



# Aon Plc (AON)

Updated May 8<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$288	<b>5 Year CAGR Estimate:</b>	14.3%	<b>Market Cap:</b>	\$63 B
<b>Fair Value Price:</b>	\$322	<b>5 Year Growth Estimate:</b>	11.0%	<b>Ex-Dividend Date:</b>	07/28/24 <sup>1</sup>
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.3%	<b>Dividend Payment Date:</b>	08/15/24
<b>Dividend Yield:</b>	0.9%	<b>5 Year Price Target</b>	\$543	<b>Years Of Dividend Growth:</b>	13
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Buy

## Overview & Current Events

Aon is a professional services firm headquartered in London, United Kingdom. The company provides a variety of services including consulting, risk management, and health plan management. Aon has approximately 500 offices worldwide that serve 120 countries through a workforce that numbers about 50,000. U.S. investors can initiate an ownership stake in Aon through American Depository Receipts that trade with a market capitalization of \$63 billion on the New York Stock Exchange, under the ticker AON. Aon should generate just over \$14 billion in revenue this year.

Aon posted first quarter earnings on April 26<sup>th</sup>, 2024, and results were weaker than expected on both the top and bottom lines. Adjusted earnings-per-share came to \$5.66, which missed estimates by 26 cents. Revenue was up more than 5% year-over-year to \$4.07 billion, but was \$70 million light of expectations.

Organic revenue was up 5% year-over-year, fiduciary investment income was up 1%, and forex added 1%. Acquisitions, divestitures, and other items reduced the top line by 2%.

Total operating expenses were \$2.61 billion, higher than expected, and up from \$2.4 billion a year ago.

Aon closed its acquisition of NFP, a middle market P&C broker, after the close of the quarter. This resulted in the issuance of 19 million shares; we've updated our estimate of the float accordingly.

Aon boosted its dividend by almost 10% to a new annualized payout of \$2.70 per share, marking 13 consecutive years of dividend increases.

We now see \$15.35 in adjusted earnings-per-share after the relatively weak first quarter.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$4.66	\$4.88	\$5.16	\$6.52	\$8.16	\$9.17	\$9.81	\$12.00	\$13.39	\$14.14	<b>\$15.35</b>	<b>\$25.87</b>
<b>DPS</b>	\$0.92	\$1.15	\$1.29	\$1.41	\$1.56	\$1.72	\$1.78	\$1.99	\$2.19	\$2.41	<b>\$2.70</b>	<b>\$4.55</b>
<b>Shares<sup>2</sup></b>	280	270	262	254	245	237	230	215	205	198	<b>210</b>	<b>200</b>

Between 2011 and 2020, Aon compounded its adjusted earnings-per-share at a rate of nearly 15% per year. Looking ahead, we believe that the company's growth is likely to continue to be quite strong, albeit a bit slower than its historical pace. More specifically, we are forecasting 11% annualized earnings growth over a full economic cycle.

Management continues to be bullish, and rightfully so, as Aon's businesses are posting very strong rates of growth, for the most part. We see expense savings as a driver of earnings growth along with the buyback, and organic revenue growth should continue to move the top line higher as well. Given the broad assortment of professional services the company offers as well as its global footprint, we are bullish on Aon's future. We note forex translation has been a sizable headwind in the past, but Aon has thus far been able to overcome that, and then some. There is upside potential so long as the company can continue to grow expenses at a slower rate than the top line. We note the NFP acquisition as a potential driver as well in the years to come.

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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The dividend should continue to rise at roughly the rate of earnings, and we forecast the payout to be at \$4.55 in 2029, up from the current \$2.70. Aon is not a high-yield stock by any means, but its dividend growth potential is robust given the very low payout ratio, and strong earnings growth outlook.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	18.6	19.8	20.4	20.1	17.9	17.7	20.3	21.6	22.4	20.6	18.8	21.0
Avg. Yld.	1.1%	1.2%	1.2%	1.1%	1.1%	0.9%	0.9%	0.8%	0.7%	0.8%	0.9%	0.8%

Aon has traded at an average price-to-earnings ratio of ~19 over the last decade, and we are using 21 for a fair value estimate as more recent years have seen higher valuations. The company is trading for a price-to-earnings ratio of 18.8 using our 2024 earnings-per-share estimate. That implies a small tailwind to total returns from the valuation, as Aon is trading below our estimate of fair value. We see the yield staying about where it is for the foreseeable future, noting Aon is not – and likely will not be for some time – a pure income stock.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	20%	24%	25%	22%	19%	19%	18%	17%	16%	17%	18%	18%

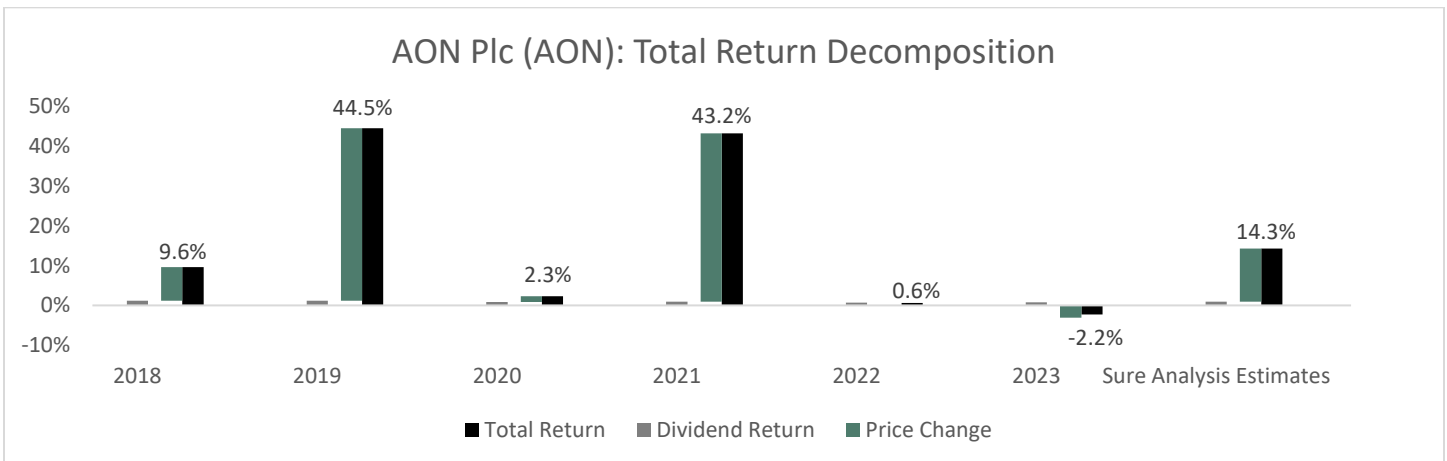
Aon's payout ratio is still very low, consistent with the company's historical practices, and we do not believe that will change. We see the dividend remaining around one-sixth of total earnings, so the payout is extremely safe. However, this means Aon is highly unlikely to have a meaningful yield anytime soon. Management has stated that it plans to protect the dividend during periods of uncertainty, and we see no reasonable scenario where Aon's dividend would be at risk.

Aon was resilient during the Great Recession, and that was certainly the case again during the COVID crisis, the product of its very diversified revenue streams. This is also a competitive advantage for the firm, along with its world-class client list and reputation.

## Final Thoughts & Recommendation

We are forecasting 14.3% total annual returns, consisting of the 0.9% yield, 11% EPS growth, and a 2.3% tailwind from the valuation. We're reiterating the stock at a buy rating after Q1 results. Aon offers dividend growth potential, but also a long runway for earnings-per-share growth, and offers a favorable valuation as well. The stock is buy-rated.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	12,045	9,480	9,409	9,998	10,770	11,013	11,066	12,193	12,479	13,376
<b>SG&amp;A Exp.</b>	5,031	3,875	3,895	3,995	4,667	4,959	5,161	5,455	2,069	1,862
<b>D&amp;A Exp.</b>	41.8%	40.9%	41.4%	40.0%	43.3%	45.0%	46.6%	44.7%	264	256
<b>Operating Profit</b>	3,065	1,951	1,765	2,039	2,354	2,226	1,967	3,039	3,669	3,822
<b>Operating Margin</b>	594	338	319	891	769	564	413	326	29.4%	28.6%
<b>Net Profit</b>	1,966	1,587	1,811	1,065	1,544	2,169	2,781	2,090	2,589	2,564
<b>Net Margin</b>	16.3%	16.7%	19.2%	10.7%	14.3%	19.7%	25.1%	17.1%	20.7%	19.2%
<b>Free Cash Flow</b>	1,397	1,385	1,396	1,226	1,134	1,532	1,969	1,255	3,023	3,183
<b>Income Tax</b>	11.6%	14.6%	14.8%	12.3%	10.5%	13.9%	17.8%	10.3%	510	541

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	29,772	26,883	26,615	26,088	26,422	29,405	32,114	31,928	32,704	33,959
<b>Cash &amp; Equivalents</b>	374	384	426	756	656	790	884	544	690	778
<b>Acc. Receivable</b>	2,815	2,564	2,106	2,478	2,760	3,112	3,070	3,094	3,035	3,254
<b>Goodwill &amp; Int.</b>	11,380	10,628	9,300	10,091	9,320	8,948	9,306	8,926	8,739	8,648
<b>Total Liabilities</b>	23,141	20,824	21,083	21,440	22,203	25,956	28,531	30,770	33,133	34,701
<b>Accounts Payable</b>	1,805	1,772	1,604	1,961	1,943	1,939	2,016	2,192	18,014	2,262
<b>Long-Term Debt</b>	5,582	5,700	6,205	5,966	6,244	7,339	7,729	9,392	10,770	11,199
<b>Total Equity</b>	6,571	6,002	5,475	4,583	4,151	3,375	3,495	1,061	-529	-826
<b>LTD/E Ratio</b>	0.85	0.95	1.13	1.30	1.50	2.17	2.21	8.85	-20.36	-13.56

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	4.7%	4.9%	5.2%	4.7%	4.3%	5.5%	6.4%	3.9%	8.0%	7.7%
<b>Return on Equity</b>	19.0%	22.0%	24.3%	24.4%	26.0%	40.7%	57.3%	55.1%	710%	---
<b>ROIC</b>	11.3%	11.6%	11.9%	11.0%	10.8%	14.4%	17.8%	11.5%	24.8%	24.7%
<b>Shares Out.</b>	280	270	262	254	245	237	230	215	213	205
<b>Revenue/Share</b>	40.20	33.40	34.81	38.35	43.60	45.77	47.47	53.93	58.53	65.25
<b>FCF/Share</b>	5.19	6.37	8.03	2.11	5.85	6.69	11.33	9.04	14.18	15.53

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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