



Marsh & McLennan (MMC)

Updated May 19th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$133	5 Year CAGR Estimate:	4.3%	Market Cap:	\$67.5B
Fair Value Price:	\$113	5 Year Growth Estimate:	6.2%	Ex-Dividend Date¹:	07/26/2021
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.2%	Dividend Payment Date²:	08/14/2021
Dividend Yield:	1.4%	5 Year Price Target	\$152	Years of Dividend Growth:	11
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	2.2%

Overview & Current Events

Marsh McLennan is a global professional services holding company which is active in risk, strategy, and people. The four main global businesses of the corporation are Marsh (insurance broker and risk management), Guy Carpenter (reinsurance and capital strategies), Mercer (human resources and consulting) and Oliver Wyman (strategy, economic and brand consulting). The company's roots trace back to 1871 as the Dan H. Bomar Company, thus it has a 150 year history of leadership and innovation. The company has clients in more than 130 countries and 76,000 colleagues globally. Marsh McLennan trades under the ticker symbol MMC on the NYSE. MMC is headquartered in New York, New York and is currently trading with a market capitalization of \$67.5 billion. The corporation generates roughly \$19 billion in annual revenues.

Marsh McLennan reported first quarter results on April 27th. The company reported consolidated revenue of \$5.1 billion, a 9% gain year-over-year. All of MMC's businesses reported higher revenues compared to last year. Operating income also grew from \$1.1 billion in the prior year to \$1.4 billion. Adjusted operating income rose 20% YoY. Net income was \$983 million, a 30% gain over the \$754 million earned in 1Q20. Earnings per diluted share of \$1.91 was a 34% increase over the prior year. Adjusted EPS rose 21% to \$1.99 vs the \$1.64 earned last year, and the adjusted operating margin increased 260 basis points to 29.6%.

In April, the Marsh McLennan Agency announced it will acquire PayneWest Insurance, a large independent agency in the U.S. PayneWest has 26 locations and more than 700 employees. Additionally, the company repurchased roughly 1 million shares of common stock for \$112 million in the first quarter. At the end of the first quarter, MMC had \$1.1 billion of cash and cash equivalents.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.76	\$2.16	\$2.42	\$2.60	\$2.98	\$3.38	\$3.88	\$4.33	\$3.41	\$3.95	\$5.25	\$7.09
DPS	\$0.86	\$0.90	\$0.96	\$1.06	\$1.18	\$1.30	\$1.43	\$1.58	\$1.74	\$1.84	\$1.90	\$2.54
Shares³	539.2	545.0	547	540	522	515	509	504	503.6	503.6	505.0	500.0

Marsh McLennan, with only one or two earnings bumps in the past decade, has produced a consistent and positive trail of earnings growth. In the past nine years, MMC has grown diluted EPS at 9.4%. However, this growth has slowed in the past five years to 5.8%. Impressively, the dividend has grown at around 8% in the last five years. The corporation has successfully raised the dividend for eleven consecutive years, and we see it growing in-line with earnings going forward.

As MMC continues to acquire new bolt-on businesses (as with PayneWest, Compass Financial Partners, Heritage Insurance, INSPRO, etc.), increase revenues, gain clients, expand operating margins (particularly in Risk & Insurance services and consulting), and repurchase shares, we believe the company can grow earnings at a 6% clip going into 2026, to earn \$7.09. This is slightly higher than in the past five years, but less than in the past nine years. As a result, we also

¹ Estimate based on last year's date

² Estimate based on last year's date

³ in millions.

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expect the dividend to grow at 6% to reach \$2.54 in 2026. The payout ratio has been range-bound between 35% and 50% in the last decade, and we expect this will trend to the bottom of the range in the coming years, which leaves room for much more dividend growth in the coming years.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.7	15.3	17	19.7	18.9	18.8	19.9	19.2	28.6	27.7	25.2	21.5
Avg. Yld.	2.9%	2.7%	2.3%	2.1%	2.1%	2.0%	1.9%	1.9%	1.8%	1.7%	1.4%	1.7%

Marsh McLennan trades at 25.2 times this year's expected net earnings right now. This is 25% above the 10-year average PE of 20.2 and 11% above the 5-year average PE of 22.8. We believe that shares are slightly overvalued right here, which results in a headwind to the stock price of 3.2% due to valuation contraction. The dividend yield is just slightly above the current yield of the S&P 500, as a result, MMC may not be for yield-seeking income investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	49%	42%	40%	41%	40%	38%	37%	36%	51%	47%	36%	36%

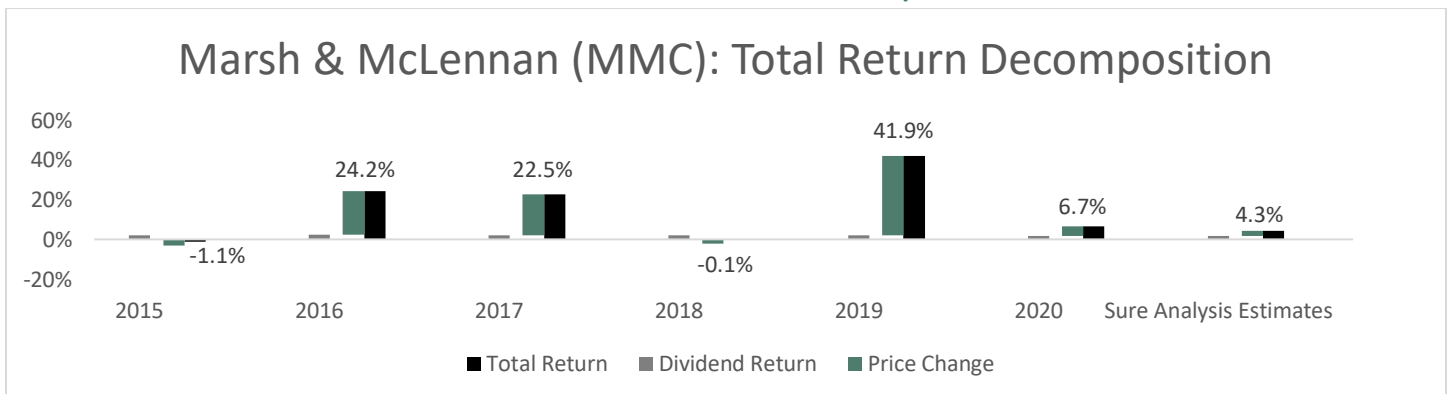
The payout ratio has, in general, remained below 50% of earnings, thus we see the dividend as being very safe. During the great financial crisis, MMC kept the dividend steady at \$0.80 rather than increasing it which is why the dividend streak is 11 years, but we would like to point out that the dividend was not cut and would have had a few more years on the streak, but the corporation remained financially prudent. While earnings took a dive in 2007 – 2008, by 2009 they were again quite healthy (78% payout ratio showed the dividend as solvent), and surpassed previous records by 2011.

Marsh McLennan has a broad competitive advantage in that it has unparalleled geographic reach with clients in over 130 countries, with 19 of these countries contributing over \$100 million in revenue. Additionally, they list their talent pool as an advantage considering they have 76,000 experienced, diverse, and dynamic colleagues, one third of which have over 10 years of tenure. Their scale is massive, and they are in leading positions across insurance brokerages and consulting and possess the largest capex spend among insurance brokers.

Final Thoughts & Recommendation

Marsh McLennan is a leading global professional services firm, with a wide range of businesses. We are forecasting total returns of 4.3% into 2026, and the stock trades 17% above our estimated fair value. While we expect the company to continue growing, it appears to be trading at a higher than average valuation, so we rate MMC a sell.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	11526	11924	12261	12951	12893	13211	14024	14950	16652	17224
Gross Profit	4557	4790	5035	5436	5559	5517	5939	6345	6918	7095
Gross Margin	39.5%	40.2%	41.1%	42.0%	43.1%	41.8%	42.3%	42.4%	41.5%	41.2%
D&A Exp.	332	349	358	388	423	438	481	494	647	741
Operating Profit	1638	1829	2077	2301	2419	2431	2655	2761	2677	3066
Operating Margin	14.2%	15.3%	16.9%	17.8%	18.8%	18.4%	18.9%	18.5%	16.1%	17.8%
Net Profit	993	1176	1357	1465	1599	1768	1492	1650	1742	2016
Net Margin	8.6%	9.9%	11.1%	11.3%	12.4%	13.4%	10.6%	11.0%	10.5%	11.7%
Free Cash Flow	1425	1002	940	1751	1563	1754	1591	2114	1940	3034
Income Tax	422	492	594	586	671	685	1133	574	666	747

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	15454	16288	16980	17793	18216	18190	20429	21578	31357	33049
Cash & Equivalents	2113	2301	2303	1958	1374	1026	1205	1066	1155	2089
Accounts Receivable	2676	2858	3065	3142	3198	3370	3777	3984	4608	4679
Goodwill & Int. Ass.	6963	7261	7365	7933	8925	9495	10363	11036	17445	18216
Total Liabilities	9514	9682	9005	10660	11614	11918	12987	13994	23414	23789
Accounts Payable	2016	1721	1861	1883	1886	1969	2083	2234	2746	3050
Long-Term Debt	2928	2918	2955	3379	4414	4807	5487	5824	11956	11313
Shareholder's Equity	5883	6542	7905	7054	6513	6192	7359	7511	7793	9104
D/E Ratio	0.50	0.45	0.37	0.48	0.68	0.78	0.75	0.78	1.53	1.24

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.5%	7.4%	8.2%	8.4%	8.9%	9.7%	7.7%	7.9%	6.6%	6.3%
Return on Equity	16.2%	18.9%	18.8%	19.6%	23.6%	27.8%	22.0%	22.2%	22.8%	23.9%
ROIC	10.8%	12.8%	13.3%	13.7%	14.9%	16.0%	12.4%	12.5%	10.5%	10.0%
Shares Out.	539.2	545.0	547	540	522	515	509	504	503.6	503.6
Revenue/Share	20.92	21.60	21.97	23.42	24.05	25.21	27.02	29.26	32.59	33.64
FCF/Share	2.59	1.82	1.68	3.17	2.92	3.35	3.07	4.14	3.80	5.93

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.