



# Brown & Brown Inc. (BRO)

Updated July 25<sup>th</sup>, 2023, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$71	<b>5 Year CAGR Estimate:</b>	4.6%	<b>Market Cap:</b>	\$20 B
<b>Fair Value Price:</b>	\$61	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	08/08/23
<b>% Fair Value:</b>	116%	<b>5 Year Valuation Multiple Estimate:</b>	-2.9%	<b>Dividend Payment Date:</b>	08/16/23
<b>Dividend Yield:</b>	0.6%	<b>5 Year Price Target</b>	\$86	<b>Years Of Dividend Growth:</b>	29
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## 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 29-year streak of consecutive dividend increases qualifies it to be a member of the Dividend Aristocrats list. The company employs about 15,000 people, should produce about \$4.1 billion in revenue this year, and trades with a \$20 billion market capitalization.

Brown & Brown posted second quarter earnings on July 24<sup>th</sup>, 2023, and results were ahead of expectations on both the top and bottom lines. Adjusted earnings-per-share totaled 68 cents, which was an impressive nine cents ahead of expectations. Earnings were down from 84 cents in the first quarter, but up from 51 cents in last year's Q2.

Revenue was \$1.04 billion, up 24% year-over-year, and \$41 million better than estimates. That was off from \$1.12 billion in Q1, but much higher than \$840 million in last year's Q2.

Core commissions and fees were \$1.00 billion, down from \$1.08 billion in Q1, but up from \$817 million in last year's Q2. Adjusted EBITDAC was \$358 million, down from \$398 million in Q1, and up from \$275 million in the year-ago period. Adjusted EBITDAC margin was 34.2% of revenue, up 150bps year-over-year, but down 150bps from Q1. Total expenses were \$793 million, a \$29 million improvement from Q1, but \$151 million worse than Q2 2022.

We've slightly boosted our estimate of earnings-per-share for this year to \$2.55 following better-than-feared first quarter results.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>EPS</b>	\$0.74	\$0.83	\$0.85	\$0.92	\$1.42	\$1.21	\$1.40	\$1.67	\$2.19	\$2.28	<b>\$2.55</b>	<b>\$3.58</b>
<b>DPS</b>	\$0.19	\$0.21	\$0.23	\$0.25	\$0.28	\$0.31	\$0.33	\$0.35	\$0.37	\$0.42	<b>\$0.46</b>	<b>\$0.71</b>
<b>BVPS</b>	\$6.90	\$7.37	\$7.73	\$8.42	\$9.35	\$10.73	\$12.19	\$13.50	\$14.86	\$15.22	<b>\$16.35</b>	<b>\$22.96</b>
<b>Shares<sup>1</sup></b>	285	286	280	276	278	276	275	278	283	283	<b>285</b>	<b>295</b>

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 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

<sup>1</sup> Share count in millions

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able to return capital to shareholders via large dividend increases over time. We note the nearly three decade long streak of dividend increases.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	23.0	20.9	22.4	20.6	24.2	18.5	23.9	25.7	24.9	25.0	<b>27.8</b>	<b>24.0</b>
Avg. Yld.	1.1%	1.3%	1.3%	1.3%	1.2%	1.1%	1.0%	0.8%	0.7%	0.7%	<b>0.6%</b>	<b>0.8%</b>

Brown & Brown has historically traded at a somewhat lofty valuation, with a 10-year average price-to-earnings ratio of ~23. Looking ahead our fair value earnings multiple for Brown & Brown is a price-to-earnings ratio of 24. Using our 2023 earnings estimate of \$2.55 and the company's current stock price, Brown & Brown is trading at a price-to-earnings ratio of 27.8, which is a decade-high valuation for the stock. Given the valuation, we now see a modestly negative impact from the valuation in the coming years.

We see the yield rising slightly over time as the payout rises, but the stock is highly unlikely to be a pure income stock anytime soon.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

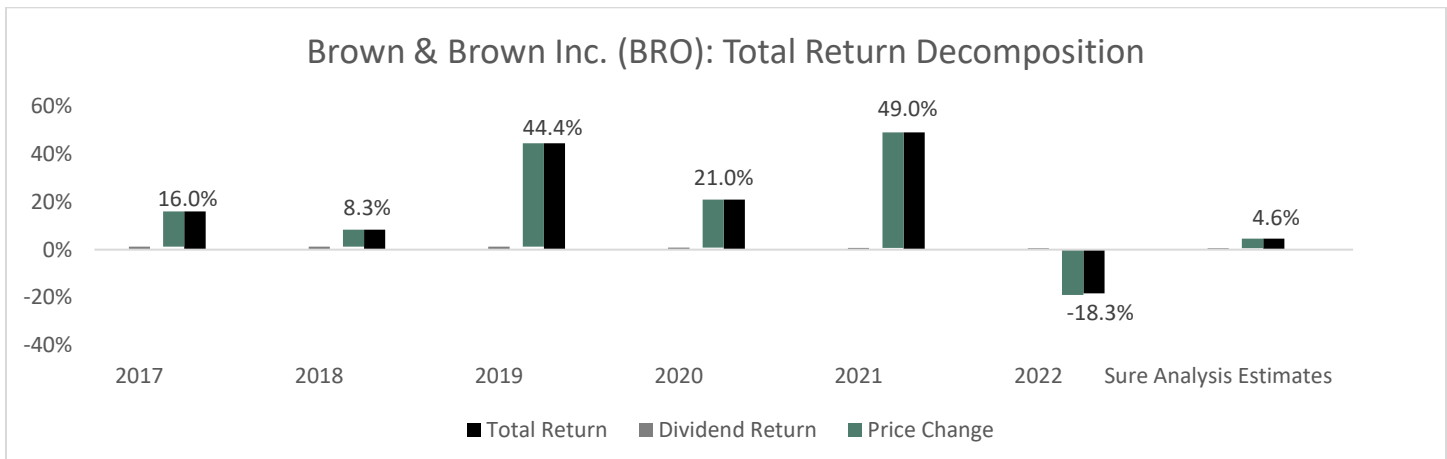
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	25%	27%	27%	20%	26%	24%	21%	17%	18%	<b>18%</b>	<b>20%</b>

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 29 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, and the total return outlook has deteriorated. We are reiterating our hold rating at 4.6% projected total returns. We see the growth story as very attractive at 7% annually, but the yield is just 0.6%, which should be more than offset by the valuation.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	1,356	1,567	1,657	1,763	1,857	2,010	2,385	2,606	3,048	3,573
<b>Gross Profit</b>	673	756	800	838	863	941	1,077	1,170	1,411	1,757
<b>Gross Margin</b>	49.6%	48.3%	48.3%	47.5%	46.4%	46.8%	45.1%	44.9%	46.3%	49.2%
<b>SG&amp;A Exp.</b>	23	---	---	---	---	---	---	---	---	---
<b>D&amp;A Exp.</b>	85	104	108	108	108	109	129	135	153	186
<b>Operating Profit</b>	376	425	443	469	493	501	572	673	855	974
<b>Operating Margin</b>	27.7%	27.1%	26.7%	26.6%	26.6%	24.9%	24.0%	25.8%	28.0%	27.3%
<b>Net Profit</b>	217	207	243	257	400	344	399	481	587	672
<b>Net Margin</b>	16.0%	13.2%	14.7%	14.6%	21.5%	17.1%	16.7%	18.4%	19.3%	18.8%
<b>Free Cash Flow</b>	373	360	363	393	418	526	605	651	903	829
<b>Income Tax</b>	140	133	159	166	50	118	127	144	176	204

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	3,650	4,956	5,004	5,263	5,748	6,689	7,623	8,967	9,795	13,974
<b>Cash &amp; Equivalents</b>	203	470	443	516	573	439	542	817	887	650
<b>Accounts Receivable</b>	396	438	466	581	1,024	910	1,001	1,143	1,279	2,355
<b>Goodwill &amp; Int. Ass.</b>	2,625	3,245	3,331	3,383	3,357	4,332	4,663	5,446	5,818	8,269
<b>Total Liabilities</b>	1,642	2,843	2,855	2,903	3,165	3,688	4,273	5,212	5,599	9,367
<b>Accounts Payable</b>	569	625	639	717	749	945	1,114	1,389	1,591	2,551
<b>Long-Term Debt</b>	480	1,198	1,145	1,074	976	1,507	1,555	2,096	2,023	3,942
<b>Shareholder's Equity</b>	2,007	2,114	2,150	2,360	2,583	3,001	3,350	3,754	4,197	4,607
<b>LTD/E Ratio</b>	0.24	0.57	0.53	0.46	0.38	0.50	0.46	0.56	0.48	0.86

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	6.4%	4.8%	4.9%	5.0%	7.3%	5.5%	5.6%	5.8%	6.3%	5.7%
<b>Return on Equity</b>	11.4%	10.0%	11.4%	11.4%	16.2%	12.3%	12.5%	13.5%	14.8%	15.3%
<b>ROIC</b>	9.2%	7.1%	7.4%	7.7%	11.4%	8.5%	8.5%	8.9%	9.7%	9.1%
<b>Shares Out.</b>	285	286	280	276	278	276	275	278	283	279
<b>Revenue/Share</b>	4.75	5.48	5.91	6.40	6.69	7.29	8.68	9.45	10.99	12.82
<b>FCF/Share</b>	1.31	1.26	1.30	1.43	1.51	1.91	2.20	2.36	3.26	2.97

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

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