

Aon plc (AON)

\$209.07 (As of 01/13/20)

Price Target (6-12 Months): **\$220.00**

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: D

Summary

Aon's 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 its strong fundamentals, expansions through buyouts and collaborations led by a strong financial position. 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. The company has also taken up restructuring initiative to reduce workforce and rationalize technology. Efficient capital deployment bodes well for growth. However, its rising debt continues to bother, which in turn, results in increased interest expenses. Its geographically diversified operations expose it to foreign currency fluctuations.

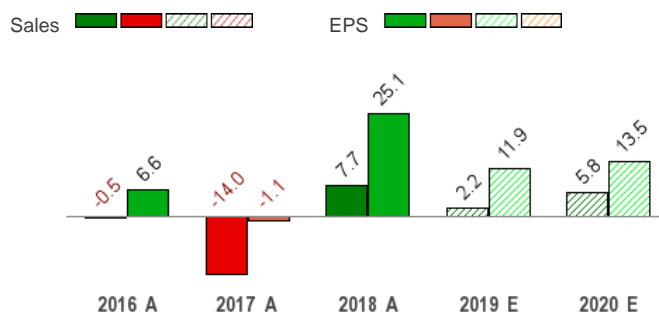
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$212.65 - \$146.33
20 Day Average Volume (sh)	709,356
Market Cap	\$48.5 B
YTD Price Change	0.4%
Beta	0.85
Dividend / Div Yld	\$1.76 / 0.8%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 9% (22 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.4%
Last Sales Surprise	-3.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/31/2020
Earnings ESP	0.0%
P/E TTM	23.8
P/E F1	20.2
PEG F1	1.7
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
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	2,861 E	11,004 E
2018	3,090 A	2,561 A	2,349 A	2,770 A	10,770 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$3.71 E	\$2.12 E	\$1.69 E	\$2.84 E	\$10.36 E
2019	\$3.31 A	\$1.87 A	\$1.45 A	\$2.49 E	\$9.13 E
2018	\$2.97 A	\$1.71 A	\$1.31 A	\$2.16 A	\$8.16 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 01/13/2020. The reports text is as of 01/14/2020.

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.

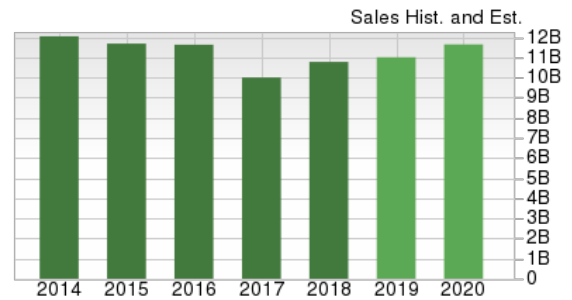
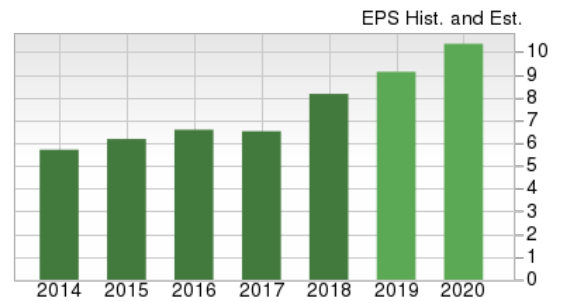
Commercial Risk Solutions (43.2% of 2018 revenues) — This segment consists of retail brokerage, cyber solutions, global risk consulting and captives.

Reinsurance Solutions (14.5%) — This business unit consists of treaty and facultative reinsurance and capital markets.

Retirement Solutions (17.3%) — This deal with core retirement, investment consulting and talent, rewards and performance.

Health Solutions (14.8%) — It deals with health and benefits brokerage and health care exchanges.

Data & Analytic Services (10.2%) – 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 the first nine months of 2019, the same was up 1.6%, partly offset by unfavorable effect of foreign exchange movement. However, 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 the first nine months of 2019, it acquired three 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. In the first quarter of 2019, the company divested one business for an insignificant amount. Moreover, it completed six dispositions in the first nine months of 2019. The sale of businesses will streamline the company's operations allowing the company to focus on more profitable operations, generating higher return on equity.
- ▲ **Profitability:** Aon's return-on-equity (ROE) reflects growth potential. The company's trailing 12-month ROE of 51.6% not only improved over the years but also compares favorably with the industry average of 25.9%, reflecting the company's efficiency in using shareholders' funds.
- ▲ **Restructuring Initiatives:** The company has also taken up a restructuring initiative in order to reduce workforce and rationalize technology. It intends to take up certain corrective measures in order to bring improvement to its operations. Aon has spent \$1.3 billion on restructuring and related separation costs right from the inception of its plan through Jun 30, 2019, which are driving expense saving as well as helping the company grow. In the first nine months of 2019, the company spent \$281 million on the same. It witnessed \$32 million worth incremental savings in the third quarter.

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 nearly 9% in the first nine months of 2019. Moreover, its debt to equity ratio stands at 204.1%, much higher than its industry's average of 119.2%. Increase in debt might induce elevated interest burden, thereby weighing on the margin.

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

▼ **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. Although the company has a 1% favorable impact from foreign currency translation on its 2018 revenues, it suffered a 3% unfavorable impact from forex volatility in the first nine months of 2019. The company expects an adverse impact of 4 cents in the fourth-quarter's operating income, if the currency headwind persists. 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 13.6 that compares unfavorably with the industry average of 6.4.

Last Earnings Report

Aon plc's Q3 Earnings Beat Estimates, Improve Y/Y

Aon plc's third-quarter 2019 operating earnings of \$1.45 per share beat the Zacks Consensus Estimate of \$1.43 by 1.4% and also grew 10.7% year over year owing to higher revenues.

Total revenues inched up 1% to \$2.4 billion including 5% organic revenue growth. However, 2% unfavorable impact from foreign currency translation and 2% adverse impact from divestitures, net of acquisitions, remitted this upside.

Organic revenue growth was mainly driven by solid management of the renewal book globally in Commercial Risk Solutions and a strong new business generation across the portfolio. However, the top line missed the Zacks Consensus Estimate by 3.7%.

Operating margin increased to 15.1% while and operating margin, adjusted for certain items, expanded 350 basis points to 22%.

Total operating expenses dipped 3% to \$2 billion on the back of a favorable foreign currency translation, decline in restricting costs, incremental savings in relation with restructuring and other operational improvement initiatives as well as a decrease in divestiture-related expenses, net of acquisitions.

The adjusted effective tax rate on a comparable basis for the third quarter of 2019 was 21.4% compared with 12.8% in the prior-year quarter on the back of changes in geographical distribution of income and a net unfavorable impact from discrete items.

Organic Revenue Drivers

Commercial Risk Solutions: Organic revenues increased 7%, led by strong growth in every major geography, reflecting double-digit growth in the United States, Canada and Latin America. The segment witnessed its total revenues rise 3% year over year to \$1.1 billion.

Reinsurance Solutions: Organic revenues rose 5%, driven by solid growth in facultative placements as well as a consistent net new business generation across the world in treaty. Also, total revenues for the segment improved 4% year over year.

Retirement Solutions: Organic revenues improved 3% year over year, attributable to solid growth in all major business, especially in core retirement on the back higher demand for retirement consulting in the United States as well as better actuarial services volume in the EMEA region.

Health Solutions: Organic revenues were up 2% year over year, backed by strong global growth in health and benefits brokerage.

Data & Analytic Services: Organic revenues for this segment grew 3% year over year owing to global growth in Affinity business as well as improved growth in Aon Client Treaty.

Solid Financial Position

For the first nine months of 2019, adjusted free cash flow increased 25% to \$996 million.

Total current assets stood at \$15.3 billion, up 6.6% from the Dec 31, 2018 level.

Share Repurchase and Dividend Update

In the quarter under consideration, the company repurchased 1.8 million Class A Ordinary shares for nearly \$350 million.

Quarter Ending 09/2019

Report Date	Oct 25, 2019
Sales Surprise	-3.69%
EPS Surprise	1.40%
Quarterly EPS	1.45
Annual EPS (TTM)	8.79

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 41.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 36% and 14.4%, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 20.09X trailing 12-month price to earnings ratio, which compares to 20.28X for the Zacks sub-industry, 14.88X for the Zacks sector and 18.87X 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 16.67X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$220 price target reflects 21.15X price to earnings ratio.

The table below shows summary valuation data for AON

Valuation Multiples - AON					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.09	20.28	14.88	18.87
	5-Year High	22.85	20.3	16.21	19.33
	5-Year Low	12.97	14.49	12	15.16
	5-Year Median	16.67	16.65	13.98	17.43
P/S F12M	Current	4.16	3.19	6.53	3.32
	5-Year High	4.4	3.19	6.62	3.41
	5-Year Low	1.88	1.83	5.2	2.55
	5-Year Median	3.11	2.47	6.02	3
P/B TTM	Current	13.62	6.35	2.82	4.46
	5-Year High	13.8	6.4	2.89	4.47
	5-Year Low	3.83	3.32	1.83	2.85
	5-Year Median	6.28	4.41	2.5	3.61

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 9% (22 out of 254)



Top Peers

eHealth, Inc. (EHTH)	Outperform
Arthur J. Gallagher & Co. (AJG)	Neutral
AMERISAFE, Inc. (AMSF)	Neutral
Brown & Brown, Inc. (BRO)	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	-	-	D	D	D
Market Cap	48.52 B	2.03 B	24.31 B	17.79 B	56.52 B	26.36 B
# of Analysts	8	6	13	6	8	9
Dividend Yield	0.84%	1.27%	1.76%	1.80%	1.63%	1.27%
Value Score	D	-	-	D	D	C
Cash/Price	0.02	0.08	0.04	0.15	0.02	0.03
EV/EBITDA	23.49	18.58	14.12	18.32	22.04	17.62
PEG Ratio	1.70	1.79	2.05	2.35	1.79	1.58
Price/Book (P/B)	13.75	3.04	3.34	3.62	7.25	2.64
Price/Cash Flow (P/CF)	18.07	18.63	13.66	16.50	20.75	13.11
P/E (F1)	20.18	21.99	18.82	23.02	21.99	17.17
Price/Sales (P/S)	4.45	3.02	2.64	2.51	3.51	3.02
Earnings Yield	4.96%	4.54%	5.29%	4.34%	4.54%	5.82%
Debt/Equity	1.72	0.34	0.72	0.78	1.47	0.63
Cash Flow (\$/share)	11.57	1.53	6.94	5.78	5.40	15.63
Growth Score	B	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	10.42%	12.01%	10.56%	12.01%	12.17%	10.97%
Proj. EPS Growth (F1/F0)	13.45%	9.38%	7.49%	14.56%	9.63%	9.38%
Curr. Cash Flow Growth	7.57%	7.57%	14.83%	12.53%	8.07%	2.16%
Hist. Cash Flow Growth (3-5 yrs)	5.07%	10.69%	9.00%	19.23%	9.31%	26.50%
Current Ratio	1.38	1.40	1.23	1.05	1.14	1.41
Debt/Capital	63.22%	24.86%	42.99%	43.72%	59.45%	38.90%
Net Margin	13.79%	9.34%	11.08%	9.69%	9.34%	10.07%
Return on Equity	51.63%	13.05%	17.16%	14.38%	29.40%	13.01%
Sales/Assets	0.38	0.38	0.55	0.39	0.56	0.25
Proj. Sales Growth (F1/F0)	5.79%	6.17%	4.23%	8.98%	7.64%	6.02%
Momentum Score	D	-	-	F	D	F
Daily Price Chg	0.49%	0.00%	0.73%	-0.07%	0.27%	0.00%
1 Week Price Chg	0.04%	0.00%	0.39%	0.14%	-0.16%	0.33%
4 Week Price Chg	1.00%	0.99%	1.84%	0.37%	0.31%	1.90%
12 Week Price Chg	7.20%	5.61%	6.48%	5.58%	12.29%	7.87%
52 Week Price Chg	41.64%	32.37%	23.15%	31.25%	37.44%	33.49%
20 Day Average Volume	709,356	66,626	1,578,594	635,780	1,277,945	454,135
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.36%	-0.02%	0.00%
(F1) EPS Est 4 week change	0.01%	0.00%	0.00%	-0.44%	-0.02%	0.00%
(F1) EPS Est 12 week change	0.01%	-0.04%	-0.48%	-0.40%	-0.04%	-0.51%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.14%	0.00%	0.00%

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	B
Momentum Score	D
VGM Score	C

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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