



Marsh & McLennan (MMC)

Updated April 26th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$170	5 Year CAGR Estimate:	5.5%	Market Cap:	\$86 B
Fair Value Price:	\$153	5 Year Growth Estimate:	6.5%	Ex-Dividend Date¹:	07/28/2022
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date²:	08/13/2022
Dividend Yield:	1.3%	5 Year Price Target	\$210	Years of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

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 roughly 130 countries and 83,000 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 \$86 billion. The corporation generates nearly \$20 billion in annual revenues.

Marsh McLennan reported first quarter results on April 21st, 2022. Consolidated revenue for the quarter increased 9% year-over-year to \$5.5 billion.

Marsh McLennan reported fourth quarter and full year fiscal 2021 results on January 27th, 2022. Consolidated revenue for the fourth quarter grew 16% year-over-year to \$5.1 billion. All of MMC's business reported higher revenue compared to last year. Adjusted operating income grew 12% to \$1.6 billion, and adjusted EPS rose 16% to \$2.30.

The company repurchased roughly 3.2 million shares of common stock for \$500 million in the first quarter. At the end of the quarter, MMC had \$772 million of cash and cash equivalents.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.16	\$2.42	\$2.60	\$2.98	\$3.38	\$3.88	\$4.33	\$3.41	\$3.94	\$6.13	\$6.81	\$9.33
DPS	\$0.90	\$0.96	\$1.06	\$1.18	\$1.30	\$1.43	\$1.58	\$1.74	\$1.84	\$2.00	\$2.14	\$2.86
Shares³	545.0	547	540	522	515	509	504	503.6	503.6	503.0	500.0	485.0

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 and five years, MMC has grown diluted EPS at 12.3% and 12.6% annually, on average. The dividend has grown at around 8.4% in the last five years. The corporation has successfully raised the dividend for twelve 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 6.5% clip going into 2027, to earn \$9.33. As a result, we also expect the dividend to grow at 6% to reach \$2.86 in 2027. 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.

¹ Estimate based on last year's date

² Estimate based on last year's date

³ in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.3	17	19.7	18.9	18.8	19.9	19.2	28.6	27.7	30.7	25.0	22.5
Avg. Yld.	2.7%	2.3%	2.1%	2.1%	2.0%	1.9%	1.9%	1.8%	1.7%	1.3%	1.3%	1.4%

Marsh McLennan trades at 25.0 times this year's expected net earnings right now. This is 16% above the 10-year average PE of 21.6 and 1% below the 5-year average PE of 25.2. We believe that shares are overvalued right here, which results in a headwind to the stock price of 2.1% due to valuation compression. The dividend yield is in line with the current yield of the S&P 500, as a result, MMC may not be suitable for yield-seeking income investors.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	42%	40%	41%	40%	38%	37%	36%	51%	47%	33%	31%	31%

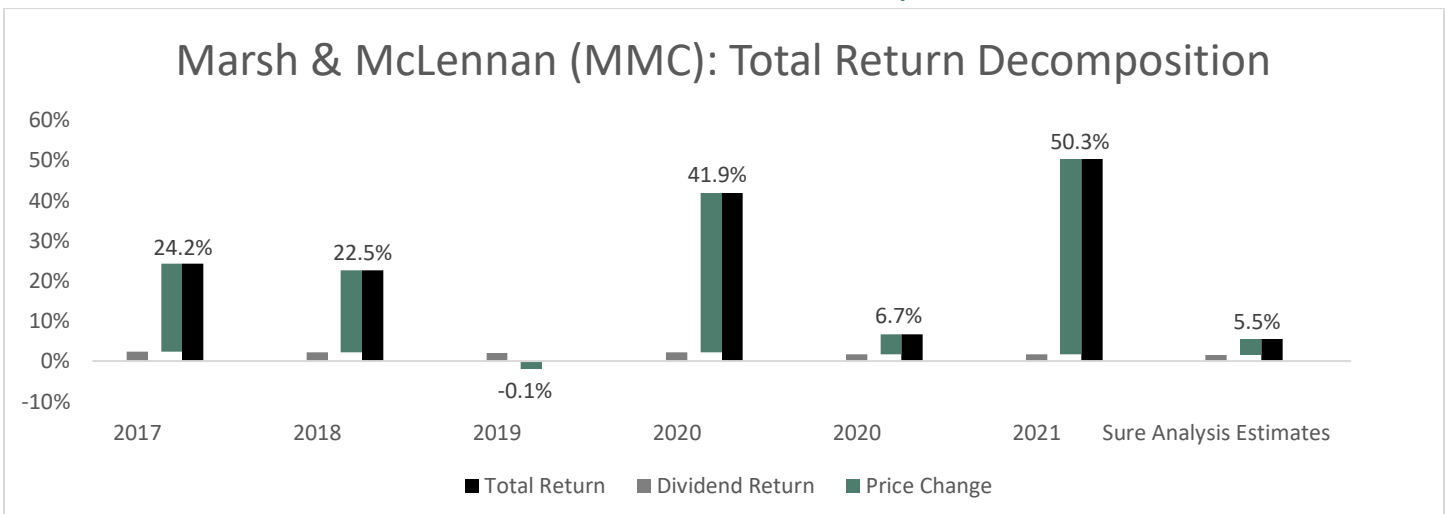
The payout ratio has, in general, remained below 50% of earnings, thus we see the dividend as being very safe. During the great financial crisis, MMC kept the dividend steady at \$0.80 rather than increasing it which is why the dividend streak is 12 years, but we would like to point out that the dividend 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 23 of these countries contributing over \$100 million in revenue. Additionally, they list their talent pool as an advantage considering they have 83,000 experienced, diverse, and dynamic colleagues, nearly 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 one of 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 annualized total returns of 5.5% into 2027, and the stock trades 11% above our estimated fair value. While we expect the company to continue growing, it appears to be trading with virtually no margin of safety. We rate MMC a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	11,924	12,261	12,951	12,893	13,211	14,024	14,950	16,652	17,224	19,820
Gross Profit	4,790	5,035	5,436	5,559	5,517	5,939	6,345	6,918	7,095	8,395
Gross Margin	40.2%	41.1%	42.0%	43.1%	41.8%	42.3%	42.4%	41.5%	41.2%	42.4%
D&A Exp.	349	358	388	423	438	481	494	647	741	747
Operating Profit	1,829	2,077	2,301	2,419	2,431	2,655	2,761	2,677	3,066	4,312
Operating Margin	15.3%	16.9%	17.8%	18.8%	18.4%	18.9%	18.5%	16.1%	17.8%	21.8%
Net Profit	1,176	1,357	1,465	1,599	1,768	1,492	1,650	1,742	2,016	3,143
Net Margin	9.9%	11.1%	11.3%	12.4%	13.4%	10.6%	11.0%	10.5%	11.7%	15.9%
Free Cash Flow	1,002	940	1,751	1,563	1,754	1,591	2,114	1,940	3,034	3,110
Income Tax	492	594	586	671	685	1,133	574	666	747	1,034

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	16,288	16,980	17,793	18,216	18,190	20,429	21,578	31,357	33,049	34,388
Cash & Equivalents	2,301	2,303	1,958	1,374	1,026	1,205	1,066	1,155	2,089	1,752
Accounts Receivable	2,858	3,065	3,142	3,198	3,370	3,777	3,984	4,608	4,679	5,586
Goodwill & Int. Ass.	7,261	7,365	7,933	8,925	9,495	10,363	11,036	17,445	18,216	19,127
Total Liabilities	9,682	9,005	10,660	11,614	11,918	12,987	13,994	23,414	23,789	23,166
Accounts Payable	1,721	1,861	1,883	1,886	1,969	2,083	2,234	2,746	3,050	3,165
Long-Term Debt	2,918	2,955	3,379	4,414	4,807	5,487	5,824	11,956	11,313	10,950
Shareholder's Equity	6,542	7,905	7,054	6,513	6,192	7,359	7,511	7,793	9,104	11,222
LTD/E Ratio	0.45	0.37	0.48	0.68	0.78	0.75	0.78	1.53	1.24	0.98

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	7.4%	8.2%	8.4%	8.9%	9.7%	7.7%	7.9%	6.6%	6.3%	9.3%
Return on Equity	18.9%	18.8%	19.6%	23.6%	27.8%	22.0%	22.2%	22.8%	23.9%	30.9%
ROIC	12.8%	13.3%	13.7%	14.9%	16.0%	12.4%	12.5%	10.5%	10.0%	14.7%
Shares Out.	545.0	547	540	522	515	509	504	503.6	503.6	503.0
Revenue/Share	21.60	21.97	23.42	24.05	25.21	27.02	29.26	32.59	33.64	38.64
FCF/Share	1.82	1.68	3.17	2.92	3.35	3.07	4.14	3.80	5.93	6.06

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