Brown & Brown Inc. (BRO)

Updated November 7th, 2021, by Josh Arnold

Key Metrics

Current Price:	$62	**5 Year CAGR Estimate:**	4.4%	**Market Cap:**	$17.5 B
Fair Value Price:	$53	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	11/02/21
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	11/17/21
Dividend Yield:	0.7%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	28
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	10.8%

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 28-year streak of consecutive dividend increases qualifies it to be a member of the Dividend Champions list. The company employs about 11,000 people, should produce about $3 billion in revenue this year, and trades with a $17.5 billion market capitalization.

Brown & Brown reported third quarter earnings on October 25th, 2021, and results were better than expected on both the top and adjusted bottom lines. Total revenue was $770 million, up $96 million year-over-year, or 14%. Commissions and fees were up 14.6% and organic revenue was up 8.5%, with the balance of the increase coming from the company's nearly constant acquisitions. For the nine months ended September, revenue came to $2.3 billion, up $342 million year-over-year, or 17%. Commission and fees were up 17.5%, and organic revenue was up 10.8%.

Net income for the third quarter was $146 million, up $12 million, or 9%, year-over-year. On a per-share basis, net income was 52 cents, up 10.6% year-over-year. On an adjusted basis, earnings-per-share were 58 cents, up 11.5% year-over-year. For the nine months ended September, net income was $485 million, up 27% year-over-year. On an adjusted per-share basis, earnings were $1.77, up 30% year-over-year.

We've boosted our estimate of earnings-per-share to $2.20 following Q3 results. The company also increased its dividend 10.8% to $0.1025 per quarter. This is Brown & Brown's 28th consecutive year of dividend increases.

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	***$2.20***	***$3.09***
DPS	$0.17	$0.17	$0.19	$0.21	$0.23	$0.25	$0.28	$0.31	$0.33	$0.35	***$0.41***	***$0.63***
BVPS	$5.73	$6.28	$6.90	$7.37	$7.73	$8.42	$9.35	$10.73	$12.19	$13.50	***$14.88***	***$20.87***
Shares[1]	281	284	285	286	280	276	278	276	275	278	***276***	***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 forecast 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.

[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	***28.2***	***24.0***
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 24. Using our 2021 earnings estimate of $2.20 and the company's current stock price, Brown & Brown is trading at a price-to-earnings ratio of 28.2. Valuation contraction to an earnings multiple of 24 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

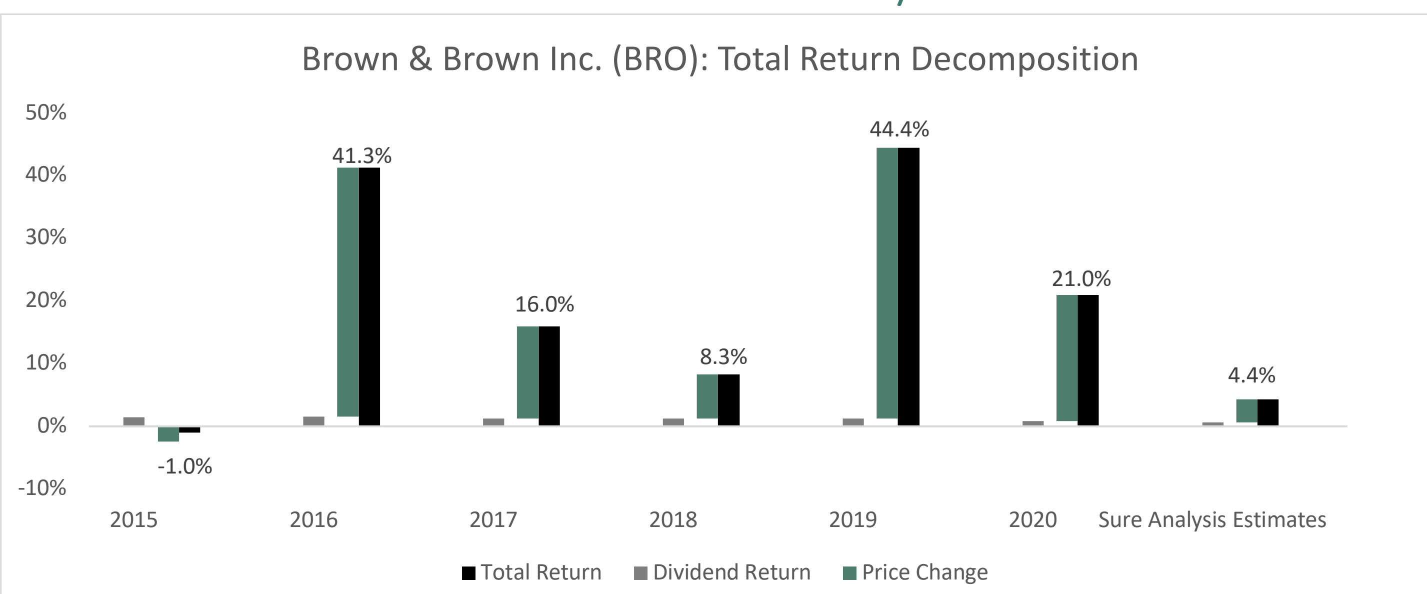
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	27%	26%	25%	27%	27%	20%	26%	24%	21%	***19%***	***20%***

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 28 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. The stock is up since our last update, so the total return outlook has deteriorated slightly. We are reiterating our hold rating but note that Brown & Brown is looking less attractive at just 4.4% projected annual total returns. 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.