

Aon plc  
Form 10-Q  
May 01, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-7933

Aon plc  
(Exact Name of Registrant as Specified in Its Charter)

ENGLAND AND WALES  
(State or Other Jurisdiction of  
Incorporation or Organization)

98-1030901  
(I.R.S. Employer  
Identification No.)

8 DEVONSHIRE SQUARE, LONDON, ENGLAND  
(Address of Principal Executive Offices)  
+44 20 7623 5500  
(Registrant's Telephone Number,  
Including Area Code)

EC2M 4PL  
(Zip Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

Number of Class A Ordinary Shares of Aon plc, \$0.01 nominal value, outstanding as of March 31, 2015: 281,733,504

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PART I FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

Aon plc  
Condensed Consolidated Statements of Income  
(Unaudited)

| (millions, except per share data)                             | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2015  | March 31,<br>2014 |
| Revenue   |                    |                   |
| Commissions, fees and other                                   | \$2,842            | \$2,941           |
| Fiduciary investment income                                   | 5                  | 6                 |
| Total revenue   | 2,847              | 2,947             |
| Expenses  |                    |                   |
| Compensation and benefits                                     | 1,683              | 1,751             |
| Other general expenses  | 723                | 727               |
| Total operating expenses                                      | 2,406              | 2,478             |
| Operating income  | 441                | 469               |
| Interest income   | 3                  | 2                 |
| Interest expense  | (65                | ) (58             |
| Other income  | 42                 | 1                 |
| Income before income taxes                                    | 421                | 414               |
| Income taxes  | 80                 | 78                |
| Net income  | 341                | 336               |
| Less: Net income attributable to noncontrolling interests     | 13                 | 11                |
| Net income attributable to Aon shareholders                   | \$328              | \$325             |
| Basic net income per share attributable to Aon shareholders   | \$1.15             | \$1.07            |
| Diluted net income per share attributable to Aon shareholders | \$1.14             | \$1.06            |
| Cash dividends per share paid on ordinary shares              | \$0.25             | \$0.18            |
| Weighted average ordinary shares outstanding - basic          | 284.2              | 303.5             |
| Weighted average ordinary shares outstanding - diluted        | 287.1              | 307.2             |

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)

| (millions)   | Three Months Ended |                   |   |
|--|--------------------|-------------------|---|
|  | March 31,<br>2015  | March 31,<br>2014 |   |
| Net income   | \$341              | \$336             |   |
| Less: Net income attributable to noncontrolling interests                        | 13                 | 11                |   |
| Net income attributable to Aon shareholders                                      | 328                | 325               |   |
| Other comprehensive (loss) income, net of tax:                                   |                    |                   |   |
| Change in fair value of investments  | (1                 | ) 1               |   |
| Change in fair value of derivatives  | 6                  | 9                 |   |
| Foreign currency translation adjustments   | (322               | ) 16              |   |
| Post-retirement benefit obligation   | 23                 | 26                |   |
| Total other comprehensive (loss) income  | (294               | ) 52              |   |
| Less: Other comprehensive (loss) income attributable to noncontrolling interests | (1                 | ) (2              | ) |
| Total other comprehensive (loss) income attributable to Aon shareholders         | (293               | ) 54              |   |
| Comprehensive income attributable to Aon shareholders                            | \$35               | \$379             |   |

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc  
Condensed Consolidated Statements of Financial Position

| (millions, except nominal value)                               | March 31,<br>2015<br>(Unaudited) | December 31,<br>2014 |
|--|----------------------------------|----------------------|
| <b>ASSETS</b>  |                                  |                      |
| <b>CURRENT ASSETS</b>  |                                  |                      |
| Cash and cash equivalents                                      | \$378                            | \$ 374               |
| Short-term investments   | 343                              | 394                  |
| Receivables, net   | 2,672                            | 2,815                |
| Fiduciary assets   | 10,894                           | 11,638               |
| Other current assets   | 712                              | 602                  |
| Total Current Assets   | 14,999                           | 15,823               |
| Goodwill   | 8,548                            | 8,860                |
| Intangible assets, net   | 2,410                            | 2,520                |
| Fixed assets, net  | 754                              | 765                  |
| Other non-current assets                                       | 1,678                            | 1,804                |
| <b>TOTAL ASSETS</b>  | <b>\$28,389</b>                  | <b>\$ 29,772</b>     |
| <b>LIABILITIES AND EQUITY</b>                                  |                                  |                      |
| <b>LIABILITIES</b>   |                                  |                      |
| <b>CURRENT LIABILITIES</b>                                     |                                  |                      |
| Fiduciary liabilities  | \$10,894                         | \$ 11,638            |
| Short-term debt and current portion of long-term debt          | 966                              | 783                  |
| Accounts payable and accrued liabilities                       | 1,391                            | 1,805                |
| Other current liabilities                                      | 865                              | 788                  |
| Total Current Liabilities                                      | 14,116                           | 15,014               |
| Long-term debt   | 4,710                            | 4,799                |
| Pension, other post-retirement and post-employment liabilities | 2,001                            | 2,141                |
| Other non-current liabilities                                  | 1,131                            | 1,187                |
| <b>TOTAL LIABILITIES</b>                                       | <b>21,958</b>                    | <b>23,141</b>        |
| <b>EQUITY</b>  |                                  |                      |
| Ordinary shares - \$0.01 nominal value                         | 3                                | 3                    |
| Authorized: 750 shares (issued: 2015 - 281.7; 2014 - 280.0)    |                                  |                      |
| Additional paid-in capital                                     | 5,177                            | 5,097                |
| Retained earnings  | 4,612                            | 4,605                |
| Accumulated other comprehensive loss                           | (3,427                           | ) (3,134             |
| <b>TOTAL AON SHAREHOLDERS' EQUITY</b>                          | <b>6,365</b>                     | <b>6,571</b>         |
| Noncontrolling interests                                       | 66                               | 60                   |
| <b>TOTAL EQUITY</b>  | <b>6,431</b>                     | <b>6,631</b>         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                            | <b>\$28,389</b>                  | <b>\$ 29,772</b>     |

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc  
Condensed Consolidated Statement of Shareholders' Equity  
(Unaudited)

| (millions)   | Shares | Ordinary<br>Shares and<br>Additional<br>Paid-in Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>(Loss)<br>Income, Net of Tax | Non-<br>controlling<br>Interests | Total   |
|--|--------|---|----------------------|--|----------------------------------|---------|
| Balance at December 31, 2014   | 280.0  | \$5,100   | \$4,605              | \$ (3,134 )  | \$60                             | \$6,631 |
| Net income   | —      | —   | 328                  | —  | 13                               | 341     |
| Shares issued - employee benefit plans                                   | 0.2    | 15  | —                    | —  | —                                | 15      |
| Shares issued - employee<br>compensation                                 | 4.0    | (128 )  | —                    | —  | —                                | (128 )  |
| Shares purchased   | (2.5 ) | —   | (250 )               | —  | —                                | (250 )  |
| Tax benefit - employee benefit plans                                     | —      | 102   | —                    | —  | —                                | 102     |
| Share-based compensation expense   | —      | 90  | —                    | —  | —                                | 90      |
| Dividends to shareholders  | —      | —   | (71 )                | —  | —                                | (71 )   |
| Net change in fair value of investments                                  | —      | —   | —                    | (1 )   | —                                | (1 )    |
| Net change in fair value of derivatives                                  | —      | —   | —                    | 6  | —                                | 6       |
| Net foreign currency translation<br>adjustments                          | —      | —   | —                    | (321 )   | (1 )                             | (322 )  |
| Net post-retirement benefit obligation                                   | —      | —   | —                    | 23   | —                                | 23      |
| Purchases of shares from<br>noncontrolling interests                     | —      | 1   | —                    | —  | (5 )                             | (4 )    |
| Dividends paid to noncontrolling<br>interests on subsidiary common stock | —      | —   | —                    | —  | (1 )                             | (1 )    |
| Balance at March 31, 2015  | 281.7  | \$5,180   | \$4,612              | \$ (3,427 )  | \$66                             | \$6,431 |

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

Aon plc  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

| (millions)   | Three Months Ended |                   |
|--|--------------------|-------------------|
|  | March 31,<br>2015  | March 31,<br>2014 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                    |                   |
| Net income   | \$ 341             | \$ 336            |
| Adjustments to reconcile net income to cash provided by (used for) operating activities: |                    |                   |
| Gain from sales of businesses and investments, net                                       | (19                | ) (5              |
| Depreciation of fixed assets   | 56                 | 60                |
| Amortization of intangible assets  | 80                 | 86                |
| Share-based compensation expense   | 90                 | 102               |
| Deferred income taxes  | 7                  | 10                |
| Change in assets and liabilities:  |                    |                   |
| Fiduciary receivables  | 173                | 165               |
| Short-term investments — funds held on behalf of clients                                 | 63                 | (271              |
| Fiduciary liabilities  | (236               | ) 106             |
| Receivables, net   | 49                 | 13                |
| Accounts payable and accrued liabilities   | (466               | ) (468            |
| Restructuring reserves   | (13                | ) (40             |
| Current income taxes   | 27                 | 2                 |
| Pension, other post-retirement and other post-employment liabilities                     | (66                | ) (128            |
| Other assets and liabilities   | 50                 | 21                |
| <b>CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>                                  | <b>136</b>         | <b>(11</b>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                    |                   |
| Proceeds from sale of long-term investments  | 3                  | 42                |
| Purchases of long-term investments   | (1                 | ) (10             |
| Net sales of short-term investments — non-fiduciary                                      | 42                 | 183               |
| Acquisition of businesses, net of cash acquired  | (21                | ) (5              |
| Proceeds from sale of businesses   | 41                 | 1                 |
| Capital expenditures   | (62                | ) (55             |
| <b>CASH PROVIDED BY INVESTING ACTIVITIES</b>   | <b>2</b>           | <b>156</b>        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                    |                   |
| Share repurchase   | (250               | ) (600            |
| Issuance of shares for employee benefit plans  | 48                 | 26                |
| Issuance of debt   | 870                | 1,195             |
| Repayment of debt  | (686               | ) (829            |
| Cash dividends to shareholders   | (71                | ) (53             |
| (Purchases) sales of shares (from) to noncontrolling interests                           | (5                 | ) 1               |
| Dividends paid to noncontrolling interests   | (1                 | ) —               |
| <b>CASH USED FOR FINANCING ACTIVITIES</b>  | <b>(95</b>         | <b>) (260</b>     |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>                      | <b>(39</b>         | <b>) (24</b>      |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                              | <b>4</b>           | <b>(139</b>       |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                                  | <b>374</b>         | <b>477</b>        |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  | <b>\$ 378</b>      | <b>\$ 338</b>     |

Supplemental disclosures:

|                                   |      |      |
|-----------------------------------|------|------|
| Interest paid                     | \$63 | \$64 |
| Income taxes paid, net of refunds | \$46 | \$66 |

See accompanying Notes to the Condensed Consolidated Financial Statements (Unaudited).

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Notes to the Condensed Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements and Notes thereto have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The Condensed Consolidated Financial Statements include the accounts of Aon plc and all of its controlled subsidiaries ("Aon" or the "Company"). All intercompany accounts and transactions have been eliminated. The Condensed Consolidated Financial Statements include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the Company's consolidated financial position, results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The results for the three months ended March 31, 2015 are not necessarily indicative of operating results that may be expected for the full year ending December 31, 2015.

Reclassification

Certain amounts in prior years' Condensed Consolidated Financial Statements and related notes have been reclassified to conform to the 2015 presentation. In prior periods, long-term investments were included in Investments in the Condensed Consolidated Statement of Financial Position. These amounts are now included in Other non-current assets in the Condensed Consolidated Statement of Financial Position, as shown in Note 4 to these Condensed Consolidated Financial Statements. Long-term investments were \$143 million at both March 31, 2015 and December 31, 2014.

Use of Estimates

The preparation of the accompanying Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of reserves and expenses. These estimates and assumptions are based on management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Management believes its estimates to be reasonable given the current facts available. Aon adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets, and foreign currency movements increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

2. Accounting Principles and Practices

New Accounting Pronouncements

Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued new accounting guidance on the presentation of debt issuance costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the associated debt liability. The new guidance will be applied on a retrospective basis and is effective

for the Company in the first quarter of 2016. The adoption of this guidance is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

#### Consolidations

In February 2015, the FASB issued new accounting guidance on consolidations, which eliminates the deferral granted to investment companies from applying the variable interest entities ("VIEs") guidance and makes targeted amendments to the current consolidation guidance. The new guidance applies to all entities involved with limited partnerships or similar entities and will require re-evaluation of these entities under the revised guidance, which could change previous consolidation conclusions. The guidance is effective for the Company in the first quarter of 2016. The impact from the adoption of this guidance on the Company's Condensed Consolidated Financial Statements cannot be determined at this time.

## Revenue Recognition

In May 2014, the FASB issued new accounting guidance on revenue from contracts with customers, which will supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principal of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The guidance is effective for Aon in the first quarter of 2017 and early adoption is not permitted. The guidance permits two methods of transition upon adoption; full retrospective and modified retrospective. Under the full retrospective method, prior periods would be restated under the new revenue standard, providing a comparable view across all periods presented. Under the modified retrospective method, prior periods would not be restated. Rather, revenues and other disclosures for pre-2017 periods would be provided in the notes to the financial statements as previously reported under the current revenue standard. The impact from the adoption of this guidance on the Company's Condensed Consolidated Financial Statements cannot be determined at this time. The Company is also determining the appropriate method of transition to the guidance.

## Discontinued Operations

In April 2014, the FASB issued new accounting guidance that increased the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance was effective for Aon in the first quarter of 2015. The adoption of this guidance did not have a material impact on the Company's Condensed Consolidated Financial Statements.

## 3. Cash and Cash Equivalents and Short-term Investments

Cash and cash equivalents include cash balances and all highly liquid investments with initial maturities of three months or less. Short-term investments include certificates of deposit, money market funds and highly liquid debt instruments purchased with initial maturities in excess of three months but less than one year and are carried at amortized cost, which approximates fair value.

At March 31, 2015, Cash and cash equivalents and Short-term investments were \$721 million compared to \$768 million at December 31, 2014. Of the total balance, \$127 million and \$169 million was restricted as to its use at March 31, 2015 and December 31, 2014, respectively. Included within that amount, the Company is required to hold £40.5 million of operating funds in the U.K. by the Financial Conduct Authority, a U.K.-based regulator, which were included in Short-term investments. These operating funds, when translated to U.S. dollars, were equal to \$60 million and \$63 million at March 31, 2015 and December 31, 2014, respectively. In addition, Cash and cash equivalents included additional restricted balances of \$67 million and \$106 million at March 31, 2015 and December 31, 2014, respectively. The restricted balances primarily relate to cash required to be held as collateral.

## 4. Other Financial Data

### Condensed Consolidated Statements of Income Information

#### Other Income

Other income consists of the following (in millions):

|                                     | Three months ended March 31, |       |
|-------------------------------------|------------------------------|-------|
|                                     | 2015                         | 2014  |
| Foreign currency remeasurement gain | \$24                         | \$19  |
| Gain on disposal of business        | 19                           | —     |
| Equity earnings                     | 2                            | 5     |
| Loss on investments                 | (2                           | ) (1  |
| Derivative loss                     | (1                           | ) (23 |
| Other                               | —                            | 1     |
| Total                               | \$42                         | \$1   |

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## Condensed Consolidated Statements of Financial Position Information

## Allowance for Doubtful Accounts

An analysis of the allowance for doubtful accounts is as follows (in millions):

|   | Three months ended March 31, |      |
|---|------------------------------|------|
|   | 2015                         | 2014 |
| Balance at beginning of period          | \$74                         | \$90 |
| Provision charged to operations         | 8                            | 4    |
| Accounts written off, net of recoveries | (9                           | ) (5 |
| Foreign currency translation            | (3                           | ) —  |
| Balance at end of period                | \$70                         | \$89 |

## Other Current Assets

The components of Other current assets are as follows (in millions):

|                        | March 31, 2015 | December 31, 2014 |
|------------------------|----------------|-------------------|
| Taxes receivable       | \$218          | \$99              |
| Deferred tax assets    | 206            | 212               |
| Prepaid expenses       | 158            | 164               |
| Deferred project costs | 108            | 102               |
| Other                  | 22             | 25                |
| Total                  | \$712          | \$602             |

## Other Non-Current Assets

The components of Other non-current assets are as follows (in millions):

|                        | March 31, 2015 | December 31, 2014 |
|------------------------|----------------|-------------------|
| Prepaid pension        | \$897          | \$933             |
| Deferred project costs | 237            | 250               |
| Deferred tax assets    | 146            | 144               |
| Investments            | 143            | 143               |
| Taxes receivable       | 57             | 101               |
| Other                  | 198            | 233               |
| Total                  | \$1,678        | \$1,804           |

## Other Current Liabilities

The components of Other current liabilities are as follows (in millions):

|                          | March 31, 2015 | December 31, 2014 |
|--------------------------|----------------|-------------------|
| Deferred revenue         | \$410          | \$408             |
| Taxes payable            | 89             | 64                |
| Deferred tax liabilities | 2              | 2                 |
| Other                    | 364            | 314               |
| Total                    | \$865          | \$788             |



## Other Non-Current Liabilities

The components of Other non-current liabilities are as follows (in millions):

|                           | March 31, 2015 | December 31,<br>2014 |
|---------------------------|----------------|----------------------|
| Deferred tax liabilities  | \$307          | \$313                |
| Taxes payable             | 201            | 210                  |
| Deferred revenue          | 186            | 167                  |
| Leases                    | 172            | 184                  |
| Compensation and benefits | 55             | 57                   |
| Other                     | 210            | 256                  |
| Total                     | \$1,131        | \$1,187              |

## 5. Acquisitions and Dispositions

## Acquisitions

During the three months ended March 31, 2015, the Company completed the acquisition of one business in the Risk Solutions segment and one business in the HR Solutions segment. During the three months ended March 31, 2014, the Company completed the acquisition of one business in the Risk Solutions segment and one business in the HR Solutions segment.

The following table includes the aggregate consideration transferred and the preliminary value of intangible assets recorded as a result of the Company's acquisitions (in millions):

|               | Three months ended March 31, |      |
|---------------|------------------------------|------|
|               | 2015                         | 2014 |
| Consideration |                              |      |