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Aon Plc (AON)

Q1 2021 Earnings Call

CORPORATE PARTICIPANTS

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

Eric Andersen
President, Aon Plc (United Kingdom)

OTHER PARTICIPANTS

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

David Motemaden
Analyst, Evercore ISI

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and thank you for holding. Welcome to Aon Plc's First Quarter 2021 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 and 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 first quarter 2021 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 (United Kingdom)

Thank you, operator, and good morning, everyone. Welcome to our first quarter 2021 conference call. I'm joined by Christa Davies, our CFO; and Eric Andersen, our President. As in previous quarters, we posted a detailed financial presentation on our website.

I'd like to start by acknowledging the tremendous work of our colleagues across the firm. Our team continues to find ways to get back not just to normal, but even better than before, as we like to call it, the new better. The idea of the new better started in the second half of last year with a series of regional and local client coalitions. There are now 10 coalitions of leading companies around the world that we formed to explore the societal and economic implications of the pandemic.

The group rejects the idea of accepting a suboptimal new normal and working to define new better. The work is ongoing and continues to offer meaningful insights into how leading organizations will work, travel and convene in the year ahead. And we're translating those insights into new solutions that are designated and designed to accelerate recovery from COVID-19.

For instance, we know that widespread global vaccine distribution is the key part of the solution and one that Aon is enabling. Let me describe. Recognizing limitations with current supply chain solutions, Aon colleagues from Commercial Risk, Reinsurance and Health Solutions collaborated with insurance, reinsurance, InsurTech and supply chain industry partners to develop a groundbreaking solution that uses sensors and analytics in the transportation and storage of vaccines.

The sensors provide transparent real-time data and alerts if the temperature of the vaccine shipment falls outside the manufacturer's range, potentially allowing for mitigation efforts and helping to maximize the number of doses administered to the public. It's just another example of how we're creating innovative solutions to move our industry and society forward. We're also donating all 2021 revenue from the solution to an international organization, working to help end the human and economic toll caused by the pandemic.

Turning now to financials, our global team delivered outstanding results across each of our key financial metrics, including 6% organic revenue growth, a very strong start to the year on top of 5% organic in Q1 2020, substantial operating margin expansion of 170 basis points, 16% EPS growth and 91% free cash flow growth. Within organic revenue, we continue to see strength in our core driven by strong retention and net new business generation and overall growth within more discretionary areas of revenue, with some areas coming back faster than others.

Commercial Risk delivered 9% organic, an outstanding result with very strong new business growth and growth in project-related work and double-digit growth in transaction liability. Reinsurance delivered 6% growth with strong net new business in treaty and double-digit growth in facultative placements. Retirement Solutions delivered 5% growth, and I would highlight strength in core retirement and double-digit growth in human capital.

Health Solutions growth of 4% was driven by strength in the core, offset by pressure in project work, one of the areas we're seeing a little slower bounce back. And, Data & Analytics continue to see pressure from the travel and events practice globally, resulting in a 2% organic decline, so against the prior Q1 quarter pre-pandemic results.

These results are an improvement from our Q4 earnings call outlook. During the quarter, we saw better-than-expected macroeconomic growth, which positively impacted client buying behavior. Looking forward, if macroeconomic conditions continue to be strong, we would expect mid-single-digit or greater organic revenue growth for the full-year 2021.

And while our Q1 results demonstrate that our Aon United strategy is driving innovative solutions that address our clients' biggest challenges, we keep seeing signs that we must move faster. We see our clients justifiably focused on the economic impact of COVID-19, but they're also increasingly focused on other challenges like climate change, supply chain disruption, reimagining and reconfiguring how and where work gets done, the growing health-wealth gap and cyber.

Our recent cyber risk report highlighted findings from our proprietary Cyber Quotient Evaluation, a comprehensive assessment of cyber risk maturity. The 2020 data tells us that organizations across regions and industries are only maintaining a basic level of cyber readiness. Specifically, only two in five organizations report they're prepared to navigate new exposures and only 17% report having adequate application security measures in place.

And in our recent Grey Swan report, we looked back at 40 years of corporate crises, analyzing 300 examples that show the significant impact on shareholder value due to lack of preparedness. The total impact represents $1.2 trillion in destroyed value and in 10% of the event 50% of shareholder value was lost. These risks and challenges are exactly what we want to help our clients assess and prepare for.

Yet another great example are human capital and Commercial Risk teams realized that their client in the life sciences medtech space had not done an assessment or quantification of cyber risk for their business or products. Our team analyzed risks across infrastructure, technology, vendor and digitally enabled products and quantified potential losses or impacts as reputation business interruption or a hack from their vector devices. In response to this prioritized and quantified risk assessment, our clients strengthen their own security measures and change their insurance coverage, increasing their preparedness and reducing potential future volatility to their business, a topic that's more critical than ever for companies in the life sciences industry.

Looking forward, this is a process and a solution offering that makes innovative cyber solutions more accessible to our clients in the life sciences space. As we look to our pending combination with Willis Towers Watson, we're confident their insights and capabilities will be a compelling catalyst to this work. And this is just one example out of thousands, where we see the potential for the pending combination with Aon and Willis Towers Watson teams to drive innovation based on forward-looking analytics and insight.

As we've brought together the executive committee that will be in place after the close of the combination, the potential is clearer than ever. We have an opportunity to be more relevant to clients at a time when they need us most. Another example, our Aon team is currently advising a client on integration of their largest transaction to-date, a complex global merger that's moving very quickly; colleagues from data and analytics, retirement, health and benefits and human capital, came together to advise our client on harmonizing their people programs while balancing synergies and deal objectives to drive employee engagement and retention as well as a shared vision from day one.

Our client is relying on Aon to help them protect their greatest asset, their people. We know that the combination with Willis Towers Watson will enable us to bring together our combined capabilities as an each company's client insight around health, retirement and engagement will improve and accelerate our ability to deliver projects like these for clients. In summary, our first quarter results demonstrate the continued success of our strategy and position us with momentum to drive improvement on our key metrics over the course of the year, building on the track record of progress that we've delivered over the past decade.

The events in 2021 continue to highlight unmet need and growing demand from clients around their biggest challenges, which we know are best addressed by our one firm and united strategy. Our ability to address client need and accelerate innovation will only get better in our pending combination with Willis Towers Watson, which continues to increase our commitment and excitement to the potential of the combined firm.

Now I'd like to turn the call over to Christa for her thoughts on our financials and long-term outlook for continued shareholder value creation. Christa?

Christa Davies

Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

Thanks so much, Greg, and good morning, everyone. As Greg mentioned, we delivered a strong operational financial performance in the first quarter to start the year, highlighted by 6% organic revenue growth that translated into double-digit growth in operating income, earnings per share and free cash flow. Our Aon United strategy has enabled continued growth across our key financial metrics. We look forward to building on this momentum through the rest of 2021, and in our pending combination with Willis Towers Watson.

As I further reflect on the quarter, we delivered organic revenue growth of 6%, driven by ongoing strength in our core business with an uneven recovery in our more discretionary areas. I would also note that total reported revenue was up 10%, including the favorable impact from changes in FX, primarily driven by a weaker US dollar versus the euro.

Second, we delivered strong operational improvement with operating income growth of 15% and operating margin expansion of 170 basis points to 37.4%. Stepping back, our goal is to build a sustainable operating margin expansion over the course of the full year as there can be volatility quarter-to-quarter given the seasonality of our business and timing of expenses including long-term investment in growth.

In Q1, margin expansion was helped by two factors. First, organic revenue growth exceeded our Q4 outlook due to the impact of macroeconomic factors and client buying behavior. Second Q1 2020 had higher expenses in areas like T&E and investments in the business, which made for an easier comparable when compared to our expectations for the rest of 2021.

Looking to the rest of 2021, we anticipate investment in the business and some potential resumption of T&E later in the year. Looking forward to quarterly patenting of expenses for the balance of 2021, as we described last year, we reduced certain discretionary expenses at the onset of the pandemic, given the significant macroeconomic uncertainty and then returned to somewhat more normalized levels of spend in the back half of the year as macroeconomic conditions improved and the outlook stabilized.

In 2021, compared to 2020, we expect approximately $200 million less expense to be recognized in the fourth quarter offset by approximately $135 million more expense in Q2 and $65 million more expense in Q3. Put another way, we expect $135 million of expense to move from Q4 to Q2 and $65 million of expense move from Q4 to Q3 when comparing to our expectations for the remainder of 2021 to prior year results prior to any growth occurring.

This shift representing about 2% of our annual cost base is primarily due to the actions we took and highlighted last year, including the reduction of certain discretionary expenses, including variable compensation in Q2 and Q3 of 2020. This shift also spreads our expense base more evenly across quarters, so we still do expect the occasional variability and lumpiness in expenses. This change will have an impact on quarterly margins reducing margins in Q2 and Q3, and increasing them in Q4. However, it does not change our expectation of full year margin expansion for 2020-2021.

As we stated previously, our goal is to deliver sustainable margin expansion over the course of each full year driven by accelerating revenue growth, portfolio mix shift to higher growth higher margin businesses and leverage from Aon Business Services.

Aon Business Services is focused on innovation as well as effectiveness. Recently, our Aon Business Services team saw an opportunity to improve premium accounting with a blockchain solution. The team worked with a carrier partner and the insurance industry's standard-setting group to design and develop a clearinghouse for premium transactions. This process has been live since the 1st of January 2021 and has over 13,000 transactions executed. It's already improving the speed at which errors are identified and resolved.

Over time, we expect our major carrier partners and other brokers to join the platform. We see this as a significant opportunity to improve the client experience with higher quality and reduce inefficiencies across the industry. As with other Aon Business Services process improvements, efficiencies in this new blockchain process enable our colleagues to spend more time with clients and on high value-added activities.

Turning back to the results of the quarter. We translated strong operational performance into EPS growth of 16%. As noted in our earnings material, FX translation was a favorable impact of approximately $0.18 in the quarter. If currency to remain stable at today's rates, we would expect a $0.04 per share favorable impact in Q2, a $0.02 per share favorable impact in Q3 and a $0.01 per share favorable impact in Q4.

Finally, moving to cash and capital allocation. Free cash flow increased 91% to $532 million, primarily driven by strong operational improvements, a decrease in restructuring cash outlays and a decrease in CapEx. I would note that we do expect CapEx for the full year to increase modestly as we invest in technology to drive business growth.

Looking forward, we expect to drive free cash flow growth over the long-term, building on our 10-year track record of 14% CAGR growth and free cash flow, including 64% growth to $2.6 billion free cash flow in 2020. We remain incredibly excited for the long-term cash flow potential of the pending combination. We make capital allocation decisions based on our ROIC framework, highlighted by $50 million of share repurchase in the first quarter.

As a reminder, Q1 is our seasonally smallest quarter for free cash flow, due primarily to incentive compensation payments. We also repaid $400 million of term debt in February. Looking forward, we expect to remain highly focused on closing and then successfully integrating our combination with Willis Towers Watson. Following that, we expect to continue to invest organically and inorganically in innovative content and capabilities in priority areas to service our clients' unmet needs.

We remain very confident in the strength of our balance sheet and managed liquidity risk through a well-laddered debt maturity profile. In the near-term, we expect to continue to manage our leverage ratios conservatively and return to our past practice of growing debt as EBITDA grows over the long-term.

As I look towards our pending combination with Willis Towers Watson, we remain incredibly excited about the potential for growth in innovative solutions for clients and the shareholder value creation opportunity. We are continuing to work collaboratively with the appropriate regulators to gain approvals and we've offered remedies. We continue to anticipate $800 million of cost synergies, taking into account the remedies offered. We would expect to allocate any divestiture proceeds according to our ROIC framework in which share buyback continues to be our highest return on investment. We are working towards the close in the first half of 2021, subject to regulatory approval.

In summary, our first quarter results reflect continued progress building on a decade of momentum, driven by our Aon United strategy and underpinned by our Aon Business Services operational platform. We remain incredibly excited about closing out pending combination and beginning the integration process with Willis Towers Watson, which will continue to enable long-term shareholder value creation.

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'll now begin our question-and-answer session. [Operator Instructions] Okay. And our first question comes from Suneet Kamath from Citi. Your line is now open.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, and good morning. So, last year, you guys pulled your guidance for the merger when you pulled your Aon standalone guidance. But now that you've reestablished guidance on a standalone basis, can you provide some thoughts on your expectations for guidance for the merger?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

So, Suneet, appreciate it. As we've said before, when we got together, is the pandemic and so we pulled guidance overall. What we said today as we think about Aon, obviously, we're talking about mid-single-digit or greater assuming macroeconomic conditions continued – or continue. I'd remind everybody that before pandemic we talked about a combined mid-single-digit or greater. And what we plan to do, Suneet, is as we complete the combination, we'll obviously be back to you with what we expect going forward, but remember where we were when we started the process.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then just focusing on the expense guidance, I guess for Aon on a standalone basis. Christa, I think you said – you called out a couple of things that are moving from quarter-to-quarter, but is there an assumed underlying kind of growth rate in expenses as we think about 2021 versus last year? And if so, can you give us a sense of what that growth rate is?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

Yeah. So, Suneet, it's a great question and thank you for asking. And so what you're really seeing is just $200 million come out of Q4. And then of that, $135 million goes into Q2 and $65 million goes into Q3. Suneet, that is before growth. And so you should assume growth is built on top of that and we haven't given that growth rate. But what I would say is it's in the context of full-year margin expansion for 2021 on top of a track record, as you know, Suneet, over the last 10 years of 890 basis points over the last 10 years, so approximately 90 basis points a year.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Got it. And then just the last one for me is on the free cash flow. As you mentioned, 1Q is typically your lowest quarter, but the growth was quite strong this quarter. Was there anything sort of unusual from a timing perspective that maybe something was pulled forward in 1Q? Or just want to get some color on that.

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

Yeah. I mean, we do expect to drive free cash flow growth annually over the long-term, building on our track record of 14% CAGR over the last 10 years. I mean, Q1 free cash flow was exceptionally strong driven by operating income growth, very strong operating income growth in the quarter.

Given our pending combination with Willis Towers Watson and especially the impact of free cash flow relating to achieving the $800 million of cost synergies, we're not providing standalone guidance for Aon at this time, but we do remain incredibly excited for the long-term cash flow potential of the pending combination.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc. Q

Okay. Thanks.

Operator: Thank you. And our next question comes from Elyse Greenspan from Wells Fargo. Your line is now open.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC Q

Hi. Thanks. Good morning. My first question I just want to make sure I understood correctly that you essentially said that the $800 million of expense saves for the deal, you're reaffirming that even with some remedies or divestitures I guess that have been offered up to regulators. Is that what you said, Christa?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom) A

That is correct, Elyse.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC Q

Okay. Great. And then, my second question, I'm not sure how much detail you guys want to go into and we obviously read in the press in terms of what divestitures might have been offered up. I know there was $1.8 billion kind of divestiture cap included within the merger. Is there any way that you could speak to that and give us a sense of whether you would be willing to go a certain amount above that level or any color you can give us in reference that $1.8 billion that was laid out with the merger?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom) A

So, Elyse, we're not going to speculate on remedies. We have confirmed that we will have remedies. We're continuing to work collaboratively with regulators and we continue to anticipate as I mentioned the $800 million of cost synergies considering the remedies offered and we'd expect to allocate any divestiture proceeds according to our ROIC framework in which share buyback continues to be our highest return activity.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC Q

Okay. And then on the tax rate, I was interested in how your tax rate was impacted by guilty and beat the last couple of years. And then also on the tax side, the doubling the guilty as Biden has proposed – has a tangible impact on your tax rate all else equal?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)
A

So, Elyse, we're not giving guidance – tax guidance going forward. But I would say, as we look back historically, exclusively impact of discrete items, which can be positive or negative in a quarter, our historical underlying rate over the last four years has been 18%.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC
Q

Okay. And then, one last one, you guys have said that Q1 had a tough comp and then obviously the macroeconomic environment improved and helped you get to the 6% for the quarter. When we think about the mid-single-digit organic outlook or greater, does it feel like to you that forward three quarters, just assuming the economy continued to improve, should be greater than the Q1 given that we would get the better economy impacting organic as we go through the year?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)
A

Yeah. All we're really highlight, Elyse, is as you go back to really Q1 last year, which is really pre-pandemic, there really wasn't a lot of pandemic embedded in it and we were just observing 6% against that is a great start to the year just really underscores the momentum we have. We're obviously not going to give guidance other than the mid-single digit as we proceed through the year. Assuming macroeconomic conditions continue to trend in the right direction. But we would just observe within Commercial Risk at 9% organic and Reinsurance at 6% and Retirement at 5% and Health at 4%, it was a really strong start to the year with momentum in the Data & Analytic piece Christa and I described before obviously as against a pre-pandemic quarter with some pressure around travel travelling events, but that's going to come back very, very strongly when it does. So, macroeconomic conditions hold, we are comfortable with mid-single digit or greater.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC
Q

Great. Thanks for the color.

Operator: Thank you. Our next question comes from Jimmy Bhullar from JPMorgan. Your line is now open.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC
Q

Hi. Good morning. So first I just had a question on your overall view of the potential accretion from the Willis deal. I think when you have previously talked publicly you've assumed no dispositions. And, obviously, you're going to have to do some dispositions and your $800 million target seems unchanged on expense savings.

How do you think about the overall accretion from the deal? And do you think you'll still be able to hit your previous assumptions given that you'll be able to do something with the proceeds from the business dispositions or do you think there is...

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)
A

Yeah.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

...downside to the initial numbers?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

So, Jimmy, what we would say is, we're not providing updated guidance at this time. Once we close, we'll certainly look forward to updating it. But what we will say is, that the $800 million remains regardless of remedies. And we would note that, when we originally gave the $800 million of guidance on expense savings that was on an EPS base that was going to grow pre-pandemic.

And so, the math obviously $800 million of expenses on a smaller basis is still a very positive outcome. And then the last thing I'd say is, clearly none of that math assumed any upside in terms of revenue growth and meeting unmet needs of clients which is really the entire strategic rationale for the transaction. But, Greg, perhaps you want to talk about this.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

So, Jimmy, if you take a step back and think about what we were really a little over a year ago March 2020 as we announced the combination, we described by the way an opportunity was grounded with the $800 million as Christa just described, but really was about opportunity, opportunity for clients, opportunity for colleagues.

Obviously, having delivered that opportunity for shareholders and we described that literally, if you think about that opportunity, the next five years, from our standpoint, from a value creation standpoint, we think it is as strong as we've ever seen anyway in our in our 10-plus years. And that includes 10 years of circa-almost 1,200 basis points improvement on return on invested capital and close to 1,600 basis points improvement on free cash flow margin.

So, from a real shareholder value standpoint a year ago, we're just really excited about this. I would tell you over the course of the year, having spent time with our Willis Towers Watson colleagues that conviction has only grown. And everything you see and we've talked about externally as Christa described very well, doesn't include how we're thinking about accelerating innovation and there's a lot that's kind of going on as we've begun the integration in terms of how this plays out, that really has been – it's been really exciting, I mean the momentum is building around this with our colleagues, it's quite, quite high and we're just looking forward to all aspects, client, colleagues and shareholder impact.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

And then maybe one either for Greg or for Eric, can you talk about – it seems like your comments on pricing are a little bit subdued or less upbeat than some of the underwriters, but what you're seeing in terms of pricing change in Commercial and then Reinsurance as well?

Eric Andersen
President, Aon Plc (United Kingdom)

A

Sure. Greg, maybe I'll take that. But before I do, if I can make a comment on your earlier question just on the excitement around the combination of what we're starting to see maybe a level lower, certainly the teams have been working on integration from a client experience, and a revenue standpoint, culture innovation all those things and we're really beginning to see the possibilities as we go deeper into the organization around the planning process, whether it's things like on the risk side, the cat modeling and securitization experience that Aon has, the Willis's climate capabilities and their Resilience Hub and their climate ties. Those types of things, when you put them together, really do provide excitement for our teams to see what's possible and so there's a lot those things that we're identifying as we go through the process. And it's really building some excitement across both organizations, as they really begin to see the value they can unlock for clients.

And so now maybe to hit your question on pricing, I would say this, the dynamic of the pricing as we say, it's moderately positive, but it's always – it's never a straightforward answer, right? And I'll give you some context as to why.

We engage these clients in a couple of steps before you ever get to the marketplace, right? We do the risk analysis and identification. We work with them on mitigating strategies, so that they don't even transfer the risk, how they can finance it among themselves. And then ultimately, if they do decide to make the transfer to a third-party, they're coming at this marketplace with their own risk appetite, their own budget capacity, the options in the market. We're using our capability to help them make the trade-offs. But, ultimately, each product, there is no marketplace, right? I always get a kick out of when people talk about their broader market. It's a series of micro markets. Each product has its own dynamics, own claim trends, terms conditions, retentions, claims, supply/demand, all of that. Whether you're talking property, D&O, marine, it's a variety of different things. And, ultimately, our role in this is to help clients evaluate how to manage the risk, make the right choices that they can make. So, as we see it, it's moderate. It's moderately positive as we say, but ultimately clients make choices in every market that help them meet their own needs.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC Q

Thanks.

Operator: Thank you. And our next question comes from Phil Stefano from Deutsche Bank. Your line is now open.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc. Q

Yeah. Thanks. Good morning and congrats on the quarter. I guess, just a quick follow-up on the pending acquisition of Willis Towers Watson. So, there was a question earlier about the $1.8 billion revenue marker in the agreement. To me, this is a pretty specific number. Can you give any flavor on how this number came to be that that was the line in the sand, which we might need to go back and get approvals?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom) A

Yeah. If we step back, again, the shareholder value question was asked and answered as we did in August, but we would come back, Phil, to the opportunity that we see and how it's evolved over time. What we really want you to take away is, the opportunity we saw a year ago is stronger now than we saw a year ago.

By the way, that's not just the work that Eric described and how the teams had come together and seen all the possibilities, that's also pandemic. One of the outcomes of pandemic is really an amplification in both awareness across the globe, literally across every company in the world, there's a bigger awareness for things like pandemic, climate, intangible assets, cyber than more than ever before, also up into the C-suite in ways that it hasn't permeated before.

So, for us, while we see a tremendous opportunity, we saw that opportunity as we brought together the discussion on the combination last March and we see it continuing. So, from our standpoint, as Christa described at the beginning, we're making our way through the process and making good progress and we're very excited about the outcome.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Worth of shot. Christa, you had mentioned the expense guidance that you gave and we – I appreciate that. That has some potential resumption in T&E for later this year. I was hoping you could just kind of flesh out how you're thinking about – without any specifics, just kind of generally how you're thinking about that, right? If I want to run an actual versus expected of the world opening back up and people getting back to whatever normal business activities look like moving forward, how can I compare that to how you were thinking about it?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

Yeah. So, Phil, I guess I'd start with we've got a 10-year track record of margin expansion approximately 90 basis points for a decade, every year. We expect margin expansion for the full-year 2021, and we're obviously not giving specific guidance for margin expansion in 2021. But I'd say if you look to the rest of 2021, we should anticipate some investment in the business and some potential of resumption of T&E later in the year, and that's really all in the context of overall margin expansion for 2021. But, Greg, you may want to talk about this from a client perspective and how we're thinking about T&E and delivering for clients.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

Yeah. Phil, it's really an excellent question around sort of how the business evolves. And this idea of new better, we're not kidding. It actually has been amazing. The 10 coalitions we have are literally the major cities around the world in Chicago and New York and London and Tokyo and Madrid, Singapore, etcetera. And these are largest companies in the world. We'll be comparing notes on how they come back together, work, travel, convene in the process. And we've just taken away a huge amount from that.

And in many respects when we think about client leadership and how we go engage with clients, obviously the face-to-face is key and will continue to be key, but our ability to make a difference with clients in remote environments where we can actually amplify what it means to be Aon United, literally bringing colleagues from around the world obviously in a virtual way to clients has proven to us to be unbelievably effective on both new business with existing clients, but also net new opportunities. So very, very compelling. Eric, you've led this work around the world. Maybe you can talk a bit about this because it's very important as you think about T&E overall.

Eric Andersen
President, Aon Plc (United Kingdom)

A

Yeah. Sure, Greg. And, look, we're going to be smart about how we do T&E in the future as business opens up to in-person meetings. And it's ultimately a positive step in the global recovery that we can interact, but we've learned a lot, right? As we've said it in the past and just using that example, great to go a little bit deeper. Historically, if a client wanted to talk about a situation that was occurring outside their home country, would either try and do a conference call or plan a trip, right? And now, what we do is we open up WebEx and we actually have the leader of the country, leader of the issue in that country on the WebEx and we can solve the issue right away, right?

Certainly, there is efficiency and cost advantages to it. But more importantly, I think, there's enormous client value to unlock that expertise in an immediate way where they're not getting an interpretation through someone else. They're talking right to the source and getting that value in real time. So, I mean ultimately we're going to use what we have learned or we're going to meet the clients where they want to be met, but I think we have learned a lot and we're going to apply it.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

One thing there, just final piece I'd add on this, Phil, because it's really it's important to us, because we really worked it for a decade. Obviously, anybody can open up WebEx as Eric described and put faces on there. But when you actually put colleagues around the world from different solution lines together and it's clear to the client that they know each other, they're reacting to different situations. They're supporting each other. That's not duplicatable, right? That's taken us a decade to work through. And so, the IT turns out that 10 faces on the screen amplifies what it means to work Aon United together as one firm and that's what clients see, they've commented on it – to us, which is wow. I didn't really understand what this meant before.

But the only way they could have seen it is if Eric as described we put 10 people in a conference room, which we're never going to do, but 10 on WebEx totally interacting on behalf of clients really addressing their issues. That is pretty cool. The example I gave in the commentary upfront around the vaccine protection was exactly that. It was it was a group of people together that probably would have gotten together in the same way before. So, we just want understand how we're thinking about our business as T&E comes back, but it's much, much broader than that.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thanks. Thanks for all the color. I'll take a swing at one more. When I look at the what I would call the underlying expenses, it's revenue less adjusted operating income in the first quarter, is there anything abnormal in the growth rate or anything that you'd call out that makes the growth rate. We saw first quarter 2021 versus first quarter 2020, not a good way to think about this?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

So, if you're talking about expenses, Phil, what I'd note in expenses is, in 2021, you have a lot less T&E, and you have a lot less investment in the business compared to Q1 2020. So the margin expansion is much more pronounced in Q1 than you might get in the full year. We do expect full year margin expansion, and then we did see an increase in comp and benefits due to FX, but also due to investment in the business. And so, I guess they're probably the two unusual things I'd sort of note in Q1.

Phil Stefano
Analyst, Deutsche Bank Securities, Inc.

Q

Great. All right. I appreciate it. Thank you.

Operator: Thank you. And our next question comes from David Motemaden from Evercore ISI. Your line is now open.

David Motemaden
Analyst, Evercore ISI

Q

Hi. Thanks. Good morning. I wanted to just talk about the strong level of organic growth this quarter. So, I guess, I was just wondering is there anything one-off in this result this quarter? And just as I think about the rest of the years, is there any reason why we shouldn't expect an acceleration in organic growth from these levels?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

As we described, David, listen, our view is great momentum as we began the year, no doubt, first quarter strong across the board on all aspects with some real standouts. And we see as macroeconomic conditions evolve mid-single-digit or greater as we think about where we are for the year. And, obviously, the first quarter gave us real confidence growing confidence in that assuming macroeconomic conditions hold.

David Motemaden
Analyst, Evercore ISI

Q

Got it. And nothing one-off in that result that would lead you to think that...

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

No.

David Motemaden
Analyst, Evercore ISI

Q

...we should come down off of this 6%. Okay. That's helpful.

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

Yeah. It was really across – it was across the board in terms of sort of all the different aspects Commercial Risk, Reinsurance, Retirement and Health across the board with real great work by the teams around the world on new business growth and growth in project related work which came back a bit particularly in some of the solution lines.

David Motemaden
Analyst, Evercore ISI

Q

Got it. Thanks. And then, maybe just on the combination with Willis. Christa, I think you had said something to the effect that you would expect to achieve the $800 million of cost synergies in any level of concessions. But, I guess, I just wanted to sort of dig into that is like maybe just talk about is there a level that would make that tough to achieve and just sort of – maybe just sort of peel back the onion a little bit on just what gave you confidence that you can get to that $800 million of saves.

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

Yeah. So, David, we continue to anticipate $800 million of cost synergies considering the remedies we've offered and we'd expect to allocate any divestiture proceeds according to our ROIC framework in which share buyback continues to be our highest expected return activity.

I would note that the $800 million of cost synergies, we're very confident in achieving it's 5.5% of the combined cost base and we achieved 11% of the combined cost base in Aon US and 18% of the combined cost base today Aon Benfield, and there's no structural differences here. And so, we feel really good about achieving that $800 million.

David Motemaden
Analyst, Evercore ISI

Q

Got it. Helpful. That's clear. And then, maybe, if I could just sneak one more in, just on the margin, you guys obviously – I appreciate the slide you guys put in the deck. You guys have expanded margins by 90 basis points a year over the last decade. You did 170 basis points in the first quarter. Obviously, you need comps there and I know that you guide for the full year, but I guess is there any reason to expect that margin shouldn't expand here over the next three quarters?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

So, first of all David, we absolutely expect full year margin expansion for the year 2021, and we think about margin expansion in the context of full year. Because, quarter-to-quarter, expenses will be lumpy as we sort of talked about with the re-patenting of expenses. But what we would say is, Q1 was unusual in terms of margin expansion, because we had a pre-pandemic comparable in Q1 2020. And so I'd think about margin expansion over the course of the full year 2021. And as you said, we had a 10-year track record of 890 basis points of margin expansion over the last 10 years, so 90 basis points a year. And we're on track to do full year margin expansion again in 2021.

David Motemaden
Analyst, Evercore ISI

Q

Thank you.

Operator: Thank you. And our final question comes from Meyer Shields from KBW. Your line is now open.

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

Q

Thanks. I guess beginning with basic question. You talked a little bit about the blockchain for a premium clearinghouse. How should we expect to see that in the financial, I don't mean numbers, but where does that make a difference?

Christa Davies
Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc (United Kingdom)

A

Yeah. I mean it really makes a difference in terms of margin expansion. It's driving improved quality and therefore reduced errors. And it's driving efficiency, because it's allowing colleagues to spend more time on high value activities with their client. So, it's both reduced errors and improved efficiency. And then utilizing client experience, but I mean, Meyer, the simple answer is operating margin expansions.

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

Q

Okay. No. That's perfect. That's exactly what I was looking for. Second, question, you never I think disclosed a number of expected revenue synergies from the innovation. I know that the $800 million savings guidance is still there. Is the internal number for revenues still the same?

Gregory C. Case
Chief Executive Officer & Executive Director, Aon Plc (United Kingdom)

A

Well, as we said before, we didn't disclose, Meyer, as you described, but the entire reason we are bringing the combination together really goes back to this idea of we got to find ways to accelerate innovation on behalf of clients, continue to do what we're doing, but just keep getting better on their behalf. And, Meyer, it's not hard to find the categories, where we can continue to improve and support.

Look at issues like pandemic, obviously, but how are we going to bring solutions that really matter for clients and climate. It is I think about taking actions to go zero carbon. How do we help them reduce volatility in doing that?

We had a set of views back in March 2020 on that. Eric, I think, described it very well, as we spent time with our colleagues at Willis Towers Watson, we see more potential and possibilities than ever and pandemic happened. So clients are actually more attuned, they're like. What am I going to do on this? And how am I going to play it out. Things like intangible assets. We've made great progress on intangible assets and how you think about defending the house on intangible assets. But now with Willis Towers Watson, the opportunity we believe is even greater, areas like cyber et cetera. So, we were excited in 2020 around the possibilities on what we can do to drive innovation, which is in fact net new opportunity for clients and for our colleagues, but also revenue. And we see that opportunity greater now than we saw it a year ago.

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 (United Kingdom)

Thank you, Britney. I just wanted to say to everyone thank you very much for joining this quarter. We appreciate it and very much look forward to our discussion next quarter. Thanks so much.

Operator: Thank you for your participation in today's conference. All participants may disconnect at this time.