



Brown & Brown Inc. (BRO)

Updated July 24th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$98	5 Year CAGR Estimate:	7.1%	Market Cap:	\$27 B
Fair Value Price:	\$88	5 Year Growth Estimate:	9.0%	Ex-Dividend Date:	08/07/24
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	08/17/24
Dividend Yield:	0.5%	5 Year Price Target	\$135	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 \$4.6 billion in revenue this year, and trades with a \$27 billion market capitalization.

Brown & Brown posted second quarter earnings on July 23rd, 2024, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 93 cents, which was a nickel ahead of estimates. Revenue was up 12.4% year-over-year to \$1.18 billion, which was also \$40 million ahead of expectations.

Adjusted EBITDAC was \$420 million, up 17% from the year-ago period. As a percentage of revenue, EBITDAC was 35.7%, up from 34.2%. That was also up from \$358 million a year ago.

Core commissions and fees earned fell from \$1.19 billion to \$1.12 billion, but was still higher from the \$1.00 billion in last year's second quarter.

Total expenses were \$832 million, down from \$894 million in Q1, but higher than \$793 million a year ago.

We have boosted our estimate of adjusted earnings-per-share for this year after Q2 earnings, and now expect to see \$3.65 for 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.83	\$0.85	\$0.92	\$1.42	\$1.21	\$1.40	\$1.67	\$2.19	\$2.28	\$2.81	\$3.65	\$5.62
DPS	\$0.21	\$0.23	\$0.25	\$0.28	\$0.31	\$0.33	\$0.35	\$0.37	\$0.42	\$0.48	\$0.52	\$0.80
BVPS	\$7.37	\$7.73	\$8.42	\$9.35	\$10.73	\$12.19	\$13.50	\$14.86	\$15.22	\$19.60	\$22.00	\$33.85
Shares¹	286	280	276	278	276	275	278	283	283	285	287	295

Brown & Brown has a remarkable growth track record that includes a decade-long compound annual earnings growth rate of more than 14%. The company's book value per common share has grown at a similar rate, expanding at ~11% 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 9% 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	20.9	22.4	20.6	24.2	18.5	23.9	25.7	24.9	25.0	25.3	26.8	24.0
Avg. Yld.	1.3%	1.3%	1.3%	1.2%	1.1%	1.0%	0.8%	0.7%	0.7%	0.7%	0.5%	0.6%

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 2024 earnings estimate of \$3.65 and the company's current stock price, Brown & Brown is trading at a price-to-earnings ratio of 26.8, which is a higher valuation than we've seen in recent years. Given the valuation, we see a small negative impact from the valuation in the coming years.

We see the yield remaining about where it is over time as the payout rises commensurate with earnings, but the stock is highly unlikely to be a pure income stock anytime soon.

Safety, Quality, Competitive Advantage, & Recession Resiliency

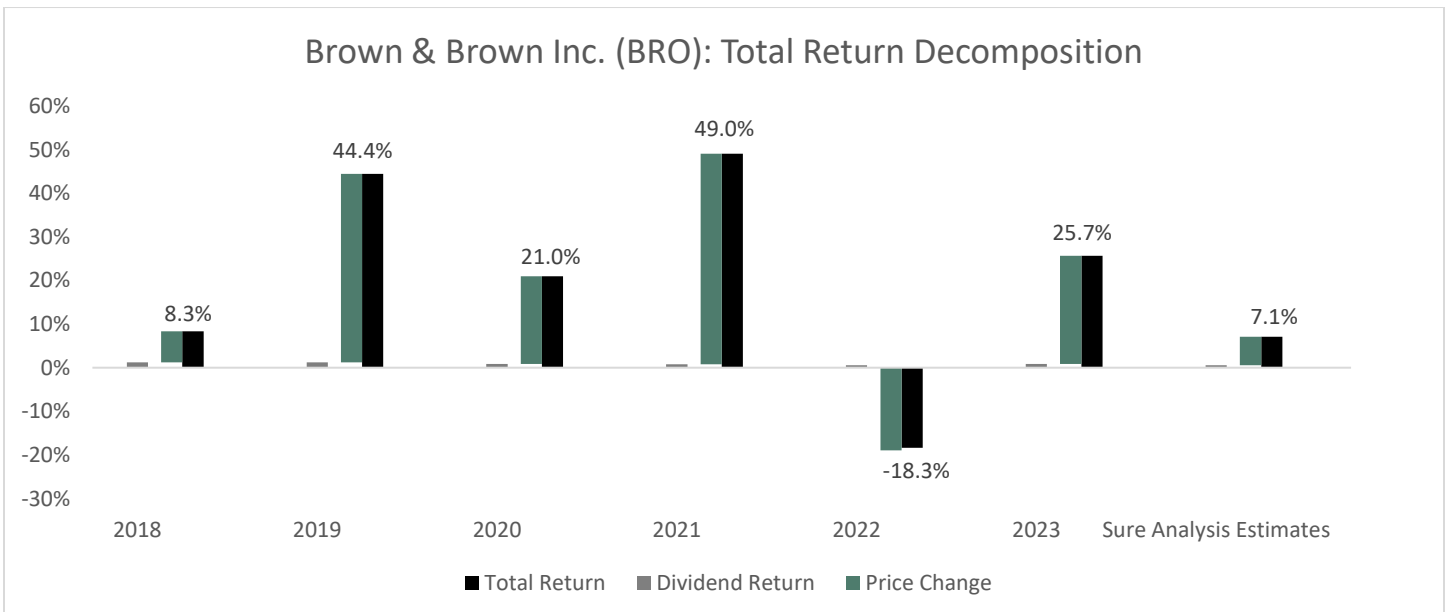
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	25%	27%	27%	20%	26%	24%	21%	17%	18%	17%	14%	14%

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. The valuation has deteriorated since our last update, driving lower total return prospects. We are taking the stock from buy to hold on 7.1% projected total returns. We see the growth story as very attractive at 9% annually, but the yield is just 0.5%, and the valuation will likely be a headwind for the foreseeable future.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,567	1,657	1,763	1,857	2,010	2,385	2,606	3,048	3,573	4,205
Gross Profit	756	800	838	863	941	1,077	1,170	1,411	1,757	2,018
Gross Margin	48.3%	48.3%	47.5%	46.4%	46.8%	45.1%	44.9%	46.3%	49.2%	48.0%
SG&A Exp.	---	---	---	---	---	---	---	---	---	---
D&A Exp.	104	108	108	108	109	129	135	153	186	206
Operating Profit	425	443	469	493	501	572	673	855	974	1,162
Operating Margin	27.1%	26.7%	26.6%	26.6%	24.9%	24.0%	25.8%	28.0%	27.3%	27.6%
Net Profit	207	243	257	400	344	399	481	587	672	871
Net Margin	13.2%	14.7%	14.6%	21.5%	17.1%	16.7%	18.4%	19.3%	18.8%	20.7%
Free Cash Flow	360	363	393	418	526	605	651	903	829	941
Income Tax	133	159	166	50	118	127	144	176	204	276

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,956	5,004	5,263	5,748	6,689	7,623	8,967	9,795	13,974	14,916
Cash & Equivalents	470	443	516	573	439	542	817	887	650	700
Accounts Receivable	438	466	581	1,024	910	1,001	1,143	1,279	2,355	915
Goodwill & Int. Ass.	3,245	3,331	3,383	3,357	4,332	4,663	5,446	5,818	8,269	8,962
Total Liabilities	2,843	2,855	2,903	3,165	3,688	4,273	5,212	5,599	9,367	9,337
Accounts Payable	625	639	717	749	945	1,114	1,389	1,591	2,551	491
Long-Term Debt	1,198	1,145	1,074	976	1,507	1,555	2,096	2,023	3,942	3,796
Shareholder's Equity	2,114	2,150	2,360	2,583	3,001	3,350	3,754	4,197	4,607	5,579
LTD/E Ratio	0.57	0.53	0.46	0.38	0.50	0.46	0.56	0.48	0.86	0.68

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.8%	4.9%	5.0%	7.3%	5.5%	5.6%	5.8%	6.3%	5.7%	6.0%
Return on Equity	10.0%	11.4%	11.4%	16.2%	12.3%	12.5%	13.5%	14.8%	15.3%	17.1%
ROIC	7.1%	7.4%	7.7%	11.4%	8.5%	8.5%	8.9%	9.7%	9.1%	9.7%
Shares Out.	286	280	276	278	276	275	278	283	279	281
Revenue/Share	5.48	5.91	6.40	6.69	7.29	8.68	9.45	10.99	12.82	14.97
FCF/Share	1.26	1.30	1.43	1.51	1.91	2.20	2.36	3.26	2.97	3.35

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

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