Brown & Brown Inc. (BRO)

Updated October 24th, 2023, by Josh Arnold

Key Metrics

Current Price:	$67	**5 Year CAGR Estimate:**	7.6%	**Market Cap:**	$19 B
Fair Value Price:	$64	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	10/31/23
% Fair Value:	105%	**5 Year Valuation Multiple Estimate:**	-1.0%	**Dividend Payment Date:**	11/15/23
Dividend Yield:	0.8%	**5 Year Price Target**	$93	**Years Of Dividend Growth:**	30
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	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 30-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 billion in revenue this year, and trades with a $19 billion market capitalization.

Brown & Brown posted third quarter earnings on October 23rd, 2023, and results were much better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 71 cents, which was nine cents better than expectations. Revenue was up almost 15% year-over-year to $1.07 billion, and was $40 million ahead of estimates. Organic revenue growth was 9.6% during the quarter, and is 11% year-to-date.

Core commissions and fees were $1.02 billion, up slightly from Q2, and up from $917 million in the year-ago period. Adjusted EBITDAC came to $370 million, up from $358 million in Q2, and up sharply from $292 million a year ago. Adjusted EBITDAC margin was 34.7% of revenue in Q3, against 34.2% in Q2, and 31.2% a year ago. Total expenses rose from $710 million a year ago and $793 million in Q2 to $825 million in Q3.

We've boosted earnings-per-share to $2.65 following good Q3 results.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.74	$0.83	$0.85	$0.92	$1.42	$1.21	$1.40	$1.67	$2.19	$2.28	***$2.65***	***$3.89***
DPS	$0.19	$0.21	$0.23	$0.25	$0.28	$0.31	$0.33	$0.35	$0.37	$0.42	***$0.52***	***$0.80***
BVPS	$6.90	$7.37	$7.73	$8.42	$9.35	$10.73	$12.19	$13.50	$14.86	$15.22	***$16.50***	***$24.24***
Shares[1]	285	286	280	276	278	276	275	278	283	283	***285***	***295***

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 8% 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 able to return capital to shareholders via large dividend increases over time. We note the three-decade-long streak of dividend increases.

[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	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	***25.3***	***24.0***
Avg. Yld.	1.1%	1.3%	1.3%	1.3%	1.2%	1.1%	1.0%	0.8%	0.7%	0.7%	***0.8%***	***0.9%***

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 $2.65 and the company's current stock price, Brown & Brown is trading at a price-to-earnings ratio of 25.3, which is a decade-high valuation for the stock. Given the valuation, we now see a small 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

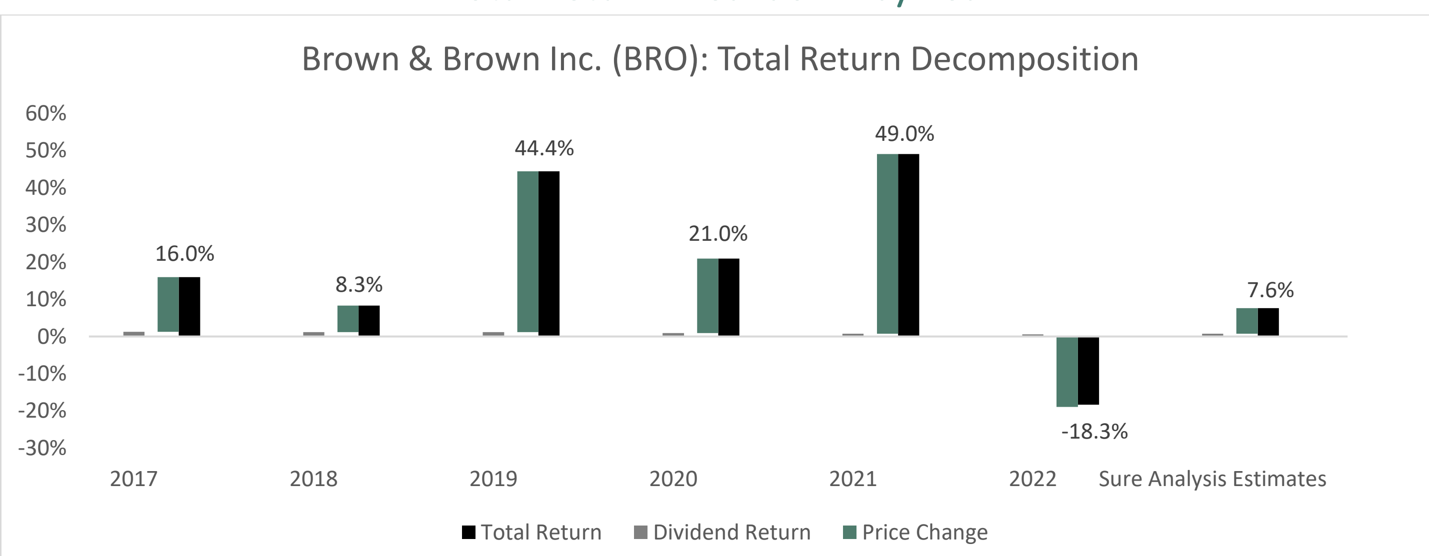
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	26%	25%	27%	27%	20%	26%	24%	21%	17%	18%	***20%***	***21%***

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 30 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 lower since our last update, and the total return outlook has improved. We are reiterating our hold rating at 7.6% projected total returns. We see the growth story as very attractive at 8% annually, but the yield is just 0.8%, which should 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
Revenue	1,356	1,567	1,657	1,763	1,857	2,010	2,385	2,606	3,048	3,573
Gross Profit	673	756	800	838	863	941	1,077	1,170	1,411	1,757
Gross Margin	49.6%	48.3%	48.3%	47.5%	46.4%	46.8%	45.1%	44.9%	46.3%	49.2%
SG&A Exp.	23	---	---	---	---	---	---	---	---	---
D&A Exp.	85	104	108	108	108	109	129	135	153	186
Operating Profit	376	425	443	469	493	501	572	673	855	974
Operating Margin	27.7%	27.1%	26.7%	26.6%	26.6%	24.9%	24.0%	25.8%	28.0%	27.3%
Net Profit	217	207	243	257	400	344	399	481	587	672
Net Margin	16.0%	13.2%	14.7%	14.6%	21.5%	17.1%	16.7%	18.4%	19.3%	18.8%
Free Cash Flow	373	360	363	393	418	526	605	651	903	829
Income Tax	140	133	159	166	50	118	127	144	176	204

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3,650	4,956	5,004	5,263	5,748	6,689	7,623	8,967	9,795	13,974
Cash & Equivalents	203	470	443	516	573	439	542	817	887	650
Accounts Receivable	396	438	466	581	1,024	910	1,001	1,143	1,279	2,355
Goodwill & Int. Ass.	2,625	3,245	3,331	3,383	3,357	4,332	4,663	5,446	5,818	8,269
Total Liabilities	1,642	2,843	2,855	2,903	3,165	3,688	4,273	5,212	5,599	9,367
Accounts Payable	569	625	639	717	749	945	1,114	1,389	1,591	2,551
Long-Term Debt	480	1,198	1,145	1,074	976	1,507	1,555	2,096	2,023	3,942
Shareholder’s Equity	2,007	2,114	2,150	2,360	2,583	3,001	3,350	3,754	4,197	4,607
LTD/E Ratio	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
Return on Assets	6.4%	4.8%	4.9%	5.0%	7.3%	5.5%	5.6%	5.8%	6.3%	5.7%
Return on Equity	11.4%	10.0%	11.4%	11.4%	16.2%	12.3%	12.5%	13.5%	14.8%	15.3%
ROIC	9.2%	7.1%	7.4%	7.7%	11.4%	8.5%	8.5%	8.9%	9.7%	9.1%
Shares Out.	285	286	280	276	278	276	275	278	283	279
Revenue/Share	4.75	5.48	5.91	6.40	6.69	7.29	8.68	9.45	10.99	12.82
FCF/Share	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.