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Aon Plc (AON)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for holding. Welcome to Aon Plc's First Quarter 2024 Conference Call. At this time, all parties will be in a listen-only mode until the question-and-answer portion of today's call. I would also like to remind all parties that this call is being recorded. If anyone has any 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 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 conference covering our first quarter 2024 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.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

Good morning, everyone, and welcome to our first quarter conference call. I'm joined by Christa Davies, our CFO; and Eric Andersen, our President. For your convenience, we posted a detailed financial presentation on our website. As always, we'll begin by thanking our colleagues around the world for the incredible work they do every day to support each other and deliver the best of our firm to clients.

And this quarter, I also want to single out one colleague, in particular, our Chief Financial Officer and my friend and partner, Christa Davies. As you know, Christa announced the retirement from her role of CFO earlier this month, following over 16 years of tremendous service. With Christa's guidance, we developed a seamless transition plan. As previously announced, Christa remains in her CFO role for the second quarter earnings, and we're making strong progress against well-defined plans to have her successor in place to begin the handoff. I'm grateful that she'll continue to serve as a senior advisor into 2025 to ensure great continuity.

Now, to begin our report today, it's important we start by highlighting an incredibly exciting milestone for our firm. The completion of our work to bring NFP into the Aon family as we closed the transaction yesterday. To the 7,700 NFP colleagues who now join our firm, welcome to Aon. NFP's client relationships, capabilities, focused sales force and market knowledge provides a meaningfully expanded position in the fast-growing $31 billion North American middle market.

Since our announcement late December, we've gotten to know the team even better, and our appreciation and excitement for what we can do together has continued to grow and the opportunity is even more clear. In Commercial Risk, complementary specialist resources and expertise from both organizations will enhance what we bring to clients. Delivering Aon's analytics and decision support tools through the NFP sales force allows for a real differentiation on top of their highly integrated sales approach.

Further, we can reintroduce and introduce, reinforce NFP's offerings with access to our programs and facilities like Aon Client Treaty, and also in Commercial Risk, we can leverage our global Aon network for clients who require seamless global service to enhance an already strong NFP value proposition.

In Wealth Solutions, we see great opportunity to bring our capabilities around pension risk transfer to NFP clients as well as to continue to build on our investment offerings together, ensuring all clients have access to retirement options that best support their people.

And in Health Solutions, our businesses are highly complementary with new opportunities in the health value chain where we don't operate today, or for clients that we only serve in one solution line. And for example, NFP brings outstanding health value proposition for clients with under 100 employees, an attractive option for our smaller clients in Commercial Risk.

Conversely, we see great opportunity to provide NFP's clients with our data and analytics solutions, including benchmarking and tools on health equity, network strategies and high-cost claimants. Further, we can support current NFP clients with specialized capabilities in areas such as global benefits, pharmacy consulting and consumer benefits. Another great strength of NFP is their exceptional M&A engine and very strong acquisition pipeline as we look to the future.

On deal financials, we're delighted to close much earlier than originally modeled with fewer shares issued and realization of benefits that now occur a year earlier. Noting we now expect EPS accretion in 2026 and thereafter and additional free cash flow of $300 million and $600 million in 2025 and 2026, respectively.

We're incredibly excited about the opportunity as we bring Aon and NFP content capabilities together enabled by Aon Business Services. We also see great value and the operating model built around the principle of independent and connected to deliver risk capital and human capital capability to our clients.

All in, this acquisition is another strong step forward in our Aon United journey and reinforces our long-term financial guidance to deliver mid-single-digit or greater organic revenue growth, adjusted operating margin expansion and double-digit free cash flow growth over the long term.

Turning now to our results in the quarter. Overall, our team delivered a strong start to the year with 5% overall organic revenue growth, 100 basis points of adjusted margin expansion and 9% EPS growth. Within our solution lines, Reinsurance delivered 7% organic revenue growth as our team help clients navigate continued market challenges but with greater capacity and stable pricing on programs. Further, our team is increasingly building on traditional capabilities with enhanced data analytics and advisory capabilities.

In Health Solutions, we delivered 6% organic revenue growth with strong growth in core health across all major geographies, driven by strong ongoing new business generation and retention and strength in specialist capabilities like consumer and pharmacy benefits.

In Wealth Solutions, organic revenue growth of 4% reflected strength in retirement, as our teams continue to help clients reduce risk through pension risk transfer and manage the ongoing impact of regulatory changes as we continue to bring leading capabilities to help clients match risk and capital.

In Commercial Risk, we saw 3% organic revenue growth highlighted by strength in Asia and the Pacific, Continental Europe, and areas of our portfolio like construction. As we look at these results, especially in the US, we've seen the impact of our business mix play out, as we have strength and strong weighting in larger clients and specialty lines like D&O. These are significant areas within our US business, and again, areas where we're strong and we see substantial long-term top and bottom line growth potential despite some current pressure reflected in net new business.

Going forward, we'll continue to be strong in these categories and continue hiring and investment in priority areas like energy and construction. We also observed, as we've mentioned previously, we're not seeing a real rebound yet in M&A and IPO activity, but we know there's demand and dry powder building. And until yesterday, we were relatively smaller in a $31 billion North American middle market, although now with the close of NFP, we've added 7,700 colleagues and established a much more meaningful position in this fast-growing market.

Overall, across the firm, we continue to focus on our most critical asset, our talent. Our engagement remains at historically high levels and our voluntary attrition in Q1 is at the lowest level in many years. On talent acquisition, we continue to increase hiring in selected client-facing areas as well as in analytics capability to support our efforts in risk capital and human capital.

In summary, we're making great progress to start the year. Our first quarter results and the close of NFP put us in a strong position to continue delivering results through 2024 and over the long term. This progress fully reinforces our 3x3 plan focused on three fundamental commitments over the next three years, including capitalizing on our work in risk capital and human capital, delivering Aon client leadership and amplifying these efforts through Aon Business Services.

The strength, importance and momentum of this plan is being strongly reinforced by ongoing client and colleague feedback. And this plan defines a powerful path forward, one that drives ongoing top and bottom line growth and greater levels of long-term free cash flow growth exactly consistent with our ongoing financial guidance.

Finally, as I turn the call over to Christa, I want to return to my opening comments and thank her again for her partnership, leadership and friendship. Ultimately, Christa will have left a permanent imprint on our Aon United

Strategy. For 16 years, our shared mission has been to connect our colleagues to a one-firm mindset so they can deliver more value to clients. That mission is universally focused on accelerating Aon United and now, in arguably our most exciting period, it's fully reflected in our 3x3 plan, and Christa has been a critical partner in all this work.

Our Aon colleagues will miss Christa in the CFO role, but personally, the journey with Christa is a highlight of my professional career. Our 52,000 colleagues, and as of today, 60,000, and their families are in a better position because of Christa. We are all grateful that Christa will be staying with us as a senior advisor to continue to drive momentum as she moves on to her next mission. And most important, we fully appreciate that there are other missions in life of higher priority and we embrace Christa's decision to shift her focus at this time.

Christa, my friend, over to you.

Christa Davies

Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

Thank you so much, Greg. I want to start by thanking you for the opportunity over the last 16 years to contribute to the incredible success we've had at Aon. This will be the defining role of my career, and that's really what's at the heart of this decision.

As you described, this decision isn't about other professional pursuits. My decision is to focus my time differently at this point in my life. I'm grateful that our work together has created the ability for me to make this choice. I must say is as our 3x3 plan delivers on its full potential in the months ahead, including with the great addition of NFP, I'm going to truly miss working so closely with this team to realize the tremendous value creation that is ahead for Aon.

We're also very pleased to announce the completion of the NFP acquisition. I'm delighted to welcome the NFP to Aon. We're excited to work together to capture the growth opportunities we see for clients, colleagues and shareholders. As we announced yesterday, we closed the transaction for a total enterprise value of $13 billion. The faster-than-expected close date means we now expect to achieve a similar benefit a year earlier, with improvements in certain metrics.

Noting, we maintain the guidance for revenue and cost synergies of $235 million, which now occur a year earlier given the close date. We achieved a lower interest rate on deal-related debt of 5.7% and we issued fewer shares at 19 million. Collectively, this results in similar deal-related financial benefits of accretion and free cash flow that are realized a year earlier than initially modeled. We now expect the deal to add $300 million to free cash flow in 2025 and $600 million in 2026 and be accretive in 2026 and over the long term.

We've also provided detailed financial information for NFP in our materials. NFP builds on our long-term proven track record of strategically allocating capital at scale to high-return opportunities to create long-term value for clients, colleagues and shareholders. And as Greg mentioned, it reinforces and accelerates our Aon United Strategy and our 3x3 plan and adds to our strong momentum as we drive results in 2024 and over the long term.

Now, turning to the quarter. We delivered strong operational performance to start the year, highlighted by 5% organic revenue growth, which translated into 100 basis points of adjusted operating margin expansion, 8% adjusted operating income growth and 9% adjusted EPS growth. As Greg noted, organic revenue growth was 5%, driven by ongoing strong retention and net new business generation.

I'd note that fiduciary investment income, which is not included in organic revenue growth, was $79 million. If you were to include fiduciary investment income, organic revenue growth would have been 70 basis points higher.

We continue to expect mid-single-digit or greater organic revenue growth for the full year 2024 and over the long term. And as we look forward, we continue to expect that NFP will contribute to the firm's overall revenue growth through organic revenue growth, including $175 million of net revenue synergies by 2026 and inorganic growth from ongoing M&A.

Moving to operating performance, we delivered strong operational improvement in Q1 with adjusted operating margins of 39.7%, an increase of 100 basis points, driven by revenue growth, portfolio mix shift, efficiencies from Aon Business Services, and restructuring savings, overcoming expense growth, including investments in colleagues and technology to drive long-term growth.

Restructuring savings in Q1 were $20 million and contributed 50 basis points to adjusted operating margin expansion. Restructuring actions completed so far are expected to generate $90 million of savings in 2024, and we expect restructuring savings will fall to the bottom line. At this time, we continue to expect $100 million of realized savings in 2024 as we continue to execute against our plans for Aon Business Services and our business.

Regarding the program, we are seeing real progress in our acceleration of Aon Business Services. This includes streamlining and improving operational processes around working capital, moving work to the best locations and enhancing clients and colleagues experience with great new tools such as our property, casualty, D&O and cyber analyzers.

As we've said previously, we know delivering our Aon Business Services strategy will result in long-term top and bottom line growth as we drive more value for clients, colleagues and shareholders.

As we think about adjusted operating margins going forward, we continue to expect to drive margin expansion over the long term through ongoing revenue growth and portfolio mix shift to higher growth, higher margin areas in portfolio, driven by efficiencies from Aon Business Services. Now that we've closed NFP, margins will be initially lower. Considering the close timing, we think the right baseline from which to measure 2024 adjusted operating margin growth is 30.6%, calculated as our 31.6% in 2023, less 100 basis point drag from NFP for the period from April 25 close through the end of 2024.

In our materials, we've detailed 2023 operating performance for NFP. On a full year basis, we would note that NFP would have had a full year pro forma drag of 140 basis points for 2023. So there'll be some ongoing drag on 2025 margins until we lap the close in April 2025.

We also expect fiduciary investment income to be relatively flat year-over-year based on current interest rate expectations. So the tailwind that we've seen in Q1 this year will be reduced, although we remain committed to driving full year adjusted operating margin expansion in 2024 against this adjusted baseline of 30.6% and over the long term.

Turning to EPS. Adjusted EPS grew 9% in the quarter, reflecting 8% adjusted operating income growth and ongoing share buyback, partially offset by a higher tax rate in the quarter. With respect to NFP, as we previously communicated, we expect the acquisition to be dilutive to adjusted EPS in the remainder of 2024, breakeven in 2025 and accretive to adjusted EPS in 2026 and beyond.

Turning to free cash flow. I'd note Q1 has historically been our seasonally smallest quarter from a cash flow standpoint due primarily to incentive compensation payments. And as we've communicated before, free cash flow can be lumpy quarter-to-quarter. We've generated $261 million of free cash flow in the first quarter, reflecting strong operating income growth and lower CapEx, offset by higher receivables, payments related to E&O, restructuring, NFP transaction and integration charges, and higher cash tax payments, as we've previously communicated.

As we look forward, we expect ongoing negative impacts to free cash flow in the near term from restructuring, higher interest expense and NFP deal and integration costs. The NFP acquisition strengthens our long-term free cash flow outlook with $300 million of incremental free cash flow in 2025 and $600 million in 2026. Over the long term, we would expect to return to our trajectory of double-digit free cash flow growth, driven by operating income growth and a $500 million opportunity in working capital.

Now, turning to capital allocation. We allocate capital based on return on capital and a long-term value creation, which we've done over time through core business investment, share buyback and M&A. Regarding M&A, as you look historically, we have a successful track record of balancing acquisitions, divestitures and share buyback as we continue to optimize our portfolio against our priority investment areas on an ROIC basis.

We're incredibly excited about NFP's impressive M&A engine, noting their strong history of M&A. We look forward to building on their established track record and executing against their strong pipeline to drive future growth in this space within our ROIC framework.

We still expect share buyback to remain the top priority for capital allocation. As we think about capital allocation in 2024, we observed there are puts and takes around free cash flow that we've communicated. And while buyback will be lower than last year, we expect it will still be substantial at $1 billion or more based on our current M&A expectations for the rest of the year. We have a very strong long-term free cash flow outlook for the firm and are confident that share repurchase will continue to remain our highest ROIC opportunity for meaningful ongoing capital allocation over time.

Turning now to our balance sheet and debt capacity. We remain confident in the strength of our balance sheet. As previously communicated, we funded the cash and assumed liabilities portion of the NFP purchase with approximately $7 billion of new debt, with $5 billion raised in March 2024 and $2 billion borrowed at close. And I'd note the average interest rate for the $5 billion of transaction-related senior notes and the $2 billion term loan is 5.7%, about 80 basis points better than what we modeled when we announced the deal.

We expect our credit ratios to be elevated over the next 12 to 18 months as we bring our leverage ratios back in line with levels consistent with our credit profile, 2.8 to 3 times debt-to-EBITDA on a GAAP basis. This is driven by substantial free cash flow generation and incremental debt capacity from EBITDA growth, noting our track record of effectively managing leverage within current ratings.

In summary, our operating performance in Q1 is a strong start to the year and we're well positioned to build on this momentum in the rest of the year. We're delighted to have closed NFP acquisition ahead of schedule, enabling us to achieve financial benefits of accretion and free cash flow a year earlier than initially modeled.

We look forward to enhancing NFP's strong client relationships with Aon's content and capabilities and see real opportunity to learn from each other and bring better solutions to our clients together. It's another step forward in our 3x3 plan as we accelerate our Aon United Strategy, catalyzed by our Aon Business Services and reinforced by the restructuring program.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Our first question is from Andrew Kligerman with TD Securities. Please proceed with your question.

Andrew Kligerman
Analyst, TD Cowen

Q

Thank you. Good morning, and congratulations, Christa. Greg, you mentioned in the opening remarks the lowest attrition that Aon had seen in a while. Could you put any details around that, any color? It sounds very interesting.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

Well, Andrew, I appreciate the question. Listen, if you step back and think about sort of talent overall and what we're about and what we're up to, this is really about how we built on Aon United and the strategy around the culture, and it's been foundational how we connect to our colleagues, support each other and deliver the best we can for our clients. And that has just continued to build, and it really gives them an opportunity to sit across the table to do some pretty unique things for clients, which is why they're here, why they're excited about being part of our firm.

And then on top of that, now we've got the 3x3 plan, Andrew, which literally is going to continue to enhance this very substantially with greater content and capability and risk capital and human capital as well as the analytics that underpin all that, driven by ABS. So for all those reasons, this is a pretty unique place to be at a time when clients have high need. But, Eric, what else would you add to that?

Eric J. Andersen
President, Aon Plc

A

Yeah. Greg, maybe I'll just take it down. If you're an account leader or a colleague working with a client, just picking up on your example, [ph] culture (00:22:08), capabilities, team support, all those drive a decision to either come or stay at our firm. And if you just think about it, historically, if you were part of a client team, you were having a product discussion with a client. Today, you're having – if it's a risk client, you're having a risk capital discussion. So you're having colleagues from Commercial Risk, from Re, maybe captives, maybe risk consulting, using new tools, like risk analyzers that Christa mentioned that are created with our ABS colleagues. It creates a professional development for them and it creates a team-based environment where you're actually providing real new value to clients. And so I think all of that drives why people come and then, ultimately, why they stay with us.

Andrew Kligerman
Analyst, TD Cowen

Q

Awesome. And then just shifting over to the tax rate around 23% this quarter. It was a bit surprising just given that over the last several years, it's kind of hovered around 18.5%. And I know Christa doesn't give guidance on this, but maybe given the big move in the tax rate and your points in the write-up about changing geography, you could give us a little color on, A, the change in geography of the tax, and B, maybe an exception and an indication of where we might expect the tax rate to be going forward, especially with NFP there?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

A

Thanks so much for the question, Andrew. And we did see a higher tax rate this quarter, driven by, as you said, changes in the geographic distribution of income and unfavorable discretes. And I will note, Andrew, that discretes have historically been positive for us. And in this quarter, they really did just line up to be net negative.

And what I would say is, look, it's just lumpy quarter-to-quarter. And as you said, we don't give guidance going forward. But if we look back historically, exclusive of the impacts of discretes, which can be positive or negative, our historical underlying rate for the last five years has been 18%.

Andrew Kligerman
Analyst, TD Cowen

Q

Okay. Thank you very much.

Operator: Our next question is from Jimmy Bhullar with JPMorgan. Please proceed with your question.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

Yeah. Hi. Good morning. So, first, just had a question on organic growth in Commercial Risk. If we look over the past year, 1.5 years or so, it seems to have lagged what we've seen at some of your peers. And initially, I think a lot of people were concerned that this was because of the fallout from Willis. You've highlighted the capital markets activity pressuring your results more than peers as well. But wondering if you can just talk about why you feel your growth has lagged some of your large peers, even though, historically, you've actually been fairly consistent with growth with most of the other competitors.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

Jimmy, really appreciate the question and maybe what I'd do is I'll step back and just, again, orient overall for Global Aon, how we think about the firm and how we think about progress over time. And if you step back, we've essentially said, first of all, this is not about one quarter. It really is about, as you look across over the year, kind of how we're performing across Global Aon over the course of the year.

And our mission right now, which we're going to continue to push on and really amplify, is to build on the 3x3 plan over the next three years. So this is really capitalizing on risk capital and human capital, amplifying through Aon Business Services and delivering Aon client leadership, which we know, Jimmy, is going to together deliver both top line and bottom line performance, and most important, the double-digit annual free cash flow growth compared to our 2023 baseline that Christa described.

And if you think about the quarter, which you're coming back to now asking specifically, and I'm going to get to Commercial Risk very explicitly in a second, but our goals in the quarter from our standpoint were actually accelerated in terms of that 3x3 plan. So you think about ABS, the introduction of our analyzers and the client experience improvements, client response has been exceptional and real progress in the quarter.

Our restructuring plan, as Christa highlighted, strengthened really what we've done in ABS substantially and it really supports substantial hiring in priority areas. So all good from a priority standpoint, then, obviously, of course, the announcement of NFP with truly game changer access into the North American middle market, and really, every – think about all aspects [ph] or generally (00:26:26) aspects of the close improved since our December 20th announcement.

So if we step back, Jimmy, and sort of say how are we doing, from our standpoint, we feel very good, especially about the 3x3 plan and the progress we made on it. And if you think about the quarter overall for Aon, we delivered mid-single-digit growth, 5%, with strength in Health and Reinsurance in Continental Europe and Asia and the Pacific. Margin expansion, 100 basis points, EPS growth of 9% and free cash flow exactly in line with expectations.

And then specifically to your question, because I want to make sure I get to that, look, we saw strength in commercial across Continental Europe, Asia and Pacific, all very good. We highlighted the mix play, as we think about the – where we really have large portions of our business related to our larger clients, especially in terms of the specialty lines like D&O and there's some pressure there.

What we also observed, obviously, as we just described, we were very underweight in the fast-growing middle market until yesterday and now we see a massive opportunity going forward. They are all consistent with the 3x3 plan, and then we've communicated previously the negative impact on transaction and IPO activity, which is yet to rebound, but we are very confident it will.

So from our standpoint, look, we feel very good about the trajectory and what we're going to be able to do over time and deliver on the 3x3 plan in a very clear way. And it's going to be great outcome for clients, great outcomes for our colleagues who'd deliver that value and ultimately, for our shareholders. And I just want to reiterate, as what Christa described, we're at mid-single-digit organic growth or greater, and that commitment holds across 2024 and over the long term, and we fully expect to translate that into, frankly, strong top line and bottom line performance.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

Okay. Thanks. And then just following up on buybacks, I'm assuming this year is going to be lower than last year partly because of the drag because of NFP, then also the drag because of the restructuring program. But if we think about 1Q, was it also depressed because of just seasonality of cash flows or is this sort of a normal quarter in terms of buybacks?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

A

Yeah. So, Jimmy, thank you for the question. And I did actually give specific guidance in my opening remarks about buyback because I recognize that there's a lot of puts and takes around free cash flow, as we've communicated. And while buyback will be lower than last year, we expect it'll still be substantial for the full year 2024 at $1 billion or more based on our current M&A expectations for the rest of the year. And as we mentioned, Q1 is our seasonally smallest free cash flow quarter.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Our next question is from Mike Zaremski with BMO Capital Markets. Please proceed with your question.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Hey. Morning. Congrats, Christa. On the NFP deal closing, is there anything we should be aware of in terms of the shares and will be issuing and – to the owners of NFP and whether there's like a lockup or expected sale of those shares over time, given how a large amount it is?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

A

Thanks so much for the question. And we did issue the 19 million shares yesterday. So that occurred. And we haven't disclosed anything related to the MDP lockup. What we can say is the NFP management team did receive a meaningful amount of Aon shares and the purchase agreement refers to their lockup period. And we have spent time with our new investors and they're really excited about the Aon story and appreciate how the acquisition furthers our Aon United Strategy and are particularly excited about the 3x3 plan, too.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Okay. Got it. My follow-up is also on the NFP deal. Now that it's closed, the math you gave when the deal was announced on the interest expense appear to bake in a slightly higher interest rate level in our – it looks like, than current interest rates. And just given cost of capital, it's actually even a bit higher today. What – does it also kind of incentivize Aon to pay down the debt faster as well than you guys thought maybe a few months ago when the deal was announced? Thanks.

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

A

Thanks so much for the question, Mike. And so if you look at the financials we've outlined, the synergies and deal financials, what you'll observe with the interest expense is, when we originally announced this in December, we had $230 million of interest expense in the stub period, which at the time was a six-month stub period, and we now have $285 million in that period, and it's really a result of the two extra months. Interest is actually at a lower average interest rate. We had originally forecast the average interest rate on the $7 billion of debt to be 6.5%. It's now 5.7%, so a whole 80 basis points less. So the interest rate is less, but you've got two more months. And then you can see that the interest expense in the future years, 2025 and 2026 is coming down from our original estimate. So the $310 million we now have in 2025 compares to the $410 million we had before and the $275 million compares to the $340 million. So you can see how the lower interest rates are impacting those future years.

Michael Zaremski
Analyst, BMO Capital Markets Corp.

Q

Okay. Okay. Got it. I'll look at that. Thank you.

Operator: Our next question is from Elyse Greenspan with Wells Fargo. Please proceed with your question.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Good morning. My first question, I was hoping to get more color just on why the new business was down year-over-year in the US specifically versus other regions? And Greg, I know you called out some business lines, but can you just help us think about how that might rebound from here?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

I appreciate the question, Elyse. Start overall globally, very strong profile across the board, as we said before, both on retention, exceptionally high, and on new business overall. All we just did is highlight a couple areas in the US where we're seeing some pressure. And that's really what we're showing up. That will rebound over time as we continue to talk to clients about the opportunities they've got – as they think about their overall programs in terms of where they are. But Eric, anything you'd add to that perspective?

Eric J. Andersen
President, Aon Plc

A

Yeah, Greg, I mean you talked about D&O, in particular, but I would also say we've had some really solid growth in areas like energy and construction and other places where we're investing in talent to grow our capabilities there. That's the sector piece. But we're also investing in geographic areas called Continental Europe, Asia Pacific, where we're also seeing good growth. So I think we will see great opportunity for us as we go forward through the year.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then in terms of the transactional, the M&A and the SPAC and the IPO business, I guess, how would the Q1 compare, right? That's been a business, that's been a headwind for you guys, right, over the last six, seven quarters. How would – have you started to see any of that business come back or would you still say we're close to trough levels there?

Eric J. Andersen
President, Aon Plc

A

So, Elyse, I don't think there's anybody on the planet that looks at it closer than us. As we've been watching it, we hear people talk of green shoots, but the reality is, and I think we've said it on the past that our opportunity happens when the deals close. And so at this point, you hear things in the market about dry powder and people wanted to do transactions, but at this point, it's still fairly depressed.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

I think what we would say, Elyse, as Eric described, we see the pipeline, we love it. It looks very strong, but we don't count it anymore. We count it when it's done. And that's what we're going to do. And we see the opportunity, but we're going to count on when it's done.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then one more on the margin side. You gave the baseline, Christa, of 30.6% for this year. I know in the past, you'll typically point to your historical kind of 80 to 90 basis points of margin improvement annually. Is that the right way to think about the improvement off of the 30.6%, given the puts and takes of fiduciary investment income savings and then just leverage against your revenue growth?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

A

So, Elyse, the 30.6% is absolutely the right starting point to 2024 margin expansion. We don't give specific guidance. What we do say is we're committed to margin expansion each and every year, including 2024 of that 30.6% margin base, but all the drivers still hold. We're driving margin expansion due to organic revenue growth, portfolio mix shift and synergies and efficiencies from Aon Business Services.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Our next question is from David Motemaden with Evercore ISI. Please proceed with your question.

David Motemaden
Analyst, Evercore ISI

Q

Hi. Thanks. Good morning. Just wanted to hear your guys' opinion on the potential FTC ban of non-competes. And what sort of impact that might have on your business and specifically on the acquisition economics of NFP?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

I'll start overall. First, Dave, I appreciate the question. This is not something that we generally enter into, particularly in the US, where obviously this is going to focus on. But the macro point is really the talent question, I think, you're really getting at, which is fundamental. Maybe Eric can offer some thoughts on that. This is a place we live every day. It's our focus.

Eric J. Andersen
President, Aon Plc

A

Yeah. And I think whether it's the attrition numbers, which are historically low, whether it's our ability to attract talent into the firm, we talked a little bit before about all the different tools that we've been investing in, and the culture and the team environment is all very important to keep the people. So as Greg said, we don't normally enter into non-competes. So this isn't a big issue for us, but it's all the other factors that drive it.

And I think you also asked a question about NFP and the colleagues there. And I would just say that – and both Greg and Christa mentioned it in the written remarks about how excited we are to have them. I think the opportunity for us to work together to add more value to their clients, which ultimately adds more value to their colleagues who have more capabilities and more opportunities to do more with them with our content. And then, obviously, the scale that we get from ABS, whether it's efficiency or the ability to deliver insights and tools and all the different aspects across health and risk, I think, provide great opportunity for the NFP colleagues as they join the firm.

So really excited about that, as I know everybody has been saying, and we see great opportunity going forward.

David Motemaden
Analyst, Evercore ISI

Q

Got it. Great. Thanks. That's helpful. And then just my second question. It looks like US organic growth within CRS was down in the first quarter compared to being flat in the fourth quarter. I'm just wondering, was there anything that got incrementally worse in the first quarter versus the fourth quarter. It feels like the pressures were kind of all – kind of consistent. So I'm just wondering what that incremental – what's driving that incremental decline, if I look at the organic growth in the first quarter versus 4Q?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

I appreciate it, David. From our standpoint, we're not really looking Q4 to Q1, over time. Again, this is kind of an overall annual approach in terms of how we think about it. And as we said before, nothing's changed, committed to mid-single digit or greater over the course of the year for our firm and fully on track to do that across our firm. So I wouldn't look for anything in particular.

We highlighted a few areas because we want to call them out. But listen, this is client leadership at a time when we're doubling down and investing on more client leadership. This is risk capital and human capital. This is Aon Business Services with the analyzers. And as [ph] we've launched those, they have met (00:38:37) with hugely positive client feedback and the colleague feedback in terms of what they need, as well as ABS, which really enables all that, amplifies it and creates a client experience environment that's better than ever before and on top of the content.

So for us, we feel very good about the progress in Q1 and what it means for our trajectory going forward.

David Motemaden
Analyst, Evercore ISI

Q

Understood. Thanks so much.

Operator: Our next question is from Rob Cox with Goldman Sachs. Please proceed with your question.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Thanks. I think in the previous presentation on NFP, the target was for sort of similar to historical levels of total revenue growth, I think about 14%. Are you guys still – is that projection sort of maintained here? And are you still confident in that projection considering there could be some slowing levels of inflation or caution around the economy going forward?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

Rob, maybe I'll just take a quick step back. I think it's worthwhile just reflecting on sort of the whole NFP process and getting Eric to comment on this specifically in terms of sort of as we see the opportunity is, look, we just feel great about this combination. This is the $31 billion North American market in which we're vastly underweight. We have an opportunity because of ABS to really go after that market in a way that's not just making us more sizable, but we think better, and better is this idea of really independent and connected in the way Eric described before, and I wanted to talk a bit about that.

All these things sort of – as we've spent time over the last few months with Doug and Mike and the team, have been substantially reinforced. And so this is at the top line level on revenue opportunities in terms of sort of how we do it and the yield we get out of that, all these things are better, and then we reflect kind of some of the deal economics that also are better. So from our standpoint, we just see huge momentum. But, Eric, you've been living this with Doug and Mike and the team. Maybe comment a little bit here and address some of Rob's questions more specifically.

Eric J. Andersen
President, Aon Plc

A

Yeah. I think there's two components. And first, just to touch on the independent and connected piece, which is such a critical part of how both the NFP team and the Aon team have been approaching this. And the independent piece is really to respect and sort of celebrate the way NFP approaches its clients locally and how the team service those clients. So really focusing in to make sure that those teams know exactly what they were doing before, is what they're going to continue to do.

The connected part is really about two pieces. There's an efficiency play with our ABS platform around tech and ops and areas where we can get some cost synergy. But also more importantly, I think it's how we connect around product and capability, how we can bring our thought leadership, how we can bring structured portfolio solutions and product capability and thought leadership, and get it to those teams in a way that their clients can digest it. So I think how we connect is really about content and it's a little bit about the cost synergies, but it's really a revenue play for us, as we look at the middle market.

And I think on the growth number, there's an organic play here that we're talking a lot about. There's also an inorganic play that, as Greg mentioned in his opening remarks, their M&A pipeline and the way they approach adding organizations to NFP is really one of the strengths of the firm and something we're going to continue to work with.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc

A

And just to amplify one more piece. This is a tour de force revenue opportunity, right? That has been the focus since the jump and that's what we've seen for the last few months. And it's both ways, incredible capability. We hope to be able to bring with a producer who can sit across the table and do more on behalf of a client, which they just [ph] – they're phenomenal at, they love (00:42:38). But also on our side, we're going to benefit tremendously too as they – in the ways they approach the market and how they can help Aon. So it's just a – we had high expectations going into the conversations. They've been exceeded over the last few months as we come together.

So while we're not giving specific guidance on the growth number, this is tour de force growth. And man, do we see a great opportunity here to access this very, very substantial market where we're underway, but do so in a way, again, that's not just bigger but candidly better.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

Q

Great. Appreciate the color. And then maybe as a follow-up on Transaction Solutions, I think you guys have talked about doubling down on Transaction Solutions in the past. Could you talk about exactly what that means? And have you added talent there recently and expanded your practice basically in anticipation of a rebound in M&A?

Eric J. Andersen
President, Aon Plc

A

So I would answer it in two ways. I think when we've talked about doubling down on it, the history of that product has historically been a PE-backed business. They were the original users of reps and warranties and tax insurance and things like that. Moving that over into the corporate space, where it's corporate to corporate, has been an area that we've been investing in understanding among our client leaders as well as the subject matter experts that know that space.

So we've held the team. That was the goal and I think that's what we've been saying for the last two years in the slowdown, knowing that at some stage the market will come back, and we wanted to make sure the industry-leading expertise stayed with Aon. And so we continue to use them to reinforce the existing relationships that they have, while also building out a broader potential client set as M&A comes back.

Robert Cox
Analyst, Goldman Sachs & Co. LLC

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Thank you.

Operator: Thank you. Our final question comes from Meyer Shields with KBW. Please proceed with your question.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks. Good morning and Christa, congratulations. One question on the first quarter margin. I guess if we take out fiduciary investment income and the savings, it doesn't seem – and compare that to the same issue last year, it doesn't seem like there's been a lot of margin expansion despite the 5% organic growth. And I was hoping you could walk us through why that would be the case.

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

A

Yeah. So Meyer, the way we think about margins is total margins. I know you're passing it into different components, and I understand the math. But we are – we think about gross margins, which are substantial, and then we reinvest to deliver net margin expansion each year, which we will deliver again in 2024. And that's driven by organic revenue growth, portfolio mix shift, restructuring savings, which as you pointed will drop to the bottom line, and efficiencies from Aon Business Services. And so we continue to invest in technology in Aon Business Services to drive future innovation and growth with clients.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. No, that's fair. [indiscernible] (00:45:46). For reporting purposes, is NFP's organic growth going to be included in the organic growth number that you report on a consolidated basis?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc

A

Yes, it is. And so that's why we've broken out in the numbers, Meyer. The revenue from NFP in that table of 2023, by quarter, by solution lines, you can add it in. And so the way you do that for revenue, as you add two months of 2020 of Q2 of NFP, plus the three months of Aon as your starting point for 2023 and then you grow that. And you will see the NFP numbers come through on that M&A table in our organic table.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Perfect. Thanks so much.

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

Gregory C. Case

Chief Executive Officer & Executive Director, Aon Plc

I don't have a lot, but I have one message I want to deliver on behalf of Eric and Christa and I. I just want to say on this very historic day for NFP and for Aon, a huge heartfelt welcome to our 7,700 new colleagues. We're just truly, truly excited to partner with you as we begin this journey together. So we're really looking forward to it, and welcome.

Thanks, everybody, for joining and look forward to our next call. Take care.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.