



Marsh & McLennan (MMC)

Updated January 26th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$192	5 Year CAGR Estimate:	7.6%	Market Cap:	\$94 B
Fair Value Price:	\$194	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	01/24/2024
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.2%	Dividend Payment Date¹:	02/15/2024
Dividend Yield:	1.5%	5 Year Price Target	\$260	Years of Dividend Growth:	13
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 130 countries and 85,000 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 \$94 billion. The corporation generates \$23 billion in annual revenues.

On July 11th, 2023, Marsh McLennan declared a 20.3% quarterly dividend increase to \$0.71 per share.

Marsh McLennan reported fourth quarter 2023 results on January 25th, 2024. Consolidated revenue for the quarter increased 11% year-over-year to \$5.6 billion. Adjusted operating income increased 16% year-over-year to \$1.2 billion, and adjusted EPS rose 14% to \$1.68 for the quarter, compared to \$1.47 in Q4 2022.

The company repurchased 1.3 million shares of common stock for \$250 million in the fourth quarter of 2023. At the end of the quarter, MMC had \$3.6 billion in cash and cash equivalents.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$2.60	\$2.98	\$3.38	\$3.88	\$4.33	\$3.41	\$3.94	\$6.17	\$6.85	\$7.99	\$8.64	\$11.56
DPS	\$1.06	\$1.18	\$1.30	\$1.43	\$1.58	\$1.74	\$1.84	\$2.00	\$2.25	\$2.84	\$2.84	\$3.98
Shares²	540	522	515	509	504	504	504	503	495	492	490	475

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 13.3% and 13.0% annually, on average. The dividend has grown by around 10% in the last five years. The corporation has successfully raised the dividend for thirteen consecutive years, and we see it growing in-line with earnings going forward.

As MMC continues to acquire new bolt-on businesses (as with Honan Insurance Group, 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 6.0% annual clip going into 2029, to earn \$11.56. As a result, we also expect the dividend to grow at 7% per annum to reach \$3.98 in 2028. 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 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.7	18.9	18.8	19.9	19.2	28.6	27.7	30.7	25.3	28.2	22.3	22.5
Avg. Yld.	2.1%	2.1%	2.0%	1.9%	1.9%	1.8%	1.7%	1.3%	1.3%	1.3%	1.5%	1.5%

Marsh McLennan trades at 22.3 times this year’s expected net earnings right now. This is below both the 10-year average PE of 23.7 and the 5-year average PE of 28.1. We believe that shares are trading at about fair value right now, resulting in minimal impact on total returns from the valuation. 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

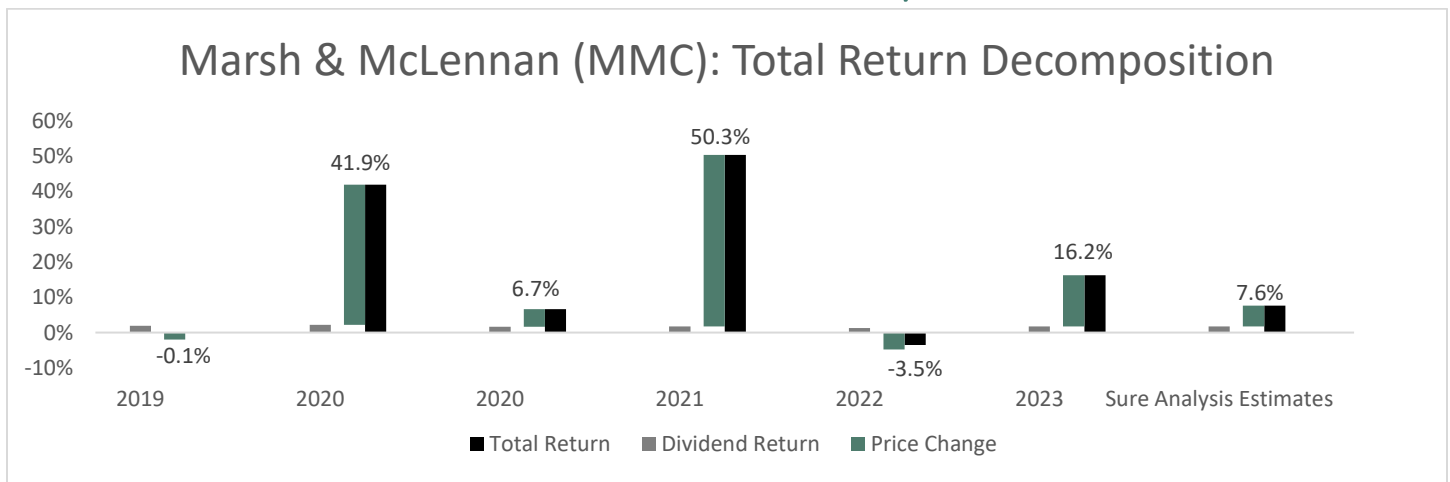
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	41%	40%	38%	37%	36%	51%	47%	32%	33%	36%	33%	34%

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 13 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 130 countries, with about 23 of these countries contributing over \$100 million in revenue. Additionally, they list their talent pool as an advantage considering they have 85,000 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 7.6% into 2029, and the stock trades 1% below our estimate of fair value. While we expect the company to continue growing, it appears to be trading with no margin of safety. MMC continues to earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,951	12,893	13,211	14,024	14,950	16,652	17,224	19,820	20,720	22,740
Gross Profit	5,436	5,559	5,517	5,939	6,345	6,918	7,095	8,395	8,649	9,637
Gross Margin	42.0%	43.1%	41.8%	42.3%	42.4%	41.5%	41.2%	42.4%	41.7%	42.4%
D&A Exp.	388	423	438	481	494	647	741	747	719	713
Operating Profit	2,301	2,419	2,431	2,655	2,761	2,677	3,066	4,312	4,280	5,282
Operating Margin	17.8%	18.8%	18.4%	18.9%	18.5%	16.1%	17.8%	21.8%	20.7%	23.2%
Net Profit	1,465	1,599	1,768	1,492	1,650	1,742	2,016	3,143	3,050	3,756
Net Margin	11.3%	12.4%	13.4%	10.6%	11.0%	10.5%	11.7%	15.9%	14.7%	16.5%
Free Cash Flow	1,751	1,563	1,754	1,591	2,114	1,940	3,034	3,110	2,995	3,842
Income Tax	586	671	685	1,133	574	666	747	1,034	995	1,224

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	17,793	18,216	18,190	20,429	21,578	31,357	33,049	34,388	33,454	48,030
Cash & Equivalents	1,958	1,374	1,026	1,205	1,066	1,155	2,089	1,752	1,442	3,358
Accounts Receivable	3,142	3,198	3,370	3,777	3,984	4,608	4,679	5,586	5,852	6,418
Goodwill & Int. Ass.	7,933	8,925	9,495	10,363	11,036	17,445	18,216	19,127	18,788	19,860
Total Liabilities	10,660	11,614	11,918	12,987	13,994	23,414	23,789	23,166	22,705	35,660
Accounts Payable	1,883	1,886	1,969	2,083	2,234	2,746	3,050	3,165	3,278	3,403
Long-Term Debt	3,379	4,414	4,807	5,487	5,824	11,956	11,313	10,950	11,495	13,460
Shareholder's Equity	7,054	6,513	6,192	7,359	7,511	7,793	9,104	11,222	10,749	12,370
LTD/E Ratio	0.48	0.68	0.78	0.75	0.78	1.53	1.24	0.98	1.07	1.09

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	8.4%	8.9%	9.7%	7.7%	7.9%	6.6%	6.3%	9.3%	9.0%	9.2%
Return on Equity	19.6%	23.6%	27.8%	22.0%	22.2%	22.8%	23.9%	30.9%	28.0%	32.8%
ROIC	13.7%	14.9%	16.0%	12.4%	12.5%	10.5%	10.0%	14.7%	13.7%	15.6%
Shares Out.	540	522	515	509	504	503.6	503.6	503.0	505	499
Revenue/Share	23.42	24.05	25.21	27.02	29.26	32.59	33.64	38.64	41.03	45.56
FCF/Share	3.17	2.92	3.35	3.07	4.14	3.80	5.93	6.06	5.93	7.70

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