Brown & Brown Inc. (BRO)

Updated January 26th, 2022, by Josh Arnold

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	5.0%	**Market Cap:**	$18.3 B
Fair Value Price:	$56	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	02/03/22
% Fair Value:	113%	**5 Year Valuation Multiple Estimate:**	-2.5%	**Dividend Payment Date:**	02/16/22
Dividend Yield:	0.6%	**5 Year Price Target**	$79	**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 Aristocrats list. The company employs about 11,000 people, should produce about $3.3 billion in revenue this year, and trades with a $18.3 billion market capitalization.

Brown & Brown reported fourth quarter and full-year earnings on January 24th, 2022, and results were better than expected on both the top and bottom lines, as has been customary for the insurer. Total revenue was $739 million, up 15% year-over-year, and beating estimates by $13 million for the quarter. Organic revenue was up 9%, with the balance from the net of acquisitions and divestitures. For the full year, revenue was $3.05 billion, up $438 million, or 17%, from 2020. Organic revenue for the year was up more than 10%.

For the quarter, earnings-per-share increased 42 cents, or 31%, year-over-year. Income before taxes came to $141 million in the fourth quarter, up $10 million, or 8% year-over-year. Income before taxes margin was down to 19.1% of revenue from 20.4% from the year-ago period.

For the full year, earnings were $587 million, up 22% from 2020, and equaled $2.19 per share, up 31%. Income before taxes was $763 million, an increase of $139 million, or 22% from 2020. Income before taxes margin was 25.0% of revenue for the year, up from 23.9% in 2020.Book value rose to $14.86 per share, another record.

We expect earnings-per-share of $2.35 for this year, extending a long run of robust growth for Brown & Brown.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.63	$0.74	$0.83	$0.85	$0.92	$1.42	$1.21	$1.40	$1.67	$2.19	***$2.35***	***$3.30***
DPS	$0.17	$0.19	$0.21	$0.23	$0.25	$0.28	$0.31	$0.33	$0.35	$0.37	***$0.41***	***$0.63***
BVPS	$6.28	$6.90	$7.37	$7.73	$8.42	$9.35	$10.73	$12.19	$13.50	$14.86	***$15.90***	***$22.30***
Shares[1]	284	285	286	280	276	278	276	275	278	283	***280***	***280***

Brown & Brown has a remarkable growth track record that includes a decade-long compound annual earnings growth rate of more than 13%. 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.

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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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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.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	21.7	23.0	20.9	22.4	20.6	24.2	18.5	23.9	25.7	24.9	***27.2***	***24.0***
Avg. Yld.	1.3%	1.1%	1.3%	1.3%	1.3%	1.2%	1.1%	1.0%	0.8%	0.7%	***0.6%***	***0.8%***

Brown & Brown has historically traded at a somewhat lofty valuation, with a 10-year average price-to-earnings ratio of 22.6. Looking ahead our fair value earnings multiple for Brown & Brown is a price-to-earnings ratio of 24. Using our 2021 earnings estimate of $2.35 and the company's current stock price, Brown & Brown is trading at a price-to-earnings ratio of 27.2. 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

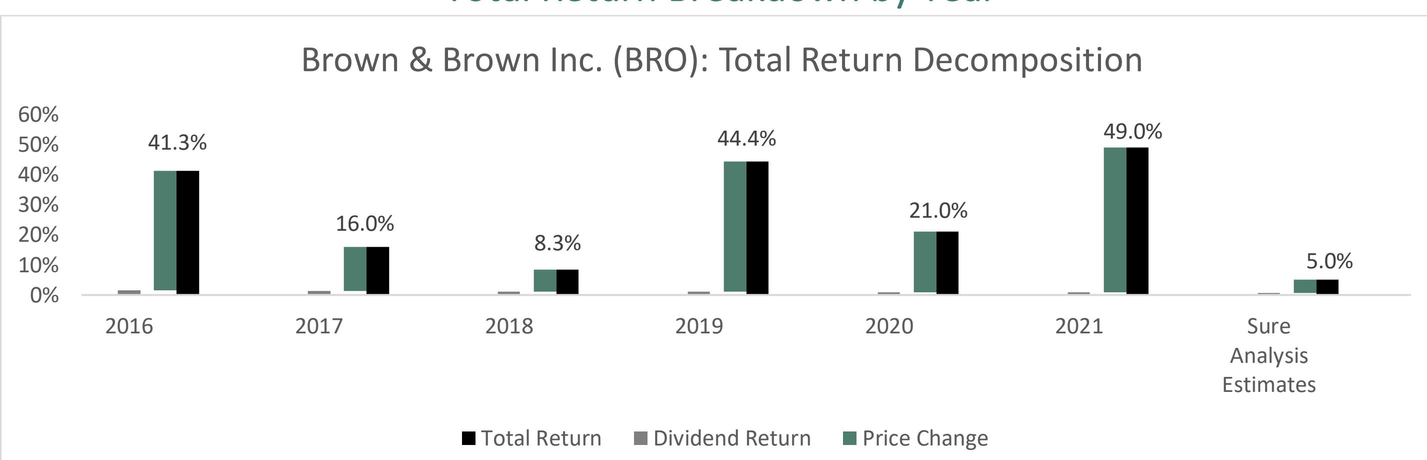
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	27%	26%	25%	27%	27%	20%	26%	24%	21%	17%	***17%***	***19%***

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 and 2021 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 higher since our last update, although the total return outlook has improved slightly. We are reiterating our hold rating at 5% projected 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,189	1,356	1,567	1,657	1,763	1,857	2,010	2,385	2,606	3,048
Gross Profit	581	673	756	800	838	863	941	1,077	1,170	1,411
Gross Margin	48.8%	49.6%	48.3%	48.3%	47.5%	46.4%	46.8%	45.1%	44.9%	46.3%
SG&A Exp.	16	23	---	---	---	---	---	---	---	---
D&A Exp.	79	85	104	108	108	108	109	129	135	153
Operating Profit	322	376	425	443	469	493	501	572	673	855
Operating Margin	27.0%	27.7%	27.1%	26.7%	26.6%	26.6%	24.9%	24.0%	25.8%	28.0%
Net Profit	184	217	207	243	257	400	344	399	481	587
Net Margin	15.5%	16.0%	13.2%	14.7%	14.6%	21.5%	17.1%	16.7%	18.4%	19.3%
Free Cash Flow	196	373	360	363	393	418	526	605	651	903
Income Tax	121	140	133	159	166	50	118	127	144	176

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,128	3,650	4,956	5,004	5,263	5,748	6,689	7,623	8,967	9,795
Cash & Equivalents	220	203	470	443	516	573	439	542	817	887
Accounts Receivable	303	396	438	466	581	1,024	910	1,001	1,143	1,279
Goodwill & Int. Ass.	2,278	2,625	3,245	3,331	3,383	3,357	4,332	4,663	5,446	5,818
Total Liabilities	1,321	1,642	2,843	2,855	2,903	3,165	3,688	4,273	5,212	5,599
Accounts Payable	455	569	625	639	717	749	945	1,114	1,389	1,591
Long-Term Debt	450	480	1,198	1,145	1,074	976	1,507	1,555	2,096	2,023
Shareholder's Equity	1,807	2,007	2,114	2,150	2,360	2,583	3,001	3,350	3,754	4,197
D/E Ratio	0.25	0.24	0.57	0.53	0.46	0.38	0.50	0.46	0.56	0.48

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.4%	6.4%	4.8%	4.9%	5.0%	7.3%	5.5%	5.6%	5.8%	6.3%
Return on Equity	10.7%	11.4%	10.0%	11.4%	11.4%	16.2%	12.3%	12.5%	13.5%	14.8%
ROIC	8.9%	9.2%	7.1%	7.4%	7.7%	11.4%	8.5%	8.5%	8.9%	9.7%
Shares Out.	284	285	286	280	276	278	276	275	278	283
Revenue/Share	4.19	4.75	5.48	5.91	6.40	6.69	7.29	8.68	9.45	10.99
FCF/Share	0.69	1.31	1.26	1.30	1.43	1.51	1.91	2.20	2.36	3.26

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