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# Aon Plc (AON)

## Q1 2023 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and thank you for holding. Welcome to Aon Plc's First Quarter 2023 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 first quarter 2023 results as well as having been posted on our website.

Now, it's my pleasure to turn the call over to Greg Case, CEO of Aon Plc.

## Gregory C. Case

*Chief Executive Officer & Executive Director, Aon Plc*

Thanks very much and good morning, everyone. Welcome to our first quarter conference call. I'm joined by Christa Davies, our CFO; and Eric Andersen, our President. As in previous quarters, for your reference, we posted a detailed financial presentation on our website.

Before we begin, as always, we want to thank our colleagues for the great work they're doing every day around the world to help our clients and each other. We continue to live in a world where volatility, complexities and uncertainties are increasing. And in this environment, our clients are being asked to make decisions faster than ever. And as a result, we see strong and ongoing demand for our advice and solutions as many of our clients realize that remaining in defensive or reactive mode is not sufficient. And in fact, a pivot to offense is ultimately necessary to win and achieve their objectives.

Clients are telling us there are two primary areas where they're urgently looking for a competitive advantage, risk and people. Addressing these challenges requires that we bring the best from across our firm to enable our clients to make better decisions, which is the core of Aon United. Given these ongoing demands, our strategy positions Aon as uniquely capable of helping clients go on offense and make better decisions that mitigate risk to their business and maximize the impact and engagement of their people.

Take ESG or environmental, social and governance as an example. These are major interconnected categories that cut across traditional silos. Our clients need a broad strategic view to understand and assess all the risks around ESG and then targeted solutions and capabilities to solve for these risks. Our recently published ESG Impact Report describes our work helping clients address these issues as well as the impact across our firm. And we're delighted to report on our own progress against longstanding commitments in these essential areas. First on environmental. We're making progress toward our goal of net zero emissions by 2030 and have reduced our overall Scope 1, 2 and 3 emissions footprint by 16% from our 2019 baseline and by 4% in 2022 enabled by efforts like Smart Working and supplier centralization through Aon Business Services.

On social and specifically around our colleagues, Aon United is not just a strategy. It's our culture and it reflects our commitment to inclusion, diversity and the well-being of our colleagues. This year, we're continuing to embed I&D principles and practices and to hold ourselves accountable with increased transparency and oversight at all levels of the organization starting at the top with our board of directors. On diversity, for example, we reported progress in 2022 in the percentage of female people managers and US, ethnically and racially diverse managers. In 2022, we also enhanced focus on learning, development, engagement and well-being because we know that supporting our colleagues is not only the right thing to do for them, but it also ensures we retain, grow and develop the best talent to continue to support our clients.

And finally, on governance, we highlighted board review of top ESG and climate-related risks and actions from our ESG steering committee as well as steps on cybersecurity and privacy all aligned with our longstanding overall enterprise risk management strategy. While we're proud to report on these steps in our report, there's still work to do. And at the same time, we're even more excited about the work we're doing to help clients as many risks connected to progress on ESG align with our core businesses. On the people side, for example, we continue to develop new solutions while bringing together existing capabilities across different markets and geographies to address specific needs. One recent client facing significant organizational change realized many of their employees were unsure and unclear about titles, career ladders, compensation mechanics. At the same time, this client needed to reduce cost, increase efficiency and simplicity which they knew would drive engagement.

To address, we brought expertise from around the firm. Our commercial risk team brought deep understanding of this client's strategy and desired culture. Our Aon Business Services platform served as a powerful example of how we could help them simplify their operations and reduce costs. Finally, our health and human capital teams brought a series of solutions, including optimization of global benefits and a skills taxonomy strategy to increase employee alignment and engagement. And while the solution leverages many existing offerings, the real innovation was bringing these pieces together along with our Aon Business Services team who provided insight and change management expertise around moving to a business services model, an essential piece of the puzzle for our client.

The result, our client is driving increased engagement with a clearer, more effective benefit structure and talent strategy and outsourcing capabilities that will help drive simplicity and efficiency, all enabled by our teams coming together as Aon United. And we see examples like this across the firm everyday as we help our clients manage risk and support their people. They demonstrate the opportunity we have to continue delivering innovative solutions at scale to address our clients' unmet needs at a time when doing so has never been more important.

Turning to financial performance. In the first quarter, we delivered very strong organic revenue growth across our solution line with 9% growth in Reinsurance, 8% growth in Health Solutions and 6% growth in both Wealth Solutions and Commercial Risk Solutions. In Reinsurance, our teams were exceptional in guiding our clients to the 1/1 renewal environment, demonstrating the strength of our team's advice, data-driven analytics, modeling and execution capabilities. In Health Solutions, we saw strength in core H&B and in human capital in a seasonally larger quarter for European health renewals as our team helped clients navigate the ongoing challenging environment for their people, encompassing employee health, rewards, engagement and well-being.

In Wealth Solutions, our team delivered another very strong performance with 6% growth driven by ongoing trends around regulatory changes like GMP equalization, pension risk transfer and the lingering impacts of the fixed income market volatility as our teams helped clients reassess and potentially adjust their strategies. We would note that after two very strong quarters, Q2 2023 will be impacted by performance fees in the prior year period. And finally, Commercial Risk Solutions grew 6% in the quarter with strength in Europe and the UK in their seasonally largest quarter. Overall, we observed the property market remains an area of increasing challenge and volatility. Market dynamics are causing reinsurers to shift risk appetites, requiring primary carriers to accept more risk, which in turn means property placements have been more challenging for our clients.

In this environment, our strength in analytics and the ability to respond to clients' need for cover in a capital-agnostic way bringing capability across Reinsurance and Commercial Risk is essential. Our capabilities enable us to assess and analyze integrated broking options, including traditional risk placements, wholesale, MGAs, facultative, captive and insurance-linked securities. And by helping clients assess options across capital sources, we ensure they're able to optimize their own total cost of risk and risk appetite. For example, one client came to us looking to consolidate to a single property [indiscernible] (00:08:27) program across 11 asset classes with over $80 billion in property values. Our team came together seamlessly across geographies and specialties to develop a program that leverage traditional carriers around the world and a captive, successfully completing the program and driving significant cost savings for our client, all enabled by the work we've done to break down barriers within our firm through Aon United.

Overall, in the quarter, we're pleased with performance and the strength of our Aon United strategy and Aon Business Services platform translated 7% organic revenue growth into 70 basis points of operating margin expansion, net of ongoing investment in the business for long-term growth. In this period of ongoing external volatility and increasingly interconnected risk, the opportunity for us to have clients is greater than ever, positions us very well to continue driving results in 2023 and over the long term.

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

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### Christa Davies

*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

Thanks so much, Greg, and good morning, everyone. As Greg highlighted, we delivered strong operational performance in the first quarter highlighted by 7% organic revenue growth that translated into 70 basis points of adjusted margin expansion. This is a strong start to the year and we're very well positioned to continue driving results in 2023 and over the long term. As I reflect on the quarter, as Greg noted, organic revenue growth was 7% driven by ongoing strong retention and net new business generation. We continue to expect mid-single digit or greater organic revenue growth for the full year 2023 and over the long term. I would also note the reported revenue growth of 5% includes an unfavorable impact from changes in FX of 3% driven primarily by a weaker euro versus the US dollar as Q1 is our seasonally largest quarter for euro-denominated revenues. I'd also highlight fiduciary investment income, which is not included in our organic revenue growth, was $52 million or 1.4%.

Moving to operating performance. We delivered strong operational improvement with adjusted operating margins of 38.7%, an increase of 70 basis points driven by organic revenue growth and efficiencies from Aon Business Services, overcoming expense growth including some investments in colleagues and technology to drive long-term growth and some ongoing resumption of T&E especially compared to the prior year period when business travel was still suppressed by COVID-19. Looking forward, we expect to deliver margin expansion in 2023 and over the long term as we continue our track record of cost discipline and manage investments in long-term growth on an ROIC basis. As we previously communicated, we think about margins over the course of a full year driven by three areas. The first is topline revenue growth. The second is portfolio mix shift for high margin businesses as we invest disproportionately in areas of increasingly client demand supported by data-driven solutions. And the third area is increased operating leverage from ongoing productivity improvements from our Aon Business Services platform.

I'd highlight Aon Business Services continues to be a key contributor to margin expansion and represents a competitive advantage especially in an inflationary market. Our Aon Business Services platform continues to drive efficiency gains, improved quality and service and increased innovation at scale. And related to Aon Business

Services, I'd like to highlight the essential role of Aon Business Services in enabling our climate net zero goals. As a professional services firm, the biggest part of our own emissions is from our supply chain. Through the Aon Business Services organization, 90% of spend is managed through preferred channels which enables us to drive efficiency and also deploy decarbonization strategies. As Greg said, this resulted in a 4% reduction in emissions last year while also allowing us to increase supplier diversity utilization to 6% of our addressable US spend in support of our goals around inclusion and diversity, both meaningful accomplishments that are enabled by our Aon United strategy.

Organic growth and margin expansion translated into adjusted EPS growth of 7%. As noted in our earnings materials, FX translation was an unfavorable impact of approximately $0.14 per share. If currency is to remain stable at today's rates, we would expect an unfavorable impact of approximately $0.04 per share in the second quarter and $0.14 per share for the full year 2023. I'd also note other expense had a $0.19 per share unfavorable impact in the quarter, including a $0.05 per share unfavorable impact from an increase in non-cash net periodic pension cost, in line with what we communicated previously, as well as an unfavorable impact from a gain on sale of business in the prior year period and balance sheet FX remeasurement in the current period. We expect the $0.05 per share unfavorable impact from increased net periodic pension costs to continue for each quarter this year, and we currently expect gains from divestitures to be immaterial for the full year.

Turning to free cash flow and capital allocation. I'd note Q1 has historically been our seasonally smallest quarter from a cash flow standpoint due primarily to incentive compensation payments. And as we've communicated before, free cash flow can be lumpy from quarter-to-quarter. Free cash flow decreased 17% to $367 million primarily driven by higher cash tax payments and a $53 million increase in CapEx. CapEx was elevated in the first quarter compared to the prior year period as we initiated a number of projects, with spend heavily weighted in Q1 across technology to drive long-term growth and real estate aligned with our Smart Working strategy. I'd note CapEx could be lumpy quarter-to-quarter and we expect an investment of $200 million to $225 million to 2023. As we said before, we manage CapEx like all of our investments on a disciplined ROIC basis.

Our outlook for free cash flow growth in 2023 and beyond remains strong and we continue to expect double-digit free cash flow growth for the full year and over the long-term driven by operating income growth and working capital improvements. Given our strong outlook for free cash flow growth in 2023 and beyond, we expect share repurchase to continue to remain our highest ROIC opportunity for capital allocation. We believe we're significantly undervalued in the market today highlighted by approximately $550 million of share repurchase in the quarter. We also expect to continue to invest organically and inorganically in content and capabilities that we can scale to address unmet client needs. Our M&A pipeline continues to be focused on our priority areas that will bring scalable solutions to our clients' growing and evolving challenges. We'll continue to actively manage the portfolio and assess all capital allocation decisions on an ROIC basis.

Turning now to our balance sheet and debt capacity. We remain confident in the strength of our balance sheet and manage liquidity risk through a well-laddered debt maturity profile. In Q1, we issued $750 million of 10-year senior notes, consistent with our past practice, and expectation to add incremental debt as EBITDA grows over the long-term while maintaining our current investment grade credit ratings. Factoring in this issuance, I'd note that our term debt is all fixed rate with a weighted average interest rate of approximately 4% and a weighted average maturity of approximately 11 years. Our first quarter results reflect strong operational performance driven by our Aon United strategy. We start the year in a position of strength and expect to continue to make progress on our key financial metrics and our commitment to drive long-term shareholder value creation.

With that, I'll turn the call back over to the operator and we'll be delighted to take your questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Our first question comes from the line of Jimmy Bhullar with JPMorgan. Please proceed with your question.

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**Jimmy S. Bhullar**
*Analyst, JPMorgan Securities LLC*

Q

Hey, good morning. So first, just had a question on your expectations for the tax rate for 2023. It was high – I think that was around 19.5% in the first quarter. That's higher than the 17% to 18% range you've had the last few years. What drove that and what are your expectations for the tax rate for this year?

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**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Thanks so much for the question, Jimmy. As you know, we don't give guidance on the tax rate going forward. But when I look back historically, exclusive of the impact of discrete items which can be positive or negative in any quarter, our historical underlying rate's been 18% for the last five years.

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**Jimmy S. Bhullar**
*Analyst, JPMorgan Securities LLC*

Q

And then the changes in Singapore and a few other places, should those have a material impact or is there any reason to expect the rate to be different this year than in the past?

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**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Jimmy, we feel really confident about our overall capital structure of the company. We're domiciled in Ireland. We run a global capital pool and we run a global cash pooling structure. And that gives us enormous flexibility as we think about any future legislation.

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**Jimmy S. Bhullar**
*Analyst, JPMorgan Securities LLC*

Q

Okay. And then just lastly, on fiduciary investment income. Assuming rates stay where they are, is there further ramp-up in that that you would expect as your portfolio sort of resets to where rates have gone or has the full impact of the rise in rates over the past several quarters – is it already reflected in your numbers?

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**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Yeah. So what we would say is as we roll through, we really saw the pickup in fiduciary investment income in Q3 last year. So you'll see the upside in Q2 and then less as we move through the rest of the year. I would note, as you think about our overall fiduciary balances, we have on average $6.5 billion of fiduciary assets. And every 100 basis point increase in the short end of the interest rate curve is $65 million top line and bottom line. You should think about those fiduciary assets, Jimmy, as split roughly 50-50 between the US and international.

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**Jimmy S. Bhullar**
*Analyst, JPMorgan Securities LLC*

Q

Okay. Thank you.

**Operator**: Thank you. Our next question comes from the line of Andrew Kligerman with Credit Suisse. Please proceed with your question.

**Andrew Kligerman**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hey, good morning. You mentioned in the release that the US grew modestly in terms of organic revenue growth in Commercial Risk Solutions. And transaction and M&A was probably the very tough comp. So it looks like as we get into the second quarter and the rest of the year, that's really not a top comp anymore. Could give you any sense of what that impact was in the quarter and should we expect going into the next three quarters that we could see a significant contribution to organic growth?

**Gregory C. Case**

*Chief Executive Officer & Executive Director, Aon Plc*

A

First of all, Andrew, thanks very much for the question. We appreciate it. We observed, by the way, across the board as you think about growth for the quarter. This has been a strong quarter for us, 6% organic across all the solution lines. I think that may be the first time we've accomplished that in a long time and it's really been terrific. On the US side was an exceptionally strong business. You highlighted a very, very strong comp last year and just very, very strong capability in the specialty areas, a few of which have been under pressure. But we continue to invest in them because we know they're going to be terrific long term. So for us, we're continuing the momentum across the board. And as the market shifts a bit on the M&A and transaction side, we're going to obviously benefit from that. Eric, anything else you'd add?

**Eric J. Andersen**

*President, Aon Plc*

A

No, Greg. I think you covered it well. I think it's still foundationally very strong. The work that we're doing for our clients today on the Commercial Risk side with all that's happening in the market, whether it's risk analytics, captives, the broad suite of capabilities we can help them with as they're navigating the market dynamics are still very strong. And so pretty positive on it.

**Andrew Kligerman**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

So basically, just tell me if I'm interpreting it right. With all these amazing things you're doing, you had a pretty big drag from transaction and M&A. That goes away, we could see potentially an even better organic growth quarter next quarter.

**Eric J. Andersen**

*President, Aon Plc*

A

I would say the first quarter last year was a very strong quarter for Commercial Risk. The transaction solutions business, I think as Greg said, great capability subject to obviously some outside market dynamics. But we feel really strongly about that team. And when that comes back, certainly holding that skillset for us is such a great value driver for clients that we're excited about it.

**Andrew Kligerman**

*Analyst, Credit Suisse Securities (USA) LLC*

Q

Got it, okay. And then Christa mentioned about $200 million to $225 million of CapEx expenditure targeted for this year. You're doing so many interesting things with ABS and other technologies. Anything stand out that you're investing in right now that will drive future growth?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

The CapEx that I mentioned, the $200 million to $225 million, Andrew, I would say is primarily focused on IT investments to drive long-term growth. So whether that's scale investments in our platforms to help clients innovate or whether that's in security and infrastructure to keep our clients better protected and the firm better protected. And so we're investing a lot in the Aon Business Services platform, better connectivity, better data analytics, better insight. And it's really helping our colleagues to deliver great value to our clients.

**Andrew Kligerman**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Got it, great. And maybe just last quickly, M&A pipeline. Any areas of interest right now? Should we expect anything as the year progresses?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Yeah. Thanks for the question. We have a fantastic M&A pipeline and it is focused on our highest growth, highest margin, highest return on capital opportunities. And it reflects the areas we continue to invest in, areas of content and capability that we can scale across the firm. In areas like data analytics, you saw us do Tyche and ERN last year in that data analytic-intensive area. Areas like health and wellness and human capital, areas like our core risk offerings and helping our clients be able to model and manage risk better. And so, we've got lots of areas of great opportunity around the globe and we're really excited about it.

**Andrew Kligerman**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Awesome. Thank you.

**Operator**: Thank you. Our next question comes from the line of Robert Cox with Goldman Sachs. Please proceed with your question.

**Robert Cox**
*Analyst, Goldman Sachs & Co. LLC*

Q

Hey. Thanks for taking my question. Curious if there's any way you can help us quantify or help better understand the impact that higher T&E and inflation is having on the expense base.

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

So what I would tell you is if you look at that other general expense which is up 20%, that is primarily driven by T&E. And the thing I would note is you're comparing it against Q1 2022 which was an unusually low quarter in terms of T&E because of COVID.

**Robert Cox**
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay, got it. And is there anything to sort of look into – I noticed in the presentation that you added that the margin expansion for this year is net of investment in long-term growth. Is that more of just calling out the things you guys are doing in terms of investing or is there something to look into that?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

It's exactly the same as always, so what we would say is we grow margins each and every year. And our margin expansion for the last 12 years has been 1,120 basis points or approximately 90 basis points a year, and that 90 basis points a year over the last 12 years has been a gross margin expansion higher than that. And then it nets to 90 basis points net of the investments we're making in long-term growth, so that is consistent with the way we drive margins each and every year.

**Robert Cox**
*Analyst, Goldman Sachs & Co. LLC*

Q

Okay, perfect. And then maybe just shifting to the Wealth segment. Very strong and above average growth in Wealth for second straight quarter kind of despite some headwinds in the investment business. Curious how long you expect these tailwinds could play. Is it quarters, is it a year? How long should we be thinking about that?

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

A

Listen, a few highlights, Robert. The teams have done a terrific job. And really over multiple years, including the last two quarters, the overall performance is exceptional. Really reflects on a lot of what's going on in the world out there. The regulatory changes we highlighted around GMP and others, pension risk transfer. We're just uniquely well-positioned to sort of address that. So that's really what's driving the demand from the client standpoint and the team has done a terrific job. We did highlight in the opening comments, listen, the comps for next quarter is going to be particularly challenging in terms of sort of where we are. But fundamentals exceptionally strong and the Wealth team has done a terrific job. Eric, what else would you add to that?

**Eric J. Andersen**
*President, Aon Plc*

A

Yeah. The minor point I would say, Greg, is that it's a global answer. We're seeing growth in the UK in particular, especially around the Guaranteed Minimum Pension piece, but also in North America and in Europe. And so the retirement side of Wealth has been very strong for us and really like it. And you called out the consulting investment advisory (sic) [investment advisory consulting] (00:26:49) business. So the challenges there will lap eventually, but you described it right.

**Robert Cox**
*Analyst, Goldman Sachs & Co. LLC*

Q

Great. Thanks for the color.

**Operator**: Thank you. Our next question comes from the line of Weston Bloomer with UBS. Please proceed with your question.

**Weston Bloomer**
*Analyst, UBS Securities LLC*

Q

Hi, thanks. Good morning. My first question, I noticed real estate costs were up year-over-year for the first time, I guess, since 2021. Is that primarily just a function of the investments you're making in Smart Working? And just given the investments in CapEx that you've made, is it fair to assume that that should continue to grow year-over-year throughout the course of 2023?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Yes. So real estate is up 4%. It's reflecting back to us. It's, in fact, reflecting the investments we made in Smart Working as you said. Last year was impacted by FX. But, look, I would put this in the context, Weston, of we're going to grow margins each and every year. And as I mentioned, that margin expansion over the last 12 years has been 90 basis points a year, and that margin expansion reflects a gross margin expansion much higher than 90 basis points offset by investments in the business. And then again, on the CapEx point, we've guided to CapEx for the full year of $200 million to $225 million for the full year. That includes the CapEx investments in IT, in long-term growth, and in real estate and our Smart Working initiatives. And you should expect CapEx to grow each and every year in line with overall expense growth.

**Weston Bloomer**
*Analyst, UBS Securities LLC*

Q

Great. Thank you. And a follow-up on the wealth performance fees. You highlighted a 2Q headwind there. Is there an associated headwind in the back half of the year as well or is it just isolated to the second quarter? And is there a margin impact from that as well?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

It is just a Q2 impact. And, no, there's not an associated margin impact.

**Weston Bloomer**
*Analyst, UBS Securities LLC*

Q

Great. Thank you.

**Operator**: Thank you. Our next question comes from the line of Elyse Greenspan with Wells Fargo. Please proceed with your question.

**Elyse Greenspan**
*Analyst, Wells Fargo Securities LLC*

Q

Hi, thanks. Good morning. My first question, I guess, goes back to tying together some of the prior discussion on margins. So, Christa, you mentioned the historical 90 basis points of margin expansion that Aon has seen over the past 12 years. So I'm just trying to understand why we shouldn't expect that level, so the 90 basis points, in addition to the benefit that you guys are getting from fiduciary investment income, which I calculate was around 80 basis points this quarter. Or are you choosing to reinvest more in the business because of the strong tailwind we have from higher fiduciary investment income?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Thanks so much for the question, Elyse. And look, we do think about margins over the course of each year. And as we've said, we've driven 1,120 basis points over the last 12 years or 90 basis points a year. And that 90 basis points a year is reflecting a gross margin expansion much higher net of investments we make in the business each and every year. And we did see in Q1 70 basis points of margin expansion with 80 basis points of favorable impact from fiduciary investment income, Elyse, just as you said, offset by investments in the business including in our people, technology and an ongoing headwind from the resumption of T&E, all of which we manage in a disciplined way based on ROIC. And we think about margins balancing a number of factors, revenue growth, underlying expense growth, investment in our team's T&E and then the puts and takes around fiduciary investment income and FX. And we look at them all together and over the course of a full year and expect to drive margin expansion over the full course of 2023.

**Elyse Greenspan**
*Analyst, Wells Fargo Securities LLC*
Q

Thanks. And then my second question on Reinsurance, 9% organic in the quarter. That was stable with the fourth quarter. But I might have thought that just with the really strong rates that we saw during the January 1 renewals that that growth might have picked up sequentially. Can you just give us a little bit of a – just some of the trends that you saw in the Reinsurance business that impacted that 9% in the quarter and how we should think about the balance of the year?

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

Eric, we'll go to you with one disclaimer here. I just want to highlight – if you think about what our reinsurance colleagues have done over the last number of years, it's really been extraordinary. And at least they've really driven a level of performance with clients around the globe on a very unique platform that's been terrific. And remember, again, our efforts are connected to rate but not tied to rate. We're helping clients understand measure and mitigate risk, which means we're shifting programs, doing things that are unique, flexing the muscle around analytics to help them make better decisions. So what we want to see is client growth which we have seen, top line growth which we've seen and translate it into real impact which we've seen. So I just want to highlight that long-term piece and we see that playing out over the course of the year. But for the quarter, Eric, additional thoughts?

**Eric J. Andersen**
*President, Aon Plc*
A

Yeah, Greg, thanks. Look, I would say, Elyse, that reinsurance has been a strength-to-strength story for us over the last couple of years. It was at 7% growth in Q1 2022. And honestly, the work that's been done was nothing short of spectacular around the 1/1 renewals. We have double-digit growth, in fact, double-digit growth in our STG advisory business, significant new wins in treaty. Feel really good about the performance of the team year-to-date. And looking forward, the work that the team is doing with their insurer, clients and others is in demand. What the carriers are trying to do to manage their own portfolios as they navigate this marketplace has really – our team is providing real value to them as they think through that. So really proud of the work that that team has done not only this quarter but over the last several years. And the future looks bright for it.

**Elyse Greenspan**
*Analyst, Wells Fargo Securities LLC*
Q

Thanks. And one last one. Going back to that Wealth on tough Q2 comp comment, you guys saw 3% organic in Wealth last Q2. So was it just that these performance fees were elevated and there were just other businesses that offset that? It doesn't seem like a tough comp. So I just want to make sure I'm not missing something.

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*
A

Yeah. It's simply about the performance fees. But Elyse, performance fees are lumpy as we communicated.

**Elyse Greenspan**
*Analyst, Wells Fargo Securities LLC*
Q

Okay. Thank you.

**Operator**: Thank you. Our next question comes from the line of David Motemaden with Evercore ISI. Please proceed with your question.

**David Motemaden**
*Analyst, Evercore ISI*
Q

Hey, thanks. Good morning. So I just had a question. It looked like some of the discretionary parts of the business had a good quarter. Travel and events and commercial risk solutions and human capital and health were both singled out in the press release and in the slides. I'm wondering if you could just talk about how the pipeline looks in those businesses just given they do tend to be a little bit more economically sensitive?

**Eric J. Andersen**
*President, Aon Plc*
A

Sure. I would say our health business had a very solid first quarter. The consumer solutions part of that was up 9%. Core health and benefits was up significantly. Global benefits, human capital, double digit both in the analytics and the advisory and data solutions spaces. So really solid start for the year for them with a strong pipeline as they go through the rest of the year.

**David Motemaden**
*Analyst, Evercore ISI*
Q

Got it. Okay, thanks. So I'm just looking at the CapEx and appreciate the outlook this year, the $200 million to $225 million. If I just look back pre-COVID, it was running at that level or above that level. And it's been around $100 million less than that in 2020 and 2021, ticked up in the second half of 2022. I guess I'm wondering is there – should we be thinking about a bigger ramp, I guess, as we enter into 2024? Just maybe some of those investments that would have occurred during the COVID year sort of ramp up here as we exit?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*
A

Thanks so much for the question, David. I would say we expect $200 million to $225 million for 2023. And then it's reasonable to think going forward, 2024 and beyond, that CapEx will grow in line with expenses. So you're absolutely right that 2020 and 2021 were lower really just because of the COVID situation. And as we return to more normalized levels of CapEx, 2023 is our right normalized level to start with and then grow from there based on overall expense growth.

**David Motemaden**
*Analyst, Evercore ISI*
Q

Got it, okay. And then maybe if I could just sneak one more in. You mentioned a lot, Greg and Christa, just Aon Business Services. And I was just wondering. Taking a step back, how many employees do you have located in

Aon Business Services and where do you think you can get that to over the next couple of years and what sort of margin implications that might have?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Yeah. Look, thank you for the question. And what we would say is we're incredibly excited about Aon Business Services as a core part of our Aon United strategy. It's bringing together the firm in one organization led by Mindy Simon, our fantastic COO, and bringing together an organization to drive efficiency, to drive improved service and quality and to drive innovation at scale. Because a lot of the investments we're making, David, that you saw are in these IT platforms and security and infrastructure, are helping us scale insights and data analytics to clients to actually deliver impact.

And so we're really excited about the potential to drive productivity and margin expansion from ABS but equally to drive improved service and quality to clients and to allow us to accelerate innovation in one area of the business across all of our countries and all of our clients immediately. And so it's proving to be an amazing competitive advantage for us over the next many years.

**David Motemaden**
*Analyst, Evercore ISI*

Q

Great. Thank you.

**Operator**: Thank you. Our next question comes from the line of Mike Zaremski with BMO Capital Markets. Please proceed with your question.

**Jack Kindregan**
*Analyst, BMO Capital Markets Corp.*

Q

Good morning. This is Jack on for Mike. Just one follow-up regarding M&A outlook. First quarter M&A volumes in the brokerage space are down over 25% according to some media reports. So I'm wondering would Aon consider moving down-market in terms of employer size in the US or European insurance brokerage, a middle market area where Aon currently isn't a major player, given that some of the private equity players are being less aggressive.

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

A

I will take that. From our standpoint, as Christa highlighted before, we've got a terrific pipeline, lots of opportunities we see. We're always going to be looking at them in terms of how they're going to strengthen and build our business. So this is really content capability we can scale around the firm. So you might imagine we look across the entire spectrum. And we continue to do that looking for these kinds of opportunities at a return on invested capital criteria that sort of meets the benchmark, which is really buying back which sets the standard. So we're looking broad-based and looking out for opportunities around the world.

**Jack Kindregan**
*Analyst, BMO Capital Markets Corp.*

Q

Got it. Thank you. And then maybe a follow-up on the more discretionary parts of your business. Some competitors have said that clients are acting as if some project work which used to be maybe viewed as more discretionary is now viewed as more necessary in today's world. I guess just any thoughts on that? Is that something you're also seeing?

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

A

Yeah, we would – absolutely. Firstly, I just want to highlight when you look back on kind of overall what's discretionary and not discretionary as a baseline, very limited amounts of our business is really discretionary when you get down to it. Sometimes, timing's affected, not this year. But if not this year, it's next year, and so a very low level from that standpoint. But what you're highlighting is exactly correct. Complexity is driving demand and complexity and urgency is driving demand. And analytics around that, which we have, make some of these what would have been really would be nice to do almost necessary to do, particularly as you think about risk connected with human capital and the dynamic that comes with that. And Eric, what else would you add to that?

**Eric J. Andersen**
*President, Aon Plc*

A

Yeah. I would maybe offer two examples. One is around wellness and the human capital business that historically would've been considered discretionary. You can't have a conversation today with a Chief People Officer who is thinking about health overall, including wellness, as people think about return to work, how they engage their own colleagues, and so that is becoming more of a blended discussion than ever before. And the other piece I think, Greg, that jumps out is the risk analytics and the advisory work around the commercial risk business that you would've historically said would've been more discretionary in nature. Today, as clients are thinking through how they navigate this challenging market, whether it's captives, whether it's risk studies, trying to understand their total cost of risk and how they can actually manage the process better, those skills that we're able to bring to clients are in significant demand and feel more a part of the process going forward than maybe on a project-by-project basis. Just to give you two examples.

**Jack Kindregan**
*Analyst, BMO Capital Markets Corp.*

Q

Thank you.

**Operator**: Thank you. Our next question comes from the line of Meyer Shields with KBW. Please proceed with your question.

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

Q

Great, thanks. Two quick ones. First, can we get a little color on what actually drove the performance fees last year? Like, what was the performance that led to that fees and when can we expect that sort of thing to recur?

**Eric J. Andersen**
*President, Aon Plc*

A

I would look at it as an assets under management discussion in terms of the volatility of the markets, and so as that comes back around you'll begin to see more of a stable platform on that. But that's what drove it in the second quarter.

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

Q

Okay, fantastic. That's perfect. And second question, Greg – I think this is for Greg. So we saw almost 200 basis points of improvement in the comp ratio. Should we think about that as improved efficiency or is there a concern maybe that there are some roles that need to be filled?

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

A

So overall, as we think about it, Meyer, where we are sort of in the process, we're looking at this across holistically what we're doing because again, as Christa said, we make investments across the business to strengthen the business, and so you're seeing us do that. Aon Business Services underneath that drives efficiency which Christa described. I do want to emphasize it's not just efficiency. Aon Business Services is so much more than efficiency; it is innovation at scale and it is better service and capability, but it does drive efficiency, let's be clear. It helps individual colleagues be more effective in serving clients and groups of colleagues more effective serving clients. You're seeing that reflected in [indiscernible] (00:42:10). But we have continued to make really substantial investments in talent and content and capability and we'll continue to do that. Christa, what else would you add to that?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

The thing I would say, Meyer, is you're observing lumpiness in expenses in any one quarter, and we really think about margin expansion over the course of a full year. And we commit to drive margin expansion in 2023 and every year after that. And we think about margins over the course of a full year while balancing a number of factors, including investments in people, T&E, and IT as well as the impacts of FX and fiduciary investment income, all with the overall goal of delivering adjusted margin expansion net of sustainable investment and long-term growth. And that's exactly what's happening in Q1 and will happen for the rest of 2023.

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

Q

Okay, perfect. Thank you very much.

**Operator**: Thank you. Our next question comes from the line of Michael Ward with Citigroup. Please proceed with your question.

**Michael Augustus Ward**
*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks, guys. Good morning. I think you guys implied that the T&E headwind was much larger in the first quarter. Was wondering if that means you expect more margin expansion over the balance of the year.

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Michael, we don't give margin expansion guidance for the full year. What we can say is over the last 12 years, we've driven 1,120 basis points of margin expansion or approximately 90 basis points per year. We expect to drive margin expansion each and every year. It's not neatly 90 basis points per year because it's lumpy. And really, what it is is us driving gross margin expansion net of investments, and the amount we invest every year is dependent upon our opportunities for long-term growth. I would say specifically on your T&E point, T&E was a bigger headwind this quarter because Q1 2022 had a very low T&E expense given what was going on with COVID.

**Michael Augustus Ward**
*Analyst, Citigroup Global Markets, Inc.*

Q

Got it, okay. And then a somewhat different question. I wanted to ask about the IP solutions business. I believe it's somewhat small for you guys. I think you've quoted like $1 billion of lending that you helped achieve there. So I was just hoping you could maybe discuss this business and maybe quantify its earnings or revenues, if possible, and maybe even size the market of this business.

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

A

Michael, first of all, thanks for raising it. Happy to address it. And Eric and I can – let's get his color commentary on this, too. But this is a phenomenal area. If you think about sort of things we do every day to influence the market, this is an area in which you step back and think total addressable market. What could that be? Well, starts at zero right now. And where could it build to? 85% of the world's value is connected back to intangible assets. So my gosh, what should this be? By the way, what has our industry done to defend those assets? Nothing to-date until we started to really understand how to value IP such that it could be insured, which means it's a real tradable asset, which means you can borrow against it. And you're right. We've done a number of deals over the course of the last 18, 24 months which has amounted to $1 billion of debt, which is fantastic. It means these entrepreneurs are raising growth capital without giving up ownership.

So just think about that. Raising growth capital without giving up ownership, who is interested in doing that if you're an entrepreneur? And the answer is that market is massive. It's going to take time to develop and take time to build markets as it always does. And we love the momentum and we love the possibilities and the potential. We're not going to quantify what it means. We'll see it play out over time. But it really does have very specific application and we're quite excited about the progress. Eric, what else would you add to that?

**Eric J. Andersen**
*President, Aon Plc*

A

Yeah. Maybe just to go a little bit on it. Certainly, the CPI lending piece is what we have been talking about the most and that's probably the most advanced in terms of the valuation process. But you've also got M&A due diligence around IP. You've got traditional IP liability where a corporate is not actually trying to lend against it but want us to protect it. But to make all that happen, you need a couple of things, which is what we've been building over the last period of time. You need valuation, how do you actually value IP both in an upmarket and a stressed market, how do you liquidate it, how do you get insurer partners to devote capital to it to understand the risk themselves, to trust the valuation process, to understand how you would liquidate it as an example.

So there's a whole ecosystem that we've been building that we are very optimistic about. And as Greg said, we've been building it a little bit each time. And the team is focused. They're connected in with our commercial risk partners as they build market. They're connected into understanding how to get it in front of clients and build the financial institution relationships. So there's a lot to it that has been happening for us. And we're excited about the future of it and started to see a little bit of progress last year.

**Michael Augustus Ward**
*Analyst, Citigroup Global Markets, Inc.*

Q

Thanks so much, guys.

**Operator**: Thank you. Our next question comes from the line of Josh Shanker with Bank of America. Please proceed with your question.

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

Thank you all for taking my question. Good morning to you. First quarter is the strongest quarter for the Reinsurance segment, obviously. In the back half of last year, you had a lot of acquisition-related growth in Reinsurance, not so much in 1Q. I mis-modeled it. I'm just looking at 2Q which is a smaller quarter for revenues in Reinsurance. Wondering if you can help me think about the acquisition revenue piece for 2Q. It really won't matter later in the year. But given that volatility over the last three quarters, trying to be smart about it.

**Eric J. Andersen**
*President, Aon Plc*

A

Why don't I take a crack at it? Listen, the Reinsurance business is – it's kind of almost a tale of two halves. Certainly, the first half is much more dominated by treaty business. Think about that through the first half of this year as always. Still some good facultative business. And obviously, with the acquisition of Tyche, the ability to do those advisory services throughout the year. The second half is much more weighted to capital market transactions like cat bonds as well as facultative reinsurance and then some casualty reinsurance that tends to go through the year as well. But if you're trying to think through the weighting of the year; property cat, which is what a lot of people focus on, is largely done by the end of June, if that helps.

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

In terms of acquisition, is the property cat in that acquisition?

**Eric J. Andersen**
*President, Aon Plc*

A

I'm not exactly sure what you mean by acquisition.

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

I'm saying that you had 9% boost to revenues in the back half of 2022 in the Reinsurance segment due to acquisitions and only 1% in 1Q. I assume there's a 12-month impact on any acquisitions you make. It was less pronounced because of the volumes, I guess, in 1Q. I'm trying to think...

**Eric J. Andersen**
*President, Aon Plc*

A

Got it...

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

Yeah.

**Eric J. Andersen**
*President, Aon Plc*

A

So the acquisition around Tyche was much more advisory services, less property cat, but more pricing support and data and analytics support for those clients. A lot of the activity in the second half of last year was driven by fac and cat bonds. So I would say that's how I would think about it.

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

Okay. And then I wanted to follow up on...

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

And Josh...

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

Yeah, go ahead.

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Well, sorry. Josh, we closed Tyche in Q1 and so you will see Tyche growth included in organic growth from Q2 onwards. It'll be under – as Eric said, our strategy and technology group will be advisory part of reinsurance.

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

That's perfect. Thank you, Christa. And I just wanted to follow up on Mike's question about T&E just a little bit. Clearly, there's a variance between 1Q 2023 T&E and 1Q 2022. But in my mind, I would imagine the variance would have been greater between 4Q 2022 and 4Q 2021. And maybe you'll tell me a little something about the business cycle and whatnot. If you're spending more on T&E now, is that a broad situation with regards to a resumption of how your clients are spending? And two, should we expect that T&E headwind is really a 2023 event more so than a 2022 event?

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Great question, Josh. And so what we would say is, look, we wouldn't overly read into any one quarter. It's lumpy quarter to quarter. And what we would say is think about margin expansion for the full year, which is driven by a lot of things. It's driven by our investment in people and technology to drive long-term growth offset by some investments in T&E, a headwind from FX. There's a lot of things going into this, Josh. But really, that's why we come back to margin expansion for the full year 2023 similar to the margin expansion we've driven over the last 12 years of 1,120 basis points or approximately 90 basis points a year.

**Joshua Shanker**
*Analyst, BofA Securities, Inc.*

Q

I appreciate you staying on message. And thank you very much, Christa.

**Christa Davies**
*Chief Financial Officer & Executive Vice President-Global Finance, Aon Plc*

A

Thanks, Josh.

**Operator**: Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Greg Case for closing comments.

## Gregory C. Case

*Chief Executive Officer & Executive Director, Aon Plc*

Thanks very much. I just wanted to say to everyone we really appreciate you joining the call and look forward to our discussion next quarter. Thanks very much.

**Operator**: Thank you. This concludes today's conference call. You may disconnect your lines at this time. Thank you for your participation.