

Marsh & McLennan Companies, Inc.

Solid Fourth-Quarter Results, Segment Performance Mixed; Cutting 2009 Estimate

- Marsh & McLennan Companies, Inc. reported respectable fourth-quarter results given the challenging environment. Adjusted earnings per share, excluding restructuring charges and other nonrecurring expenses, were \$0.37, compared with our estimate of \$0.36 and consensus of \$0.32. The outperformance relative to our estimate was not driven by any single factor—stronger performance in insurance brokerage, a one-time tax benefit (\$0.02), and private-equity gains (\$0.02) offset much weaker results in the more economically sensitive consulting business. The outperformance relative to consensus was driven largely by tax and private-equity gain, in our view.
- Organic revenue growth in risk and insurance services (roughly 85% of risk and insurance services) was 1%, or 3% excluding reinsurance brokerage. Our estimate was 2%. New business growth and client retention continued to improve in the insurance brokerage business under new leadership. We expect modest organic growth in 2009 despite the economic headwinds likely offsetting most of the benefit from a stabilization in commercial property-casualty insurance pricing.
- The adjusted insurance brokerage operating margin was 14.8%, up from 6.8% in fourth quarter 2007 and compared with our 12.0% estimate. The improvement compared from the prior year was driven by cost savings from aggressive expense management including the benefits from formal restructuring. We expect margins to move higher in 2009 as well given the benefit from formal restructuring efforts and better expense management away from the formal restructuring program.
- Consulting results were disappointing given pressure on revenue, particularly in more economically sensitive practice areas, and the adverse impact on foreign exchange. Organic revenue growth was negative 3%—negative 10% at Oliver Wyman—and the operating margin declined to 10.1% from 12.3%. Headcount reduction efforts were initiated during the quarter.
- Marsh & McLennan remains well capitalized, in our opinion. We estimate total net debt to a run-rate of adjusted EBITDA of only 1.26; however, given the uncertain economic times, we believe management will likely remain conservative with its capital management in the near term.
- We maintain our Market Perform rating and our lowering our 2009 EPS estimate to \$1.60 from \$1.75, principally due to weaker results in consulting including the negative impact from foreign-currency translations. We have established a 2010 EPS estimate of \$1.90.

Financial | Commercial P/C Insurance

February 12, 2009

Stock Rating: **Market Perform**
Company Profile: **Core Growth**

Symbol: MMC (NYSE)
Price: \$21.41 (52-Wk.: \$19-\$37)
Market Value (mil.): \$9,618
Fiscal Year End: December
Long-Term EPS Growth Rate: 14%
Dividend/Yield: \$0.80/3.7%

	2008A	2009E	2010E
Estimates			
EPS Q1	\$0.46	\$0.43	NA
Q2	\$0.41	\$0.42	NA
Q3	\$0.21	\$0.35	NA
Q4	\$0.37	\$0.40	NA
FY	\$1.45	\$1.60	\$1.90
CY		\$1.60	\$1.90

Valuation			
FY P/E	14.8x	13.4x	11.3x
CY P/E		13.4x	11.3x

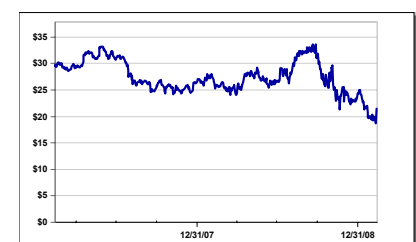
Trading Data (Thomson Financial)

Shares Outstanding (mil.)	514
Float (mil.)	511
Average Daily Volume	5,351,947

Financial Data (Thomson Financial)

Long-Term Debt/Total Capital (MRQ)	32.5
Book Value Per Share (MRQ)	14.7
Enterprise Value (mil.)	13,150.4
EBITDA (TTM)	1,281.0
Enterprise Value/EBITDA (TTM)	10.3x
Return on Equity (TTM)	-1.0

Two-Year Price Performance Chart



Source: Thomson Financial, William Blair & Company estimates

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Discussion**Respectable Results Given Challenging Environment**

Adjusted EPS, excluding restructuring charges and other nonrecurring expenses, were \$0.37, compared with our estimate of \$0.36 and consensus of \$0.32. The outperformance relative to our estimate was not driven by any single factor—stronger performance in insurance brokerage, a one-time tax benefit (\$0.02), and private-equity gains (\$0.02) offset much weaker results in the more economically sensitive consulting business. Marsh & McLennan recorded \$19 million of investment income in the fourth quarter attributed to mark-to-market gains in its private-equity portfolio (results are reported on a one-quarter lag). Management estimates that given market conditions year-to-date, it anticipates an investment loss of \$20 million in first quarter 2009. Stronger margins internationally also contributed to a lower tax rate relative to our expectations (\$0.02 per share benefit), but we view that as operationally driven and sustainable—all else equal. The outperformance relative to consensus was driven largely by tax and private-equity gain, in our view. GAAP EPS were \$0.15, or \$0.14 from continuing operations. The difference between adjusted EPS and GAAP EPS is for restructuring charges and a loss on the disposal of the U.K. corporate advisory and restructuring business within the risk consulting and technology segment. Adjusted EPS from continuing operations for 2008 were \$1.45, up from \$1.18 in 2007, compared with GAAP EPS from continuing operations of (\$0.13) and \$0.99, respectively.

Marsh & McLennan
Q408 - Actual Versus William Blair & Company Estimate
Adjusted Basis
(in millions except per share)

	Actual	WB Estimate	Difference
<u>Segment operating income</u>			
Risk and insurance services	\$189	\$167	\$22
Risk consulting and technology	11	25	(14)
Consulting	121	176	(55)
Corporate	<u>(42)</u>	<u>(38)</u>	<u>(4)</u>
Total segment operating income	279	330	(51)
Interest income	8	10	(2)
Interest expense	(55)	(52)	(3)
Investment income	19	0	19
Pretax income from continuing operations	251	288	(37)
Provision for income taxes	56	98	(42)
Effective tax rate	22.3%	34.0%	-11.7%
Minority interest, net of tax	3	4	(1)
Net income from continuing operations	192	186	6
Net income per share	\$0.37	\$0.36	\$0.01
Average diluted shares	521	523	(2)

Organic Growth Respectable; Brokerage Operating Margin Benefiting From Aggressive Expense Management—Facing Headwinds in 2009

Organic revenue growth in risk and insurance services (roughly 85% of risk and insurance services) was 1%, or 3% excluding reinsurance and in line with major competitor Aon (AOC \$40.08). Our estimate was 2%. Management stated that client retention increased in the quarter, continuing a trend running through the first nine months of the year, culminating in a 3-percentage-point increase in client retention for 2008—reaching its highest level in five years. Management attributes higher client retention to better sales discipline and improved client service. New business production in 2008 was also strong, exceeding \$900 million. Management indicated that the turmoil in the market due to the degradation of larger competitors is not affecting client retention per se, but is arguably driving new client relationships as Marsh & McLennan is positioned to benefit from a general flight-to-quality in the marketplace.

Reinsurance broker Guy Carpenter had negative 2% organic growth in the fourth quarter, a substantial improvement from the first three quarters of 2008 despite the absolute decline. Guy Carpenter underwent a management change in late February 2008 and is starting to see the benefits of the establishment of a new sales group and seeing growth benefiting from the expansion into underserved markets (United Kingdom, Europe, and Japan as well as specialty lines: marine and energy, aviation, etc.). Related to pricing, management expressed guarded optimism that the market would begin to harden in 2009 and stated that the company is already seeing evidence of this in reinsurance, particularly in the property segment; however, the primary segment remains soft and the adverse impact from a weak economy could significantly impair rate increases in the near term, in our view. We believe growth will be restrained by continued competitive pressure on commercial property-casualty insurance pricing, coupled with a weaker economy, which will likely limit exposure growth and increase clients' resistance to price increases. While tighter capital markets should pressure capital supply, demand will also wane in a softening economy, and we do not believe pricing will turn in any material way until commercial underwriters start to fall short of profit expectations, as the industry is only a few quarters away from record profitability. We expect modest organic growth in 2009 after 0% organic growth for 2007 and negative 2% organic growth despite the economic headwinds likely offsetting most of the benefit from a stabilization of pricing, in our opinion.

The adjusted insurance brokerage operating margin was 14.8%, compared with 6.8% in fourth quarter 2007 and our 12.0% estimate. The improvement in profitability compared with the prior year was largely attributed to significant cost savings from aggressive expense management. Cost-cutting initiatives during the year included a reduction in Marsh headcount by 2,200 personnel (including 700 outsourced positions), reductions in travel and entertainment expenses, reduction in marketing and advertising costs, and reductions in information technology and outside consulting fees. Guy Carpenter also executed a number of restructuring activities—resulting in an 8% decline in operating expenses for the year. We expect margins to continue to move higher in 2009 through continuing improvement in operating efficiencies. The adjusted insurance brokerage operating margin improved to 13.3% in 2008, from 8.6% in 2007, and over time should move closer to 20% as top-line growth improves.

Pension expense in 2009 is estimated to be similar to 2008, with the U.S. plan showing a funding deficit as of year end (no contribution is required), and in the United Kingdom (Marsh & McLennan's largest plan) had a decrease in pension liabilities during the year, resulting in the company making a discretionary pension contribution of \$70 million to the plan in January 2009.

Consulting Revenue—Lower Visibility Given Economic Slowdown

Organic revenue growth in consulting was fairly weak, with negative 3% organic growth and deterioration in the adjusted operating margin to 10.1%, from 12.3% in fourth quarter 2007. The core Mercer business was flat, and Oliver Wyman, which includes the specialty consulting businesses and is more economically sensitive, declined 10% up against a difficult comparison. According to management, retirement, which is Mercer's largest business line, experienced a near-term decline in client project volume; however, client demand appears strong and the company anticipates low-single-digit growth in this segment in 2009. Outsourcing experienced a 6% decline in organic growth in the quarter, as 25% of revenue in this business is tied to assets under administration and therefore positively correlated with equity market performance. Offsetting these declines, Mercer's health and benefits business grew 3% in the quarter, other consulting lines grew 3%, and investment consulting

and management increased 7%. In response to the weakening economy, Mercer executed cost-cutting initiatives in the quarter, including a 400-employee headcount reduction (cost of \$39 million with estimated expense savings of \$45 million) and restricted adjusted operating expense growth to 1%.

Results for Mercer were also negatively affected by the strengthening dollar—during the fourth quarter, the British pound declined 23% versus the U.S. dollar. Management estimates that if foreign-exchange rates in January between the U.S. dollar, British pound, euro, and Canadian dollar hold for the balance of 2009, it could result in a \$60 million to \$80 million negative impact to Mercer's 2009 operating income. Cost-cutting initiatives in the Oliver Wyman business, which also experienced a marked slowdown in demand for projects, reduced headcount by 6% across multiple sectors and geographies. Organic revenue was 4% for the year and the adjusted operating margin declined to 11.5%, from 12.6% in 2007. This business should be able to produce midteens percentage operating margins over time, in our view, but we expect further pressure on growth in the near term and flattish margins in 2009 with the benefit from cost-savings efforts.

Kroll, risk consulting and technology business, had negative 8% organic growth in the quarter, attributed to the adverse impact from a weak economy on its employment and mortgage screening businesses as well as M&A-related consulting. The litigation and data recovery business also declined in the quarter, which management believes to be an anomaly as litigation activity has historically been unaffected by weakening economic conditions. Kroll executed some headcount reductions in the quarter; however, the benefit was not fully realized in the fourth quarter, adversely affecting profitability. Organic revenue was 2% for 2008.

Capital Is Not an Issue—Will Likely Remain Conservative in the Near Term

Marsh & McLennan remains well capitalized, in our opinion. We estimate total net debt to a run-rate of adjusted EBITDA of only 1.26 and more than adequate for its ratings level; however, given the uncertain economic times, we believe management will likely remain conservative with its capital management in the near term. The company has \$400 million of bonds maturing in June 2009; however, if market conditions remain disadvantageous, the company could fund the maturity through its existing cash position and bank lines—the company maintains a \$1.2 billion revolving credit facility that is currently untapped.

Estimates Coming Down Given Weak Consulting Results; Rating Remains Market Perform

We are lowering our 2009 EPS estimate to \$1.60 from \$1.75, principally due to weaker results in consulting including the negative impact from foreign-currency translations. We have established a 2010 EPS estimate of \$1.90. While we believe the new management team at Marsh & McLennan is headed in the right direction and the company has very valuable assets, we view multiples as relatively full in the near term. We tend to be more negative than consensus on both the prospects for price improvements and the likely adverse impact on growth from the weak economy—both putting pressure on organic growth and margins this year. That said, this was a strong quarter and the shares are getting more interesting given that Marsh & McLennan has no balance-sheet risk, no business model risk, and pricing is stabilizing, albeit at a more gradual pace. The shares trade at 13.4 times our 2009 EPS estimate of \$1.60. We would be more aggressive in the 10- to 12-times 12-month-forward P/E multiple range in the current environment.

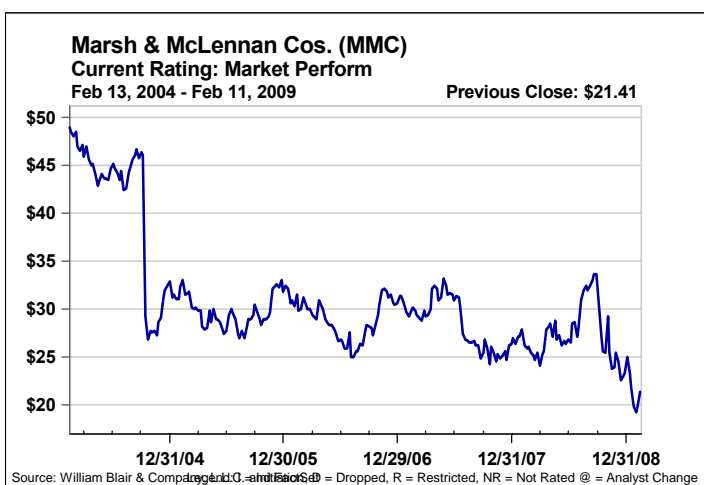
Marsh & McLennan Companies, Inc.
Condensed Income Statement Comparison
(\$ in millions, except per share data)

	2007					2008					2009	2010
	Actual	1Q08	2Q08	3Q08	4Q08	Actual	1Q09E	2Q09E	3Q09E	4Q09E	Estimate	Estimate
Operating revenue:												
Risk & Insurance Services	\$5,400	\$1,500	\$1,415	\$1,275	\$1,276	\$5,466	\$1,445	\$1,368	\$1,235	\$1,311	\$5,360	\$5,575
% change annual	-1%	5%	6%	1%	-6%	1%	-4%	-3%	-3%	3%	-2%	4%
% organic growth	-2%	-4%	1%	-1%	1%	0%	2%	2%	3%	3%	3%	4%
Risk Consulting & Technology	\$967	\$257	\$281	\$254	\$201	\$993	\$244	\$267	\$241	\$191	\$943	\$943
% change annual	1%	10%	13%	-2%	-19%	1%	-5%	-5%	-5%	-5%	-5%	0%
% organic growth	1%	3%	6%	-5%	-16%	-3%	-5%	-5%	-5%	-5%	-5%	0%
Mercer Consulting	\$4,884	\$1,295	\$1,374	\$1,328	\$1,199	\$5,196	\$1,230	\$1,305	\$1,262	\$1,223	\$5,020	\$5,171
% change annual	16%	15%	13%	9%	-9%	6%	-5%	-5%	-5%	2%	-3%	3%
% organic growth	10%	8%	7%	6%	-3%	4%	-3%	-2%	0%	1%	-1%	3%
Total operating revenue	\$11,271	\$3,052	\$3,070	\$2,857	\$2,676	\$11,655	\$2,919	\$2,941	\$2,738	\$2,725	\$11,324	\$11,689
% change annual	6%	9%	9%	4%	-9%	3%	-4%	-4%	-4%	2%	-3%	3%
Corporate eliminations	(\$94)	(\$13)	(\$22)	(\$19)	(\$14)	(\$68)	(\$20)	(\$20)	(\$20)	(\$20)	(\$80)	(\$80)
% change annual	-22%	-63%	-4%	-17%	8%	-28%	54%	-9%	5%	43%	18%	0%
Total revenue	\$11,177	\$3,039	\$3,048	\$2,838	\$2,662	\$11,587	\$2,899	\$2,921	\$2,718	\$2,705	\$11,244	\$11,609
% change annual	6%	10%	9%	4%	-9%	4%	-5%	-4%	-4%	2%	-1%	3%
Operating income:												
Risk & Insurance Services	\$462	\$264	\$207	\$69	\$189	\$729	\$260	\$212	\$167	\$216	\$855	\$998
% change annual	-48%	6%	80%	1280%	105%	58%	-1%	2%	142%	14%	17%	17%
% operating segment revenue	8.6%	17.6%	14.6%	5.4%	14.8%	13.3%	18.0%	15.5%	13.5%	16.5%	16.0%	17.9%
Risk Consulting & Technology	\$98	\$16	\$33	\$28	\$11	\$68	\$24	\$32	\$29	\$21	\$106	\$108
% change annual	-34%	-33%	10%	-3%	-27%	-10%	53%	-3%	3%	91%	21%	2%
% operating segment revenue	9.9%	6.2%	11.7%	11.0%	5.5%	8.9%	10.0%	12.0%	12.0%	11.0%	11.3%	11.5%
Mercer Consulting	\$614	\$151	\$165	\$158	\$121	\$595	\$148	\$157	\$151	\$147	\$602	\$672
% change annual	25%	7%	2%	6%	-25%	-3%	-2%	-5%	-4%	21%	1%	12%
% operating segment revenue	12.6%	11.7%	12.0%	11.9%	10.1%	11.5%	12.0%	12.0%	12.0%	12.0%	12.0%	13.0%
Total operating income	\$1,174	\$431	\$405	\$255	\$321	\$1,412	\$432	\$401	\$347	\$384	\$1,564	\$1,779
% change annual	-21%	4%	32%	39%	19%	20%	0%	-1%	36%	20%	11%	14%
% total operating revenue	10.4%	14.1%	13.2%	8.9%	12.0%	12.1%	14.8%	13.6%	12.7%	14.1%	13.8%	15.2%
Corporate expenses	172	45	45	38	42	170	41	41	41	41	165	168
Interest income	95	18	12	10	8	48	6	6	6	6	24	32
Interest expense	267	56	55	54	55	220	54	53	52	51	210	215
Investment income	173	8	(16)	(23)	19	(12)	(20)	0	0	0	(20)	0
Pretax operating income	\$1,003	\$356	\$301	\$150	\$251	\$1,058	\$323	\$313	\$260	\$298	\$1,193	\$1,428
% change annual	-7%	-5%	24%	-20%	26%	5%	-9%	4%	73%	19%	13%	20%
Income tax expense	\$348	\$112	\$88	\$36	\$56	\$292	\$94	\$91	\$76	\$87	\$349	\$428
Effective tax rate	34.7%	31.5%	29.2%	24.0%	22.3%	27.6%	29.3%	29.3%	29.3%	29.3%	29.3%	30.0%
Minority interest, net of tax	\$14	\$3	\$2	\$3	\$3	\$11	\$3	\$3	\$3	\$3	\$12	\$12
Operating income from continuing operations—adjusted¹	\$642	\$241	\$211	\$111	\$192	\$755	\$225	\$218	\$181	\$208	\$832	\$988
% change annual	-13%	6%	51%	39%	113%	40%	-205%	297%	905%	185%	-1306%	19%
Operating EPS	\$1.18	\$0.46	\$0.41	\$0.21	\$0.37	\$1.45	\$0.43	\$0.42	\$0.35	\$0.40	\$1.60	\$1.90
% change annual	-11%	3%	41%	15%	51%	23%	-7%	3%	64%	8%	10%	19%
Average diluted shares	546	519	518	523	521	520	520	520	520	520	520	520

¹Excludes all nonrecurring expenses/changes in all segments.
Source: Company reports and William Blair & Company estimates

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Additional information is available upon request.



Current Rating Distribution (as of 01/31/09)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	55	Outperform (Buy)	3
Market Perform (Hold)	44	Market Perform (Hold)	1
Underperform (Sell)	1	Underperform (Sell)	1

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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