

Aon Corporation

First Look at First-Quarter Earnings: Solid Quarter, In Line With Expectations

Summary:

Aon had a solid quarter that was mainly in line with expectations. Operating EPS of \$0.80 (in line with consensus) beat our \$0.75 estimate, mainly due to investment gains and a modestly lower tax rate. The bright spot was stronger-than-expected performance from Hewitt, although the brokerage operation was somewhat lighter, due to several expense items.

Key points:

- **Strong organic:** Brokerage organic was 2%, compared to our 1% estimate. Hewitt was flat, but healthcare consulting grew by 4%. Importantly, these numbers reflect the early part of a rising trend. We expect organic to accelerate throughout the year and into 2012 for both businesses.
- **Consulting profitability:** The consulting margin (excluding goodwill amortization) was at a strong 19.7%, compared to our estimate of 18.1%. As expected, the unit was helped by \$24 million in costs saving. While this is essentially in line with our forecast, it is a positive sign that management is on track. The \$350 million in cost savings over the next two to three years will be one of the biggest drivers of earnings.
- **Brokerage margin:** The one disappointment for the quarter is lack of progress on the brokerage profitability. The adjusted brokerage margin was 19.0%, compared to 20.5% a year ago. Even excluding lease termination costs and foreign-currency differential, the margin would have been relatively flat. We had expected roughly 50 to 100 basis points of improvement.

Bottom line:

While not a great quarter, the results show that Aon is on track particularly with the Hewitt merger. The potential for higher levels of organic suggest the potential for earnings upside in 2012. The stock remains one of our top picks in the brokerage sector.

Financial | Insurance Brokers

April 29, 2011

Stock Rating: **Outperform**
Company Profile: **Established Growth**

Symbol: AON (NYSE)
Price: \$53.28 (52-Wk.: \$35-\$55)
Market Value (mil.): \$17,421
Fiscal Year End: December
Long-Term EPS Growth Rate: 12%
Dividend/Yield: \$0.60/1.1%

	2010A	2011E	2012E
Estimates			
EPS Q1	\$0.83	\$0.75	\$0.92
Q2	\$0.81	\$0.77	\$0.92
Q3	\$0.61	\$0.67	\$0.83
Q4	\$0.84	\$1.08	\$1.24
FY	\$3.07	\$3.26	\$3.90
CY		\$3.26	\$3.90

Valuation

FY P/E	17.4x	16.3x	13.7x
CY P/E		16.3x	13.7x

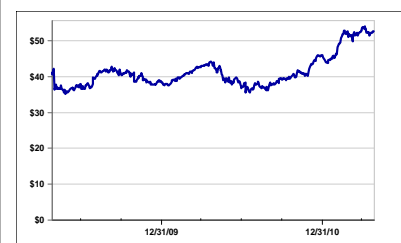
Trading Data (Thomson Financial)

Shares Outstanding (mil.)	333
Float (mil.)	NA
Average Daily Volume	2,215,665

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	25.0
Book Value Per Share (MRQ)	21.2
Enterprise Value (mil.)	21,906.9
EBITDA (TTM)	1,811.0
Enterprise Value/EBITDA (TTM)	12.1x
Return on Equity (TTM)	8.6

Two-Year Price Performance Chart



Source: Thomson Financial, William Blair & Company estimates

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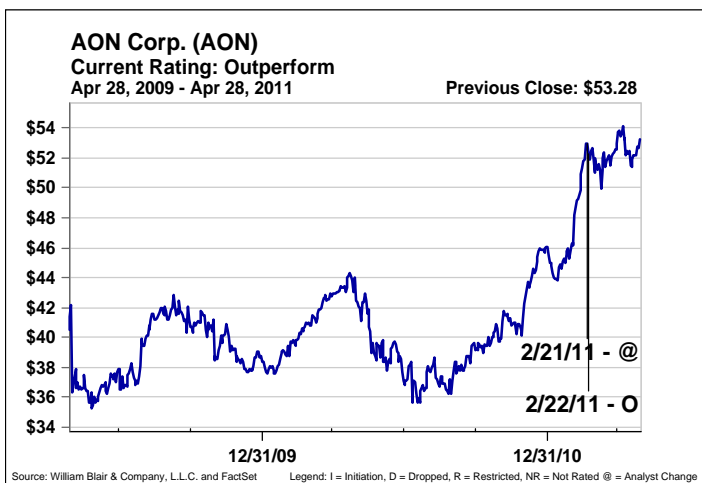
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Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	58	Outperform (Buy)	9
Market Perform (Hold)	31	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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