Aon Plc (AON)

Updated February 4th, 2025, by Josh Arnold

Key Metrics

Current Price:	$375	**5 Year CAGR Estimate:**	11.9%	**Market Cap:**	$81 B
Fair Value Price:	$362	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	05/01/25[1]
% Fair Value:	104%	**5 Year Valuation Multiple Estimate:**	-0.7%	**Dividend Payment Date:**	05/15/25
Dividend Yield:	0.7%	**5 Year Price Target**	$638	**Years Of Dividend Growth:**	13
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Rating:**	Buy

Overview & Current Events

Aon is a professional services firm headquartered in London, United Kingdom. The company provides a variety of services including consulting, risk management, and health plan management. Aon has approximately 500 offices worldwide that serve 120 countries through a workforce that numbers about 50,000. U.S. investors can initiate an ownership stake in Aon through American Depository Receipts that trade with a market capitalization of $81 billion on the New York Stock Exchange, under the ticker AON. Aon should generate just over $17 billion in revenue this year.

Aon posted fourth quarter and full-year earnings on January 31st, 2025, and results were mixed. The company's earnings came to $4.42 per share on an adjusted basis, which beat expectations by 17 cents. Revenue soared 23% higher year-on-year to $4.15 billion, but that missed estimates by $60 million. Revenue growth reflected new revenues from the NFP acquisition, as well as 6% organic growth, which was partially offset by a 1% unfavorable impact from forex translation. Operating margin expanded 140 basis points to 33.3% of revenue.

For the year, full-year free cash flow totaled $2.8 billion, which reflected higher earnings as well as improvements in the company's working capital position.

Free cash flow for 2025 is expected to be used on investing in organic growth and M&A, paying the rising dividend, and buying $1 billion of its own shares. This should also be helped by a targeted $350 million in annualized savings from the NFP integration.

We start 2025 with an estimate of $17.25 in adjusted earnings-per-share, which would mark a new record if achieved.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$4.88	$5.16	$6.52	$8.16	$9.17	$9.81	$12.00	$13.39	$14.14	$15.60	***$17.25***	***$30.40***
DPS	$1.15	$1.29	$1.41	$1.56	$1.72	$1.78	$1.99	$2.19	$2.41	$2.64	***$2.70***	***$4.55***
Shares[2]	270	262	254	245	237	230	215	205	198	216	***220***	***220***

Between 2011 and 2020, Aon compounded its adjusted earnings-per-share at a rate of nearly 15% per year. Looking ahead, we believe that the company's growth is likely to continue to be quite strong, albeit a bit slower than its historical pace. More specifically, we are forecasting 12% annualized earnings growth over a full economic cycle.

Management continues to be bullish, and rightfully so, as Aon's businesses are posting very strong rates of growth, for the most part. We see expense savings as a driver of earnings growth along with the buyback, and organic revenue growth should continue to move the top line higher as well. Given the broad assortment of professional services the company offers as well as its global footprint, we are bullish on Aon's future. We note forex translation has been a sizable headwind in the past, but Aon has thus far been able to overcome that, and then some. There is upside potential so long as the company can continue to grow expenses at a slower rate than the top line. We note the NFP acquisition as a driver as well in the years to come, with Q4 results highlighting the potential of the acquisition with extremely strong revenue growth, with cost savings coming.

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[1] Estimated date

[2] Share count in millions

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The dividend should continue to rise at roughly the rate of earnings, and we forecast the payout to be at $4.55 in 2030, up from the current $2.70. Aon is not a high-yield stock by any means, but its dividend growth potential is robust given the very low payout ratio, and strong earnings growth outlook.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	19.8	20.4	20.1	17.9	17.7	20.3	21.6	22.4	20.6	23.0	***21.7***	***21.0***
Avg. Yld.	1.2%	1.2%	1.1%	1.1%	0.9%	0.9%	0.8%	0.7%	0.8%	0.7%	***0.7%***	***0.7%***

Aon has traded at an average price-to-earnings ratio of ~19 over the last decade, and we are using 21 for a fair value estimate as more recent years have seen higher valuations. The company is trading for a price-to-earnings ratio of 21.7 using our 2025 earnings-per-share estimate. That implies a modest headwind to total returns from the valuation, as Aon is trading above our estimate of fair value. We see the yield staying about where it is for the foreseeable future, noting Aon is not – and likely will not be for some time – a pure income stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	24%	25%	22%	19%	19%	18%	17%	16%	17%	17%	***16%***	***15%***

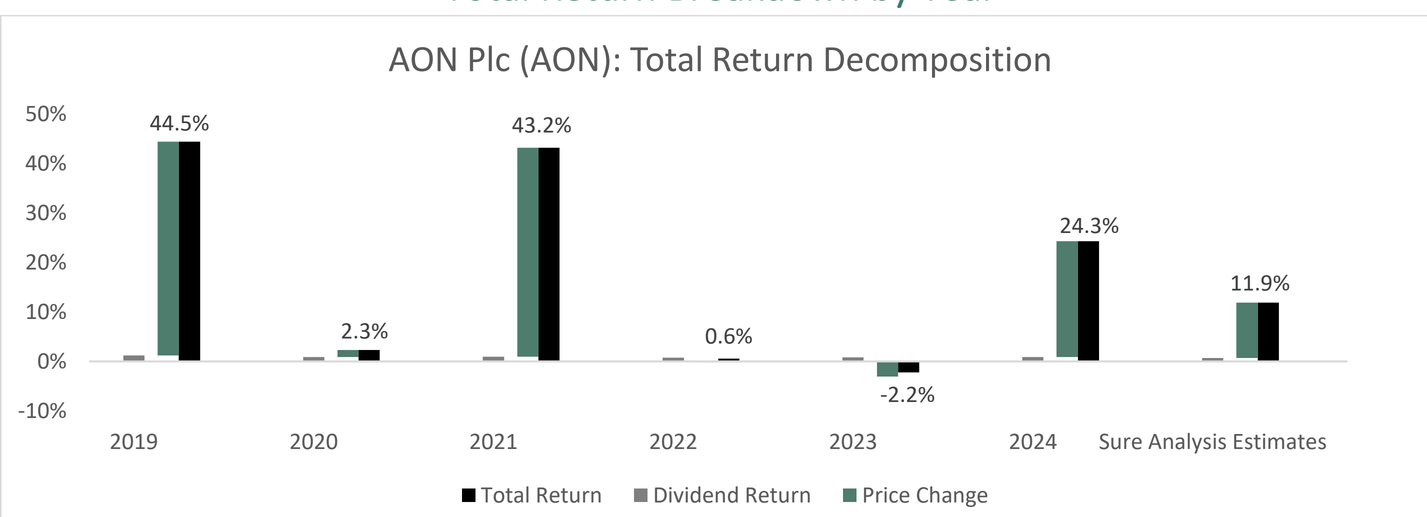
Aon's payout ratio is still very low, consistent with the company's historical practices, and we do not believe that will change. We see the dividend remaining around one-sixth of total earnings, so the payout is extremely safe. However, this means Aon is highly unlikely to have a meaningful yield anytime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

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

Final Thoughts & Recommendation

We are forecasting 11.9% total annual returns, consisting of the 0.7% yield, 12% EPS growth, and a 0.7% headwind from the valuation. We're reiterating the stock at a buy rating after 2024 results. Aon offers dividend growth potential, but also a long runway for earnings-per-share growth, which is partly offset by an unfavorable valuation.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	9,480	9,409	9,998	10,770	11,013	11,066	12,193	12,479	13,376	15,698
SG&A Exp.	3,875	3,895	3,995	4,667	4,959	5,161	5,455	2,069	1,862	1,966
D&A Exp.	40.9%	41.4%	40.0%	43.3%	45.0%	46.6%	44.7%	264	256	686
Operating Profit	1,951	1,765	2,039	2,354	2,226	1,967	3,039	3,669	3,822	4,224
Operating Margin	338	319	891	769	564	413	326	29.4%	28.6%	26.9%
Net Profit	1,587	1,811	1,065	1,544	2,169	2,781	2,090	2,589	2,564	2,654
Net Margin	16.7%	19.2%	10.7%	14.3%	19.7%	25.1%	17.1%	20.7%	19.2%	16.9%
Free Cash Flow	1,385	1,396	1,226	1,134	1,532	1,969	1,255	3,023	3,183	2,817
Income Tax	14.6%	14.8%	12.3%	10.5%	13.9%	17.8%	10.3%	510	541	742

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	26,883	26,615	26,088	26,422	29,405	32,114	31,928	32,704	33,959	48,965
Cash & Equivalents	384	426	756	656	790	884	544	690	778	1,085
Acc. Receivable	2,564	2,106	2,478	2,760	3,112	3,070	3,094	3,035	3,254	3,803
Goodwill & Int.	10,628	9,300	10,091	9,320	8,948	9,306	8,926	8,739	8,648	21,942
Total Liabilities	20,824	21,083	21,440	22,203	25,956	28,531	30,770	33,133	34,701	42,535
Accounts Payable	1,772	1,604	1,961	1,943	1,939	2,016	2,192	18,014	2,262	---
Long-Term Debt	5,700	6,205	5,966	6,244	7,339	7,729	9,392	10,770	11,199	17,016
Total Equity	6,002	5,475	4,583	4,151	3,375	3,495	1,061	-529	-826	6,121
LTD/E Ratio	0.95	1.13	1.30	1.50	2.17	2.21	8.85	-20.36	-13.56	2.78

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	4.9%	5.2%	4.7%	4.3%	5.5%	6.4%	3.9%	8.0%	7.7%	6.4%
Return on Equity	22.0%	24.3%	24.4%	26.0%	40.7%	57.3%	55.1%	710%	---	93.3%
ROIC	11.6%	11.9%	11.0%	10.8%	14.4%	17.8%	11.5%	24.8%	24.7%	15.7%
Shares Out.	270	262	254	245	237	230	215	213	205	213
Revenue/Share	33.40	34.81	38.35	43.60	45.77	47.47	53.93	58.53	65.25	73.87
FCF/Share	6.37	8.03	2.11	5.85	6.69	11.33	9.04	14.18	15.53	13.26

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