

## Brown & Brown Inc.(BRO)

**\$45.93** (As of 08/10/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: C

### Summary

Brown & Brown's earnings of 34 cents per share beat the Zacks Consensus Estimate by 17.2% and improved 6.3% year over year. Its shares have outperformed its industry in a year's time. Its compelling portfolio with an impressive growth trajectory driven by organic and inorganic initiatives bode well. Buyouts and collaborations enhanced its existing capabilities and extended its geographic foothold. Strategic efforts continue to drive commission and fees. Solid capital position, backed by strong operational environment, place the company well for long-term growth. Its sturdy performance has been driving cash flow, enabling it to deploy capital effectively. It boasts strong balance sheet backed by solid cash position. However, higher expenses are likely to strain margins. Poor return on equity poses financial risk to the company.

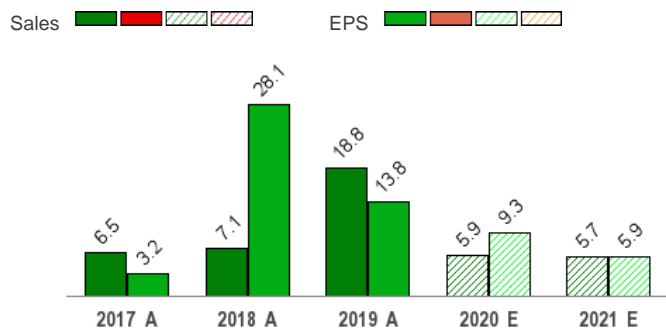
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$48.69 - \$30.70</b>
20 Day Average Volume (sh)	<b>1,079,985</b>
Market Cap	<b>\$13.0 B</b>
YTD Price Change	<b>16.3%</b>
Beta	<b>0.71</b>
Dividend / Div Yld	<b>\$0.34 / 0.7%</b>
Industry	<a href="#">Insurance - Brokerage</a>
Zacks Industry Rank	<b>Top 12% (30 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>17.2%</b>
Last Sales Surprise	<b>4.2%</b>
EPS F1 Est- 4 week change	<b>7.1%</b>
Expected Report Date	<b>10/26/2020</b>
Earnings ESP	<b>3.8%</b>
P/E TTM	<b>30.2</b>
P/E F1	<b>30.0</b>
PEG F1	<b>3.0</b>
P/S TTM	<b>5.2</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	743 E	645 E	697 E	656 E	2,678 E
2020	699 A	599 A	633 E	593 E	2,533 E
2019	619 A	575 A	619 A	579 A	2,392 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.36 E	\$0.46 E	\$0.32 E	\$1.62 E
2020	\$0.51 A	\$0.34 A	\$0.41 E	\$0.27 E	\$1.53 E
2019	\$0.41 A	\$0.32 A	\$0.39 A	\$0.28 A	\$1.40 A

\*Quarterly figures may not add up to annual.

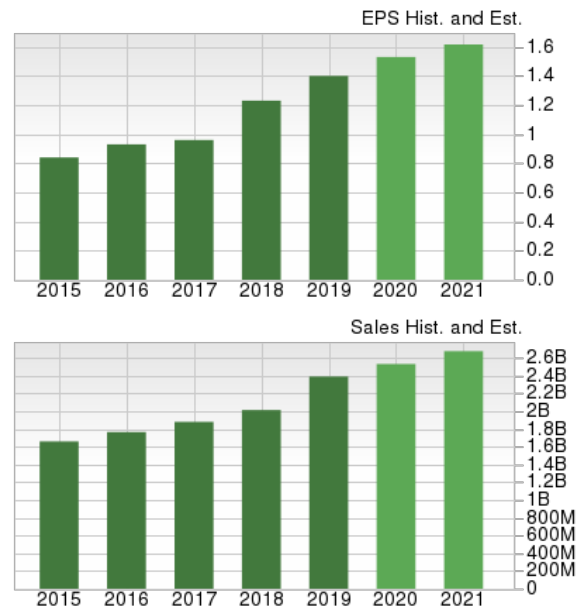
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

## Overview

Headquartered in Daytona Beach, FL and founded in 1939, Brown & Brown, Inc. markets and sells insurance products and services primarily in the United States, as well as in London, Bermuda, and the Cayman Islands.

The company reports through four segments:

- **The Retail segment (51.8% of 2019 commissions and fees)** provides a broad range of insurance products and services to commercial, public and quasi-public entities, and to professional and individual customers. The categories of insurance it principally sells include commercial packages, group medical, workers' compensation, property risk and general liability. It also sells and services group and individual life, accident, disability, health, hospitalization, medical, dental and other ancillary insurance products. Approximately 85.9% of the Retail Segment's commissions and fees revenues are commission based.
- **The National Programs segment (24.6%)** provides professional liability and related package products for certain professionals through nationwide networks of independent agents. The segment offers more than 51 programs, which can be grouped into five broad categories namely Professional Programs, Personal Lines Programs, Commercial Programs, Public Entity-Related Programs and the National Flood Program.
- **The Wholesale Brokerage segment (14.2%)** markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers. The Wholesale Brokerage Segment offices represent various U.S. and U.K. surplus lines insurance companies. Additionally, certain offices are also Lloyd's of London correspondents.
- **The Services segment (9.4%)** markets and sells excess and surplus commercial and personal lines insurance, primarily through independent agents and brokers. It offers third-party claims administration and medical utilization management services in the workers' compensation and all-lines liability arenas, Medicare Set-aside, Social Security disability, Medicare benefits advocacy and claims adjusting services.



## Reasons To Buy:

- ▲ Shares of Brown & Brown have gained 26.9% in a year's time compared with the industry's growth of 1.6%. Solid fundamentals should drive the stock further.
- ▲ Brown & Brown's impressive growth is driven by organic and inorganic means across all segments. Also, strategic acquisitions and mergers help it spread its operations. In over a span of a more than two decades, the company has acquired about 500 insurance intermediary operations. During the six months ended Jun 30, 2020, it closed 10 transactions with estimated annual revenues of \$85 million. The company has already closed a few deals in the third quarter and expects to close more deals in the second half of 2020. Brown & Brown intends to make consistent investments in boosting organic growth and margin expansion. Solid earnings have allowed the company to expand its capabilities with the buyouts extending the company's geographic footprint. However, the company does not expect to attain the level of organic revenue growth achieved in 2019 through the remainder of 2020 due to the impact of the COVID-19 pandemic.
- ▲ Revenues in the Retail segment have contributed a lion's share to the total revenues of the company. The metric in this segment have been increasing over the past few years driven by higher core commissions and fees, profit-sharing contingent commissions, guaranteed supplemental commissions and investment income. The momentum continued through the first half with revenues rising 8.6% primarily driven by acquisition activity and higher profit-sharing contingent commissions. Organic revenues grew 2.6% in the first half of 2020. Increased new business, higher customer retention and increasing premium rates across most lines of business will continue to drive the momentum going forward.

Further, revenues in the Wholesale Brokerage segment grew at a three-year CAGR (2016 – 2019) of 8.5% driven by higher core commissions and fees, profit-sharing contingent commissions, guaranteed supplemental commissions and investment income. Revenues grew 9.8% in the first half of 2020 retaining the growth momentum. Total revenues grew faster than organic revenues due to new acquisitions and higher contingent commissions. Net new business, increase in exposure units, increased rates seen across most lines of business, investment income are likely to drive the momentum going forward.
- ▲ Strategic efforts drove commission and fees, which witnessed a four-year CAGR of 9.5% during 2015-2019. Commission and fees increased 8.8% year over year to \$1.3 billion in the first half of 2020 driven by new and renewal business, acquisitions. Cash received for profit-sharing contingent commissions, core commissions and fees from acquisitions that have no comparable revenues, net new and renewal business, commissions, and fees from businesses or books of business will continue to drive commission and fees in the near term.
- ▲ Backed by a sustained operational performance, Brown & Brown has maintained a solid capital position. The company remains well positioned with its capital structure and has been able to access sufficient capital via its \$800 million available cash to fund growth. Moreover, consistent operational results have helped Brown & Brown generate solid cash flows to be deployed in strategic initiatives as well as for shareholder-friendly moves. In the second quarter, cash flow from operations as a percentage of revenues increased to levels higher than normal, primarily due to the Cares Act, which enables companies to pay their first quarter federal taxes in July. However, the company expects its cash flow from operations as a percentage of revenues for the third quarter to decrease from historical conversion levels.
- ▲ The strong capital and liquidity position enables Brown & Brown to enhance shareholder value via dividend increases and share buybacks. With respect to dividend payments, the company has increased dividend for the last 26 years. Dividend currently yields 0.7% to the company. On May 2019, the company approved an additional repurchase authorization amount of \$372.5 million to bring the total available share repurchase authorization to approximately \$500.0 million. Between January 2014 and June 2020, the company repurchased shares of \$537.7 million.
- ▲ Brown & Brown has a strong balance sheet by virtue of its solid cash position. Though the company has current portion of long-term debt amounting to \$62.5 million as of Jun 30, 2020, cash and cash equivalents came in at \$623.2 million for the same period. This suggests that the company has sufficient cash reserves to meet its short-term debt obligations. As of Jun 30, 2020, the company had access to \$600.0 million of additional borrowings under the revolving credit facility. Including the expansion options under all existing credit agreements, the company had access to up to \$1.3 billion of incremental borrowing capacity as of Jun 30, 2020. Additionally, as of Jun 30, 2020, the company's total debt capital of 31.3% was lower than 31.7% at 2019-end. Further, the company's times interest earned of 10.6 at second quarter end was good when compared with the 2019-end figure of 9.3, implying that its earnings are sufficient to cover interest obligations.

Brown & Brown boasts impressive growth driven by organic means and impressive inorganic story. Strategic efforts continue to drive commission and fees. Sturdy performance is boosting cash flow.

---

## Reasons To Sell:

- ▼ Brown & Brown has been experiencing rising expenses due to higher employee compensation and benefits, amortization, change in estimated acquisition earn-out payables as well as other operating expenses and interest expense. Total expenses witnessed a CAGR of 10.4% in the past four years (2015-2019). In the first half of 2020, expenses increased 4.3% year over year to \$962.6 million. Such expenses continue to weigh on the bottom line.

In the second quarter, contingent and non-cash stock compensation increased from the prior year. For the second half of 2020, the company expects minor differences for both the items from the year-ago period. Amortization expense is estimated to be \$106.5 million for 2020.

- ▼ Return on equity, a profitability measure, reflecting how effectively the company is utilizing its shareholders fund is lower than the industry average. The company's return on equity is 12.5% while that of the industry is 27.4%.
- ▼ Organic revenues for the Services segment decreased 12.9% year over year in the first half of 2020. The reasons behind the decline were Social Security Advocacy businesses, driven by lower claims volume, terminated customer contract, lower claims for many of the businesses related to the pandemic and related weather-related claims. The company also expects organic revenues for the Services segment to decline 5% to 10% in the second half of the year from the year-ago period.
- ▼ Brown & Brown has expanded its operations internationally to United Kingdom, Hamilton, Bermuda and George Town, Cayman Islands. Its operations are therefore subject to changes in trade regulations, profit repatriation regulations, foreign currency exchange rate fluctuations, and the economic condition of the country.

Brown & Brown's rising expenses attributable to higher compensation and operating expenses weighing on margin expansion and foreign currency exchange rate fluctuations remain a concern.

---

## Last Earnings Report

### Brown & Brown Q2 Earnings Beat, Revenues Improve Y/Y

Brown & Brown, Inc. second-quarter 2020 adjusted earnings of 34 cents per share beat the Zacks Consensus Estimate by 17.2%. The bottom line also improved 6.3% year over year.

Higher commissions and fees have driven the company's results, partly offset by increased expenses.

Quarter Ending **06/2020**

Report Date	<b>Jul 27, 2020</b>
Sales Surprise	<b>4.20%</b>
EPS Surprise	<b>17.24%</b>
Quarterly EPS	<b>0.34</b>
Annual EPS (TTM)	<b>1.52</b>

### Q2 in Details

Total revenues of \$599 million outpaced both the Zacks Consensus Estimate as well as year-ago figure by 4.2%. The upside can primarily be attributed to improved commission and fees, and high organic growth.

Commissions and fees grew 4.4% year over year to \$598.2 million. Organic revenues inched up 0.5% to \$547.8 million in the quarter under review.

Investment income plunged 80% year over year to \$3 million.

EBITDAC was \$176.7 million, up 4.8% year over year. EBITDAC margin expanded 20 basis points (bps) year over year to 29.5%.

Total expenses increased 3.9% to \$469.4 million courtesy of a rise in employee compensation and benefits, amortization and depreciation.

### Financial Update

Brown & Brown exited second-quarter 2020 with cash and cash equivalents of \$623.2 million, up 14.9% from 2019-end level.

Long-term debt of \$1.6 billion as of Jun 30, 2020 was up 4.4% from 2019 end.

Net cash provided by operating activities in the first half of 2020 was \$416.7 million, up 36.3% year over year.

### Dividend Update

On Jul 22, Brown & Brown declared cash dividend of 8.5 cents per share. The dividend will be paid on Aug 12, 2020 to shareholders of record as of Aug 5.

---

---

## Recent News

### Brown & Brown Inks Deal to Acquire Assets of HAUSER - Aug 10, 2020

Brown & Brown has agreed to acquire the assets of HAUSER in a bid to aid its collective customers. The acquisition, following the fulfillment of certain closing conditions, is expected to be completed in September 2020.

### Brown & Brown's Unit Acquires Assets of First Resource – Jul 9, 2020

Brown & Brown's unit Brown & Brown Dealer Services (BBDS) has acquired all the assets of First Resource, Inc. Addition of First Resource to Brown & Brown's portfolio will help the acquirer leverage latter's experience in auto F&I industry. The acquisition will provide the BBDS operation with valuable depth and experience and the acquired company will serve the dealer partners of BBDS in the great state of Texas and throughout the southwest.

---

## Valuation

Brown & Brown's shares are up 16.3% and 26.9% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 0.9% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 1.6% and down 6.1%, respectively.

The S&P 500 index are up 4.2% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 29.02x forward 12-month earnings, which compares to 20.36x for the Zacks sub-industry, 16.77x for the Zacks sector and 22.81x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.16x and as low as 15.96x, with a 5-year median of 22.39x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$48 price target reflects 30.57x forward 12-month earnings.

The table below shows summary valuation data for BRO

Valuation Multiples - BRO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.02	20.36	16.77	22.81
	5-Year High	31.16	21.11	16.77	22.81
	5-Year Low	15.96	14.5	11.59	15.25
	5-Year Median	22.39	17.08	14.26	17.58
P/S F12M	Current	4.96	3.24	6.22	3.67
	5-Year High	5.28	3.32	6.66	3.67
	5-Year Low	2.32	1.83	4.96	2.53
	5-Year Median	3.51	2.57	6.06	3.05
P/B TTM	Current	3.63	6.45	2.47	4.68
	5-Year High	4.07	6.85	2.91	4.68
	5-Year Low	1.87	3.33	1.72	2.83
	5-Year Median	2.71	4.64	2.53	3.74

As of 08/10/2020

---

## Industry Analysis Zacks Industry Rank: Top 12% (30 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Arthur J. GallagherCo. (AJG)	Outperform	1
eHealth, Inc. (EHTH)	Outperform	1
RLI Corp. (RLI)	Outperform	2
Aon plc (AON)	Neutral	3
Erie Indemnity Company (ERIE)	Neutral	3
MarshMcLennan Companies, Inc. (MMC)	Neutral	3
Robert Half International Inc. (RHI)	Neutral	3
Willis Towers Watson Public Limited Company (WLTW)	Neutral	3

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	BRO	X Industry	S&P 500	AJG	AON	MMC
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	1	3	3
VGM Score	C	-	-	C	C	B
Market Cap	12.99 B	1.67 B	23.56 B	20.57 B	44.67 B	58.97 B
# of Analysts	5	5.5	14	7	7	8
Dividend Yield	0.74%	0.83%	1.71%	1.68%	0.91%	1.60%
Value Score	D	-	-	D	D	D
Cash/Price	0.08	0.13	0.07	0.15	0.03	0.03
EV/EBITDA	18.71	17.75	13.39	17.09	18.41	19.18
PEG Ratio	3.00	2.67	2.92	2.67	NA	4.02
Price/Book (P/B)	3.62	2.47	3.18	3.72	12.09	7.03
Price/Cash Flow (P/CF)	24.41	17.55	12.69	17.16	16.15	19.40
P/E (F1)	30.02	24.11	22.16	25.29	19.84	24.11
Price/Sales (P/S)	5.21	2.85	2.55	2.94	4.07	3.45
Earnings Yield	3.33%	4.15%	4.33%	3.96%	5.04%	4.15%
Debt/Equity	0.44	0.19	0.77	0.78	1.96	1.43
Cash Flow (\$/share)	1.88	2.99	6.94	6.26	11.94	6.00
Growth Score	B	-	-	C	B	A
Hist. EPS Growth (3-5 yrs)	15.15%	13.11%	10.41%	11.03%	11.54%	11.79%
Proj. EPS Growth (F1/F0)	9.29%	4.93%	-6.51%	16.40%	6.00%	3.62%
Curr. Cash Flow Growth	15.55%	2.81%	5.26%	9.99%	-0.54%	11.40%
Hist. Cash Flow Growth (3-5 yrs)	10.82%	13.04%	8.55%	13.27%	3.75%	9.25%
Current Ratio	0.98	2.08	1.34	1.09	2.08	1.37
Debt/Capital	30.42%	15.47%	44.59%	43.81%	66.18%	58.82%
Net Margin	17.69%	10.68%	10.13%	10.35%	16.08%	11.83%
Return on Equity	12.54%	13.50%	14.59%	16.01%	64.99%	31.82%
Sales/Assets	0.32	0.35	0.51	0.35	0.37	0.54
Proj. Sales Growth (F1/F0)	5.90%	0.00%	-1.54%	-2.57%	-1.01%	1.28%
Momentum Score	C	-	-	B	F	A
Daily Price Chg	-0.28%	-0.28%	0.91%	0.59%	-1.33%	-1.13%
1 Week Price Chg	1.30%	1.89%	2.30%	-0.63%	-4.77%	0.98%
4 Week Price Chg	12.16%	0.00%	8.54%	9.39%	-2.14%	7.03%
12 Week Price Chg	19.11%	8.79%	13.68%	18.98%	-2.03%	8.79%
52 Week Price Chg	26.88%	0.75%	3.71%	21.09%	3.56%	19.19%
20 Day Average Volume	1,079,985	41,077	2,015,804	829,441	1,344,201	1,411,053
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.44%	0.34%
(F1) EPS Est 4 week change	7.14%	4.46%	1.67%	5.95%	-0.16%	4.46%
(F1) EPS Est 12 week change	6.84%	3.23%	2.27%	8.18%	-0.36%	4.59%
(Q1) EPS Est Mthly Chg	6.74%	1.57%	0.67%	3.21%	-0.19%	4.64%

---

## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

---

### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.