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Aon plc (AON) CEO Greg Case on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-25-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.45 beats by $0.02 | Revenue of $2.38B (1.28% Y/Y) misses by $-81.79M

Earning Call Audio

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Aon plc (Aon plc) Q3 2019 Results Conference Call October 25, 2019 8:30 AM ET

Company Participants

Greg Case - CEO

Christa Davies - CFO

Eric Andersen - Co-President

Mike O'Connor - Co-President

Conference Call Participants

Mike Zaremski - Credit Suisse

David Styblo - Jefferies

Elyse Greenspan - Wells Fargo

Paul Newsome - Sandler O'Neill

John Heagerty - Atlantic Equities

Yaron Kinar - Goldman Sachs

Meyer Shields - Keefe, Bruyette & Woods

Brian Meredith - UBS

Josh Shanker - Deutsche Bank

Operator

Good morning and thank you for holding. Welcome to Aon plc's Third Quarter 2019 Earnings Conference Call. At this time, all parties will be in a listen-only mode, until the question-and-answer of today's call. I would also like to remind all parties that this call is being recorded. If anyone has an objection, you may disconnect your line at this time.

It is important to note that some of the comments in today's call may constitute certain statements as that are forward-looking in nature as defined by the Private Securities Reform Act of 1995. Such statements are subject to certain risks and uncertainties, that could cause actual results to differ materially from historical results or those anticipated. Information concerning risk factors that could cause such differences are described in the press release covering our third quarter 2019 results, as well as having been posted on our website.

Now, it is my pleasure to turn the call over to Greg Case, CEO of Aon plc. Please go ahead.

Greg Case

Thanks very much, and good morning, everyone. Welcome to our third quarter 2019 conference call. Joining me today is our CFO, Christa Davies. In addition, we have our two Co-Presidents, Eric Andersen and Mike O'Connor, joining the discussion to help lead our Q&A session with their frontline perspective of client impact that illustrates the results we're achieving with clients through our Aon United growth strategy.

Like previous quarters, we posted a detailed financial presentation on our website, so we can focus our time on these quarterly calls to provide you more insight into longer term view for the firm.

First, let me start by recognizing the remarkable dedication of my Aon colleagues around the world. Their collective efforts continue to strengthen the firm and create long-term momentum, reflected through strong performance in the third quarter. We delivered positive results across each of our key financial metrics, including 5% organic revenue growth, and I'd highlight, organic revenue growth on the year-to-date and trailing 12 months basis of 6%, reflecting continued acceleration of our historical trend, substantial operating margin expansion of 350 basis points, and 11% EPS growth, overcoming FX headwinds in the quarter.

We're driving a continued progress this year with momentum headed into last quarter of 2019. And this is a direct reflection of the strategic investments and actions we continue to take to achieve our potential operating as one united global professional services firm.

Last quarter, we touched on valuable insights from our global risk management survey, highlighted how clients face growing volatility and complexity in today's evolving world. Nearly every organization, industry and economy are confronting greater challenges than ever before. And most of these risks are underserved, if addressed at all, because they're not well understood with less historical experience and use of available data to predict, measure or manage these challenges. More concerning is that these challenges are very likely to grow in intensity over the next few years as emerging risks become even more prominent, threatening the ability of our clients to continue driving growth, protecting their assets and developing talent. Against that backdrop, we are responding with actions to bring the full force of our firm to clients by developing innovative solutions and applying data and analytics to better inform and advise them for their future. This approach is at the core of our Aon United growth strategy and establishes the commercial foundation upon which we drive innovation, deliver expanded client value and accelerate the growth of our firm.

Beginning in 2017, with the divestiture of our outsourcing business, we have taken a series of important steps, designed to remix our portfolio, to achieve a faster growing higher margin set of offerings that better reflect the expanding needs of our clients. This approach is best evidenced by the $4.8 billion disposition of our outsourcing business and a subsequent $1.5 billion reinvestment over the last two years, and middle market and back office service innovation. That reinvestment included the creation of Aon Business Services, an important step toward modernizing infrastructure and creating a common technology platform that simplifies repeatable elements of client service and allows colleagues to spend more time on the highest value aspects of their client relationships, while supporting sustainable margin expansion for the firm.

In parallel, we took steps to reduce structural barriers that prevented colleagues from delivering the best of the firm to clients, which in 2018 included a shift to a single global brand and a creation of a single global operating committee, creating a forum for Aon United decision decision-making that has accelerated growth in our core business.

Last year, we also created the New Ventures Group, which is driven by a team of global leaders that command the capital and supporting infrastructure necessary to function as a growth stage development platform. This group is developing a portfolio of cutting edge client solutions on topics like intellectual property and public sector partnerships, which further accelerate net new innovation on behalf of clients and expands our addressable market.

The Aon United actions we have taken at the global level have unified our firm and further strengthened our capabilities, which is proven out by our performance through 2019. With this momentum, we announced the next phase of our Aon United growth strategy earlier this month, outlining two key components that translate our progress at the global level and how we go to market locally, allowing us to more effectively bring the full force of our global firm to clients.

We describe the first component as delivering Aon United because it includes a series of steps that will improve sales effectiveness, strengthen our segmentation strategy and further increase collaboration across solution lines, all of which means more value creation for clients and further acceleration of organic growth.

The second component is about the expansion of our industry-leading Aon Business Services platform. Aon Business Services has already proven that it helps capitalize on the benefits of our global scale to deliver world-class client service and provide colleagues additional capacity to deliver more value to clients, which is why we're expanding our Aon Business Services footprint and establishing client service hubs, leveraging technology platforms and new capabilities to accelerate our ability to deliver the best of the firm to clients while driving further operational excellence in our back and middle office services, which will drive greater productivity in our operations and contribute to sustainable margin expansion.

These moves create a common baseline for Aon United and the experience of Aon United in our local geographies, including how the firm articulates our value proposition to clients, delivers repeatable elements of client service, develops our colleagues, and measures return on invested capital.

At the end of the day, all these steps come back to how we can most effectively bring the best of our firm to clients so that we can help them improve their operational performance, reduce volatility or strengthen their capital position, which is why will continue to take steps to connect our firm, leverage our global scale and strategically invest in industry-defining content to amplify the value we can provide on their behalf and increase our relevance in today's evolving landscape.

For your reference, I'd like to highlight one example of how our colleagues came together with the real business partner approach to address the clients' unique need, to give you an idea of how our Aon United efforts translate into value at the frontline.

A global agricultural firm was facing operational losses due to cash flow volatility throughout the year, based on seasonal crop yield. That could be impacted at any given time by weather-related events or other variables outside their control. We believed we could help this client with insight gained through data and analytics that would guide a strategic choice. Our team brought together commercial risk, reinsurance and data analytics capabilities. Then, we analyzed satellite-gathered weather data, applied our proprietary catastrophic impact forecasting model, and overlaid trends with the client's revenue. Our team was able to correlate patterns that enabled the design of a parametric trigger solution unique to this client’s operational risk. The result was an innovative tailor-made crop risk management program that pays off automatically once a predetermined trigger is reached. This is a more efficient and timely approach, supporting our clients’ competitive advantage in maintaining their prices regardless of harvest quality. They also benefit from cash flow reliability, operational and capital stability, and improved long-term business planning.

And that's just one recent success story of how we're responding to unique client demand with action, truly made possible by greater colleague collaboration and through commercializing our proprietary content and data into an opportunity to deliver client value. But, the application is happening across the portfolio as we scale our Aon United efforts, translating into improved growth profile for the firm as we drive new business generation and create greater retention and share of existing clients.

Our trend of organic growth has already improved from 3% in 2014 and 2015 to 4% in 2016 and 2017 to 5% in 2018, and now in 2019, we delivered 6% year-to-date. Further, we expect strong performance in the fourth quarter, resulting in continued progress for the full year against our goal of mid-single-digit organic revenue growth or greater over the long-term.

In summary, our clients are demanding that they be better informed and better advised to navigate and address the complex and evolving challenges they face. We continue to build momentum as we strengthen our ability to create value on behalf of clients through investments in industry-defining content and capability combined with greater alignment across our firm, while also achieving strong financial results and increased value to our shareholders.

With that overview, I’d like to turn the call over to Christa for her thoughts on our financial progress year-to-date and long-term outlook for continued shareholder value creation. Christa?

Christa Davies

Thanks so much, Greg, and good morning, everyone.

As Greg highlighted, we continue to take steps to deliver Aon United, which is amplifying our ability to serve clients distinctively and deliver improved financial performance. We delivered positive performance across each of our key metrics for both the quarter and year-to-date. Through the first nine months of the year, strong organic revenue growth and increased operating leverage have contributed to substantial operational improvement, which is translating into double-digit free cash flow growth. We're delivering on restructuring initiatives and funding significant investments across the firm that will deliver improved financial performance long-term.

As I further reflect on our performance year-to-date, first the growth portfolio of our firm is improving with 6% organic revenue growth year-to-date and for the trailing 12 months. I would highlight year-to-date organic revenue growth accelerated 200 basis points from 4% in 2018 to 6% in 2019 as we deliver on our goal of mid-single-digit or greater organic revenue growth over the long-term.

Reported revenue has been pressured throughout 2019 by an unfavorable impact from changes in FX. Our disciplined focus on maximizing return on invested capital continues to help shape the portfolio towards our highest growth and return opportunities as highlighted by the divestiture of certain businesses in retirement solutions at the end of the second quarter.

Second, we continued another quarter of substantial operational improvements, which has contributed to strong year-to-date performance of 12% operating income growth, and operating margin expansion of 250 basis points. Both operating income growth and operating margin expansion have improved on a nine-month basis compared to results six months, while the impact from restructuring savings has remain similar, reflecting increased operating leveraging across our portfolio. We are translating strong operational performance into double-digit EPS growth of 10% year-to-date, overcoming continued headwinds from FX translation.

FX rates continued to have an unfavorable impact on results in the third quarter due primarily to a stronger U.S. dollar, resulting in a significant net unfavorable impact of approximately $0.20 year-to-date or a $58 million impact on operating income. If currency to remain stable at today's rates, we anticipate an unfavorable impact of $0.04 or approximately $12 million reduction of operating income in the fourth quarter.

We continue to successfully execute against our restructuring initiatives with $32 million incremental savings in the third quarter. Our ongoing restructuring initiatives are driving expense savings near-term, but more importantly they are enabling growth of the firm as we unlock additional operating leverage through our Aon Business Services operating model.

Aon Business Services is helping us modernize our infrastructure and create common technology platform. When we simply and standardize repeatable elements of back and middle office processes, we're finding that our colleagues have more time to spend with clients, strengthening our relationships and identifying expanded opportunities to offer.

Looking beyond near-term restructuring savings, we expect to drive sustainable operating performance and long-term core margin expansion annually, similar to the 70 to 80 basis points of operating margin improvement achieved annually over the last decade, net of continued reinvestment and growth opportunities. This is driven by organic growth, portfolio mix shift and ongoing productivity improvements.

Lastly, free cash flow increased by $200 million or 25% to $996 million. Substantial growth through the first nine months primarily reflects strong operational performance. I would note, both the prior and current periods include impacts that largely offset each other in total for a neutral impact to year-over-year growth.

As we think about cash flow generation going forward, we're focused on maximizing the translation of accelerating revenue growth into the highest level of free cash flow in three ways. Operating income growth continued progress on working capital initiatives and structural uses of cash winding down. 2018 was a peak year for cash usage as shown in our presentation on slide 26. Declining uses of cash restructuring, CapEx and pension continue -- are expected to free up over $595 million of free cash flow by the end of 2020. We continue to have significant upside to a base of more than $1.45 billion of free cash flow in 2018, prior to any operating income growth over working capital improvements.

Together, these inputs give us confidence in our ability to deliver on our goal of double-digit growth in free cash flow over the long term. Further, we have the opportunities of incremental debt while maintaining current investment-grade rating as EBITDA growth, restructuring costs wind down and pension liability improve, providing significant financial flexibility over the next few years to further invest in value-creation, return of capital to shareholders.

We're diligent about maximizing return on capital and make capital allocation decisions through this discipline. Share repurchase remains the highest return on capital investment today, given our free cash flow valuation and outlook, highlighted by the $1.5 billion of share repurchase year-to-date.

In summary, strong top and bottom-line performance for both the quarter and year-to-date continue to reinforce our Aon United initiative of strategic decision, building momentum as we enter the last quarter of the year, but more importantly, strengthen the long-term growth profile for ourselves. In addition, our disciplined approach to return on capital, combined with our expected significant free cash flow growth and increased debt opportunity over the next few years provides financial flexibility to unlock significant shareholder value creation over the long-term.

With that, I'll turn the call back over to the operator and we'd be happy to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We have nine questions in queue for Q&A. Our first question comes from David Styblo from Jefferies. Your line is now open.

Greg Case

David, are you there? Operator, why don't we go to the next question and we will pick David up later.

Operator

Okay. One moment please. Sorry. [Operator Instructions] Sorry for that. That is Mike Zaremski, Credit Suisse. Your line is now open.

Mike Zaremski

Well, great. Thanks, good morning.

Greg Case

Hey, Mike.

Mike Zaremski

First question is on the commercial insurance pricing environment. A number of large corporations have been talking about fairly significant increases in pricing and/or changes in capacities, kind of starting in April, May and persisting into 4Q. Maybe you can comment on what you guys are seeing, and if it's helping drive revenues and margins for Aon?

Greg Case

Yes. Mike, from our standpoint, we talk about this on the call frequently. So, I really appreciate the question. Again, for us, remember, pricing really translates into market impact. So, that's encompassing both rate and insured values. And as we've highlighted, market impact for us, I would say, it had a modestly positive impact to our results.

Just maybe three observations. When you think about Aon overall, something around half of our world operates completely independent of any insurance pricing cycle. And even within our risk business, a third of it as fee based. And when you think about our overall approach and what we do, our world is really centered around using data and analytics capability to really help clients at an individual level, focus on their circumstances and we get the best results.

You will see us modify programs, individual covers based on market conditions. They will fundamentally -- we will help them change behavior, based on market reaction, our market position. So for us, overall, modestly positive impact to results, and our view is that highly client centric approach is one of the reasons we've got new business generation and retention levels at an all-time high.

Mike Zaremski

And a follow-up to that is for the one-third that's fee-based, historically that's grown at a low single-digit pace or how should investors think about how the fee-based business revenues -- sensitivity?

Greg Case

So, Mike, we don't break out literally sort of growth at that level. Our view, as we come back, there is really not a difference. This is about how we add value to clients and consistent with what as we described by Aon United behavior. This is how we bring global capability to our clients in our backyard, and when we do it, how we describe the value. So literally, the work we're doing includes how we describe the value to clients. If we create value, we should get paid for the value; and if we don't, we should highlight that as well. So, we're incredibly transparent. And our view is, we are increasing our capability to both deliver value, articulate value and get paid for value.

Mike Zaremski

Okay, great. And lastly, probably for Christa. Interest rates have declined fairly measurably year-to-date and stock market in the U.S. has done well. Any early views on if things don't change much from here, will the pension, expenses or free cash flows be materially impacted for next year?

Christa Davies

Yes. I mean, it's a great question. Mike, what I would say is, as we think about our pension on fund liability, we do an annual measurement at 12/31 each year. The balance sheet in terms of our fund of pension liability, Q3 doesn't reflect changes in interest rate or asset valuation. And we've certainly done a lot of work on our pensions over the last 10 years to free the plans and close them and derisk them to massively reduce volatility. So, our result in pension cash contributions in 2020, you can see a show in the chart on page 26, it shows decreasing substantially and we feel really good about that outlook. In term of other impacts and interest rate, our debt is fixed, and so, we don't see material impact from interest rate.

Mike Zaremski

Thank you.

Operator

Thank you. Our next question comes from David Styblo from Jefferies. Your line is now open.

David Styblo

Hi, there. Can you guys hear me this time?

Greg Case

We can. David, welcome back. What's on your mind?

David Styblo

I guess, maybe I give Mike and Eric a chance to chime in on this. But, I'm curious as you guys are going to market with your clients and it sounds like you're increasingly doing more customized solutions to help them with their specific set of risks. I'd imagine that probably takes more efforts, human capital resources and so forth. I'm wondering, to what extent or how do you get compensated for that? Does that wind up being a higher margin sell for you guys ultimately because you are providing a customized solution set for that client, if they could maybe not otherwise find at the market? Maybe just what does that look like going through the sales cycle?

Greg Case

Yes. When you step back, David and think about sort of what really happens when we bring the best of our firm. In essence, we got -- the beauty of this is, we have the capability, we have the capacity, our colleagues have the expertise, and our clients have increasing need. The question is how do you connect the dots and actually make that happen. And so, we have more and more account situations where we're spending time with the client understanding broad-based needs. Our colleagues have greater awareness of Aon and what they're trying to get accomplished and what we're trying to get accomplished. And so, they actually bring these other colleagues in. They address these issues in ways we haven't addressed before. And the beauty of this is, it not only creates net new areas, but it also very much sort of addresses retention on existing business, and what we're doing from an existing client standpoint. So, the approach we're taking very much sort of leverages assets and capabilities that we've got, and clients respond very, very positively to it.

Mike O'Connor

David, it’s Mike. Maybe I'd give you an example of how we help decrease the perception of volatility from climate change that was impacting our client’s real estate portfolio. So, really, really, I find very interesting example of how we're growing and expanding relationships with clients. So, in this situation, a large real estate client who is an investor, and the team is doing a terrific job around commercial risk, but the team in this case just stepped back and said, what is the real issue challenging this client’s business. And one of the issues they were facing was an overhang of how climate change and other catastrophic risks over a long-term would impact the real estate portfolio.

And our team would have done this in the past. They brought together colleagues from around the world. They brought together colleagues from commercial risk, reinsurance, our data and analytics team and said, could we actually come together with the experiences, the capabilities we have in the data analytics, and could we actually put together risk portfolio diagnostic to basically identify and quantify the impact that climate change and other risks would have on this portfolio of real estate over the long term. We were able to share that insight with the client. They were able to take it back to their investors and actually show facts and scenarios and thereby reduce the perception of risk. And for us, this is a whole new relationship with the client. It grew our relationship with them and also solidified us as a real partner to help their business for the long term. That's just an example for us that we get really excited about in terms of what we can do for clients.

Eric Andersen

And Mike, maybe -- Dave, it's Eric. Maybe I'd just pick up on another one, because you asked about how we bring the teams together. And we use an integrated client planning process. So, maybe I'll just use another example to run through. We had a financial institution client that had been a long-term client, but during that process, uncovered that they were dissatisfied with the product that they were selling through their own distribution agents and were looking to find ways to either revamp either the pricing, the underwriting, the distribution, the claims process, the whole sort of process of offering the product. And they asked us for our thoughts. And we were able to bring our insurance consulting capability, our data and analytics, as well as our experience and knowledge of the marketplace. They'd also asked some other advisory firms for their opinion. But, our ability to tie all of it together sort of enabled us to proceed with the client. And ultimately for the client, the outcome is pretty straightforward, right? They end up with a revamped process that drives more revenue for them, reduces the volatility of the product itself. But, for us, it actually gives us a much deeper insight into the client. It was already a great client. So, really, it was bringing a new capability into an existing market, as opposed to going out to cyber or government de-risking or others we talked about. This is about expanding capabilities within an existing relationship, using that integrated client planning process that I referred to earlier.

Greg Case

And David, one real important point here too, this is -- your question about the sales cycle, this doesn't elongate the sales cycle at all. In fact, it's very different than that. We're bringing existing capability and matching it to client need. We're -- in fact, we're creating new sales cycles. So, it's the same sales cycle under traditional products, our traditional areas, and then new sales cycles that we serve another clients but not that client. So, the example, Eric described sort of was literally an expansion. So, the sales cycle and what we expand in into was no longer than ever before. And it just creates frankly tremendous efforts, even if a client says in the end, I don't really think we need you on it, we've engaged in a conversation, which changes their perception of who we are and how we think about them. That actually impacts retention in our core -- and what we're currently doing them in addition to sort of open up new business and new opportunities.

David Styblo

Got it. Thanks for the color on that. Two quick questions for Christa. Heard your FX comments about the fourth quarter. I'm wondering can you provide us some perspective to help out with modeling for how the FX looks to impact the P&L in 2020. And then, free cash flow, obviously rebounded really nicely, up 25% year-to-date. Was there anything unusual in the third quarter that helps provide maybe a onetime benefit or pull forward? And then, looking to the fourth quarter, you expect free cash flow to be up year-over-year. Are there any other factors there, timing or what not that might cause it to decline?

Christa Davies

Great. Okay. So, on FX, I guess, what I would say is, we did give guidance for Q4 that it's minus $0.04. It's really due to a stronger U.S. dollar. In general, we prefer a weaker U.S. dollar across our global portfolio because we're translating local revenue and local expenses into U.S. dollars. And so, if the stronger U.S. dollar continues, we would expect some FX headwind in 2020 but what we haven't given guidance.

And then, on your FX -- on your free cash flow question, sorry. So, free cash flow, it's very strong year-to-date, 25% up year-to-date over last year. We have given guidance on free cash flow. We expect double digits for the foreseeable future. And so, we would expect very strong free cash flow growth for the full year 2019. There were some restructuring cash charges that timed out of Q3 into Q4. If you think about the whole program we'll finish, restructuring in 2019 and so you'll see those cash charges come through in the fourth quarter. But, we're really excited about free cash flow for the full year 2019 and most excited about free cash flow for 2020 in terms of double-digit free cash flow growth plus the declining needs of cash.

Operator

Thank you very much. And our next question comes from Elyse Greenspan, Wells Fargo. Your line is now open.

Elyse Greenspan

Thank you. Good morning. My first question, earlier this week you guys announced a regional insurer group initiative. Just trying to get a little bit of additional color there, just in terms of how you would kind of size your business in that regional kind of space today and kind of long-term growth aspirations there, and if that is expanding that type of regional size account offering dependent upon any M&A activity within the U.S.?

Greg Case

Elyse, that's just another example as we look across sort of the global portfolio and it's back to kind of as we connect to the dots on opportunities. We saw this as a great opportunity to help a sector that we know very, very well. And it really isn't about the size; it's really about what we can bring to the table. So, if you think about walking into this client and helping them with their -- a lot of the things on protecting their balance sheet, which we know very, very well, think about how we can help them on retirement, on health, on the broader base set of things to candidly help them improve their operating performance, strengthen the balance sheet, reduce volatility, and we bring all Aon to bear on that mission. We just love that approach in that sector. And frankly, we've seen it happen around the world. This is another example of -- we've seen the movie before, how do we translate what we've seen sort of in the client impact in an effective way. And this is just another example of that. We're very excited about it. Our leaders are rallied around the world to do it. And it really is a set of leaders across solution lines who are going to sort of bring the full force of Aon to this structure and we're really excited about it.

Elyse Greenspan

Okay. Thanks. And then, my second question just in terms of margin, so, 350 basis points this quarter. You still get around 210 or so, if we assume -- kind of adjust for the savings in the quarter. I guess, what I'm trying to get a sense of is what's kind of the sustainable level of margin improvement here. And I know you guys kind of continuously pointed at 70 to 80 that you've historically seen. But, it seems that what you're doing with Aon Business Services, should lead to greater operating leverage. So, should we think about the third quarter level being more sustainable relative to the margin improvement you've seen in the past?

Christa Davies

It's a great question, Elyse. And what we would say is, year-to-date margin expansion is 250 basis points, of which 110 basis points is core margin expansion, if you take out the restructuring savings. You're absolutely right that Aon Business Services is proving up with incremental operating leverage. It's driving sustained profitability improvements well beyond the restructuring savings into 2020 and beyond. One simple example of that is the fact that we've actually automated over 500,000 hours this year through automation, which drives ongoing productivity. So, you can kind of see the improved operating leverage before we reinvest in additional growth opportunities. We do think that the right guidance going forward in terms of margin expansion is 70 to 80 basis points. That is in line with our 10-year historical average. So, we feel really good about that.

Elyse Greenspan

Okay. Thanks. And then, my last question, in terms of reinsurance, growth is still pretty good, but we did see a little bit of slowdown sequentially. Was there anything in terms of maybe the new business flow? I guess, did you see any kind of change in trends within your reinsurance from the second to the third quarter in either new business or retention that might have impacted the sequential slowdown in organic?

Eric Andersen

Hi, Elyse. It's Eric. Maybe I'll take stab at it. The reality is, no, we have not seen a slowdown on it. The composition of the book is different in the second half of the year. The first half is pretty heavily loaded towards the treaty business. The second half is much more facultative and capital markets. And that business is a little bit lumpy, based on how and when the clients need the cover. And so, I would say, we are continuing to be pretty strong in that space. It's a double-digit growth business for us, especially the pack business, and we continue to see that going forward.

Greg Case

And like everything, Elyse, we look at these things year-over-year when you think about year-to-date progress against year-to-date last year, continued momentum and build in the business, absolutely fantastic, 9% year-to-date. So, continued progress and momentum.

Elyse Greenspan

Okay. Thank you.

Operator

Thank you. Our next question comes from Paul Newsome of Sandler O'Neill. Your line is now open.

Paul Newsome

The only thing I had was, I was wondering about the divestitures that you’ve been doing. How we should think about the impact on revenue and margins prospectively in fourth quarter and maybe 2020 from the divestiture piece that you've given?

Christa Davies

Yes. It's a great question, Paul. And what I would say is, as we think about managing the portfolio, we’re doing it on a return on capital basis, and maximizing our investment in high revenue growth, high margin businesses, and then obviously divesting lower revenue growth, lower margin businesses. As we think about modeling going forward, you should see a similar impact in retirement due to divestiture of that business in Q2 for the next three quarters, so that will sort of flow through over the course of the year, similar to what you saw in retirement this quarter.

Operator

Thank you. Our next question comes from John Heagerty, Atlantic Equities. Your line is now open.

John Heagerty

Thanks. Couple of questions if I could. Firstly, on the data and analytics division, it looks a little bit like the revenue -- the organic revenue growth is decelerating over the past four quarters. So, I was wondering if we should read it like that or whether it's just that it has much more of a skew towards Q4 and that started to come through again this year?

Greg Case

Yes. I'd step back, John. As you think about sort of growth overall, it just is a lesson for all the solution lines really. It really isn't about any single quarter or even in solution line, we really look at growth across the board. So, we're really looking at sort of Aon results overall and perspective how that progresses year-to-year. So, the lots of things happen within individual solutions lines. And if you sort of look at that perspective, that bucket together, you see really tremendous progress, 5% in 2018, 6% year-to-date in 2019. By the way that's versus 4% in year-to-date in 2018, so up 200 basis points. And really across the portfolio, all solution lines, including data and analytics are sort of up year-to-date, including data and analytics, I may say, when you think about year-to-date.

So, for us, we wouldn't focus on any one or particular quarter or the other, it really is about year-to-date progress or year-over-year progress. And we feel very good about where we are against that.

John Heagerty

And then, just on the divested revenues, following up on Paul's question. Just it looks like the amount in terms of revenue divested so far this year is just under $100 million. In terms of cash flow generated from the divestments, it looks like it's only about $43 million. So, what do we -- can you give a bit more detail on what those business were and what sort of margin they we're generating?

Christa Davies

Yes. I mean, what we can say, John, is that they're lower revenue growth, lower margin businesses. So, it fits with our focus on improving growth and improving margins and focus on return on capital. We haven't given specifics on the amount of cash we received. We feel really good about the overall management of the portfolio, including those divestments.

Greg Case

Just bear in mind, as you think about sort of where we are, this is probably one that's not even year-over-year, really is over multiple years, as you think about where we are and think about our acquisition and divestiture strategy over the last number of years, we are absolutely maniacally focused on improving return on invested capital. So, it's not surprising, the cash flow characteristics of the business we divest aren't nearly as good as the ones we have, nor the ones we buy. And so we're going to be lumpy year-over-year as we think about the right acquisitions. We're going to bring in content and capability we can scale, and that will drive top-line growth over time. But, it really in this case is even more over a period of years it will drive top line growth as you've seen over the last decade. So, hopefully that's helpful.

We'll continue to think about the divestitures, when they are helpful to the ROIC and the overall portfolio; and we'll continue to make acquisitions with great capacity to do so when they make sense as well.

Operator

Thank you. Our next question comes from Yaron Kinar of Goldman Sachs. Your line is now open.

Yaron Kinar

Good morning. First question, just following up on Elyse's margin question. So, just over 200 basis points of core margin improvement in the quarter, 100 or so basis points of improvement year-to-date, is the above run rate improvement also a function of timing and magnitude of investments in the platform?

Christa Davies

It's really about the operating leverage we're getting through Aon Business Services, which is accelerating our overall margin expansion year-to-date. Because if you look at the nine-month operating margin expansion versus the six months, we've accelerated, and the restructuring savings has remained about the same proportion of that and the core margin expansion has expanded. And so, we are getting real operating leverage in the platform from growth, yes, from leverage in ABS. And we expect that to continue through calendar year 2019 and into 2020. One of the other things I'd say is operating leverage is allowing us to fund greater investment in some whole new markets and capacity. Greg, you might want to talk a bit about that.

Greg Case

Christa described very, very well. This is -- as you think about our margin -- expanding margin, our capability to do so. You've seen us over a 10-year period due to the 70 basis points to 80 basis points that's been described already, you ask yourself the question, what's the probability we can continue to do that. We would suggest that this quarter and this year to-date's performance says that probability is going up, not going down. And that's because of the operational leverage Christa described.

In addition to that, it's really important for us to convey how much we are investing in future growth for our business. And this is a number of areas. If you think about what we've done in intellectual property, what we've done in the entire area of kind of public partnerships, what we've done in small client, what we've done in retirement business, in the health business, all these things are sort of net new things we've never done before. You've seen examples we talked about the World Bank CAP on last time. There is a whole series of things we've done to create net new, truly not just expanding share on what's already out there, but net new, things that have never been looked at before, same in cyber. So, there is a level of investment that is quite high. We're very excited about in terms of future long-term growth, but we're also very committed and making sure we can continue to improve margins year-over-year. And as Christa described, Aon Business Services is a way to do that, but it also has lots of different attributes in terms of what we're doing. The muscle is really, really powerful and we're going to keep working on it.

Mike O'Connor

Greg, maybe I'd share -- it's Mike. Maybe I'd share an example of how Aon Business Services is changing what we do. And I'd use our health care center of excellence that's delivering better outcomes, as well as getting efficiency and productivity gains. And the short description of this is, we've basically moved our 600 actuaries into a center of excellence model. We're leveraging best practices, we're bringing common tools to bear, and we're driving productivity gains. And we mentioned in the past, we have built an analytical suite of tools and architect, and this group of actuaries is using that as well. We talked about how our colleagues in the field are using, our actuaries are using as well, where we're going from manual calculations using assumptions to AI-driven suite of tools where we can do hundreds of assumptions simultaneously and generate a 0.5 million scenarios for our client, so, we can actually work with the client to pick the best outcome. In addition, you bring the group together in center of excellence and we've improved peer reviews through automated workflows. So, we get all the productivity gains that you'd expect in a center of excellence. We're most excited about the impact we're having with clients.

Greg Case

I really appreciate that example, Mike. So, again, Yaron, the reason we entered it, sort of here, this is here -- you take a step back to your question, fundamentally, our ability to improve margin, the reason we're so excited about Aon Business Services is it creates operating leverage in the business that's meaningful and real. But, no kidding, Mike said 600 actuaries. We had them all around the firm. We are now bringing them together. They are doing things we didn't -- hadn't done before. And instead of giving the client three or four options on the health side, we're giving them a continuum of 500 sort of iterations -- 500,000, I'm sorry, I am being corrected by my colleagues, 500,000 iterations of what we can do, all better than three by the way, and it changes fundamentally our ability to serve clients. So, it builds operating leverage and improves service. And that's the equation we're pulling together when we describe Aon United. That's one big aspect of it.

Yaron Kinar

That's very helpful. I appreciate that. My second question is around intellectual property. So, Greg, you've talked in the past, even just mentioned it now that there is an underserved potential for -- or underserved client needs that that have created a significant potential for the market. Can you and the team maybe help us try and size this market opportunity and IP? And, then also discuss the specific actions, particularly year-to-date that Aon has taken to position itself to capitalize on this opportunity.

Greg Case

You start with literally the fundamental opportunity the potential demand. And it's -- anyway you look at it, it’s incredibly compelling. Just step back, take the estimate, 2018, [ph] how much of the value the S&P 500 was attributable to intangible assets, and it's 80%

to 85%. Think about what that means, 20 trillion plus. It’s amazingly huge number sort of attributable intangible assets. That was probably in the low 20s in the 70s, it's now 80s, mid-80s. And so you essentially say, if that's where the value is coming from this is back to the idea of net new. What are we doing that makes a difference for clients net new that doesn't exist and the protection of intellectual property is something we have never done before. And it's why again, we brought in a tremendous amount of capability, some with Stroz Friedberg and 601West, tremendous capability which we've added to over time. And we've got a 100 plus colleagues who are focused on how you think about value in intellectual property and how you provide cover on it, how you protect clients from liabilities that come with it or the IP theft.

And so you ask yourself, how big could that market be. And this is a market that should be much bigger than cyber. This is $100 billion plus market over time. If we help clients understand how to address and protect intellectual property, trade secrets, all the things that come with that, our view is this is a tremendous opportunity for the industry, and candidly, a tremendous opportunity for our clients. And the other piece, and I'm sorry to get off on the IP, but I can't help it. One of things about IP that's so cool is, a lot of what we do is protecting the house. And as in cyber something bad happens, how do you protect, something happens in a plant or equipment or something happens in a portfolio on the retirement side, these are protecting downsides. Intellectual property is about creating upside. You can actually help clients create net new value that they already have but didn't really know it. When you can actually help a client value a portfolio, by the way the valuation comes from the fact that the insurance markets actually back it. So, that creates the implicit value, all of a sudden you're creating opportunity. So, we're pretty bullish on this, as you can tell. And really in terms of sort of the idea of net new high-margin, high-margin because it's high value to clients. We're providing this kind of value to clients. We're doing things that no one else has been able to do. And the opportunity we think is substantial, and you will see us investing heavily behind it.

Back to the question around maintaining 70 basis points, 80 basis points improvement and investing this heavily, how do you do it? Again, the 100-plus colleagues, how do you do it? You do it within Aon Business Services and other means to sort of create operating leverage in the business. And that's the equation we've got.

Yaron Kinar

Thank you for the comprehensive answers.

Operator

Thank you. Our next question comes from Meyer Shields of Keefe, Bruyette & Woods. Your line is now open.

Meyer Shields

Greg, I was hoping you could walk us through the opportunities and challenges of Lloyd's Blueprint One on I guess, revenues and margins there?

Greg Case

Yes. Listen, we spend a lot of time with our partner in Lloyd’s John Neal, and Bruce and team, trying to offer thoughts and views and perspectives. We are absolutely focused on and delighted to be supportive whenever we can because it's important to our clients. And our guidance has largely been around sort of the following types of things. Whatever blueprint comes out to be, whatever incarnation comes out to be, you ask yourself the question, has it helped our clients? How has it done things for our clients that they don't get elsewhere in the world? Is there more innovation in a way that sort of benefits our clients? So, for us, it's all about that. And that's the test of relevance for all of us, and it's a test relevance for Lloyd's as well.

And so, everything we've done around it is sort of how do we help them, see what has to be true for -- add value in a distinctive way. And then, we come back to, if you're adding value in a distinctive way that has real beneficial aspects for margin. If you are adding value in a way that's much more commoditized, then it's -- it should have much less attractive margin characteristics. So, for us, we don't -- this isn't about us, it's really about our clients and sort of how we can help Lloyd’s understand sort of what has to be true to help our clients. And we're very hopeful, John and Bruce and team have worked very hard to sort of -- to take some steps to sort of really drive this market forward. And we're excited about the possibilities and want to support in any way we can to support our clients.

Meyer Shields

Okay. That's very helpful. Is there any validity to the idea that this could be sort of a revenue headwind but improve the bottom line by even more?

Greg Case

No, I don't think that really -- at the end of the day, we haven't really thought about it in that way at all really. This is -- Lloyd's is a source of capital and capability for our clients. We want to apply it anywhere we can. John and Bruce are very well aware. There are other options out there as well, and we have access to all of them. So, we're in essence essentially saying we still always come back Meyer to the question is what's the client need and how are we supporting and serving it. If we do that distinctively, our margins and growth take care of themselves, and we love that nice edge, by the way. That means we have to continue to improve. And if we don't, we suffer the consequences as does everyone else. Our view is, the opportunity is great. There is lots of capital choices out there to support our clients to the extent that's helpful and necessary. And that's how we're going to pursue it. So, we don't really see -- we're really not sort of seeing sort of any short-term, long-term sort of implications that would be we driven by the Lloyd's Blueprint.

Meyer Shields

Okay, fantastic. Another one small question for Christa. The press release notes that geographic distribution of earnings impacted the tax rate. Does FX itself have a tax rate impact?

Christa Davies

No, it doesn't. No, it doesn't, Meyer.

Meyer Shields

Okay, great. Thanks so much.

Operator

Thank you. Our next question comes from Brian Meredith of UBS. Your line is now open.

Brian Meredith

Yes. Thanks. Most have been answered, but just want to hear -- Greg, I noticed in your survey, the number one challenge that I think corporations talk about is economic slowdowns/slow recovery. Could you give us some insight as to kind of what you're seeing right now? And also, is that at all a concern for you guys as far as your organic revenue growth going forward here if we do get some economic slowdown?

Greg Case

Yes. Brian, I would say, I appreciate you're referencing the risk survey. We find a lot of insight into that as we’re asking clients around the world what's most important to you, what's on your mind. Most -- sailing of which is, when you look at sort of the top 10 risks, most of them are -- don't actually have an insurance related answer, actually five have none, a few have partial and then a few have something. So, our view is that’s massive opportunity to sort of help clients. And to the extent slowdown becomes number one, how do we help clients do that. By the way, Eric and Mike both gave examples that would sort of lean into the headwinds of what would be a recession.

As it relates to Aon, listen, we -- let's say, we feel fairly fortunate. If you think about sort of what's happened to us, if you go back to the recession of ‘08 and ‘09 and what happened in essence, you know the story well. We were largely flat in terms of sort of where that was. What you've seen us do in the first nine months of this year as everyone has talked about sort of issues and concerns is, grow 6% year-to-date versus 4% last year. So, we're up 200 basis points versus -- year-to-date versus last year, incredibly positive. Remember, a lot of the revenue is non-discretionary. So, 85% is renewed business and retention rates 90% plus on average. And so, it's a very unique kind of demand characteristic. By the way, that demand characteristic is true in commercial risk, it's true in reinsurance, it's true in retirement, it's true in health, incredibly powerful in terms of where we are.

And then, if you think about where we were in ‘08 and ‘09, which is basically flat to the world and improved margins at the same time during the last recession, we're a very, very different and stronger firm now than we were then. Now, you actually have all the things that we had back then plus all the net new. So, we didn't have IP, we didn't have cyber, we didn't have some of the health advancements that Mike’s talked about, some of the things we've done on the retirement side. So, it's a much stronger firm in which we're creating new addressable demand that didn't exist before. And in many respects, we hope creating markets in which Aon will benefit and certainly others will too, competitors, everyone will. We open up $100 billion IP market that will benefit everyone. Same on cyber. We all know cyber is anemic, it's small compared to what it should be on behalf of clients, huge opportunity against that.

So, for us, we’re always going to be vigilant. But, we feel very good about our ability to support clients. And in many respects, the demand grows in times of volatility or in times of stress for them. And to the extent we help them improve performance or strengthen their balance sheet or reduce volatility, that in on itself is actually going to create an interesting play. And then, the final thing I would say is sort of in recession, there is a bit of a flight to quality in terms of sort of making sure you can deliver on behalf of clients, and we believe we’d benefit from that.

Brian Meredith

Great. And then, one other quick one, one’s been you’re looking at the survey responses, and one’s political risk. And I think you may have commented about this a couple of quarters ago, but just maybe remind us, if indeed we do see Medicare for all, what impact would that have on your health solutions business?

Greg Case

Well, as we described by the way, this is again, you kind of come back to fundamental, what we're talking about here on sort of the health world overall. This is an incredibly dysfunctional part of the global economy as we all know. And the population around the world is becoming less healthy and per unit cost of healthcare is going up. So, net-net, we think there is going to be massive demand in the context of this.

Remember, if you look at half our health business is in the U.S., half outside the U.S., and that outside the U.S. is actually more akin to the single payer world. And we've done exceptionally well. We are growing faster and margins are going up. There is a lot of opportunity on just beyond the core but also on what you do from an elective standpoint on top of it. So, as we look at economies around the world, we would say the demand is real, our ability to address it is real, and we like we like that opportunity.

The final thing I would say is, without any political commentary on whether that's a good solution or not, let's assume you actually went to that solution, the transition to that solution would create huge turmoil with our clients. And our ability to sort of support them in the transition would also be a source of opportunity. But, net-net, long-term, we love that health space. I think there is tremendous opportunity to help clients in what is really stressful world. And one of the things you look about it, it's not just the health side, it's the health and retirement, because our clients' employees are overspending on health on average and underspending on retirement. And imagine, Brian, if we could actually help them tweak that 1% or 2% for their employees, our companies would have done a huge service to the families of the employees who work for them. So, we're pretty bullish on sort of what's out there in the stresses for our clients and our ability to address it.

Operator

Thank you. Our last question comes from Josh Shanker of Deutsche Bank. Your line is now open.

Josh Shanker

Good morning. Just a couple of numbers questions really. The first one -- and David Styblo kind of asked some questions about it. I'm wondering if you can talk to a little bit what the normalized free cash flow would have been in the first nine months of 2018 or maybe how you think about what is the normalized growth that you've enjoyed here in the first nine months of 2019 or maybe the first -- I know, you're talking about 2020, but maybe we talk about where normalized free cash flow growth has gone over the past 12 months?

Christa Davies

So, the way we think about it, Josh, is really our free cash flow growth for first nine months of the year is 25%. We are on track for a strong free cash flow growth for full-year 2019. We've given long-term guidance of double-digit free cash flow growth for the foreseeable future and we feel like we are on track for that. And we're particularly excited about 2020 where we will have underlying free cash flow growth of double-digit, plus a declining use of cash, as we see on page 26 of the materials, through decreased cash usage on pension, CapEx and restructuring.

Josh Shanker

But, you can't say normalizing for restructuring spend and whatnot, what the 2019 versus 2018 free cash flow trend has been?

Christa Davies

I mean, you can see the restructuring cash yourselves, but we're getting double-digit free cash flow growth.

Josh Shanker

Normalized, do you think that's normalized?

Christa Davies

Josh, I mean, what we would say is we feel like we have double-digit free cash flow growth year-to-date and long-term.

Josh Shanker

Okay. And the other question also numbers based. In the health care solutions sector, can you talk about the dollar value of non-recurring headwinds you had in the quarter on revenues and how much revenue has been moved from 3Q into 4Q?

Christa Davies

Here's what we'd say on health solutions. We feel really good about where we are in terms of health solutions. We delivered 5% growth year-to-date, it's accelerated from 4% growth year-to-date in 2018. And we have all lines contributing, all solution lines contributing to mid single-digit growth or greater for the full year 2019, and we're looking forward to a strong Q4.

Josh Shanker

But, there is no guidance around those two items you cited in the press release?

Christa Davies

No.

Josh Shanker

Okay. Thank you very much.

Christa Davies

Thanks, Josh.

Operator

Thank you. I would now like to turn the call back over to Greg Case for closing remarks.

Greg Case

I just want to say to everyone, thank you very much for joining. And we look forward to the conversation next quarter. Thanks so much.

Operator

That concludes today's conference. Thank you for your participation. You may now disconnect.