

Marsh & McLennan (MMC)

\$118.48 (As of 02/19/20)

Price Target (6-12 Months): **\$124.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

Marsh & McLennan's fourth-quarter 2019 adjusted earnings per share of \$1.19 surpassed the Zacks Consensus Estimate by 0.8% and increased 9.2% year over year on solid revenues. The company is well-poised to grow on significant investments and acquisitions made within its operating units, launch of new products, enhancements to digital capabilities and branching out into new businesses. Its revenues have been increasing over the past many years. Its robust capital position, which is evident from its balance sheet also impresses. Its shares have underperformed its industry in a year's time. However, it has been suffering a low investment income phase. Its rising operating expenses continues to bother. High exposure to adverse forex is another headwind. It has also been witnessing a rise in its long-term leverage ratio, which raises risk.

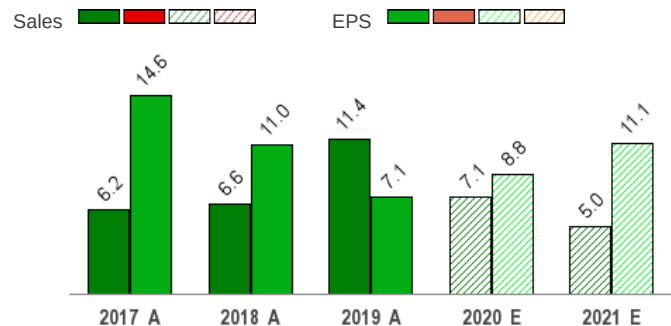
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.88 - \$88.86
20 Day Average Volume (sh)	1,482,223
Market Cap	\$59.8 B
YTD Price Change	6.4%
Beta	0.73
Dividend / Div Yld	\$1.82 / 1.5%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 15% (39 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.9%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	04/23/2020
Earnings ESP	0.0%
P/E TTM	25.4
P/E F1	23.4
PEG F1	2.0
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,860 E	4,794 E	4,379 E	4,736 E	18,731 E
2020	4,631 E	4,542 E	4,159 E	4,474 E	17,831 E
2019	4,071 A	4,349 A	3,968 A	4,264 A	16,652 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.72 E	\$1.47 E	\$0.97 E	\$1.43 E	\$5.63 E
2020	\$1.58 E	\$1.31 E	\$0.86 E	\$1.32 E	\$5.07 E
2019	\$1.52 A	\$1.18 A	\$0.77 A	\$1.19 A	\$4.66 A

*Quarterly figures may not add up to annual.

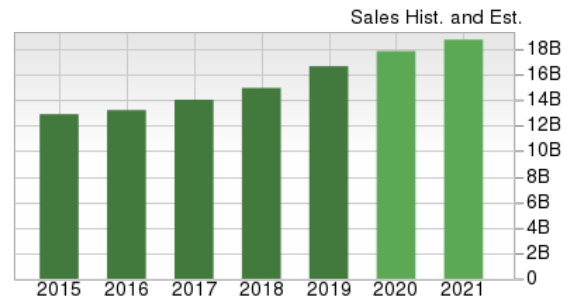
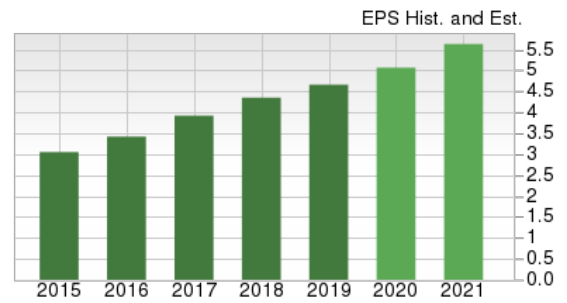
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/19/2020. The reports text is as of 02/20/2020.

Overview

Founded in 1871 and based in New York, Marsh & McLennan Companies Inc. is a globally leading insurance broker. Currently operating under the Marsh and Guy Carpenter brands, the company is a global professional services firm providing risk and insurance services, risk consulting, and employee benefits consulting services to clients worldwide.

Marsh & McLennan provides insurance and consulting services through approximately 55,000 employees worldwide to clients in more than 130 countries. Geographically, 55% of Marsh & McLennan's revenues were generated from outside the U.S. while the remaining 45% was earned in the U.S. The company conducts business primarily through:

- Risk and Insurance Services (Accounted for 57.6% of revenues in 2019):** This segment is operated through Marsh and Guy Carpenter. Marsh is world leader in insurance brokering, providing risk management, insurance and reinsurance broking and insurance program management services across public and private entities.
- Consulting (42.4%):** This segment comprises Mercer and Oliver Wyman Group. Mercer is a leading global provider of consulting, outsourcing and investment services. Oliver Wyman Group delivers advisory services to clients through three operating units, each of which is a leader in its field. Lippincott helps clients create, develop and manage their corporate branding, identity and image. NERA Economic Consulting advises corporations, law firms and government entities on the economics of competition, regulation, public policy, finance and litigation.



Reasons To Buy:

▲ **Growing Top Line:** Marsh & McLennan's operating performance has been favorable for the past many years, driven by its diverse product offerings, a wide geographic footprint and strong client retention. Its revenues have been increasing consistently since 2010 (except in 2015, which saw a revenue dip by just 0.4%). This trend continued in 2019 with the metric rising 11% year over year, led by strong segmental growth, acquisitions and penetration into new areas, etc. This significant uptick also marks the highest annual revenue growth rate for the company in 20 years. A number of acquisitions made over past many years, significant capital expenditures undertaken for growth, launch of new product and services, enhancements to digital capabilities and branching out into new businesses will further drive the company's growth.

Strategic acquisitions, growing revenues on the back of diverse product offerings and a strong capital position should drive long term growth for the company.

▲ **Inorganic Growth:** Acquisitions form one of the core growth strategies at Marsh and McLennan. The company has made numerous purchases within its different operating units that have enabled it to enter new geographical regions, expand within the existing ones, foray into new businesses, develop new segments and specialize within its existing businesses. The company's acquisition of JLT in 2019 will expand its capabilities going forward. Constant buyouts made by company poise it well for long-term growth.

▲ **Strong Capital Position:** The company has maintained a strong balance sheet and financial flexibility, including consistent cash flow generation, for the past many years. Its disciplined capital management through share buyback and dividend payments has cemented investors' confidence in the stock. In May 2019, its board of directors hiked its quarterly cash dividend by 10%. Its current dividend yield of 1.54% is higher than the industry average of 1.24%. The company's initiatives to enhance shareholder value should buoy investor's confidence in the stock.

▲ **Strong ROE:** Further, Marsh & McLennan's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's 29.7% ROE betters its industry average of 25.9%, reflecting its tactical efficiency in utilizing the shareholders' funds.

▲ **Share Price Impact:** In a year's time, shares of the company have underperformed its industry. However, its solid fundamentals such as an improving top line and a sturdy balance sheet should help the stock bounce back going forward.

▲ **Solid Guidance:** For 2020, the company expects underlying revenue growth in the 3-5% range compared to 3% growth rate in 2019. The addition of JLT places the company well for long-term growth.

Reasons To Sell:

- ▼ **Low Investment Income:** The company now has a much smaller private equity portfolio and its investment income has been deteriorating over the past few years. In 2018, the company incurred a net investment loss of \$12 million against its net investment income of \$15 million in 2017. Although in 2019, the metric totaled \$22 million against the loss of \$12 million in 2018, the low interest rate environment might keep the investment income under pressure.
- ▼ **Escalating Expenses:** The company's operating expenses escalated over the last several years due to higher compensation and benefits. The same further increased 14.7% in 2019 due to higher compensation and benefits as well as other operating costs. A persistent escalation of expenses might weigh on the company's margins.
- ▼ **Forex Volatility:** Due to its presence in more than 130 countries, the company is exposed to foreign exchange volatility. If the exchange rates stay at the current levels, then the company expects forex to have a negative impact on the current-year adjusted EPS.
- ▼ **High Financial Leverage:** Marsh & McLennan has been witnessing a rise in long-term debt level. The company saw its long-term debt level increase from \$2.6 billion to \$10.7 billion during the 2013-2019 period. In 2019, interest expense of the company surged 81% year over year. Moreover, its times interest earned ratio declined from 15.2X in 2015 to 5.7X in 2019, signifying that the company's ability to meet its interest payments waned. Its current debt to equity ratio stands at 147%, higher than the industry's average of 119.2%, which raises a concern.

Low investment income and increasing expenses due to higher compensation and benefits should weigh on overall earnings. Its high debt level also bothers.

Last Earnings Report

Marsh & McLennan's Q4 Earnings Top Estimates, Rise Y/Y

Marsh & McLennan delivered fourth-quarter 2019 adjusted earnings per share of \$1.19, surpassing the Zacks Consensus Estimate by 0.8% on the back of solid revenues. Moreover, the same increased 9.2% year over year.

Marsh & McLennan's consolidated revenues of \$4.3 billion were up 3% on an underlying basis. This upside is majorly attributable to the Risk and Insurance Services plus Consulting Segments. However, the top line missed the Zacks Consensus Estimate by 1.8%.

Total operating expenses of \$3.7 billion in the fourth quarter were up 18.8% year over year due to higher compensation and benefits as well as other operating expenses.

Quarterly Segmental Results

Risk and Insurance Services

Revenues at the Risk and Insurance Services segment were \$2.4 billion, up 3% on an underlying basis. Adjusted operating income surged 31% to \$550 million from the prior-year quarter's level.

Marsh, a unit within this segment generated revenues of \$2.2 billion, up 3% on an underlying basis. In U.S./Canada, underlying revenues rose 4%.

Underlying revenue growth from international operations of 1% includes 7% increase of the metric in the Asia Pacific and a 2% rise in Latin America.

However, the same was partially offset by a 1% dip in EMEA.

Another unit under this segment, Guy Carpenter, displayed 10% revenue growth on an underlying basis in the quarter under review.

Consulting

The Consulting segment's revenues inched up 2% on an underlying basis to \$1.9 billion. Also, adjusted operating income was flat at \$359 million.

A unit within this segment, Mercer, generated revenues of \$1.3 billion, up 4% on an underlying basis. Wealth's revenues were up 2% on an underlying basis. Health and Career's revenues were each up 6% and 4% year over year on an underlying basis.

Another unit Oliver Wyman Group registered revenues of \$559 million, down 2% on an underlying basis.

Share Repurchase Update

The company bought back shares worth \$185 million in the quarter under review.

Financial Update

Marsh & McLennan exited the fourth quarter of 2019 with cash and cash equivalents of nearly \$1.2 billion, up 8.3% from the figure at 2018 end.

Cash flow from operations for 2019 totaled \$2.3 billion, sliding 2.8% year over year.

As of Dec 31, 2019, Marsh & McLennan's total assets were \$31.3 billion, up 45.1% from the figure as of Dec 31, 2018.

Total equity was \$7.9 billion, up 4.7% from the level at 2018 end.

Full-Year Update

For 2019, the company's revenues of \$16.7 billion were up 4% year over year on an underlying basis. Adjusted earnings per share rose 7% year over year to \$4.66.

Quarter Ending 12/2019

Report Date	Jan 30, 2020
Sales Surprise	-1.80%
EPS Surprise	0.85%
Quarterly EPS	1.19
Annual EPS (TTM)	4.66

Recent News

Marsh & McLennan Arm Acquires Ironwood Insurance — Jan 16, 2020

Marsh & McLennan's subsidiary Marsh has acquired Ironwood Insurance Services, LLC, one of the leading independent brokers in the Southeast. The buyout was mainly executed by the middle market agency unit of Marsh, known as the Marsh & McLennan Agency LLC. However, further terms of the deal were kept under wraps.

Marsh & McLennan Declares Quarterly Cash Dividend — Jan 15, 2020

Marsh & McLennan has announced a quarterly dividend of 45.5 cents per share, payable Feb 14, 2020 to its stockholders of record on Jan 29, 2020.

Mercer Global Assets Reach OCIO Industry Milestone — Dec 17, 2019

Mercer has announced that its global assets under management achieved a new milestone of \$304.5 billion as of Nov 30, 2019.

Marsh & McLennan Unit Allies With LIFT for Digital Wellness — Dec 10, 2019

Marsh & McLennan's subsidiary Mercer and LIFT session, an AI-based wellness platform, entered into a partnership to provide tailor-made, on-demand digital fitness for both employers and workers at Canadian workplaces.

Valuation

Marsh & McLennan's shares are up 29% over the trailing 12-month period, respectively. Over the past year, the Zacks sub-industry and sector are up 30.8% and 8%, respectively.

The S&P 500 index is up 20.3% in the past year.

The stock is currently trading at 23.03X trailing 12-month price to earnings ratio, which compares to 21.84X for the Zacks sub-industry, 14.92X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.11X and as low as 15.21X, with a 5-year median of 18.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$124 price target reflects 24.12X earnings.

The table below shows summary valuation data for MMC

Valuation Multiples - MMC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.03	21.84	14.92	19.3
	5-Year High	24.11	21.84	16.21	19.33
	5-Year Low	15.21	14.49	12	15.18
	5-Year Median	18.63	16.67	14.15	17.47
P/S F12M	Current	3.33	3.52	6.55	3.57
	5-Year High	3.38	3.52	6.65	3.57
	5-Year Low	2	1.83	5.39	2.55
	5-Year Median	2.68	2.47	6.04	3
P/B TTM	Current	7.53	6.94	2.86	4.66
	5-Year High	7.59	6.94	2.89	4.68
	5-Year Low	3.98	3.31	1.83	2.85
	5-Year Median	5.55	4.47	2.51	3.61

As of 02/19/2020

Industry Analysis Zacks Industry Rank: Top 15% (39 out of 255)



Top Peers

American Financial Group, Inc. (AFG)	Neutral
Arthur J. Gallagher & Co. (AJG)	Neutral
The Allstate Corporation (ALL)	Neutral
Aon plc (AON)	Neutral
Brown & Brown, Inc. (BRO)	Neutral
eHealth, Inc. (EHTH)	Neutral
Erie Indemnity Company (ERIE)	Neutral
Robert Half International Inc. (RHI)	Neutral

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	MMC Neutral	X Industry	S&P 500	AJG Neutral	AON Neutral	BRO Neutral
VGM Score	C	-	-	C	C	D
Market Cap	59.79 B	3.05 B	24.59 B	20.48 B	54.98 B	13.63 B
# of Analysts	9	5	13	7	9	5
Dividend Yield	1.54%	1.23%	1.78%	1.58%	0.74%	0.70%
Value Score	D	-	-	D	D	F
Cash/Price	0.02	0.07	0.04	0.13	0.02	0.07
EV/EBITDA	19.22	17.68	14.21	16.93	22.13	19.65
PEG Ratio	1.98	1.88	2.09	2.67	1.88	3.15
Price/Book (P/B)	7.53	3.26	3.28	3.89	15.97	4.07
Price/Cash Flow (P/CF)	19.74	19.74	13.59	17.37	19.88	25.75
P/E (F1)	23.37	23.38	19.17	26.17	22.79	31.51
Price/Sales (P/S)	3.59	3.01	2.68	2.86	4.99	5.70
Earnings Yield	4.28%	4.28%	5.18%	3.82%	4.39%	3.18%
Debt/Equity	1.35	0.34	0.70	0.73	1.92	0.45
Cash Flow (\$/share)	6.00	1.65	6.93	6.26	11.94	1.88
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	12.03%	12.02%	10.84%	11.61%	10.83%	14.79%
Proj. EPS Growth (F1/F0)	8.75%	9.95%	7.00%	13.89%	13.60%	9.86%
Curr. Cash Flow Growth	11.40%	6.15%	7.81%	9.99%	-0.54%	15.56%
Hist. Cash Flow Growth (3-5 yrs)	9.25%	10.83%	8.25%	13.27%	3.75%	10.83%
Current Ratio	1.06	1.54	1.24	1.02	1.52	0.97
Debt/Capital	57.49%	24.65%	42.37%	42.25%	65.77%	30.93%
Net Margin	10.46%	9.34%	11.69%	9.34%	13.91%	16.66%
Return on Equity	29.72%	13.54%	16.86%	14.28%	55.95%	12.23%
Sales/Assets	0.53	0.37	0.55	0.37	0.38	0.33
Proj. Sales Growth (F1/F0)	7.08%	6.68%	4.05%	7.81%	5.97%	7.17%
Momentum Score	D	-	-	C	C	F
Daily Price Chg	-0.81%	0.00%	0.38%	0.25%	0.92%	0.73%
1 Week Price Chg	1.80%	2.26%	1.65%	4.03%	2.43%	2.35%
4 Week Price Chg	4.29%	4.11%	0.86%	12.99%	12.04%	16.77%
12 Week Price Chg	9.35%	8.60%	4.56%	16.59%	16.23%	27.66%
52 Week Price Chg	28.85%	17.19%	14.15%	35.15%	37.40%	64.61%
20 Day Average Volume	1,482,223	152,194	1,989,235	711,413	880,852	1,664,893
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.72%	0.47%	-0.03%	0.59%	0.60%	1.72%
(F1) EPS Est 12 week change	-0.73%	0.52%	-0.21%	-0.11%	0.55%	2.12%
(Q1) EPS Est Mthly Chg	-0.43%	-0.11%	-0.40%	-0.05%	-0.17%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.