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Aon Plc (AON)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for holding. Welcome to Aon plc's Second Quarter 2019 Earnings 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 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 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 second quarter 2019 results as well as having been posted in 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

Thank you and good morning, everyone. Welcome to our second quarter 2019 conference call. Joining me here 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 and Aon United at work.

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

I'd like to start today by acknowledging the tremendous work of my Aon colleagues around the world. Their collective efforts continue to strengthen the firm and create long-term momentum, reflected through strong operational results in the second quarter, including 6% organic revenue growth. I would highlight, this is the fourth consecutive quarter of achieving 6% organic revenue growth, reflecting continued acceleration of our historical trend. Substantial operating margin expansion of 240 basis points; 13% operational income growth; and 9% EPS growth, overcoming further FX headwinds in the quarter.

Our results reflect continued progress this year on our indirect reflection of the strategic actions we've progressively taken to drive Aon United and achieve our potential, operating as one united global professional services firm.

As we've previously discussed, we've been laying the foundation for Aon United for over a decade, evolving our portfolio, investing in new content and capability, and breaking down internal barriers, all focused on increasing our relevance and strengthen our ability to serve clients.

Helping a client improve operational performance, reduce volatility or strengthen their capital position is at the core of our mission. In today's evolving world nearly every organization, industry and economy are confronting greater challenges than ever before. While at the same time, many organizations report that they are less prepared than ever before.

This is what we're hearing from CEOs and other business leaders across the globe and it was validated in the global survey Aon conducts every two years. The latest report released in April was informed by the largest number of respondents to ever participate, reflecting insights from more than 2,600 clients across 33 industries spanning small, medium and large organizations from 60 countries around the world.

One critical insight is that organizations must be more prepared for a broad range of traditional risks, such as the slowing economy, damage to brand and volatile global trade conditions, as well as the emerging risks, such a cyber-attacks, intellectual property and business interruption from non-physical risks that threaten their ability to continue driving growth, protecting their assets and developing talent.

Further, a list of the top 15 ranked challenges within the survey reveals another insight. Most of these risks are underserved, if at all today, because they're not well understood due to less historical experience and data available to predict, measure or manage these challenges. As a result, risk readiness has declined to its lowest level in 12 years. Only 20% of those responding the survey reported that they use risk modeling and a mere 24% so they could quantify their top 10 risks.

The complexity of the situation our clients face today is substantial and perhaps more concerning is that these challenges are very likely to grow in intensity over the next few years. New risks will become even more prominent, including the dynamics of an ageing workforce, the impact of climate change, the growing prevalence of cyber risks and the emergence of disruptive technologies.

Reflecting on the implications for Aon, client demand is higher than ever before, and clients are pushing us to find new ways to address their growing needs. As we said previously, we must innovate faster than our clients on all these topics to stay relevant and create value on their behalf.

The steps we have taken around Aon United, combined with significant investment and focus on content and capability, all reinforce and amplify our ability to increase our relevance with clients. At Aon, we're responding. We're focused on bringing the full force of our firm to our clients by developing innovative solutions and applying Data & Analytics to better inform and prepare them for their future.

I'd like to highlight one example that demonstrates how Aon United led to an innovative solution addressing a common challenge that organizations of all sizes continue to face, managing their ever-increasing healthcare costs while not impacting their ability to attract and retain key talent. I'd also note that the failure to attract and retain top talent was ranked among the top 15 risks identified by the client survey.

In response to broad client demand, our team came together with actuaries, data scientists, user design experts, software developers, and subject matter experts across solution lines and in combination with the IT capability of Aon Business Services to deliver a data-driven, cloud-based tool called Aon Architect. Aon Architect uses machine-learning science to help clients design optimal health benefit packages that balance employer financial objectives and employee satisfaction. This innovative tool is a customizable, interactive model that identifies the most cost-effective and relevant combinations across thousands of different benefit program options based on an employer's actual population demographics and Aon's proprietary employee perception data.

Aon Architect launched in 2018 has already been used with nearly 100 clients so far in 2019. And that's just one example of how we're responding to broad client demand with innovation. We've also organized focused teams of leaders to dedicate more time to value creation for client-driven solutions that can be applied more broadly and faster with similar clients or industries.

Our Enterprise Client Group was formed to lead Aon United efforts with targeted clients by identifying superior tailor-made solutions that address their specific business objectives. And we established our New Ventures Group to accelerate industry-leading innovation, scale our capabilities with greater speed to market and expand our relevance with clients.

Last quarter, we announced that the New Ventures Group would formally sponsor our Intellectual Property Solutions business. This quarter, the group announced the formation of the public sector partnership, which will enhance our position to serve governments and leading social sector organizations as clients. Obviously, these institutions play a very significant and active role in the global economy. Building innovation at scale to support the mission of these groups at the national, regional and local levels represents a significant long-term growth opportunity.

For example, we're investing in capabilities to help governments more effectively manage natural disaster risk, deliver housing stability and create more resilient public balance sheets. In addition, the work we recently completed for the World Bank is a powerful illustration of potential impact. Bringing together Chile, Mexico, Peru and Colombia, we placed the largest ever sovereign risk transaction in the history of the insurance market using parametric triggers to protect against earthquake risk.

Our Aon United efforts put in place over the last decade are translating into accelerated revenue growth, as you can see from the upward trend of 3% organic growth in 2014 and 2015, 4% in 2016 and 2017, 5% in 2018, and now 6% year-to-date in 2019, as well as 6% for the trailing 12-month period. We are confident that these actions will continue to be a driving factor, reinforcing our goal of mid-single-digit organic revenue growth or greater over the long-term.

In summary, our clients are demanding better insight, advice and solutions to navigate and address the complex and evolving challenges they face. We continue to strengthen our ability to create value on behalf of clients through investments and not just industry-leading, but in many examples, industry-defining content and capability, 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 progress in the first half of the year and long-term outlook for continued shareholder value creation. Christa?

Christa Davies

Executive Vice President, Global Finance, and Chief Financial Officer, Aon Plc

Thanks so much, Greg, and good morning, everyone. As Greg highlighted, the steps we're taking to drive Aon United in response to increasing client demand, combined with significant investment in content and capability is amplifying our ability to serve clients and our ability to deliver improved operational and financial performance.

We delivered continued progress for both the quarter and year-to-date. For the first half of the year, we've translated strong organic revenue growth into double-digit operating income and earnings per share growth, while also delivering on restructuring initiatives and funding significant investments across the firm that will drive future growth.

As I reflect on our performance through the first half of the year, first, as Greg noted previously, organic revenue growth both year-to-date and for the trailing 12-month was 6% overall, reflecting continued improvement compared to our historical trend as we deliver on our goal of mid-single-digit or greater organic revenue growth over the long-term.

As mentioned previously, in addition to strong performance across our core portfolio from net new business generation and improved retention, our disciplined focus on maximizing return on invested capital continues to shape the portfolio towards our highest growth and return opportunity, as highlighted by the divestiture of certain businesses in Retirement Solutions in the second quarter.

Second, we delivered strong operational improvement with double-digit operating income growth of 10%, operating margin expansion of 210 basis points and double-digit EPS growth of 11% through the first half of the year.

As we noted in the earnings material, FX rate continue to have an unfavorable impact on results in the second quarter due primarily to a stronger U.S. dollar, resulting in significant net unfavorable impact of approximately $0.18 year-to-date or a $53 million impact on operating income.

I would also note that the second quarter included $5 million of additional interest expense, resulting from the $750 million of 3.75% Senior Notes issued on May 2, 2019. Going forward, we expect approximately $81 million of interest expense per quarter, reflecting both the issuance of additional term debt and higher average debt balances compared to the second quarter.

Additionally, we continue to successfully execute against our restructuring initiatives with $38 million of incremental savings in the second quarter. I would highlight that we provided an update to the restructuring program this quarter as we are now two quarters away from the end of the program and have better clarity into projects and program initiatives.

We now expect to deliver $510 million of annualized savings in 2019 and $535 million of annualized savings in 2020, reflecting an increase of $35 million in total expected savings. Total cash investment is expected to increase $100 million, reflecting $125 million in cash restructuring charges, offset by a $25 million decrease in CapEx associated with the restructuring program. All restructuring charges will be complete by Q4 of 2019.

Our ongoing restructuring initiatives are driving expense savings near-term, but more importantly, they're enabling growth of the firm as we unlock additional operating leverage through our Aon Business Services' single operating model.

For example, we're driving digitization within our centers of excellence as part of our Aon Business Services organization. Our centers of excellence were created to focus on automation of common services across Aon, with the goal of increasing process efficiency and reducing manual error-prone per activity.

More specifically, we're automating the manual aggregation of insurance data from carriers to improve data quality and accuracy, reducing turnaround time for clients and enhancing the overall client experience. We can apply similar automation to a variety of common services across our businesses to reduce lead times, improve quality and accuracy, as well as free up time for our client-facing colleagues to be more productive. We anticipate automating approximately 500,000 hours in 2019.

Looking beyond 2019 in our restructuring initiatives, organic growth, portfolio mix and ongoing productivity improvements are expected to drive continued operational performance and long-term core operating margin expansion annually, similar to the 70 basis points to 80 basis points of operating margin improvement achieved annually over the last decade.

Lastly, free cash flow declined $47 million to $255 million. Strong operational performance through the first half of the year and a decline in restructuring cash outflows was more than offset by approximately $85 million of net cash payments made in the first quarter related to legacy litigation.

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 through three ways: operating income growth, continued progress on working capital initiatives and structural uses of cash winding down.

2018 was the peak year for cash usage as shown in our presentation slide 27. Declining uses of cash for restructuring, CapEx and pensions collectively are expected to free up $585 million of free cash flow by the end of 2020. With the update to restructuring estimates this quarter, we now expect modestly higher cash outflows related to the program in 2020, primarily offset by a $35 million increase in annualized savings, resulting in a neutral impact to our strong free cash flow growth outlook from 2018 to 2020.

We continue to have a significant upside to a base of more than $1.45 billion of free cash flow in 2018 prior to any operating income growth or 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 opportunity for incremental debt, while maintaining current investment grade ratings as EBITDA grows, restructuring costs wind down and pension liability improves, providing significant financial flexibility over the next few years to further invest in value creation or return of capital to shareholders.

We are diligent about maximizing return on capital and make capital allocation decisions through this discipline. Share repurchase remains the highest return on capital activity today, given our free cash flow valuation and outlook, highlighted by the $1.15 billion of share repurchase year-to-date.

In summary, our Aon United initiatives continue to create momentum, as highlighted by our strong top and bottom line performance through the first half of the year, including significant investments to strengthen the long-term growth profile for our firm. Our disciplined approach to return on invested capital, combined with the 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 delighted to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question is from the line of Dave Styblo from Jefferies.

David Styblo
Analyst, Jefferies LLC

Q

Hi, good morning. Thanks for the questions. Greg, I want to maybe start out with a higher level question that the broader management team could answer over the next few years here. So you guys have been running a quarterly organic growth rate of 6% for a year now, as you guys mentioned. I know you're targeting mid-single digits or better over time, but it seems like you're already in that range. Curious, what has maybe gone better than expected and how sustainable are the results? Maybe in that context, you could talk a little bit about the survey work that you did and bringing value to clients in the areas of risk readiness, and what Aon can do different than competitors that allow you more opportunities to serve the client?

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

A

Well, Dave, I appreciate the question. It is really very much at the heart of what we mean when we talk about Aon United. In essence, we have an approach which is as we break down barriers and bring our global firm to bear on behalf of client needs, opportunities come to pass and they're very, very strong, but you start really with client need. The survey I described is really quite unique. It relates to survey that goes out every two years, it's around the world, we actually quantify with our – or ask our clients what are the things that are most on your mind, what effects your business? And I'm looking at the survey going back to 2007, and you essentially look at the top 10 risks and ask the question, which one actually – or which ones are insured and which ones are not? Which ones can you really match capital? And when you look in 2019 of the top 10 risks, only one – only one is fully insured, four others are partially insured and the rest five are not insured at all. So the opportunities from a client demand standpoint continue to go up. That means our world, as we lean into it from an Aon standpoint, is not just winning in the current business, which we're very, very effective at and very, very fortunate, our win rates are at an all-time high and momentum is very positive. But really, it's also the net new. It's addressing client issues around cyber, intellectual property and all the things that come with that. And in that regard, we've been able to do is actually think about a world in which how can we address client needs more effectively over time. And for us, that is really across every solution line we have, all the pieces, and you're seeing progress in each one of those. So our view is we are making good progress, as we've highlighted. When we described the impact of Aon United, it really is around, truly around, client value and growth and greater opportunity for our colleagues. And you've seen us drive net new client opportunities from the Aon United behavior. You've seen net new ideas and innovations around cyber, IP, mortgage and reinsurance, for example, delegated sort of on the retirement and investment side. You continue to see share gains I described before. And really, you've also seen portfolio mix in terms of sort of what we're doing overall. And when you think about – this really comes back to kind of how our colleagues are working together in a little bit different way. And I've used examples – used examples on the call, maybe, Mike, pick an example sort of that highlights sort of overall – sort of how the colleagues are working together differently, and really today's question, what does it mean at the client level and how does it affect what we do?

Michael O'Connor
Co-President, Aon Plc

A

Sure, Greg. Maybe I'd just pick a client – an existing great client of ours, happens to be in the financial services space and plays in the payments world. And this is a great client of ours, but with our Enterprise Client Group, we've identified a process by which we want to have colleagues take lead for us and actually have our entire team that was connected around the world step back and think about this client. Really, think about the strategic priorities that that client's facing and how we might actually help serve them more effectively. And in this case, they stepped back and said this client had a couple of things that really popped out that we thought were important. One was they're in a war for talent. At the end of the day, you think about the payments world, this is a technology game, and they're actually in a war for talent around technology talent.

The second was their core business. How do they drive retention in their payments products and increased spend with their clients? And the third was, they're always in the world of trying to think about how they reduce risk and redeploy capital. Our team came together across the globe and tackled these three strategic priorities for that client. In the war for talent, our Health team and our Rewards and Performance team came together and thought about how can we better optimize the entire proposition to their employee base, whether that be existing employees, they can help retain or attract new ones. And working with that client, we're able to improve the actual proposition that they could give to their employees.

Our Affinity team jumped in, in their core product and brought together our proprietary insights around – the analytics around their insurance offerings on their payment products. And by actually optimizing those solutions in the marketplace, we actually improved the client experience around claims. And that lead to better retention and increased spend on their core products.

And lastly, we looked at their retirement plans and said there's an opportunity here to de-risk. In the environment they're in, we can de-risk and redeploy the capital. So you come away across those three strategic priorities we were able to touch and improve with that client their operating performance and make them more competitive. And to us, that's the manifestation of Aon United and that's what really inspires our teams to have more impact with clients.

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

A

And I think, Mike, just to pick up on the point, because I think what you're describing is our enterprise client network, which is essentially a group of high-performing individual client executives, who deal with our largest clients. We've created a group that actually pulls them all together. So instead of just having one individual and say, we're able to create the pattern recognition that actually allows us to scale that insight and get it across the globe in a way that brings all of our solution lines to bear on any given particular client problem. So it really does help us consistently improve as time goes on, but also to learn from each individual client experience and get it to all of our leading client executives.

So, Dave, all of our questions, I promise, we won't answer at that length, but this is truly fundamental. This is really what's happening at the [ph] coalface, (00:23:24) which we think is different and we think really changes – it isn't just about winning in the current world, it's changing the size of the pie and doing things on behalf of clients that help them succeed.

So, we're – you can tell, we're pretty excited about it. We think it's having impact and we think we will continue to build over time, but thanks for the question. Really appreciate it.

David Styblo
Analyst, Jefferies LLC

Q

Thanks. Just a quick follow-up for Christa on the cost savings. Can you talk a little bit about what the additional [ph] sign (00:23:48) there is? And then, as I look at the guidance for this year to achieve this year's $510 million target, the average in the second half would imply a quarterly run rate of about $140 million. I suspect that would actually be ramping up as you exit the year. But even if we took the $140 million average and annualize that, I get about $560 million worth of savings for 2020. So my question for that side would be why isn't your 2020 target more like the – higher than the $535 million that you've established?

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

A

Thank you so much for that question, Dave. So I think your first was quite a long question, so let me try and answer it, and you can come back and tell me I've missed it. So I think the first question was where are the activities coming from that are increasing the program? And I guess what I would tell you is we're two quarters away from the end of the program, and so we've got better clarity into the projects and program initiatives, both projects currently being implemented as well as the addition of certain remaining projects in the program.

So to give an example, Dave, a lot of the increases in workforce reduction, we formed great partnerships with outsourced providers to actually outsource significant activities to centers of excellence in India and Poland. And they're actually improving the quality and standardizing processes for us and reducing error rates for our clients and so we're thrilled about that outcome, whether that's occurring in shared services in areas of finance or whether it's occurring in our middle offices, as I described, with the automation of claims and premium processing for clients. And so we're very excited about that sort of – that level of activity because it's overall improving efficiency and improving quality.

Then, I think to your next question was really around the math, the second half of the year. I think your estimates were roughly right in the second half of the year. We're obviously improving savings in the second half of the year. I think your next question was around the $535 million in 2020 and why it isn't higher? I mean, I guess, you could always ask that question, Dave, but I think we feel really confident about delivering the $535 million in 2020 and we have great visibility to that now that we are two quarters away from the end of the program. And the last thing I would say is, all restructuring charges will finish in Q4 2019 as originally anticipated.

David Styblo
Analyst, Jefferies LLC

Q

Okay. Thanks.

Operator: The next question is from the line of Yaron Kinar of Goldman Sachs.

Yaron Kinar
Analyst, Goldman Sachs & Co. LLC

Q

Thank you very much. Good morning. First question is just around the organic margin improvement of just over 90 basis points. Can you maybe talk about some of the moving parts there, specifically maybe FX?

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

A

So FX had an immaterial impact on margin in the quarter. I mean, the biggest driver of our margin expansion continues to be accelerating organic revenue growth, portfolio mix shift as we continue and invest in higher revenue growth, higher margin areas, and then the operational leverage we're getting from Aon Business Services. Those three drivers remain consistent over time. I would say that's contributing to margin expansion in the quarter, in the first half of the year, and frankly, the same for 2018, but equally going forward.

Yaron Kinar
Analyst, Goldman Sachs & Co. LLC

Q

Okay. No, that's helpful. And then, if I look at the free cash flow number for the quarter, not year-to-date, on an underlying basis, I think there is slight deterioration year-over-year. Can you maybe talk about what's caused that?

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

A

So what we would say actually is, it's strong growth in operating income growth, which is driving strong growth in free cash flow, both in Q2 and in the first half of the year. And what you're really seeing is strong growth operationally, offset by a one-time payment of legacy litigation of $85 million. If you took out the $85 million, what you see is underlying good growth in free cash flow.

The thing I would also note is the first half of the year is our seasonally weakest half. And so combined with litigation payment of $85 million, resulted in lower free cash flow for the first half; the second half free cash flow is strong; and long-term, we are absolutely on track for double-digit free cash flow growth.

Yaron Kinar
Analyst, Goldman Sachs & Co. LLC

Q

So I think the litigation expense was a first quarter...

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

A

[indiscernible] (00:28:18)

Yaron Kinar
Analyst, Goldman Sachs & Co. LLC

Q

I'm looking at second quarter here. I think by my calculation, you have about $350 million of underlying free cash flow in the second quarter, when I just back in the $110 million or so of cash restructuring costs in the second quarter. And I think that is a bit weaker than where numbers were a year ago.

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

A

So we really think about it on a first half basis. I appreciate your second quarter guidance. And what I would tell you is we see strong underlying growth in free cash flow, driven by strong operating income growth.

Yaron Kinar
Analyst, Goldman Sachs & Co. LLC

Q

Okay.

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

A

And again, the second half of the year is going to be stronger in free cash flow as it is seasonally every year. And so we're well on track to strong growth for the year.

Yaron Kinar
Analyst, Goldman Sachs & Co. LLC

Q

Okay. I appreciate it. Thank you.

Operator: The next question is from Elyse Greenspan from Wells Fargo.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Hi guys. My first question, I guess, just following up on that on free cash flow. I thought that you guys had expected double-digit adjusted free cash flow growth in 2019 when we adjust for restructuring cash spend. So would that still be the case? And then, assuming, Christa, you just said, seasonally stronger in half year two. So do you still expect to half year two to drive you guys to double digit for the full year?

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

A

Thank you so much for the question, Elyse. So what we've said consistently is that double-digit free cash flow growth over the long term is absolutely our goal and we are well on track for that. We've not given specific guidance for this year, Elyse, but what I would say is we expect strong growth in free cash flow in the second half of the year and strong growth for the full year. And we're well on track for accelerating growth in 2020, driven by accelerating organic revenue growth, which is driving improvements in operating income growth, a reduction in working capital and a significant reduction in uses of cash on pension CapEx and restructuring. And so those three drivers continue to accelerate free cash flow growth and there will be a substantial acceleration of free cash flow growth in 2020, simply driven by reduced uses of cash.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks. And then, in terms of the share repurchase, picked up significantly in the second quarter over $1 billion. You guys also did issue some debt during the quarter. So just in terms of the timing, I'm not sure, when the debt was issued versus when the shares were repurchased. I'm assuming – I'm not sure if some level of buyback was frontloaded from other quarters of the year. Could you just give us a sense of just thoughts around repurchase and the debt and kind of timing of when that took place in the second quarter?

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

A

Yeah. So the debt was issued May 2, 2019, so that was $750 million of debt at 3.75%. And what I would say, Elyse, is as we think about the overall free cash flow generation of the firm, it's incredibly strong. As we think about the spend of that free cash flow, we use return on capital as the way in which we allocate cash between buyback, which remains our highest return on capital activity, as you've seen, first half of the year, $1.15 billion invested in buyback, and we continue to see share repurchase as our highest return on capital activity going forward. And so, we have strong free cash flow in the second half of the year, as we talked about, and frankly, in 2020 onwards, and we expect return on capital to drive our cash allocation and share repurchase will be at the top of that list.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. And then, lastly on the organic side, four quarters in a row of 6%. I listened to the comments throughout the call. You guys seem pretty bullish on the growth environment. So should we think about this is just kind of being a 4%, would you expect, going forward, to at least meet this 6% level, especially as you point to divesting of businesses, also good new business generation, strong pipeline it seems based on your survey work. So should we think of this 6% as kind of a 4% on the organic side that you should see, not only the second half of this year but into 2020 and beyond as well?

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

A

Well, I would say, Elyse, listen, we talked about mid-single-digit or greater. And what we tried to do is give you a clear view and the tactics behind that, the mechanics behind that, the investments behind that, and we are confident we're going to achieve that over time. And this quarter, and the first half of the year, and the last four quarters have done nothing but underpin that confidence. So we're looking forward to achieving that on your behalf.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. Thank you.

Operator: The next question is from Paul Newsome from Sandler O'Neill.

Jon Paul Newsome
Analyst, Sandler O'Neill & Partners LP

Q

Good morning. Congrats on the quarter. Could you maybe talk about just the organic growth lift you may or may not be getting in the PC brokerage business from the current environment? [indiscernible] (00:33:30)

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

A

Sure, happy to do that and just a couple of thoughts on that. First, we would say, when you think about sort of the impact on our results, this is Aon, this is sort of single P&L, single OpCo, single brand, in terms of what we're trying to do. And you look at our overall – to Elyse's just question around mid-single digit or greater, that's what we're on track to achieve, that what we want to achieve over time, and over half of Aon is really unattached to anything sort of related to the risk market or risk pricing overall. But we would say specifically when you think about Commercial Risk and Reinsurance, the impact on pricing was modest for the quarter and for the first half of the year. And remember, when you think about pricing, it really is around market impact, which is a function of insured value and a function of price. And from our standpoint, the real driver has to start – has to start from a client view. We're essentially matching capital of risk in a way to support their performance. And they react to changes in the marketplace and we help them react to changes in the marketplace. And there's lots and lots of different options out there to do that and accomplish this work. And so the real driver of our growth, as we've described, is really around client opportunities, Aon United behavior, new opportunities I've described before in cyber and other innovations, continued share gain and the portfolio mix shift. So that's really what's underpinned the bulk of what we do, and the impact on pricing really was modest.

Jon Paul Newsome
Analyst, Sandler O'Neill & Partners LP

Q

Maybe some similar thoughts on the global economy and how that's helping you or not helping you?

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

A

Again, we'd come back and say, the whole idea on the global economy everyone's talked about sort of the pending efforts and what's going to happen on the recession. We have not actually seen that materialize. But beyond the economy, we talked about growth and irrespective of the environment. And I would come back to kind of the survey that I talked about before. This is truly from a client's view. What risks are we serving on their behalf and how are those risks changing. And in essence, there is massive opportunity for us to continue to really address client needs, increase our relevance and change what we're doing. I talked about the New Ventures Group and what we're doing in many different areas. The work I described in the public sector world is very, very different. And just think about an example of sort of what that might be, maybe Eric can just talk about what we're doing on that front now. This is a net new idea, fully net new idea, Paul, that's not out there. These are the kinds of things we're trying to do to drive growth. And maybe just talk about the public sector piece, Eric?

Eric Andersen
Co-President, Aon Plc

A

Sure, Greg. And maybe I'll try and tie the public sector piece along with the demand creation and some of the growth questions as well. Ultimately with public sector, we're seeing the private market tools and the de-risking solutions become more available to them. The benefits to the sector itself are pretty significant in terms of reducing their risk profile, it helps them with their mission, it reduces the risk to taxpayers, but it also helps them continue on and do what they have been set up to do. We've talked historically about Fannie Mae and Freddie Mac and the GSEs and the transfer of that credit risk exposure into the private market using essentially tools that were developed historically in the Reinsurance business, but repurposed to be able to bring new demand, new capability to a whole new sector. We're also doing that, and you mentioned before the World Bank bond, but also with the Export-Import Bank and other government agencies both in the U.S. and around the world. So ultimately, it's taking the analytic capability that we've been building and investing in and being able to create new demand and new opportunity to help a whole new set of clients. So it really does come together with both the investment that we've made in the analytic capability, but also the opportunity to bring private market solutions to public sector entities.

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

A

And so, fundamentally, Paul, this is about us investing in innovation, new ideas. That's why the spend in Data & Analytics is so substantial. We believe, fundamentally, if we innovate on behalf of our clients faster than they do –

we'll never going to know their businesses better than they do, but we can innovate faster than them on the topics of risk retirement and health, we do that investments, we do that effectively, you create net new ideas like Eric's described. And that's what for us is going to be the fundamental driver of growth over time.

Jon Paul Newsome
Analyst, Sandler O'Neill & Partners LP

Q

Great. Thank you for your thoughts.

Operator: The next question is from Brian Meredith from UBS.

Brian Meredith
Analyst, UBS Securities LLC

Q

Yes. Thanks. A couple of quick questions. Greg, I'm just curious. Looking into the Reinsurance Solutions growth you've seen in the first half [ph] and you 00:37:51) go back and it's probably off to some of the best growth you've seen since, call it, 2003 in a hard market, so obviously some great things going on there. Can you talk a little bit about what's driving that?

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

A

Yeah, let me step back a little bit, Brian, just sort of the overall mechanics and again get Eric to sort of offer some thoughts on sort of the general state of the market sort of at the client level. But, listen, the Q2 12% was a terrific result. Colleagues have just done some great work, really just 10% for the first half. Remember also the first half really reflects the treaty book more than anything else, the [ph] one-ones, four-ones, and the six-ones. (00:38:22) The second half is less treaty and more [ph] packed (00:38:25) than the ILS transactions. But we've talked on many of these calls around the win-loss record has been exceptional for multiple years. And this is a place where – again, back to the Data & Analytics point, we spend more heavily in content capability here than perhaps any place else and that shows up from a client's standpoint. So for us, this has been continued progress and support and a good result. And we expect, over time, we'll continue to sort of help client succeed in the category. But maybe, Eric, talk about client example or two.

Eric Andersen
Co-President, Aon Plc

A

Yeah. I mean, I think what I would sort of walkthrough also is, certainly there is growth in the treaty business as you talked about, but also in the facultative reinsurance business and the banking business. So we're seeing good opportunity across all the different capabilities that we have. And I would say a lot of the demand is coming from the insurers who are looking to huge reinsurance capability, whether it's the analytics in the modeling or the sort of positioning and use of reinsurance capital to help them grow their own businesses, whether it's in the traditional high-risk natural catastrophe areas, but also in the growing areas of cyber and other specialty liability areas. So we're seeing good growth globally and the demand has been continuing as the carriers look at this marketplace and try and position themselves the best that they can do to help their ultimate clients grow and manage their own risk.

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

A

Yeah. I want to be clear, as you think about 12% in Q2, we're not [indiscernible] (00:39:49) here. What we're essentially saying, we don't look at it quarter-to-quarter. For us, it's less relevant. The trend line has been very,

very positive. And Eric just described two or three net new areas that didn't exist before, an example that didn't exist before driven by Data & Analytics. Our view is there are a number of clients out there who really want to improve their return on invested capital and reduce their volatility. As we have solutions to do that, we're going to continue to grow the business and that's what we're excited about.

Brian Meredith
Analyst, UBS Securities LLC

Q

Great. Great. And then, Greg, I'm just curious, and Eric, tell a little bit about what you're seeing as far as the [ph] commercial lines (00:40:18) pricing environment? When you're talking with your own numbers, it's just a modest benefit. But with some of the carriers, it sounds like things really have picked up quite nicely and we're kind of this firming marketplace. Is that what you guys are saying?

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

A

I would say, again, I want to emphasize, the impact on us we described as modest, we would say modest upward pressure overall, maybe a little more on the cat exposed areas, but really modest overall. Again, we would come back to – the real relevant question is market impact, the insured values and price, Brian, as you know well.

Brian Meredith
Analyst, UBS Securities LLC

Q

Yeah.

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

A

The real point of view from the question, really, from our standpoint, every time it's asked, we believe it has to be repurposed and it has to be from a client view. The work of what we do every day has got to be about matching capital with risk in a way that supports client performance operationally, reducing volatility, stronger balance sheet, et cetera. Again, you know this very well. That work, from our standpoint, is fundamental and there are many, many options out there, many, many permutations, and clients really have to be the drivers of that. And that's where we would say there has been some modest impact, but this is really a client-driven set of conversations.

Brian Meredith
Analyst, UBS Securities LLC

Q

Right, right. Great. Thank you.

Operator: The next question is from Josh Shanker from Deutsche Bank.

Joshua Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, there. Thanks for taking my question. Good morning.

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

A

Good morning, Josh.

Joshua Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Following on Dave's question a little bit, I just want to understand the process of – I guess the restructuring is just a little bit more expensive than you thought it was. I was interested hearing from you about, like, the process, when you identified that going on? What happened? And why we should be confident there is no more restructuring charges in 2020 and beyond?

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

A

So, thanks for the question, Josh. The updated plan just reflects better estimates. Now, we're two quarters away from the end of the program. We've got better clarity into projects that are currently being implemented as well as the addition of new projects as we optimize the overall Aon operating model. And so what we would say is, overall, we're delivering $535 million of savings. We're spending $1.425 billion of cash. It's a 38% ROIC. We feel really good about that. And so we are absolutely confident, Josh, to your question, that the last charges will be completed in Q4 2019. We've been consistent about that from the beginning. We're very keen to get back to GAAP EPS equaling adjusted EPS and running the business on free cash flow as we always have.

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

A

So I would just add a couple of just points on sort of the restructuring, particularly that's coming to the close. Remember, this is not about cost saves. There is lot of cost saves in concert with it. This is really about fundamentally changing and strengthening our firm. And the fundamentals of this is what we're doing in ABS and that engine that's being created never been done before in our industry. We had the opportunity to step back and invest to do that and we made real progress against it, but it really is an engine that really we are very excited about that's going to deliver productivity going forward and client impact going forward. But the piece around this is really sort of on the client side and sort of how they see this and how this comes out. And [indiscernible] (00:43:39) Mike, an example on sort of the ABS front and sort of what we're seeing and how it's not just cost, it's also – it's more than cost.

Michael O'Connor
Co-President, Aon Plc

A

Sure, Greg. I mean, I think with Aon Business Services, this is all about improving our effectiveness and our impact with clients and obviously, [ph] more on (00:43:54) productivity. And there's countless examples that come to mind. You can think about our single global platform for Health. We've rolled this out now into 50 countries and we actually now operate with one single system able to touch clients around the world in a single way.

We have one single system that will run to support our Commercial Risk business around policy management and the way we actually interact with clients, our Risk/View platform is what we call it internally. And you think about those, that's changing the way we touch clients every day. It's giving us a single way, a single approach, and for us, being able to actually bring all of our data together, which allows us to provide insight that we couldn't do before. So those are just two examples that we're really excited about.

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

A

So, again, it's about cost saves for sure and ROIC and then, fundamentally, we end up with a stronger firm, which is why we're excited and we initiated the program to begin with and we're looking forward to 2020 and 2021 and the benefits that come with the investment we have made and completed by the end of 2019.

Joshua Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you for the answers. And then, dovetailing on Brian's question a little bit. Can you talk about the organic growth in Reinsurance in the context of how much of that was taking share from competitors and how much of that was creating new solutions for clients that didn't exist before?

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

A

Well, listen, as we said before, it's a combination and we love both pieces, and in fact, a lot of the Data & Analytics investments we're making now are really about net new. And some of the examples that Eric gave, there really is around kind of net new ideas and not new areas, and whether it's sort of in – the areas we described sort of on the mortgage side or on the cap on side, now with governments, a whole series of things that are happening that we've never done before. Our win-loss continues to be favorable and strengthening, but it's more than just win-loss. Our view is the risk needs of clients is more than a zero sum game because the industry is fundamentally not – we have not fundamentally addressed a growing set of needs they have. So for us, this is really the opportunity, not just on the Reinsurance side but also on the Commercial Risk side.

Joshua Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Would it be crazy to say 50/50?

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

A

Again, I think it's less helpful, I think, to sort of talk about pure win-loss. Eric's etching to sort of give you that exact answer. [indiscernible] (00:46:02) go on it.

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

A

But I think, Josh, your question really is how much that comes from whole new areas of growth and how much that comes from win-loss. And interestingly, a lot of our new wins are actually new solutions to clients that we've never even done with them before. And so as a features in our win-loss, it's actually kind of hard for us to tell candidly, Josh, because we are – our win rates are at all-time highs across the firm, across Commercial Risk and our top 10 countries across Reinsurance. But a lot of the wins are actually coming through Aon United investments and the investments we've made in Data & Analytics, which allow us to develop new solution for clients we couldn't otherwise [indiscernible] (00:46:38).

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

A

So just think about – what Christa is really touching on perfectly is, when we're in a tender, we don't shop in the classic way. We actually show up with new ideas and new insights driven by Data & Analytics. And so is that a win sort of in the zero sum game world from a competitor or is that really sort of net new? So it really is that's the combination we're seeing. And then occasionally mortgage, pure net new. That's a $10 billion sort of opportunity that's been developed over time. I think, Eric, 20% of the mortgages in the U.S. now are connected to insurance [indiscernible] (00:47:11). So this is an incredibly powerful net new, but it really is the combination. What we want you to get a sense for is, this is fundamentally about delivering more on behalf of clients using Data & Analytics, and the investment to do that is substantial, but the impact can also be quite high.

Eric Andersen
Co-President, Aon Plc

A

And I think also part of it is, when people think of reinsurance, they think of the traditional treaty transfer of portfolios, but there's also other work that we've been creating to help clients and reinsurers think about their own portfolios. And maybe just a quick example, there is a mid-sized reinsurer I'm thinking about that wanted better insight into how many of their clients would either put them into the market or not renew with them. And we were able to use some machine learning and predictive analytics to help them focus on where they needed to spend their time, either building relationships with their existing clients, to be able to target to know where they were at risk. And so just having that kind of insight, it helps them improve their retention capability, helps them know where to focus their management attention on maintaining the share that they had earned over a period of time in the marketplace. So it's not just about, hey, we want to transfer this portfolio of casualty or natural disaster risk to a marketplace, but it is actually helping each of the individual players be smarter and how to position their own businesses for growth and success. So there's a lot to it, but not just traditional share, but it's actually bringing new services to the market.

Joshua Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Well, thank you for the answers and congratulation on the quarter.

Operator: For our last question, it is from Meyer Shields from KBW.

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

Q

Thanks. I want to talk a little bit about the M&A environment, so one general question and one specific one. The press release noted that you divested, I guess, a unit within Retirement Solutions that offset organic growth. And I was hoping you could reconcile that with the general approach of actually increasing acquisitions, faster-growing units. And then more broadly, I was hoping you can talk about the opportunity, the M&A environment globally and how it's been evolving over the last 12 months?

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

A

Sure, Meyer. So what I would tell you overall is we are active managers of our portfolio, we have been over the last five years, we'll continue to be in the future. And so, we will continue to disproportionately invest organically and inorganically in higher revenue growth, higher margin, higher return on capital businesses, and we'll divest lower revenue growth, lower margin and lower return on capital businesses. And that's what you saw happen in the quarter with a small portion of our talent business that sits under Retirement that was divested on June 30. So it did not impact our organic growth calculation in the quarter, but it was lower growth. And so, that is what you saw.

And then, I guess, what I would say about the overall M&A environment is, I said last quarter, our M&A pipeline is the largest it's been in the company's history. It is aligned to our highest revenue growth, highest margin, the highest return on capital categories, so we're very excited about that. And we continue to engage with these companies to actually build long-term relationships, so we're the buyer of choice. Because what we don't really want to be is in an RFP, where we're competing with a whole bunch of people, we actually want to get to know firms that are really attractive in our highest return on capital areas and really bring them into the firm in a way that's building content and capabilities for clients, and enabling a cultural fit that really makes that integration successful.

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

A

And in M&A respects, Meyer, it really is about the content and capability and what net new comes to Aon from an insight standpoint and then, how do we scale that, and you've seen that in many, many of our acquisitions we brought into the firm. You'll continue to see that as a primary driver, because without that, you really don't get a return on invested capital that beats buyback. And our view is, from a discounted cash flow standpoint, there is tremendous value sort of in the buyback. That's why it continues to be sort of at the top of the list and sort of everything is measured against that and it really is opportunities around content and capability that really drive that sort of actions.

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

Q

Okay. That's what I needed. Thank you so much.

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

A

You bet.

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

A

Thanks, Meyer.

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

Just wanted to say to everyone, thank you so much for joining us in our Q2 call, and we look forward to the discussion next quarter. Thanks again.

Operator: That concludes the conference. Thank you all for participating. You may now disconnect.