

Aon

Modest 4Q23 EPS miss as non-core items weigh on income

Reiterate Rating: NEUTRAL | PO: 366.00 USD | Price: 300.00 USD

Aon reports 4Q23 op. EPS of \$3.89

This is a miss vs our forecast of \$4.01 and Consensus of \$4.07. Higher-than-expected “other” expense drove the bulk of the miss (-\$0.15/sh), as well as modestly lower adj. operating margins (-\$0.03/sh). Modestly higher organic growth (+7% vs est. +6%), a lower tax rate, and lower share count partly offset the miss. Share repurchases of \$750mn exceeded our forecast of \$600mn, which anticipated greater deceleration in light of the pending \$13.4bn NFP acquisition.

Commercial Risk organic growth lags

The Commercial Risk Solutions segment reported organic growth of +4% vs our est. +5%. An ongoing slowdown in external capital markets activity continues to weigh on US growth. These dynamics have been a drag in Aon’s results for several quarters, often seemingly in excess of the impact on peer results. However, in the context of disappointing 4Q23 organic growth from peers MarshMcLennan and AJ Gallagher, the miss should be less surprising this quarter. Higher-than-expected underlying growth across the Reinsurance, Health, and Wealth segments more than offset the drag in Commercial Risk for a total organic growth beat of +7% vs est. +6%.

Outlook echoes peer expectations

The company anticipates mid-single digit or better organic growth and margin expansion in 2024E, reiterating its long-term targets and echoing peer expectations. We forecast +5% organic growth, in line with the company’s outlook. However, company estimates “conservatively” assume that the NFP transaction closes in 1H25 despite management’s best guess for a mid-2024 close. Our model assumes a mid-2024 close; given a) NFP’s lower margin profile and b) a lower expected contribution from fiduciary investment income, we forecast a mere +10bps in margin improvement this year. Restructuring and integration costs should weigh on free cash flow in 2024E; we expect free cash flow to resume double-digit growth in 2025E.

Price objective to \$366

Our EPS modestly net rises on a modestly better organic growth outlook for most segments and more favorable expected FX impact, partly offset by lower margins. Our PO rises to \$366 from \$356 reflecting 120% the year-ahead S&P 500 P/E multiple (18x) on our higher 2025E EPS forecast. Balanced risk-reward underlies our Neutral recommendation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.39	14.14	15.79	16.96	19.02
GAAP EPS	12.14	12.51	12.12	15.01	17.90
EPS Change (YoY)	11.6%	5.6%	11.7%	7.4%	12.1%
Consensus EPS (Bloomberg)			16.19	17.78	19.62
DPS	2.19	2.41	2.60	2.76	2.92
Valuation (Dec)					
P/E	22.4x	21.2x	19.0x	17.7x	15.8x
GAAP P/E	24.7x	24.0x	24.8x	20.0x	16.8x
Dividend Yield	0.7%	0.8%	0.9%	0.9%	1.0%

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02 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	356.00	366.00
2024E EPS	15.73	15.79
2025E EPS	16.89	16.96
2026E EPS	18.94	19.02

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Stock Data

Price	300.00 USD
Price Objective	366.00 USD
Date Established	2-Feb-2024
Investment Opinion	B-2-7
52-Week Range	280.89 USD - 347.37 USD
Mkt Val (mn) / Shares Out (mn)	60,065 USD / 200.2
Free Float	96.5%
Average Daily Value (mn)	384.69 USD
BofA Ticker / Exchange	AON / NYS
Bloomberg / Reuters	AON US / AON.N
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Aon

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	12,479	13,376	15,366	17,534	18,498
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	12,479	13,376	15,366	17,534	18,498
Total Cost of Benefits and Claims	NA	NA	NA	NA	NA
S,G & A (Including Commissions)	(8,639)	(9,153)	(10,501)	(11,956)	(12,474)
Total Operating Expenses	(8,639)	(9,153)	(10,501)	(11,956)	(12,474)
Pre-Tax Operating Earnings	3,840	4,223	4,865	5,578	6,024
Income Tax Expense	(585)	(671)	(782)	(889)	(980)
Operating Earnings After Tax	2,855	2,899	3,278	3,732	4,125
Net Income (Reported)	2,589	2,564	2,516	3,304	3,882
Diluted Shares	213	205	208	220	217
Operating Earnings Per Share	13.39	14.14	15.79	16.96	19.02
Net Income (Reported) Per Share	12.14	12.51	12.12	15.01	17.90

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	20,723	21,675	23,817	26,182	28,324
Total Assets	32,704	33,930	49,064	50,964	52,607
Reserves	NA	NA	NA	NA	NA
LT Debt	9,825	9,995	16,396	15,648	15,118
Total Liabilities	33,133	34,672	41,509	40,824	40,358
Total Equity	(429)	(742)	7,554	10,140	12,249
Total Equity (Ex FAS 115)	(429)	(742)	7,554	10,140	12,249
Book Value per Share (Reported)	NA	NA	NA	NA	NA
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	69.2%	68.4%	68.3%	68.2%	67.4%
Loss Ratio	0%	0%	0%	0%	0%
Combined Ratio	69.2%	68.4%	68.3%	68.2%	67.4%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	88.7x	NM	12.2x	5.7x	4.6x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	2.3%	7.2%	14.9%	14.1%	5.5%
Net Investment Income	NM	NM	NM	NM	NM
Total Revenue	2.3%	7.2%	14.9%	14.1%	5.5%
Operating Earnings per Share	11.6%	5.6%	11.7%	7.4%	12.1%
Asset	2.4%	3.7%	44.6%	3.9%	3.2%
Reported Book Value per Share	NM	NM	NM	NM	NM

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	8.8%	8.7%	7.9%	7.5%	8.0%
Operating Margin	22.9%	21.7%	21.3%	21.3%	22.3%
Long Term Debt to Cap Ratio (Ex FAS 115)	104.6%	108.0%	68.5%	60.7%	55.2%
Net Income % Operating Income	100.0%	100.0%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

Aon, headquartered in London, is the largest insurance broker worldwide. The company operates in four segments: Commercial Risk Solutions, Reinsurance Solutions, Wealth Solutions, and Health Solutions. Brokerage operations include retail and wholesale insurance for groups and businesses, and reinsurance. The company is global in nature with operations in both developed and developing nations.

Investment Rationale

Aon is 1/2 of a global duopoly in large-case insurance brokerage. We believe current valuation accurately reflects growth opportunities during the economic recovery. Meanwhile, overearning due to suppressed T&E during the pandemic implies out-year pressure on EPS growth. However, this seems more than fully priced-in, with risk of reversion to lower multiples based on history.

Stock Data

Average Daily Volume 1,282,303

Quarterly Earnings Estimates

	2023	2024
Q1	5.17A	5.95E
Q2	2.76A	3.05E
Q3	2.32A	2.22E
Q4	3.89A	4.58E

Price objective basis & risk

Aon (AON)

Our \$366 price objective for shares of Aon Plc is based on 1.2x of the S&P 500's 2025E consensus P/E multiple (18x) on our corresponding EPS estimate, within the historical trading range. We believe the premium valuation is warranted given the company's position in a global insurance broking duopoly, strong emphasis returning capital to shareholders and its capital light business model.

Upside risks to our PO are outsized organic growth as economic expansion continues into 2024. Further, insurance brokerage stocks tend to trade up upon announcement of restructuring programs, where investors often embrace the cost saves while ignoring the costs to achieve.

Downside risks: operating margins could see compression as travel and entertainment expenses resume. Complications from deal integration and restructuring execution could also weigh on results. Current valuation multiples represent a historical ceiling, which could be prelude to future multiple compression.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

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US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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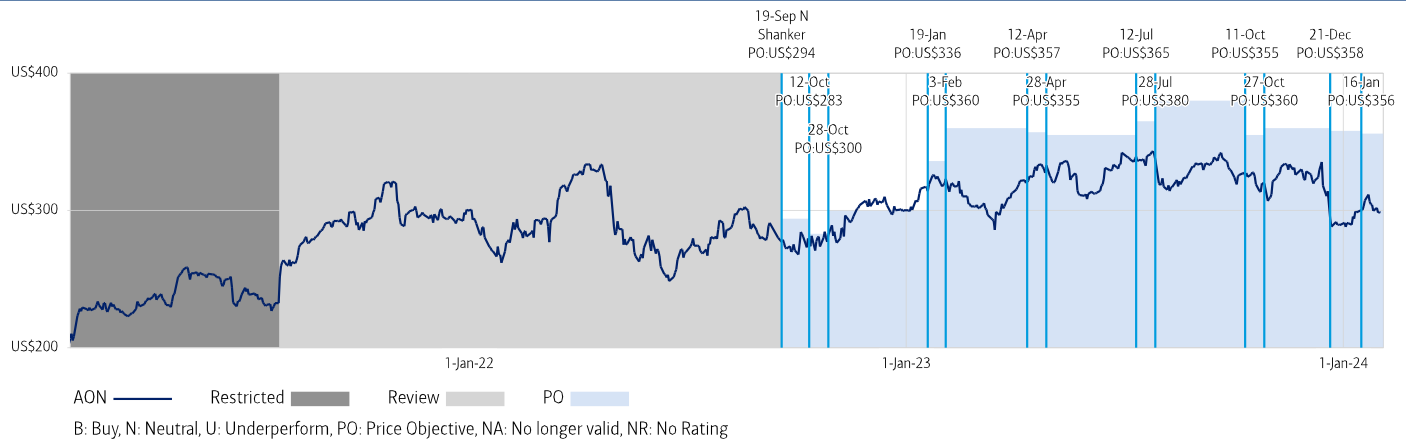
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Aon (AON) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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