Brown & Brown Inc. (BRO)

Updated July 27th, 2021, by Josh Arnold

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	4.3%	**Market Cap:**	$15.3 B
Fair Value Price:	$44	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	08/10/21
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date:**	08/18/21
Dividend Yield:	0.7%	**5 Year Price Target**	$62	**Years Of Dividend Growth:**	27
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	8.8%

Overview & Current Events

Brown & Brown Inc. is a leading insurance brokerage firm that provides risk management solutions to both individuals and businesses, with a focus on property & casualty insurance. Brown & Brown has a notably high level of insider ownership. Overall, Brown & Brown is a very shareholder-friendly company, as its 27-year streak of consecutive dividend increases qualifies it to be a member of the Dividend Champions list. The company should produce nearly $3 billion in revenue this year, and trades with a $15.3 billion market capitalization.

Brown & Brown reported second quarter earnings on July 26th, 2021, and both revenue and profits handily beat estimates. Revenue was $727 million, up $129 million, or 22%, year-over-year. Commissions and fees were up 21% and organic revenue soared 15%. The company noted that it posted strong organic revenue growth in all four of its operating segments. Income before taxes was $186 million, up $57 million, or 44%, year-over-year. Income before tax margin was up 400bps to 25.6% of revenue. The company's EBITDAC metric was $239 million, up $63 million, or 35% year-over-year. EBITDAC margin was up 340bps to 32.9% of revenue.

Net income came to $139 million, up $43 million, or 44%, from the year-ago period. Earnings-per-share amounted to 49 cents, up 44% year-over-year. Adjusted earnings were equal to reported earnings.

We've slightly boosted our estimate for this year to $2 in earnings-per-share after a stronger-than-expected second quarter. We also note book value is up to $14 per share as of the end of the second quarter.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$0.56	$0.63	$0.74	$0.83	$0.85	$0.92	$1.42	$1.21	$1.40	$1.67	***$2.00***	***$2.81***
DPS	$0.17	$0.17	$0.19	$0.21	$0.23	$0.25	$0.28	$0.31	$0.33	$0.35	***$0.37***	***$0.57***
BVPS	$5.73	$6.28	$6.90	$7.37	$7.73	$8.42	$9.35	$10.73	$12.19	$13.50	***$14.00***	***$19.64***
Shares[1]	281	284	285	286	280	276	278	276	275	278	***281***	***277***

Brown & Brown has a remarkable growth track record that includes a decade-long compound annual earnings growth rate of more than 11%. The company's book value per common share has grown at a similar rate, expanding at ~9% per year over the last ten years. Brown & Brown's growth strategy is both simple and sustainable. Over the years, the company has actively acquired smaller insurance brokerage firms and integrated them into its larger operating base. We believe that this strategy has plenty of room left to run and forecast that the firm can continue to grow at 7% per year for the foreseeable future. Brown & Brown continues to perform extremely well in all sorts of environments, and we see the growth runway as long.

In addition, we see 9% annual growth in the dividend for the foreseeable future given that Brown & Brown has exhibited strong earnings growth over time, and its strategy is sustainable. The company has also proven it is willing and able to return capital to shareholders via large dividend increases over time.

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[1] Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	20.6	21.7	23.0	20.9	22.4	20.6	24.2	18.5	23.9	25.7	***26.0***	***22.0***
Avg. Yld.	1.4%	1.3%	1.1%	1.3%	1.3%	1.3%	1.2%	1.1%	1.0%	0.8%	***0.7%***	***0.9%***

Brown & Brown has historically traded at a somewhat lofty valuation, with a 10-year average price-to-earnings ratio of 22.2. Looking ahead our fair value earnings multiple for Brown & Brown is a price-to-earnings ratio of 22. Using our 2021 earnings estimate of $2 and the company's current stock price, Brown & Brown is trading at a price-to-earnings ratio of 26. Valuation contraction to an earnings multiple of 22 would reduce Brown & Brown's total returns modestly if this mean reversion occurred over a five-year holding period.

We see the yield rising somewhat over time as the payout rises, but primarily due to a potentially lower valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

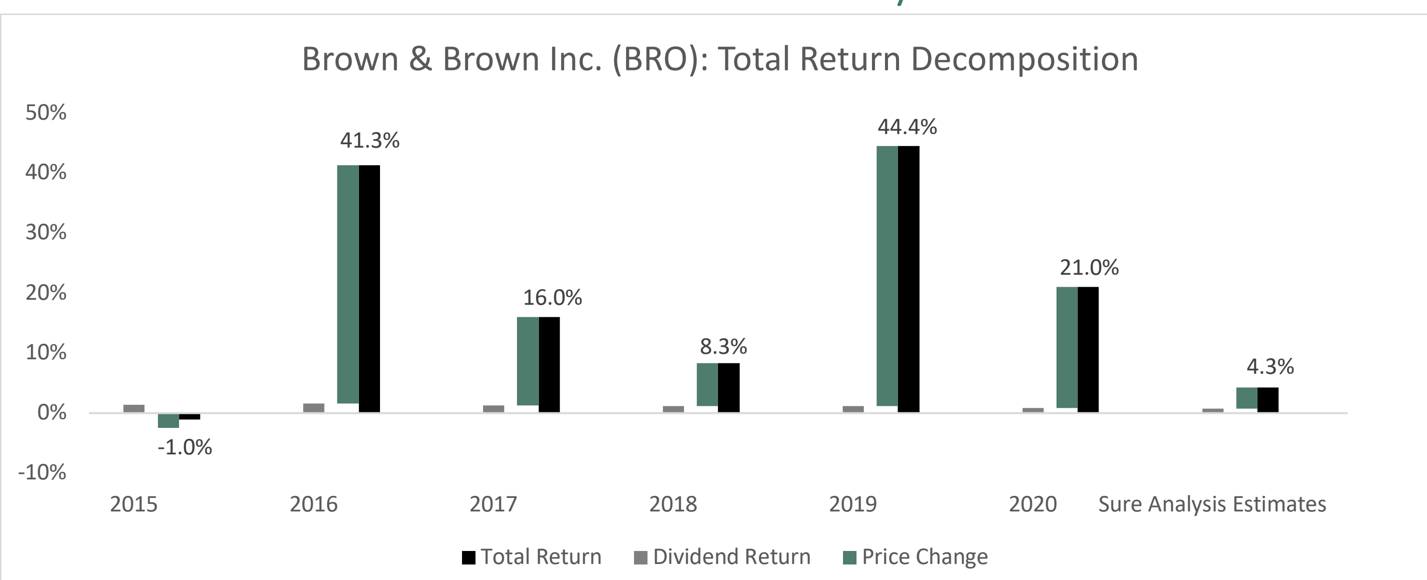
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	27%	26%	25%	27%	27%	20%	26%	24%	21%	***19%***	***20%***

Brown & Brown's competitive advantage comes from its willingness to execute small and frequent acquisitions. This growth-by-acquisition strategy gives the company an enduring opportunity to continue growing its business for the foreseeable future. Brown & Brown is also modestly recession resistant. The company's earnings-per-share declined by just -20.5% during the worst of the 2007-2009 financial crisis, while its dividend continued to grow. We note the company's 2020 results were unaffected by the COVID-19 crisis.

Final Thoughts & Recommendation

Brown & Brown has many of the characteristics of a high-quality business. It has increased its dividend for 27 consecutive years, and company insiders own a great deal of its outstanding stock. With that said, its valuation is still too rich to earn a buy rating today. The stock is down since our last update, so the total return outlook has improved slightly. However, given that the outlook has improved, we're upgrading Brown & Brown from sell to hold. We see the growth story as very attractive, but the share price remains well above our estimate of fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,006	1,189	1,356	1,567	1,657	1,763	1,857	2,010	2,385	2,606
Gross Profit	497	581	673	756	800	838	863	941	1,077	1,170
Gross Margin	49.4%	48.8%	49.6%	48.3%	48.3%	47.5%	46.4%	46.8%	45.1%	44.9%
SG&A Exp.	11	16	23	---	---	---	---	---	---	---
D&A Exp.	67	79	85	104	108	108	108	109	129	135
Operating Profit	281	322	376	425	443	469	493	501	572	673
Operating Margin	28.0%	27.0%	27.7%	27.1%	26.7%	26.6%	26.6%	24.9%	24.0%	25.8%
Net Profit	164	184	217	207	243	257	400	344	399	481
Net Margin	16.3%	15.5%	16.0%	13.2%	14.7%	14.6%	21.5%	17.1%	16.7%	18.4%
Free Cash Flow	224	196	373	360	363	393	418	526	605	651
Income Tax	107	121	140	133	159	166	50	118	127	144

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2,607	3,128	3,650	4,956	5,004	5,263	5,748	6,689	7,623	8,967
Cash & Equivalents	286	220	203	470	443	516	573	439	542	817
Accounts Receivable	240	303	396	438	466	581	1,024	910	1,001	1,143
Goodwill & Int. Ass.	1,820	2,278	2,625	3,245	3,331	3,383	3,357	4,332	4,663	5,446
Total Liabilities	963	1,321	1,642	2,843	2,855	2,903	3,165	3,688	4,273	5,212
Accounts Payable	349	455	569	625	639	717	749	945	1,114	1,389
Long-Term Debt	251	450	480	1,198	1,145	1,074	976	1,507	1,555	2,096
Shareholder's Equity	1,644	1,807	2,007	2,114	2,150	2,360	2,583	3,001	3,350	3,754
D/E Ratio	0.15	0.25	0.24	0.57	0.53	0.46	0.38	0.50	0.46	0.56

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.5%	6.4%	6.4%	4.8%	4.9%	5.0%	7.3%	5.5%	5.6%	5.8%
Return on Equity	10.4%	10.7%	11.4%	10.0%	11.4%	11.4%	16.2%	12.3%	12.5%	13.5%
ROIC	9.0%	8.9%	9.2%	7.1%	7.4%	7.7%	11.4%	8.5%	8.5%	8.9%
Shares Out.	281	284	285	286	280	276	278	276	275	278
Revenue/Share	3.59	4.19	4.75	5.48	5.91	6.40	6.69	7.29	8.68	9.45
FCF/Share	0.80	0.69	1.31	1.26	1.30	1.43	1.51	1.91	2.20	2.36

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