Marsh & McLennan Companies, Inc. (MMC) CEO Dan Glaser on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-29-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.77 beats by $0.07 | Revenue of $3.97B (13.24% Y/Y) misses by $-33.43M

Earning Call Audio

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Marsh & McLennan Companies, Inc (NYSE:MMC) Q3 2019 Results Earnings Conference Call October 29, 2019 8:30 AM ET

Company Participants

Dan Glaser - President, Chief Executive Officer

Mark McGivney - Chief Financial Officer

John Doyle - Chief Executive Officer of Marsh

Martine Ferland - Chief Executive Officer of Mercer

Scott McDonald - Chief Executive Officer of Oliver Wyman

Sarah DeWitt - Head of Investor Relations

Conference Call Participants

Mike Zaremski - Credit Suisse

Elyse Greenspan - Wells Fargo

Yaron Kinar - Goldman Sachs

Crystal Lu - Autonomous Research

David Styblo - Jefferies

Meyer Shields - KBW

Brian Meredith - UBS

Larry Greenberg - Janney Montgomery Scott

Operator

Welcome to the Marsh & McLennan Companies Conference Call. Today's call is being recorded. Third quarter 2019 financial results and supplemental information were issued earlier this morning. They are available on the company's website at www.mmc.com.

Please note that remarks made today may include forward-looking statements. Forward-looking statements are subject to risks and uncertainties and a variety of factors may cause actual results to differ materially for those contemplated by such statements.

For a more detailed discussion of those factors, please refer to our Earnings Release for this quarter and to our most recent SEC filings, including our most recent Form 10-K, all of which are available on the MMC website.

During the call today we may also discuss certain non-GAAP financial measures. For a reconciliation of these measures to the most closely comparable GAAP measures, please refer to the schedule in today's earnings release.

I'll now turn over to Dan Glaser, President and CEO of Marsh & McLennan Companies. Please go ahead.

Dan Glaser

Thank you. Good morning and thank you for joining us to discuss our third quarter results reported earlier today. I'm Dan Glaser, President and CEO of Marsh & McLennan.

Joining me on the call today is Mark McGivney, our CFO; and the CEOs of our businesses, John Doyle of Marsh; Martine Ferland of Mercer; and Scott McDonald of Oliver Wyman. Unfortunately Peter Hearn of Guy Carpenter is sick with the flu and cannot join us today. Also with us this morning is Sarah DeWitt, Head of Investor Relations.

We are pleased with our third quarter and year to-date results. We produced excellent topline growth in the quarter with underlying revenue growth across both segments and our EPS growth is tracking well with our expectation. We are generating strong results, while continuing to make progress on the JLT integration, and overall accommodation is progressing nicely.

Our clients are beginning to see the power of our combined firm and we are demonstrating that we are better positioned to help them with their greatest challenges through our enhanced talent, capabilities and geographic footprint.

We are meeting our expectations in terms of our financial target, revenue growth and colleague retention and our businesses are coming together. Co-locating our teams is a critical part of our integration, because it enables the cultures to coalesce as well as results in increased collaboration.

To-date, we moved over 8,000 colleagues and by the end of 2019 nearly all colleagues will be sitting side-by-side in their respective areas of operation globally. We've also undertaken significant work to integrate our platforms. We now have nearly all of the JLT colleagues on our HR system and have integrated financial reporting as well as our email environment.

This is possible because of the investments we've made over the years to harmonize our systems and strengthen our infrastructure. Our progress to-date makes me confident we will comfortably exceed our $250 million savings target over three years.

As we have said from the beginning, our combination with JLT is about growth and the benefits this acquisition brings to clients, colleagues and shareholders. More and more we are working as one team for our clients.

For example, colleagues from several Marsh JLT Specialty practices across multiple countries came together to provide a customized solution for a company managing a complex hydroelectric project. Through global collaboration and our augmented capabilities we handled all of the projects insurance requirement.

In Guy Carpenter, our cyber insurance team won an RFP for a large U.S. regional carrier by demonstrating the strength of the combined organization. In Indonesia, a large manufacturer had been engaging carriers directly for their EH&B services, resulting in a sub-optimized outcome for the client.

Mercer Marsh benefits, which includes former JLT colleagues reviewed the existing benefits and recommended critical changes to drive a better outcome. This resulted in new business for MMB, lower premium cost for the clients and a more optimized solution for our client's employees.

We also continue to capitalize on opportunities to serve clients across our businesses. For example, we've recently leverage our collective strength to create a compelling global value proposition for an Asia-Pacific transportation company who is upgrading their infrastructure to a sustainable modern transportation network.

We won the mandate by leveraging Marsh JLT Specialties construction and marine expertise, Oliver Wyman's transportation and public sector expertise and Guy Carpenter's risk transfer and alternative capital capability.

During the process, we also introduced MMB, who was appointed to manage the employee benefit portfolio. Overall, I am proud of our company's progress, impressed by the hard work of our colleagues and grateful for the ongoing support of our clients.

Let me spend a moment on current P&C insurance pricing trends. Pricing is firming across a wide range of geographies and lines. The Marsh Global Insurance Market index saw an increase of nearly 8% in the third quarter compared with 6% in the second quarter and 3%

in the first.

Global property insurance and financial and professional lines saw the highest average renewal rate increases at 10% and 14% respectively. Casualty rates are up 1% on average, but mixed byline with excess casualty rates rising and worker's comp down.

Note that the Marsh index skews to larger risk, which are seeing higher increases, although middle-market and small commercial insurance rates are up in certain geographies.

Turning to reinsurance in the property catastrophe market, we've seen reinsurance rate increased throughout 2019 as a function of loss activity, geography and exposure increases. Overall, we are focused on driving the best outcome for our clients. In markets like these our capabilities and expertise shine through and become even more critical.

Now let me turn to our third quarter financial performance. We delivered excellent results in the quarter with underlying revenue growth across both risk and insurance services and consulting. We were executing well, both delivering for clients while working through the integration of JLT.

Total revenue was $4 billion, up 13% or 5% on an underlying basis. Adjusted operating income increased 10% versus a year ago to $585 million, and the adjusted operating margin increased 10 basis points to 15.9%.

Adjusted earnings per share fell 1% versus a year ago to $0.77 reflecting seasonality of JLT. Year-to-date adjusted EPS increased 6% to $3.47. In risk and insurance services third quarter revenue was $2.2 billion, an increase of 18%.

Underlying revenue growth was strong at 6% in the quarter. This reflects 5% growth in Marsh, and 11% at Guy Carpenter, which was held by a true-up of a multiyear contract which Mark will discuss in more.

RAS adjusted operating income increased 11% to $313 million, the adjusted operating margin was 17.4% reflecting JLT's seasonality. In consulting, third quarter revenue was $1.8 billion, up 8% compared with the year ago.

Underlying revenue was up 4% for the quarter driven by underlying growth of 7% to Oliver Wyman and 3% in Mercer. Consulting adjusted operating income grew 9% and the adjusted margin expanded 50 basis points versus a year ago.

In summary, we are pleased with our third quarter results and our progress integrating JLT. For 2019, we expect a solid first year as a combined company, underlying revenue growth in the 3% to 5% range, margin expansion and solid growth in adjusted EPS.

With that, let me turn it over to Mark for a more detailed review of our results.

Mark McGivney

Thank you, Dan, and good morning. We had excellent quarter. Overall revenue grew 13% to $4 billion reflecting the meaningful step forward JLT represents for our firm. We generate strong underlying revenue growth of 5%, with 6% in RAS, 4% in consulting.

Remember that underlying revenue growth in our communications and disclosures include JLT. Operating income in the quarter was $467 million, while adjusted operating income increased 10% to $585 million.

Overall, our adjusted operating margin increased 10 basis points in the quarter with 16.9%, a good result given the seasonality of JLT. Adjusted EPS increased to $0.59 in the quarter and adjusted EPS with $0.77.

For the first nine months of 2019 total revenue growth was 10%, with underlying growth of 4%. Our adjusted operating income grew 13%, our adjusted operating margin increased 110 basis points to 22%, and our adjusted EPS increased 6% to $3.47.

Overall, our year-to-date performance leaves us well-positioned for a solid first year with JLT. In Risk and Insurance Services, third quarter revenue grew 18%, $2.2 billion with underlying growth of 6%.

RAS is now produced 5% or higher underlying growth in five of the last six quarters. Adjusted operating income increased 11% to $313 million, and the adjusted margin decreased 30 basis points to 17.4%.

For the first nine months of the year revenue was $7.2 billion with total revenue growth 14% and underlying growth of 4%. Adjusted operating income for the first nine months of the year was up 12% to $1.7 billion.

At Marsh, revenue in the quarter was $1.9 billion with underlying growth of 5% representing another strong quarter of growth. U.S. and Canada grew 6% on an underlying basis in the quarter. This marks the sixth consecutive quarter that U.S. and Canada delivered 5% or higher underlying growth.

The international underlying growth was 3% with Asia-Pacific up 7%, EMEA up 2% and Latin America down 1%. First nine months revenue at Marsh was $5.8 billion with underlying growth of 4%. U.S. and Canada was up 5%, while international was up 3%.

Guy Carpenter's revenue was $273 million in the quarter, underlying growth of 11%. Strength in the quarter was due to solid operating performance and the true-up of a multiyear contract, excluding the multiyear contract adjustment underlying growth was mid-single digits in the quarter.

The first nine months of the year, Guy Carpenter's revenue was $1.3 billion with 4% underlying growth. In the consulting segment, revenue in the quarter was up 8% to $1.8 billion with underlying growth of 4%.

Adjusted operating income increased 9% to $320 million and the adjusted margin increased 50 basis points to 18.11%. Consulting's underlying revenue growth for the first nine months of 2019 was 4% with consolidated revenue of $5.3 billion.

Adjusted operating income for the first nine months of the year was up 13% to $916 million. Mercer's revenue was $1.3 billion in the quarter with underlying growth of 3%, health grew 7% in the quarter, the best underlying growth since the first quarter of 2018.

Carrier underlying growth was solid at 5% and wealth underlying growth was flat with mid-single digit growth and investment management offset by a low single digit decline in our defined benefit business.

Our delegated asset management business continues to show strong growth with assets under management increasing to $290 billion. For the first nine months of the year revenue at Mercer was $3.7 billion with 2% underlying growth.

Oliver Wyman's revenue was $505 million in this quarter with strong underlying growth of 7%. This was the fifth straight quarter of 7% or higher underlying growth at Oliver Wyman. Growth was solid across most regions with our financial services and health and life sciences practices showing particular strength. First nine months of the year revenue was $1.6 billion with 9% underlying growth.

Turning to corporate, adjusted corporate expense was $48 million in the quarter. Based on our current outlook we expect approximately $50 million in the fourth quarter. Turning to the JLT integration, this is our second full quarter post closing and I couldn't be happier with the progress we've made to-date.

Dan said, the integration is going well from an operational perspective and we are on track with our financial target. We continue to expect the transaction will be modestly dilutive to adjusted EPS for the first year, breakeven in year two will be accretive in year three.

We are ahead of schedule on cost savings and associated restructuring charges. We expect to exceed the $250 million of run rate savings and $375 million of cost to achieve those savings. We currently plan to provide an update on our outlook for cost savings on our fourth quarter earnings call.

During the quarter we incurred $133 million of interest expense. We expect around $130 million of interest expense in the fourth quarter. In the third quarter we reported $84 million of amortization which includes the JLT related amount as well as amortization from other transactions.

Our overall view of amortization related to the JLT transaction is now $163 million annually. As a result, we expect total deal related amortization in the fourth quarter will be about $93 million.

In aggregate, the financial impact of the JLT transaction is tracking well with our initial expectation. As we look to the four quarter there are few things to keep in mind. Marsh faces the tough underlying revenue comparison to a year ago and a continued impact on new business in JLT's seasonally strongest quarter.

As a result we expect Marsh's underlying growth to moderate in the fourth quarter, but still be solid for the year. In addition, Oliver Wyman tends to be our most volatile business quarter-to-quarter as we've discussed in the past and our current outlook calls for a pullback in the fourth quarter. Overall however, Oliver Wyman is on track for a strong year.

In terms of the fourth quarter adjusted operating margin, we expect strong margin expansion that is moderately higher than the pace year-to-date, which reflects expense savings and a seasonally strong quarter at JLT partially offset by the sale of JLT's aerospace business, which generated nearly all of its earnings in the fourth quarter.

Turning back to the third quarter, we reported $118 million of noteworthy item mostly related to the JLT acquisition. Included in this total are $77 million of JLT integration cost, the largest category which is severance, $21 million of JLT acquisition related cost and $12 million of other restructuring cost mainly related to Mercer's program.

Turning to investment income, on an adjusted basis with $3 million of investment income in the quarter and we continue to expect the contribution from investment income for the balance 2019 will be immaterial. On a GAAP basis investment income was $7 million in the quarter.

Foreign exchange with the slight benefit to adjusted EPS in this quarter. Assuming exchange rates remain at current levels, we expect FX to be at $0.02 per share headwind in the fourth quarter.

Our adjusted effective tax rate in the third quarter was 25% compared with 25.3% in the third quarter last year. For the first nine months of the year our adjusted effective tax rate was 24.3% compared with 24.5% last year.

Based on the current environment, we continue to expect the tax rate between 25%, 26% for 2019 excluding discrete item. Total debt at the end of the third quarter was $12.6 billion or $12.2 billion excluding commercial paper.

In September, we've repaid $300 million of senior notes that matured consistent with our deleveraging plans. Our next scheduled debt maturity is in March 2020 with $500 million of senior notes will mature.

In the third quarter we repurchased 2.1 million shares of our stock for $200 million. Through nine-months we've repurchased 3.1 million shares for $300 million. We continue to expect to repurchase enough shares in 2019 to reduce our share count.

Our cash position at the end of the third quarter was $1.2 billion. Uses of cash third quarter totaled $486 million and included $53 million for acquisition, $233 million for dividend and $200 million for share repurchase.

For the first nine months, uses of cash totaled $7.1 billion and included $6.1 billion for acquisitions, $655 million for dividend, and $300 million for share repurchase. Overall we're on track to deliver a solid year.

With that, I'm happy to turn it back to Dan.

Dan Glaser

Thank you, Mark. So, Cleena [ph], we're ready to start the Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We will now take our first question from Mike Zaremski from Credit Suisse. Please go ahead.

Mike Zaremski

Hey, good morning. First question on the insurance brokerage side of the business; we're increasingly hearing from some of the larger corporations and insurers that the deal with, let's say, Fortune 500 space that pricing is much higher there than let's call it, the SME small and mid size space. I'm aware that Marsh's revenue contracts in that space are more fee-based. And I get asked lot of from clients how do we think about or how is the impact on to the broker when pricing is very high and in the large account space. And maybe you can give us a sense of are you seeing that as well that dynamic and historically have your fee rates, have they increased at a similar rates or maybe they're overall brokerage is organic rate of growth? Anything there would help.

Dan Glaser

Sure. So, I'll start and then I'll hand over to John to give you some more information. Maybe the first thing to know is that, we build the business to operate across cycles. Softening cycles usually last for a long time and there's periods of tightening which generally are much shorter in duration. And so every market is different. But we're built or geared based upon the cycle. You're right in saying that in the large account space, it skews a little bit, or a lot more to fee than to commission. But you have to bear in mind between fees we have discussions with our clients all the time with regard to the value that we're creating. Generally in a large account space it's always a year-over-year type of discussion. It's hard to get fees to increase as you could imagine in large account across the world you have procurement departments and risk management experts who negotiate on their behalf. When we look at it when John and I look at this overall, we were facing a mild headwind for a number of years going back a few years ago and maybe we've a mild tailwind today, but it's not material to the overall performance of the company. But John, you want to tackle that?

John Doyle

Sure, Dan. As you just said, I think it’s a modest tailwind at the moment. I think it's really important to keep in mind of course, there our role is to get the best outcome for the clients, regardless where we are in the pricing cycle. And a good chunk of our portion of our large account business is on a fee, for sure we also have the Marsh Risk Consulting which is a fee-based business and our benefits business which obviously is not subject to the P&C pricing cycle.

At the moment middle market pricing is not moving up as much as large account pricing which we have more exposure to from a commission point of view. We're certainly working with our clients to mitigate the impact of price increases, in a lot of cases that -- whether it's in large accounts or in the middle market that maybe our clients retaining more risk. So it’s a challenging market in some segments. I don't consider it actually one market. It's a collection of markets. But it’s a great time for us with our tremendous talent. We have great talented colleagues and their capabilities to create value for our clients.

Mike Zaremski

Yes. I'll guess, I'll move to the one more on move to defined benefits. You mentioned low single digit decline there. I believe you're in midst of taking actions to try to improve that level going into 2020. And I guess related to given the big dip in interest rates year-to-date versus last year, does that business get a may be a pickup later in the year due to client activity kind of looking into their impacts to the pension funds from low rates?

Dan Glaser

So, Mike, I'll start with that and then hand over to Martine to give you more detail. Mercer has done a really nice job over several years essentially preparing themselves to be able to deliver high-quality services to the client while we're earning a good margin on the business in a secular decline of defined benefit pension plan. And so that's playing itself out. We're not surprised by the low single digit declines. Those declines we saw last year as well. Martine, do you have any further to add about the impact of interest rates and that sort of thing?

Martine Ferland

Yes of course. And as Dan just said, we – our wealth business is now composed of investment as much as the DB core benefits consulting. And indeed the economic conditions and the market conditions can influence the rhythm at which the employer will decide to deal with their DB plans. So there is a little impact of that. It is a temporary measure because over time these plans are getting closed by times and we are prepared for that.

So, of course also the market conditions do impact our large investments, consultings and in particular our OCIO business. And there again we have a -- our clients maintain very balanced portfolio and therefore the impact is mitigated because we've asset classes across equity, fixed income and alternatives.

Dan Glaser

Thanks. Next question, please.

Operator

Next question comes from Elyse Greenspan from Wells Fargo. Please go ahead.

Elyse Greenspan

Thanks. Good morning. My first question is just on Guy Carpenter. I know you guys said that there was a multiyear contract that did help the organic and ex that, it would it be in the mid single digits this quarter. But that still a nice pickup from where you guys were in the second quarter. I was hoping to get a little bit more color. Was that some new business wins? I know, Dan, you mentioned Cyber retention, because I think last quarter you had mentioned that there was an impact on new business from JLT. So just trying to get a sense of if things turn around a little bit in the third quarter?

Dan Glaser

Sure. And just to be clear. I'm happy to fill in with Peter any time here with double digit quarter. So – but yes, I was – you're right, it was a bit of a positive surprise to us in the third quarter. But bear in mind, it’s a small revenue quarter for Guy Carpenter. So it doesn't take much for an outsized quarter in either direction. JLT is going to continue to be a drag to underlying revenue growth as Carpenter rebuilds the new business pipeline, that something that takes multiple quarters to do. But that effort is already underway and so it's not going to last for years. It's temporary.

And in the meantime, Carpenter's doing a great job, managing expenses, deliver earnings growth. We mentioned the multiyear contract true-up and we call it out not because it's unusual, but because it was large in a small quarter and that's why we've raised it, but it's a normal course of business type of situation.

Elyse Greenspan

Okay. Thanks. And then in terms of the margins within RAS, JLT was a drag this quarter, but the margin still seems to be trending better than I would have expected. If you could give a little bit of color, I know you guys said saves running better than plan. Were the savings like directionally picked up Q3 to Q2 and then maybe it's some level of improved organic. I'm just trying to get a sense what's driving? Its sill pretty strong margins especially in a quarter where JLT loses money?

Dan Glaser

Yes. So overall the Marsh & McLennan had a pretty materially higher margins than JLT; both very high quality organizations, Marsh & McLennan benefited I think more from some of the scale and broader heft that we had in organization, but every intention was to convert JLT within Marsh & McLennan to Marsh & McLennan style margins and then look to growth from there.

We're pleased with the margin expansions that we're having this year. I mean, we expected it. So as we talked going into the year we've said that we expected to have margin expansion. And it really is about – we're bringing in more revenue and we're doing it in a more efficient way. So the notion that we feel comfortable at this stage which is still really early stages of coming together as a single organization that we will comfortably exceed to $250 million of expense savings that we cited last September when the deal was announced. As we've mentioned before we believe the majority of those savings are going to drop to the bottom line. And so we're seeing that right now.

And as you can expect, even though JLT, the acquisition itself was not an expense synergy play. It's all about growth. We feel very happy with the level of talent and capabilities, the opportunities for colleagues that are developing and we expect revenues and earnings over time to be better as a result of this combination. But having said all that, we're a well-run organization and when we see areas for capturing efficiencies areas like real estate, technology, functions like finance, legal, HR, risk compliance, all gave us areas to where we believe we can be more efficient together. So what we'll do.

As Mark was mentioning in his script, we'll give a more fulsome update next quarter about where we see the three year expenses and cost of achieving those expense saves. We'll do a review internally and we'll let you know next quarter. Next question please.

Operator

We will now take the next question from Paul Newsome from Sandler O'Neill Partners. Please go ahead.

Paul Newsome

Good morning. Couple of follow-ups. The issues with the comparison for organic growth in Marsh in the fourth quarter, will that also extend into the first quarter next year given how strong the organic growth was in the first quarter? Or is that not the right comparison, obviously, the JLT deal makes that little bit more complicated?

Dan Glaser

Yes I mean, overall we're pleased with the year to-date performance of not only Marsh but RAS and the overall firm, the consulting segment as well. And we believe the way to evaluate the firm both on the top line and on the bottom line is over multiple quarters. We're not looking at any one quarter. Although having said that, we'll bask in the glory of a terrific third quarter for a little bit of time, but ultimately 2019 is shaping up to be a solid year especially in view of the effort of so many people within the organization who are working on integration efforts. And those are people who are legacy Marsh & McLennan and legacy JLT. We are all working together increasingly as one team to form a new organization that's quite formidable into the future. We wanted to call out the fourth quarter just because we expect it to be more challenging.

We mentioned the importance of new business and new business pipeline. Well, the fourth quarter is JLT's highest new business quarter. So if you play out that logic well then there'll be more strain in terms of achieving what they used to achieve because of pipeline issues that develop soon after the announcement was made. Those things are all solvable. Now whether we extend our view into next year or not, I mean John do you have any early read?

John Doyle

Look, I think you said it well, Dan, that the fourth quarter was such a seasonally strong new business quarter for JLT, so we'll see a little bit more headwind there in the fourth quarter. But we're well-positioned for growth in 2020. So again if you take a longer view, we're confident that where we're positioned in the market.

Dan Glaser

Anything else, Paul.

Paul Newsome

Yes. Just making a really more of a modeling question. There's a fair amount of disposals happening. Obviously you had the aerospace business. It looks like the international business was where the disposals were. How should we think about that little piece going forward when we're trying to get to our organic growth or overall revenue growth estimates into that change with JLT?

Dan Glaser

Yes, Paul. There was a lot of -- the third quarter was noisy in that underlying growth schedule. And there were there are a couple of places There's the sale of aerospace that you mentioned. There was also the sale of a data business in Marsh last year where a gain was recorded in revenues. So there's a little bit of a heavier impact. If you look at the year to-date schedule you'll see a plus one for acquired revenue and that's probably not a bad estimate for the full year. But there's actually -- a lot of the transactions we did this year. so Lovitt & Touche and Bouchard and MMA came relatively early in the year.

So there's less roll over revenue just given the lower activity this year than we would typically have. So maybe a little bit of rollover into the early part of next year and then next year's acquired growth, it would depend on the level of deal activity. Next question please.

Operator

The next question comes from Yaron Kinar from Goldman Sachs. Please go ahead.

Yaron Kinar

Hi. Good morning. First question is really I guess follow-up on Elyse's question. Just trying to get a sense of what the cost save impact was in the third quarter and maybe even year to date?

Dan Glaser

Yes. We're not going to go into the details of how the cost saves are breaking out per quarter. As I mentioned before this is still really early stages, we're in the second quarter of being a combined company. We believe we have a multiyear approach to capturing the expense savings that we were identifying. We're executing on a lot of different issues right now. I mean, clearly with our margins being up as a company through nine months, pretty much we can say that, we're achieving a lot of savings, right? And it's not impacting growth because we're growing well as a firm. And so, I don't really want to get into a quarter-by-quarter description of all the activity we're doing on the expense side.

Yaron Kinar

Okay. Can you at least comment on whether it's more -- if the cost saves should be expected to be more back weighted than front weighted?

Dan Glaser

No. I mean, I think there's partly is what you're seeing in margin right now. Like we're jumping on efficiencies and making savings as we go and so there's not a sense of like all this is going to happen in the third year. I mean, there's many things that we can operate very quickly on. There's other things that take a little bit more time. You take something like as an example the consolidation of vendors or real estate or reducing costs within JLT that were geared to being a public company. Those sort of things we can move pretty quickly on.

There's other areas, let's say some areas of application technology which take a little bit more time as they go. But we have a three-year plan and we're working through it and we expect to have, I mean, this is our 12th year margin expansion, so I'm not going too far out on a limb when I say. Well, I think in 2020 we're going to expand our margin just like we did in 2019 and just like we've done for the last 12 years. And so that's an indication of some of the benefits dropping to the bottom line.

Yaron Kinar

Okay, understood. And my second question goes to the casualty business and Marsh. I guess one thing I struggle with is and this isn't a Marsh issue, it's a broader industry question. I guess we're seeing rate firming, excluding workers comp even as loss picks excluding commercial auto remain pretty low by historical standards. I'm assuming that's something that you as a broker see as well. And just curious as to how much pushback there is in the conversations with insurance on the absence of more material loss trends? Or is it -- or are you actually seeing real time loss trends picking up in claims and margins and maybe not pushing back as much?

Dan Glaser

John, do you want to handle that one?

John Doyle

Sure. The underwriting community is clearly concerned about rising loss cost trends. Dan and I and some of the rest of our leaders have been at Peter Hearn as well have been at number of different conferences where we've spent a lot of time with the markets of late. So -- and there are clearly some very, very large casualty losses in the markets where there's a lot of discussion of course about cap property, but there are some casualty cat events that are in the market that are concerned. And then there's some big headline, verdicts and settlements that have underwriters concerned as well.

I think we've seen loss cost trends begin to emerge more quickly. Commercial auto pricing has been up there for a number of different quarters. Overall casualty pricing at the moment is mixed. Work Comp is down five GL primary GL pricing is still down modestly including in the United States, but excess liability is up 6% versus 3% in the second quarter and that market seeing a bit more stress at the moment. So we of course again are trying to get the best outcome for our clients and we'll find solutions no matter where they might be in the world.

But I do expect upward pricing pressure to continue throughout next year. However I think we'll see shorter and shallower cycles than we have on average in the past, so really kind of micro cycles. Underwriters are moving quickly to get better data, better management information. They're moving more quickly to deal with things. But capital moves very quickly to where profit pools emerge as well. So again I expect more shallow and shorter pricing cycles.

Dan Glaser

I mean that's really, I think John's point is really important to emphasize here. Better management teams at underwriting firms, better data and analytics creates more of a micro cycle environment where it's not necessarily broad across all sectors and all segments. And that's really occurring on the reinsurance side as well. We're not seeing broad market wide impact even as a result of the loss creep that we've seen over the last six months coming in from prior years and some big losses this year. But there is potential significant changes on individual programs based upon the individual programs characteristics like geography performance in the past and that sort of thing. So I think the better data and analytics are making it more of a targeted approach as opposed to broad brush. Next question please.

Operator

The next question comes from Ryan Tunis from Autonomous Research. Please go ahead.

Crystal Lu

Hi. This is Crystal Lu in for Ryan Tunis. So our first question is about the EMEA organic growth. It seems to have been improving recently. Can you just give some comments on what drove organic growth improvement there?

Dan Glaser

Go ahead, John.

John Doyle

Sure. I would say first of all overall I was pleased with the growth in the quarter at 70% GAAP growth, 5% underlying growth. Mark talked about the strong consistent growth in the United States. So internationally we're up 3% on a rolling basis. In EMEA we have very good results in continental Europe. We had excellent growth in the Middle East then in Africa as well. In the U.K., our results are showing some positive momentum. As I've talked about in the past we've made some leadership changes there. It's a challenging environment. Obviously the U.K. economy creating a bit of a drag force at the moment. But our leadership team is really on it and so I see some improving trends there of course as we look into next year.

Crystal Lu

Great. And then on the retention compensation that's coming through. Can you give an idea of what kind of quarterly level we should expect on retention compensation going forward? And when we can expect these payments to be concluded? Thanks.

Dan Glaser

Yes. I mean it's in the context of acquisitions that we've done in the past it's quite common for us to either have earn out arrangements or to have some sort of retention payments tied to a multiyear view of how a person performs within the business. And so we view that is as kind of normal. It's all been modeled within our original deal consideration. You'd expect that to really be more in the first year or 18 months and then reduced from there because it is geared towards assisting in the transition of the organization to a new organization. And so I wouldn't expect any significant levels to persist over a many year period. Next question please.

Operator

The next question comes from David Styblo from Jefferies. Please go ahead.

David Styblo

Hi, good morning. Thanks for the questions. Just hoping we could peel back the onion little bit more on the cost saves and if you can provide additional color about the increased level that you're expecting to achieve in any out year there. Is that more of just finding more opportunities within the same subset or there just some new things that are emerging and to the extent that tying that to the accretion guidance. Is it a situation where maybe you just don't want to comment yet on perhaps doing better than break even next year or perhaps should we expect that there might be an update where there could be some upside to the breakeven target for next year?

Dan Glaser

I mean in any large organization and in any large combination there's a series of puts and takes. And I think this is how you need to view this. And that we did not know on the day of acquisition that we would have to dispose of the aerospace business as an example. On the other hand, we had an idea that $250 million or so of expense synergies should be achievable over a three-year period. So the fact that we're able to achieve more than that, but at the same time we've had some disposals that we did not anticipate. And I can tell you there's probably a dozen of these puts and takes that you look forward. And we end up about where we're exceeding our expectations mildly on virtually every measure and we end up with the view that it's going to be on an adjusted basis slightly dilutive to what we otherwise would have done this year, breakeven next year and accretive in year three. And so that's kind of where we are.

The organization for a long period of time has become more and more efficient. We continue to see ways of becoming more efficient. And we run ourselves very much to where we've got four very strong brands, but we're not a holding company just operating a business that is not cohesive, where we are close to the client we're commercially agile, nimble, highly segmented, highly specialized. The further you are away from the client we're more horizontal and we capture synergies around finance, legal H.R. and other functional costs. We're smart about how we approach the use of service operations in places like India and Poland, in Kuala Lumpur and we will continue to do that. Personally I think we're at the early stage of being able to look at AI, machine learning, robotics as a way to increase the efficiency of the business. And so that we can look out for several years and believe we can continue to expand margins in the business.

David Styblo

Great. That's helpful to frame it. Thanks for that, Dan. Maybe a follow-up for a Mark real quick. Do you have a maybe some initial thoughts about how we should think about capital deployment in 2020? Would it be maybe perhaps the same approach for 2019 where you'd buy enough stock to help shares come down a little bit while paying down debt and opportunistically looking for M&A Or would there be any noticeable changes from how you approach this year?

Mark McGivney

Yes. David going back to as with a lot of things that we said initially that things are playing out very, very close to where we initially thought they would and that that applies to capital management as well. So this year is played out almost exactly as we thought. If you remember back to some of the things we said, we said the focus for capital management for the first couple of years would be deleveraging, but in those plans that we provided enough flexibility for return of capital as well as M&A with the focus for M&A being on Marsh & McLennan Agency.

And so, as we look out to 2020 they're really still is the focus. That we're focused on the deleveraging and that we see -- we've provided for some flexibility so that we will be able to have some return of capital as well and continue to focus on M&A, really the balance between those two is just going to depend on the strength of the M&A pipeline.

Dan Glaser

Yes. I think it's important to remember, the way we prioritize our capital deployment is we put organic investment ahead of everything else that we put our dividend which we believe is sacrosanct. Then we've made a commitment to increase our dividend double digit each year and we intend to continue to do that. We have said in the past that we favor acquisitions over share repurchase and we favored share repurchase over growing cash on our balance sheet.

So when you look at it in that context you have to recognize that that if push came to shove, we would favor acquisitions over share repurchase. And the way we're looking at our pipeline is very strong. And so we will continue to take steps to make us a stronger company. And if that means that that puts a little pressure sometimes on share repurchase then so be it. Next question please.

Operator

The next question comes from Meyer Shields from KBW. Please go ahead.

Meyer Shields

Great. Thanks. Good morning. Two very quick questions. First, can you give us a sense as to what clients are assuming for exposure in a growth as they do their 2020 planning?

Dan Glaser

Well, that's a good question and a tough one. So John, I don't think clients are assuming you need exposure. They have their own units of exposure growth. But I would say is that in some of the more mature economies that we operate in where we have big revenue stream. There continues to be particularly there in the United States, modest exposure grew up. So employment continues to grow. Sales are growing. The number of vehicles on the street more flat for example, but most areas of exposure management in mature markets are showing some modest growth.

Meyer Shields

Okay.

Dan Glaser

Go ahead. Next question, Meyer.

Meyer Shields

So, I'm just going to ask, with regard to the Guy Carpenter true-up, does all of that adjustment fall to the bottom line? Or they're offsetting expenses?

Dan Glaser

That's a great one. Mark, do you want to handle that. I mean, there's always the bonus pool. So nothing fully drops to the bottom line.

Mark McGivney

Our bonus pools tend to be geared to earnings, but other than that it really does fall into the quarter.

Meyer Shields

Okay. Thanks so much.

Dan Glaser

Sure. Our next question please.

Operator

The next question comes from Brian Meredith from UBS. Please go ahead.

Brian Meredith

Yes. Thanks. First one just curious Lat-Am, negative organic, I think it's the first time I've ever seen that out of the Lat-Am business. Is that related to JLT or something else happened there?

Dan Glaser

Yes. So you're right in citing that. I mean this is the first quarter of negative growth in Lat-Am since we started reporting Lat-Am in the first quarter of 2008. It's a great region for us and it's usually neck and neck over long stretches of time with Asia as to which growth is better. But there's some particular issues that we're facing in Lat-Am in the short term. But John you want to give more color.

John Doyle

Sure. It is Legacy JLT related. It's both new business so we've talked about kind of more broadly and to larger non-recurring items in the region of where I would say though that the region absolutely remains a growth market for us. I'm really encouraged by how the teams are coming together at both Marsh and JLL. Well, it'll be a choppy second half for Latin America. I do expect good growth from the region in 2020.

Brian Meredith

Great. And then, Mark just curious, a pop in CapEx in the quarter looks like $123 million. Was there something kind of unusual going in that and also in that free cash flow actually was pretty strong. Or was there anything unusual maybe in operating cash flow?

Dan Glaser

Mark.

Mark McGivney

Yes, sure. Let me tackle CapEx first. It did increase. It was mainly related to timing of big real estate projects and that we can see that volatility from year-to-year and actually for -- it will not remain at that level into the fourth quarter. And fourth quarter we're probably looking more in line with what we saw in the fourth quarter over the last couple years. So it's just a couple of big real estate projects. It’s actually level in Q2 was a little bit lower for the same reason. In terms of cash flow growth is actually a really good story and what our operating cash flow notwithstanding all of the integration related charges was only down 2%. I thought that was a really good result in the context of what we're going through. So there is nothing unusual in that.

Brian Meredith

Right. Thank you.

Dan Glaser

Next question, please.

Operator

The next question comes from Larry Greenberg from Janney Montgomery Scott. Please go ahead.

Larry Greenberg

Thanks and good morning. I'm not sure there's anything else to ask specifically on your quarter. So I'm just curious with social inflation being the big topic in the underwriting world. I wonder if you guys could either take your intermediary experiences or go back to your underwriting days and maybe just give your perspective on what's going out there and whether there's any analogies you would draw to past periods where the industry might have experienced some of these similar challenges?

Dan Glaser

John has forgotten more about underwriting than I ever knew. So John, you want to take that?

John Doyle

Look, I think, I mean it's apparent to me that the underwriting committee is struggling to figure out what the trend line is, right? And much like I think I said pricing, it’s not one market, it's a collection of markets. I think the challenge is it's not one trend line, right. And so, as I said earlier there are some pretty big very material casualty losses in the market. And then you're seeing where you have kind of more data and more frequency in commercial auto, a clear trend that's emerged over the course of the last several years.

And in the case of auto it's got a shorter duration to it as than other liability lines. So it's quite again clear that they're trying to sort that out. But again our responsibilities serving our client and trying to come up with the best outcome for them in this market. But I would expect a bit more stress in the near term in the access liability market in particular. There are some areas where you can point to meaningful exposure changes, right. So in the case of D&O maybe for example, there's been a material increase in the frequency of securities claims that are in the market, right.

That's obviously in the aggregate needs to be priced for. So there are some segments where you're seeing clear exposure changes then in other areas of risk could you see higher settlements and judgments for a lot of reasons.

Dan Glaser

Yes. I mean we were talking recently about worker's comp. I mean in tie for one reason or another and you can have a lot of opinions about what's underneath it. But in times of full employment worker's comp claims tend to go down and in times of economic stress they tend to go up. And so, it's sort of worker's comp claims are in decent shape now, but that doesn't mean it's a permanent trend line, and that may reverse with economic stress.

John Doyle

I would also point out, Dan. that after the financial crisis, we had a period where there wasn't real loss cost inflation, right? Claim transfer were quite stable, in fact, in some lines of business there was deflation which isn't what we normally observe over a long period of time. But clearly we've come out of that environment.

Dan Glaser

Anything else Larry?

Larry Greenberg

No. That's good. Thank you.

Operator

I would now like to turn the call back over to Dan Glaser, President and CEO of Marsh & McLennan Companies for any closing remarks.

Dan Glaser

Sure. Thanks Cleena. And I just want to thank everybody for joining us on the call this morning. I want to express my gratitude to our 75,000 colleagues for the commitment and hard work that they show us all the time, as well as to our clients for their support. Thank you all very much and we'll speak to you next quarter.

Operator

That will conclude today's call. Thanks for your participation. You may now disconnect.