

Aon and Willis Towers Watson - The Value of Scale

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Student role: Outside investor assessing the newly announced combination

Case convention: The combination agreement was publicly announced and unanimously approved by both boards on the cutoff date. This case asks students to assess the public strategic thesis and its execution evidence; it does not reconstruct private deliberations or present a board vote as open. [S1]

The announcement

On 9 March 2020, Aon plc and Willis Towers Watson (WTW) announced a definitive agreement to combine in an all-stock transaction. WTW shareholders would receive 1.08 shares of the new Aon for each WTW share, a stated 16.2% premium to WTW's closing price on 6 March. After completion, Aon shareholders were expected to own about 63% and WTW shareholders about 37% of the combined company. The companies described the combined equity value as approximately \$80 billion. [S1]

Aon said the combination would build a technology-enabled platform across risk, retirement and health. It argued that the two firms' expertise, global reach and data capabilities could accelerate Aon United and support new client solutions. Aon identified opportunities in areas such as cyber, delegated investments, intellectual property, climate risk and health. These were management's stated strategic expectations, not demonstrated client outcomes. [S1]

For an investor, the central question is not just whether the two firms can be combined. It is whether a larger business can turn overlapping services and complementary capabilities into durable client value and returns after the costs and disruption of integration.

What acquisition research can-and cannot-say

Two studies provide context, not an Aon forecast. King et al.'s meta-analysis combined 93 empirical studies (852 effect sizes) and found substantial variation: average acquirer abnormal returns were positive on announcement day, but later-window returns were negative; one-year accounting ROA was negative on average, while three-year ROA was not significantly different from zero. The evidence pools diverse, mostly U.S. studies and measures, with overlapping firm samples and substantial heterogeneity, so it does not predict this transaction's result. [S4]

Zollo and Singh examined U.S. commercial-bank acquisitions: interviews informed a survey of bank holding companies, and transaction-level regressions covered 228 related acquisitions. Integration and codification of acquisition lessons had positive conditional associations with three-year relative ROA (standardized coefficients +0.185, +0.207, and +0.142 for integration, codification, and their interaction); the observational, retrospective design does not establish causation. Its single-industry, related-deal setting and acquirer-focused outcome limit transfer

to a global insurance and advisory combination. These findings suggest questions about integration practice, not a prescribed strategy or a numerical forecast for Aon and WTW. [S5]

Aon and WTW before the transaction

Aon reported \$11.013 billion in 2019 revenue, including a \$14 million elimination across its solution lines. It reported 6% organic revenue growth. The company described Aon United as an integrated, networked client-serving platform and had invested in data and analytics. [S2]

WTW reported \$9.039 billion in 2019 revenue and 5% organic growth. Its reportable segments were Human Capital & Benefits, Corporate Risk & Broking, Investment, Risk & Reinsurance, and Benefits Delivery & Administration. Segment revenue totaled \$8.916 billion; reimbursable expenses and other brought total revenue to \$9.039 billion. WTW reported approximately 46,600 employees at year end. [S3]

Both companies advised and brokered risk and employee-benefit solutions. WTW also operated benefits-delivery and administration services, while Aon reported data and analytics services. The businesses therefore had both overlapping client offerings and capabilities that management considered complementary. The filings establish those portfolios; they do not show how much clients would buy across them or what share of cost savings could be achieved without disrupting service.

Exhibit 1. 2019 reported revenue and organic growth

Company	Reported revenue	Reported organic growth	Relevant scope note
Aon	\$11.013bn	6%	Five solution lines total \$11.027bn before a \$14m elimination
WTW	\$9.039bn	5%	\$8.916bn segment revenue plus \$123m reimbursable expenses and other
Simple sum	\$20.052bn	-	Arithmetic sum only; not audited pro forma revenue

Organic growth is defined separately by each company. Aon includes certain intercompany activity and excludes currency, fiduciary investment income, acquisitions and divestitures, transfers between revenue lines, specified revenue-recognition effects, and gains or losses on derivatives accounted for as hedges. WTW excludes currency and the period-over-period effects of acquisitions and divestitures. These measures provide context for each company; they are not identical or a standardized comparison. [S2]; [S3]

How management expected value to be created

Aon forecast \$800 million in annual pretax cost savings by the third full year after completion. It expected \$267 million in the first full year and \$600 million in the second. The company said approximately 73% of savings would come from consolidating business and central-support functions, including use of Aon Business Services, and 27% from technology, real estate and third-party contracts. Potential revenue synergies were expected but excluded from the estimate. [S1]

The 73% category points to changes in business and central-support functions, but the announcement does not provide a detailed function-by-function plan or allocate expected reductions across staff, offices or client-facing activities. Nor does the forecast show the client impact of reducing duplicate capacity. Revenue opportunities from offering complementary capabilities are a separate possibility; no revenue-synergy amount was included.

The announced transaction also carried substantial expected costs. Aon estimated \$1.4 billion to achieve synergies, approximately \$200 million of transaction costs and up to \$400 million in retention costs. It cited about \$2 billion of expected one-time costs. The company presented a value estimate exceeding \$10 billion by capitalizing expected pretax synergies using a blended 2020 price-to-earnings multiple and deducting those one-time costs. This was management's calculation, not a transaction-independent valuation. [S1]

Exhibit 2. Announced cost-savings plan

A. Expected pretax annual savings ramp

Full year after combination	Expected pretax annual savings
Year 1	\$267m
Year 2	\$600m
Year 3	\$800m

B. Management's expected sources of the full target

Source category	Share of full \$800m annual target
Business and central-support functions	Approximately 73%
Technology, real estate and third-party contracts	Approximately 27%

The 73%/27% mix describes management's forecast for the full target, not a verified cost base. The companies disclosed no year-by-year allocation of either category across the \$267m/\$600m/\$800m annual ramp. Potential revenue synergies were excluded. [S1]

The investor's dilemma

The announced strategy offers an appealing logic: larger scale could support more specialist capabilities, global coverage, data investment and integrated solutions for clients. Yet the case for scale depends on mechanisms that investors could not verify from the announcement alone.

First, broader capabilities create value only if clients use them. A firm may offer more services without increasing the number of mandates it wins, the value delivered, or revenue per client. Aon and WTW compete in overlapping areas, so the combined group must decide how to coordinate product teams and client relationships while retaining the expertise that supports those services.

Second, the savings forecast depends mostly on business and central-support consolidation. Removing duplication could improve efficiency, but integration could also divert managers and client-facing staff, disrupt systems or unsettle relationships. The public announcement does not give investors enough detail to assign probabilities or costs to those risks.

Third, Aon's 6% and WTW's 5% organic growth in 2019 show that both had reported growth before the transaction. They do not establish that either firm could sustain that growth, that their definitions are comparable, or that the combination is required to achieve management's long-term aims. Nor does a large savings target show that an investor's expected return exceeds the transaction's premium, integration costs and opportunity cost.

Both boards had unanimously approved the definitive agreement. As an outside investor, you are not deciding whether the boards should sign. You are deciding how much confidence to place in the announced strategic case and what observable evidence would change that assessment.

Discussion assignment

Prepare a short investor memo that:

1. Assesses the strongest strategic logic for combining Aon and WTW and the strongest counterargument.
2. Evaluates what the disclosed savings forecast does and does not establish about value creation.
3. Identifies three public milestones or indicators that would help test whether integration is creating client value while delivering savings.
4. States what evidence would cause you to raise or lower confidence in management's thesis.

Use the announcement and filings available by 9 March 2020. Keep assumptions explicit. The case does not supply client-retention rates, cross-sell conversion, integration probabilities, a detailed synergy bridge or a company-specific return forecast. Do not treat any of these missing values as facts.

Sources and conventions

S1. Aon and Willis Towers Watson, "Aon plc and Willis Towers Watson to Combine," 9 March 2020, SEC Exhibit 99.1, pp. 1-3. [SEC filing](#). Management forecasts and transaction terms are attributed to the announcement.

S2. Aon plc, 2019 Form 10-K, filed February 2020, Item 7 revenue table and organic revenue growth footnote, printed p. 31; Item 1 strategy. [SEC filing](#).

S3. Willis Towers Watson, 2019 Form 10-K, filed February 2020, Item 1; FY2019 results release, 6 February 2020, revenue reconciliation and organic change definition. [SEC 10-K](#); [SEC results release](#).

S4. King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. (2004), "Meta-analyses of Post-acquisition Performance: Indications of Unidentified Moderators," *Strategic Management Journal*, 25(2), 187-200. Summary based on full text, especially Table 1, pp. 192-93. [Article](#).

S5. Zollo, M., & Singh, H. (2004), "Deliberate Learning in Corporate Acquisitions: Post-Acquisition Strategies and Integration Capability in U.S. Bank Mergers," *Strategic Management Journal*, 25(13), 1233-1256. Summary based on full text, methods pp. 1243-45, Table 2 pp. 1248-49, limitations pp. 1252-53. [Article](#).

All company evidence is limited to information available by the case cutoff. The financial and synergy figures are company-reported historical figures or management forecasts; derived values are identified as arithmetic. This case contains no later transaction outcome.