 5% year over year on the back of reduced operating expenses, partially offset by lower revenues.

However, total revenues plunged 4% year over year to \$2.5 billion, which included a decline of 1% in organic revenues. The top line also missed the consensus mark by 1.6%. The downside was primarily due to increased pressure on the company's more discretionary parts of the business attributable to the COVID-19 pandemic, partly offset by solid new business generation in Reinsurance Solutions.

Operating margin grew 800 basis points (bps) to 23.8% and operating margin, adjusted for certain items, expanded 240 bps to 26.8%. Total operating expenses in the second quarter declined 13% year over year to \$1.9 billion, primarily owing to reduced restructuring charges, favorable impact from foreign currency translation, and the temporary reduction and deferral of certain discretionary expenses related to COVID-19.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	-1.58%
EPS Surprise	2.08%
Quarterly EPS	1.96
Annual EPS (TTM)	9.62

## Organic Revenue Catalysts

**Commercial Risk Solutions:** Organic revenues inched up 1% year over year on the back of strong growth across every major geographies, highlighted by double-digit growth in Latin America and Asia, primarily driven by solid retention and management of the renewal book portfolio. The segment reported a year-over-year decline of 4% in total revenues to \$1.1 billion.

**Reinsurance Solutions:** Organic revenues improved 9%, driven by growth in facultative placements and new business generation. Moreover, total revenues for the segment improved 7% year over year to \$448 million.

**Retirement Solutions:** Organic revenues slid 1% year over year. The results were impacted by continued pressure on the company's more discretionary parts of the business due to the pandemic, mainly in Human Capital for rewards and assessment services. However, the results were partially offset by a solid rise in investments. Further, total revenues decreased 6% year over year to \$393 million.

**Health Solutions:** Organic revenues plunged 18% year over year, primarily due to adverse annualized impact of lower employment levels and reduced renewals on account of the pandemic and continued pressure on the company's more discretionary parts of the business. Revenues from this segment declined 19% year over year to \$258 million.

**Data & Analytic Services:** Organic revenues fell 8% year over year due to reduction in travel and events practice globally. Revenues slid 4% year over year to \$274 million.

## Financial Position

In the first half of 2020, the company's cash flow from operations soared 238% from the first half of 2019 to \$1.2 billion. Moreover, the company's free cash flow \$1.1 billion, which skyrocketed 343% from the first half of 2019. This upside can be attributed to increase in cash flow from operations.

The company exited the second quarter with cash and cash equivalents of \$757 million, down 4.2% from the level at 2019 end. As of Jun 30, 2020, Aon had total assets worth \$32 billion, up 8.8% from the level on Dec 31, 2019.

As of Jun 30, 2020, long-term debt stands at \$7.2 billion, increasing 9.1% from the level at 2019 end.

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## Recent News

### Aon Pays Quarterly Dividend — Apr 15, 2020

Aon declared a cash dividend of 44 cents per share, payable May 15, 2020 to its shareholders of record on May 1, 2020.

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## Valuation

Aon's shares are down 7% and up 4.2% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 0.8% and down 15% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 9% and down 4.2%, respectively.

The S&P 500 index is up 5% in the year-to-date period and 19% in the past year.

The stock is currently trading at 18.73X forward 12-month earnings, which compares to 20.36X for the Zacks sub-industry, 16.77X for the Zacks sector and 22.75X 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 17.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$202 price target reflects 19.62X forward 12-month earnings.

The table below shows summary valuation data for AON

Valuation Multiples - AON					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.73	20.36	16.77	22.75
	5-Year High	22.85	21.11	16.77	22.75
	5-Year Low	12.97	14.5	11.58	15.25
	5-Year Median	17.3	17.08	14.26	17.58
P/S F12M	Current	4.05	3.24	6.22	3.66
	5-Year High	4.68	3.31	6.65	3.66
	5-Year Low	1.88	1.83	4.95	2.53
	5-Year Median	3.21	2.56	6.06	3.05
P/B TTM	Current	12.09	6.45	2.47	4.67
	5-Year High	15.97	6.85	2.91	4.67
	5-Year Low	3.83	3.33	1.71	2.83
	5-Year Median	6.8	4.63	2.53	3.74

As of 08/10/2020

## Industry Analysis Zacks Industry Rank: Top 12% (30 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Arthur J. GallagherCo. (AJG)	Outperform	1
eHealth, Inc. (EHTH)	Outperform	1
Employers Holdings Inc (EIG)	Outperform	1
AMERISAFE, Inc. (AMSF)	Neutral	3
BrownBrown, Inc. (BRO)	Neutral	2
MarshMcLennan Companies, Inc. (MMC)	Neutral	3
Robert Half International Inc. (RHI)	Neutral	3
Willis Towers Watson Public Limited Company (WLTW)	Neutral	3

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	AON	X Industry	S&P 500	AJG	MMC	WLTW
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	C	-	-	C	B	B
Market Cap	44.67 B	1.67 B	23.56 B	20.57 B	58.97 B	25.40 B
# of Analysts	7	5.5	14	7	8	9
Dividend Yield	0.91%	0.83%	1.71%	1.68%	1.60%	1.38%
Value Score	D	-	-	D	D	C
Cash/Price	0.03	0.13	0.07	0.15	0.03	0.04
EV/EBITDA	18.41	17.75	13.39	17.09	19.18	13.25
PEG Ratio	NA	2.67	2.92	2.67	4.02	NA
Price/Book (P/B)	12.09	2.47	3.18	3.72	7.03	2.43
Price/Cash Flow (P/CF)	16.15	17.55	12.69	17.16	19.40	11.75
P/E (F1)	19.78	24.11	22.16	25.29	24.11	17.21
Price/Sales (P/S)	4.07	2.85	2.55	2.94	3.45	2.74
Earnings Yield	5.04%	4.15%	4.33%	3.96%	4.15%	5.81%
Debt/Equity	1.96	0.19	0.77	0.78	1.43	0.57
Cash Flow (\$/share)	11.94	2.99	6.94	6.26	6.00	16.77
Growth Score	B	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	11.54%	13.11%	10.41%	11.03%	11.79%	13.11%
Proj. EPS Growth (F1/F0)	6.00%	4.93%	-6.51%	16.40%	3.62%	4.49%
Curr. Cash Flow Growth	-0.54%	2.81%	5.26%	9.99%	11.40%	6.15%
Hist. Cash Flow Growth (3-5 yrs)	3.75%	13.04%	8.55%	13.27%	9.25%	30.62%
Current Ratio	2.08	2.08	1.34	1.09	1.37	1.62
Debt/Capital	66.18%	15.47%	44.59%	43.81%	58.82%	36.36%
Net Margin	16.08%	10.68%	10.13%	10.35%	11.83%	11.00%
Return on Equity	64.99%	13.50%	14.59%	16.01%	31.82%	14.32%
Sales/Assets	0.37	0.35	0.51	0.35	0.54	0.25
Proj. Sales Growth (F1/F0)	-1.01%	0.00%	-1.54%	-2.57%	1.28%	2.69%
Momentum Score	F	-	-	B	A	A
Daily Price Chg	-1.33%	-0.28%	0.91%	0.59%	-1.13%	-1.20%
1 Week Price Chg	-4.77%	1.89%	2.30%	-0.63%	0.98%	-5.02%
4 Week Price Chg	-2.14%	0.00%	8.54%	9.39%	7.03%	-2.18%
12 Week Price Chg	-2.03%	8.79%	13.68%	18.98%	8.79%	-3.74%
52 Week Price Chg	3.56%	0.75%	3.71%	21.09%	19.19%	2.15%
20 Day Average Volume	1,344,201	41,077	2,015,804	829,441	1,411,053	593,856
(F1) EPS Est 1 week change	-0.44%	0.00%	0.00%	0.00%	0.34%	0.15%
(F1) EPS Est 4 week change	-0.16%	4.46%	1.67%	5.95%	4.46%	2.08%
(F1) EPS Est 12 week change	-0.36%	3.23%	2.27%	8.18%	4.59%	1.86%
(Q1) EPS Est Mthly Chg	-0.19%	1.57%	0.67%	3.21%	4.64%	2.53%

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## 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.

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### 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	<b>D</b>
Growth Score	<b>B</b>
Momentum Score	<b>F</b>
VGM Score	<b>C</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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