

Marsh McLennan

Organic growth remained strong but decelerated in 4Q23

Reiterate Rating: NEUTRAL | PO: 203.00 USD | Price: 198.69 USD

Marsh McLennan reports 4Q23 operating EPS of \$1.68

This compares favorably to our forecast of \$1.66 and Consensus of \$1.63. Modestly higher consolidated margins (23.3% versus our estimate of 23.1%) drove the EPS beat. Total organic growth of 7% was in line with our forecast, with modestly better results in the Consulting business offsetting slightly lower-than-expected fiduciary income. FY23 organic growth of +9% was in line with most recent guidance of 9-10%; however, we caution that projections for lower short-term interest rates, and thus fiduciary income, should weigh on organic growth in 2024E.

Organic growth in line; puts and takes within segments

Although consolidated organic growth was in line with our forecast, there were various puts and takes in the segment results. Consulting modestly exceeded our forecast at 7% versus 6%, with strength in Oliver Wyman and Health offsetting weaker results in Career. In Risk & Insurance, total organic growth missed our estimate at +8% versus our estimate of +9%, driven by slightly lower fiduciary income. Excluding fiduciary income, results were in line at +6%, with strength in Asia Pacific and Latin America offsetting lower-than-expected growth in EMEA, US/Canada, and Guy Carpenter. We expect underlying growth to decelerate from recent high-single-digit/low-teens results toward historical mid-single-digit levels over time; 4Q results suggest that deceleration could already be under way.

Fiduciary income continues to boost margins

Each segment contributed to the margin beat, with Consulting recording 21.3% versus our estimate of 20.5% (+130bps YoY), and the broking segment posting a smaller beat of 27.0% versus our estimate of 26.8% (+140bps YoY). However, higher short-term rates have significantly boosted fiduciary income and broking margins. Excluding fiduciary income, YoY improvement for broking margins shrinks to 20bps, despite the ongoing savings program. We expect fiduciary income to inflect to a net margin headwind over the course of the next year.

Lower price objective to \$203

Our EPS estimates modestly fall as lower organic growth and investment income offset higher margins. Our price objective (PO) falls to \$203 from \$207, reflecting 125% of the year-ahead S&P 500 P/E multiple (18x) on our revised 2025E EPS estimate. We reduce the relative valuation to 125% from 130%, as the premium versus the broad market has extended in the recent period of elevated growth, but we expect it to contract as growth decelerates. Relatively limited upside potential versus our PO underlies our Neutral rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	6.85	7.99	8.53	9.03	9.66
GAAP EPS	6.04	7.53	8.48	9.02	9.66
EPS Change (YoY)	11.0%	16.6%	6.8%	5.9%	7.0%
Consensus EPS (Bloomberg)			8.72	9.54	10.43
DPS	2.25	2.60	2.99	3.30	3.58
Valuation (Dec)					
P/E	29.0x	24.9x	23.3x	22.0x	20.6x
GAAP P/E	32.9x	26.4x	23.4x	22.0x	20.6x
Dividend Yield	1.1%	1.3%	1.5%	1.7%	1.8%

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Timestamp: 25 January 2024 10:34AM EST

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	207.00	203.00
2025E EPS	9.06	9.03
2026E EPS	9.71	9.66

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Stock Data

Price	198.69 USD
Price Objective	203.00 USD
Date Established	25-Jan-2024
Investment Opinion	A-2-7
52-Week Range	151.86 USD -202.81 USD
Mrkt Val / Shares Out (mn)	97,969 USD / 493.1
Free Float	99.8%
Average Daily Value	357.38 USD
BofA Ticker / Exchange	MMC / NYS
Bloomberg / Reuters	MMC US / MMC.N
ROE (2024E)	0%
ESGMeter™	High

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iQprofileSM Marsh McLennan

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	20,720	22,736	23,840	24,800	25,955
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	20,720	22,736	23,840	24,800	25,955
Total Cost of Benefits and Claims	(12,071)	(13,099)	(13,326)	(13,459)	(13,594)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(16,659)	(17,715)	(18,138)	(18,758)	(19,515)
Pre-Tax Operating Earnings	4,061	5,021	5,702	6,042	6,440
Income Tax Expense	(995)	(1,224)	(1,458)	(1,545)	(1,646)
Operating Earnings After Tax	3,459	3,987	4,230	4,461	4,755
Net Income (Reported)	3,029	3,751	4,192	4,445	4,741
Diluted Shares	505	499	496	494	492
Operating Earnings Per Share	6.85	7.99	8.53	9.03	9.66
Net Income (Reported) Per Share	6.04	7.53	8.48	9.02	9.66

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	NA	NA	NA	NA	NA
Total Assets	NA	NA	NA	NA	NA
Reserves	NA	NA	NA	NA	NA
LT Debt	NA	NA	NA	NA	NA
Total Liabilities	NA	NA	NA	NA	NA
Total Equity	NA	NA	NA	NA	NA
Total Equity (Ex FAS 115)	NA	NA	NA	NA	NA
Book Value per Share (Reported)	21.72	25.14	28.92	32.96	37.38
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	58.3%	57.6%	55.9%	54.3%	52.4%
Combined Ratio	58.3%	57.6%	55.9%	54.3%	52.4%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	NM	NM	NM	NM	NM

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	4.5%	9.7%	4.9%	4.0%	4.7%
Net Investment Income	NM	NM	NM	NM	NM
Total Revenue	4.5%	9.7%	4.9%	4.0%	4.7%
Operating Earnings per Share	11.0%	16.6%	6.8%	5.9%	7.0%
Asset	NM	NM	NM	NM	NM
Reported Book Value per Share	-2.5%	15.8%	15.0%	14.0%	13.4%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	NM	NM	NM	NM	NM
Operating Margin	16.7%	17.5%	17.7%	18.0%	18.3%
Long Term Debt to Cap Ratio (Ex FAS 115)	NM	NM	NM	NM	NM
Net Income % Operating Income	87.6%	94.1%	99.1%	99.6%	99.7%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

Marsh & McLennan is one of the world's largest insurance brokers. Via its subsidiaries and affiliates, MarshMac provides a range of insurance services, reinsurance, program management, and consulting services. Its two main businesses are: Insurance Services (Marsh Inc. and Guy Carpenter), and Consulting Services (via Mercer Consulting Group and Oliver Wyman).

Investment Rationale

MarshMac is 1/2 of a global duopoly in large-case insurance brokerage, though the company's expansion into the middle market via M&A hasn't generally translated to market share gains. We believe current valuation adequately reflects the balance of growth opportunities during the economic recovery vs potentially capped margin expansion due to suppressed T&E during the pandemic.

Stock Data

Average Daily Volume 1,798,664

Quarterly Earnings Estimates

	2023	2024
Q1	2.53A	2.83E
Q2	2.20A	2.35E
Q3	1.57A	1.56E
Q4	1.68A	1.79E

Price objective basis & risk

Marsh McLennan (MMC)

Our \$203 price objective for shares of Marsh & McLennan is based on 125% of the S&P 500's year-ahead consensus P/E multiple (18x) on our 2025E EPS estimate, reflecting the historical trading range.

Upside risks to our PO are outsized organic growth as economic expansion continues into 2023. Further, insurance brokerage stocks tend to trade up upon announcement of restructuring programs, where investors often embrace the cost saves while ignoring the costs to achieve. Downside risks: operating margins could see compression as travel and entertainment expenses resume. Current valuation multiples represent a historical ceiling, which could be prelude to future multiple compression.

Analyst Certification

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US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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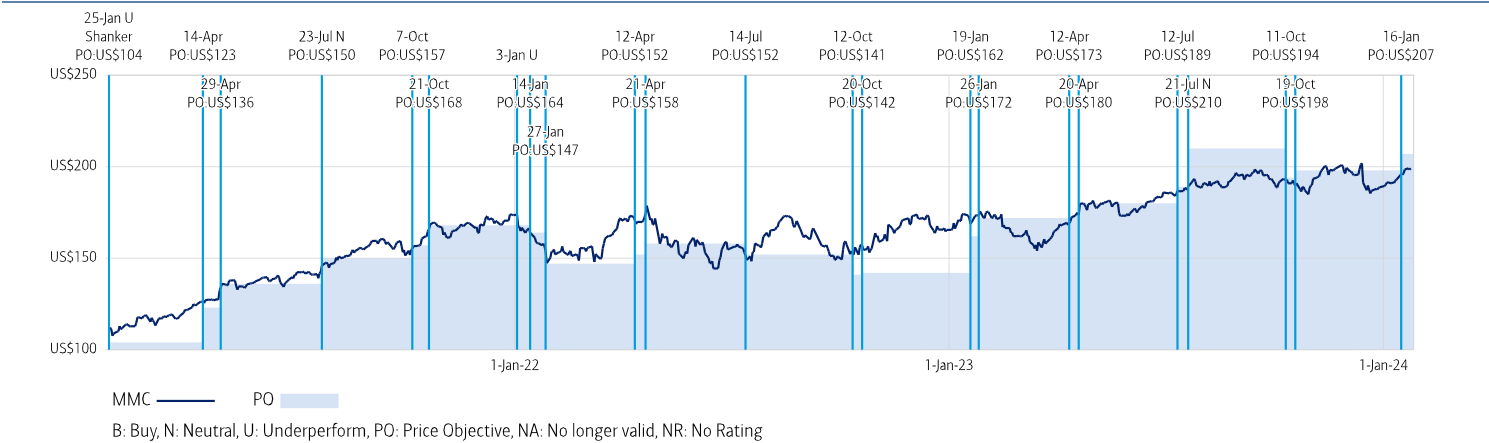
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Marsh McLennan (MMC) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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