

Aon Corporation and Marsh & McLennan Companies, Inc.

First-Quarter Preview: Expect Stable Results; We Remain Cautious, Favor Aon in the Near Term

Highlights

Aon Corporation:

Expect Positive Organic Growth to Continue With Modest Price Stabilization, Despite Weaker Exposure Growth. Aon Corporation is scheduled to report first quarter 2009 earnings results before the market opens on Friday, May 1. We estimate a 19% increase in adjusted EPS from continuing operations to \$0.84 (excluding nonrecurring gains/losses and restructuring expense), compared with consensus of \$0.88, with EPS growth being driven principally by a higher operating margin within insurance brokerage and lower share count due to aggressive share repurchase with the use of the proceeds from the sale of Combined Insurance to ACE Limited (ACE \$46.41) in April 2008. We estimate 3.0% organic revenue growth within insurance brokerage (about 85% of earnings), which will mark the 15th consecutive quarter of positive organic growth—compared with 2% in each of the past several quarters.

Growth more recently has been hampered by competitive pressure on commercial property-casualty insurance pricing (roughly two-thirds of revenue is commissions) coupled with a weak economy more recently limiting exposure growth. While we anticipate exposure growth will remain constrained, we expect some stabilization in pricing will mitigate the drag from the weaker economy in the first quarter. According to management, fourth-quarter pricing was down on average in the low single digits, which was an improvement from third-quarter's midsingle-digit declines. Aon management has been more conservative on potential pricing improvements compared with the more positive "party line" from the underwriters.

Financial | Commercial P/C Insurance

April 16, 2009

Aon Corporation

Stock Rating:	Market Perform
Company Profile:	Core Growth
Symbol:	AOC (NYSE)
Price:	\$40.15 (52-Wk.: \$33-\$50)

Marsh & McLennan Companies, Inc.

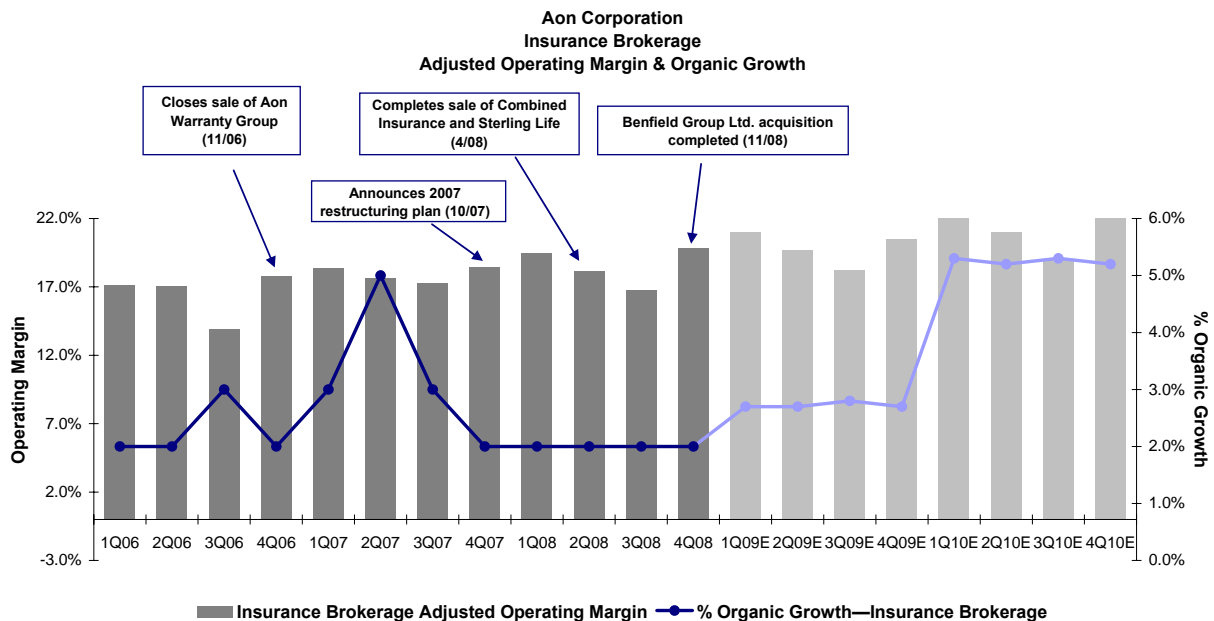
Stock Rating:	Market Perform
Company Profile:	Core Growth
Symbol:	MMC (NYSE)
Price:	\$20.52 (52-Wk.: \$17-\$37)

Mark Lane
312.364.8686
mlane@williamblair.com

Rachel Carter
312.364.8962
rcarter@williamblair.com

Our view on pricing tends to align more closely with Aon’s management. We describe the pricing environment as still negative in the aggregate currently, although marginally, with better pricing dynamics within the property market and particularly property catastrophe reinsurance. The improvements in pricing in the first quarter have been pretty well documented and we do not expect much new insight from management regarding the pricing environment. That said, we expect continued pressure on capital due to weak financial markets and a continued difficult capital markets environment to lead to further improvements in commercial property-casualty pricing for the balance of 2009. Our basic view since mid-September 2008 has been that underlying underwriting margins were still too high for the industry to push for price increases aggressively, which we believe has been generally accurate. Therefore, we believe the primary catalyst toward an additional push in pricing is further deterioration in underlying profitability after more than four consecutive years of price declines. 2008 will go down as one of the more profitable years in the commercial lines industry over the past several decades, given favorable loss reserve development, in our opinion. We expect a moderate improvement in organic growth during 2009 at Aon, despite the economic headwinds, given Aon’s ability to take share and more stable insurance pricing.

Powerful Restructuring Benefits Expected to Drive Brokerage Operating Margin. We expect the adjusted insurance brokerage operating margin to increase roughly 150 basis points to 21.0% in first quarter 2009 compared with the year-ago-period—management continues to target a 20%-plus margin in this business on an annual basis after achieving an adjusted operating margin of 18.6% in 2008. We expect margins to move higher despite possible reductions in net investment income and foreign exchange and pension expense headwinds due restructuring savings and an improved contribution from the Benfield acquisition (this is the first full quarter incorporating the business). In 2009 overall, we forecast expense savings of about \$175 million from the 2007 restructuring plan (2.8 percentage points of revenue) and \$40 million of savings from the Benfield acquisition (0.6 percentage points of revenue)—both generally in line with management expectations on a gross basis. The company has been investing in future growth, and underlying expense inflation and lower net investment income are limiting the net benefits from the expense savings efforts. The impact from a stronger dollar also complicates estimating the operating margin, although we expect a positive impact similar to last quarter.



Source: Company reports and William Blair & Company L.L.C. estimates.

Expect Consulting Revenue to Weaken—Lower Visibility With Ailing Economy. We expect 2% organic growth within consulting in the first quarter—2% in the core business compared with 4% last quarter and 4% in first quarter 2008. We expect the adjusted consulting margin to come down from the seasonally high fourth-quarter levels to 17.0%, from 19.1% last quarter and 19.3% a year ago. We

believe this business has greater economic sensitivity than the insurance brokerage business, given it is more dependent on headcount growth and certain specialty practices include higher discretionary spending, in our opinion. Management also indicated that it expects margins to decline slightly in 2009, given headwinds that the company faces from the ailing economy.

Rating Remains Market Perform; Valuation Remains Relatively Full. Our rating remains Market Perform; we have been cautious on Aon so far in 2009, as it was a beneficiary of a flight-to-quality and safety in 2008 and multiples were pushed up because of the anticipation of pricing improvements within commercial property-casualty insurance from the pressure in financial markets. The stock has significantly underperformed from the market bottom in early March (trailing the S&P 500 by nearly 25 percentage points), highlighting its defensiveness. Insurance brokerage was the only segment within our entire financial services coverage group (more than 10 subsegments) that was trading at or above average historical valuation levels in early March. As stated earlier, we tend to be a little more negative than consensus on both the prospects for price improvements and the likely adverse impact on growth from the weak economy—both putting pressure on organic growth and margins in 2009. The stock trades at 12.5 times our 2009 EPS estimate of \$3.20; we view 10 to 12 times as a more attractive level given that Aon has no balance sheet risk, no business model risk, and commercial property-casualty insurance pricing is stabilizing, albeit at a gradual pace. We see the stock outperforming in a more severe pullback in equity markets and/or if commercial property-casualty insurance price increases accelerate. We favor Aon over Marsh & McLennan in the near term at the same valuation level given higher visibility due to better execution the past few years and less economic sensitivity in its business—more stable insurance brokerage business contributes about 85% of earnings versus about 50% for Marsh & McLennan.

Aon Corporation
Condensed Income Statement Comparison
(\$ in millions, except per share data)

	1Q08	2Q08	3Q08	4Q08	2008 Actual	1Q09E	2Q09E	3Q09E	4Q09E	2009 Estimate	2010 Estimate
Revenue:											
Insurance brokerage	\$1,566	\$1,610	\$1,473	\$1,581	\$6,230	\$1,627	\$1,680	\$1,550	\$1,700	\$6,556	\$6,942
% change	10%	8%	4%	-3%	5%	4%	3%	5%	8%	5%	6%
% organic growth	2%	2%	2%	2%	2%	3%	3%	3%	3%	3%	5%
Americas	\$493	\$588	\$557	\$642	\$2,280	\$493	\$588	\$557	\$648	\$2,286	\$2,401
% change	3%	1%	2%	-1%	1%	0%	0%	0%	1%	0%	5%
% organic growth	1%	-1%	1%	3%	0%	2%	2%	2%	2%	2%	4%
International	\$766	\$725	\$616	\$648	\$2,755	\$701	\$682	\$579	\$661	\$2,622	\$2,754
% change	15%	14%	7%	-9%	6%	-9%	-6%	-6%	2%	-5%	5%
% organic growth	2%	2%	2%	2%	2%	3%	3%	3%	2%	3%	5%
Reinsurance brokerage	\$256	\$248	\$252	\$247	\$1,003	\$397	\$378	\$384	\$364	\$1,524	\$1,638
% change	7%	13%	9%	18%	11%	55%	53%	53%	48%	52%	7%
% organic growth	1%	2%	1%	2%	1%	5%	5%	5%	5%	5%	8%
Net investment income	\$51	\$49	\$48	\$44	\$192	\$36	\$32	\$30	\$26	\$124	\$150
% change	13%	-8%	-14%	-14%	-6%	-29%	-35%	-38%	-41%	-35%	21%
Consulting services	\$342	\$335	\$335	\$341	\$1,353	\$322	\$315	\$316	\$336	\$1,289	\$1,333
% change	4%	5%	3%	-8%	1%	-6%	-6%	-6%	-2%	-5%	3%
% organic growth	0%	2%	6%	3%	3%	2%	2%	2%	2%	2%	4%
Total operating segment revenue	\$1,908	\$1,945	\$1,808	\$1,922	\$7,583	\$1,949	\$1,995	\$1,866	\$2,036	\$7,846	\$8,275
% change	9%	8%	4%	-4%	4%	2%	3%	3%	6%	3%	5%
Corporate and other	\$7	\$18	\$41	\$6	\$72	\$5	\$8	\$8	\$7	\$28	\$25
Intersegment revenue	(\$9)	(\$7)	(\$4)	(\$5)	(\$25)	(\$6)	(\$6)	(\$7)	(\$7)	(\$25)	(\$60)
Total revenue	\$1,906	\$1,956	\$1,845	\$1,923	\$7,630	\$1,948	\$1,997	\$1,868	\$2,036	\$7,849	\$8,240
% change	8%	7%	6%	-4%	4%	2%	2%	1%	6%	3%	5%
Pretax income from continuing operations¹											
Insurance brokerage	\$305	\$292	\$247	\$314	\$1,158	\$342	\$331	\$282	\$348	\$1,303	\$1,429
% change	16%	11%	1%	5%	8%	12%	13%	14%	11%	13%	10%
% total revenue	19.5%	18.1%	16.8%	19.9%	18.6%	21.0%	19.7%	18.2%	20.5%	20.3%	21.0%
Consulting services	\$66	\$47	\$53	\$65	\$231	\$55	\$47	\$47	\$54	\$203	\$208
% change	35%	-2%	36%	2%	16%	-17%	1%	-11%	-17%	-12%	2%
% total revenue	19.3%	14.0%	15.8%	19.1%	17.1%	17.0%	15.0%	15.0%	16.0%	15.8%	15.6%
Total operating segment revenue	\$371	\$339	\$300	\$379	\$1,389	\$396	\$378	\$330	\$402	\$1,506	\$1,637
% change	19%	9%	6%	4%	9%	7%	12%	10%	6%	8%	9%
% total revenue	19.5%	17.3%	16.3%	19.7%	18.2%	20.3%	18.9%	17.6%	19.8%	19.2%	19.9%
Corporate and other	(\$51)	(\$52)	(\$22)	(\$54)	(\$179)	(\$55)	(\$52)	(\$52)	(\$53)	(\$212)	(\$212)
Total pretax income	\$320	\$287	\$278	\$325	\$1,210	\$341	\$326	\$278	\$349	\$1,294	\$1,425
% change	22%	6%	16%	5%	12%	7%	14%	0%	7%	10%	10%
% total revenue	21.1%	18.4%	19.5%	21.1%	20.0%	21.5%	19.8%	18.3%	20.9%	20.1%	21.0%
Provision for income taxes	\$93	\$71	\$78	\$93	\$336	\$99	\$94	\$80	\$101	\$374	\$414
Effective tax rate	29.1%	24.7%	28.1%	28.6%	27.8%	28.9%	28.9%	28.9%	29.0%	28.9%	29.0%
Adjusted operating earnings											
% change	\$227	\$216	\$200	\$232	\$874	\$243	\$232	\$197	\$248	\$920	\$1,014
% total revenue	23%	18%	19%	4%	15%	7%	7%	-1%	7%	5%	10%
Operating earnings per share¹	\$0.71	\$0.71	\$0.69	\$0.81	\$2.90	\$0.84	\$0.81	\$0.69	\$0.86	\$3.20	\$3.65
% change	24%	24%	32%	19%	24%	19%	14%	-1%	7%	10%	11%
Average diluted shares	319.8	305.3	290.3	288.1	300.9	287.5	288.0	288.0	288.0	287.9	288.0
% change	-1%	-5%	-10%	-11%	-7%	-10%	-6%	-1%	0%	-4%	-1%

¹Excludes restructuring charges, other nonrecurring gains/losses, and discontinued operations

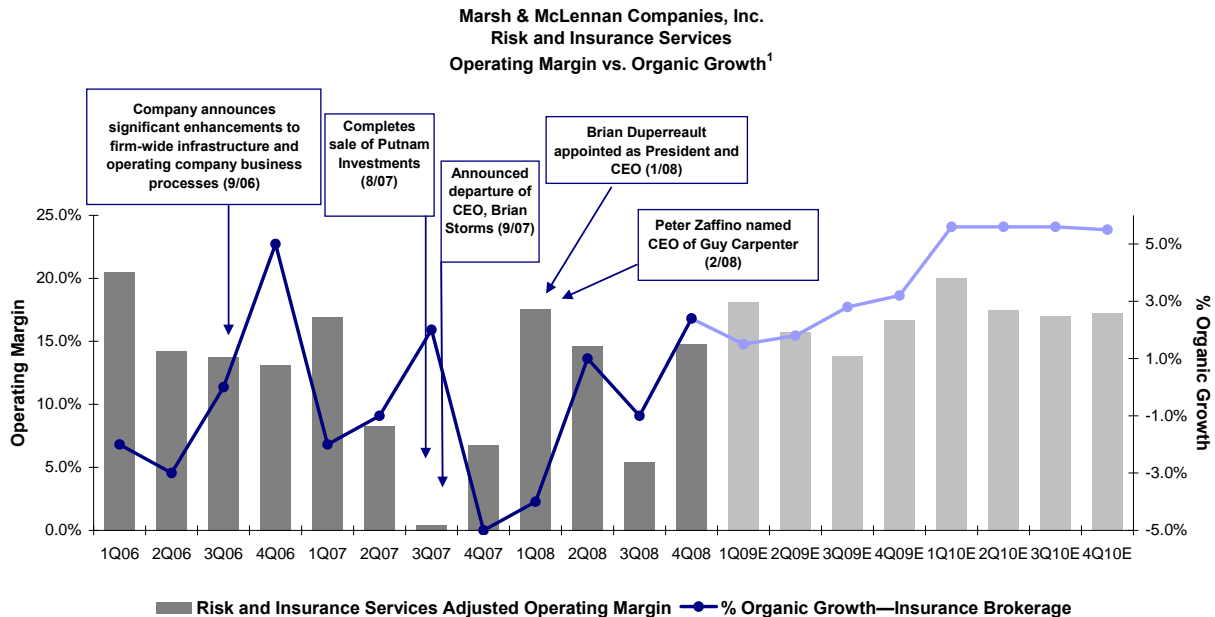
Source: Company reports and William Blair & Company estimates

Marsh & McLennan Companies, Inc.:

Expect Modest Organic Growth—Continued Strength in Client Retention Offset by Weakening Exposure Growth. We expect Marsh & McLennan to report first quarter 2009 earnings results the week of May 4. We estimate an 8% decline in adjusted EPS to \$0.43 compared with consensus of \$0.44 given lower interest/investment income (\$0.05 per share drag) and lower revenue and margins with consulting. We estimate 2.0% organic revenue growth in risk and insurance services.

Management saw a consistent increase in new business growth and client retention throughout 2008—attributed to better sales discipline, improved client service, and benefiting from a flight to quality—reaching its highest level in five years. We expect no organic growth for reinsurance broker Guy Carpenter in the first quarter, which is actually a substantial improvement from negative organic growth throughout 2008. Guy Carpenter underwent a management change in late February 2008 and is beginning to realize the benefits of the establishment of a new sales group and seeing growth from the expansion into underserved markets (United Kingdom, Europe, and Japan as well as specialty lines: marine and energy, aviation, etc.). Management has a more conservative view than consensus regarding the prospects for commercial property-casualty insurance pricing given concerns about the weaker economy, in our opinion.

Expect Margin Improvement Given Aggressive Expense Management. We expect the adjusted insurance brokerage operating margin to increase about 50 basis points, to 18.1%, from a year ago, and compared with 14.8% in fourth quarter 2008. The company’s first-quarter operating margin is typically the seasonally strongest margin quarter. Marsh & McLennan implemented a number of cost-cutting initiatives in 2008, resulting in 6% decline in insurance brokerage operating expenses, and we expect a 4% decline in expenses in the first quarter. Over time we believe margins should move closer to 20% as top-line growth improves. However, Aon’s current restructuring program is driving more significant expense savings coupled with the expense savings from the Benfield acquisition, which explains our higher margin improvement estimate at Aon. Importantly, Aon’s record for delivering cost savings is a bit more established than Marsh & McLennan over the past few years and we expect more volatility in Marsh & McLennan’s results.



¹Organic growth prior to 4Q08 includes organic growth associated with fiduciary interest income.
Source: Company reports and William Blair & Company L.L.C. estimates.

Expect Weak Consulting Revenue—Visibility Low Given Economic Slowdown. We expect negative 3% organic growth in consulting in the first quarter and a 10% decline in revenue for both the core Mercer business as well as the specialty consulting business, Oliver Wyman. We estimate a slight 30-basis-point improvement in adjusted operating margin to 12.0% compared with the year-ago period, mainly due to aggressive expense management. This business should be able to produce midteens percentage operating margins over time, in our view, but we expect further pressure on

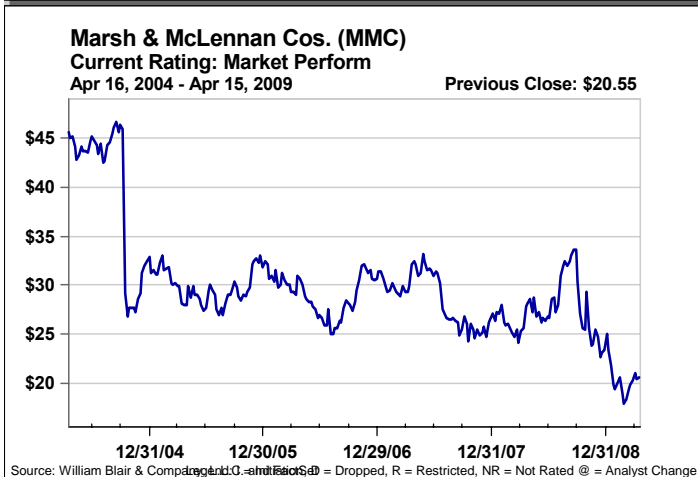
growth in the near term and flattish margins for the balance of the year with the benefit from cost-savings efforts. Marsh's consulting business is a bigger contributor to earnings than at Aon (40% versus 15%) and is also more economically sensitive given a different business mix.

Rating Remains Market Perform; Valuation Remains Relatively Full. Our rating remains Market Perform; we tend to be more negative than consensus on both the prospects for price improvements and the likely adverse impact on growth from the weak economy—both putting pressure on organic growth and operating margins. That said, we believe the new management team at Marsh & McLennan is headed in the right direction; the company has very valuable assets, no balance-sheet risk, and no business model risk, and pricing is stabilizing, albeit at a more gradual pace. The shares trade at 12.8 times our 2009 EPS estimate of \$1.60; we would be more aggressive at 10 to 12 times in the current environment. Similar to Aon, we see the stock outperforming in a more severe pullback in equity markets and/or if commercial property-casualty insurance price increases accelerate. We favor Aon over Marsh & McLennan in the near term at the same valuation level given less economic sensitivity and more conviction regarding execution.

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Additional information is available upon request.



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Coverage Universe	Percent	Inv. Banking Relationships*	Percent
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Market Perform (Hold)	44	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	1

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William Blair & Company, L.L.C. 222 West Adams Street Chicago, Illinois 60606 312.236.1600 www.williamblair.com

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