

Brown & Brown Inc.(BRO)

\$41.60 (As of 03/11/20)

Price Target (6-12 Months): **\$44.00**

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: F

Growth: B

Momentum: D

Summary

Brown & Brown's shares have outperformed its industry in a year's time. The company's compelling portfolio with an impressive growth trajectory driven by organic and inorganic initiatives bode well. Buyouts and collaborations enhanced the company's existing capabilities and extended its geographic foothold. Strategic efforts continue to drive commission and fees. Premium rate has been improving too. Solid capital position, backed by strong operational environment, places Brown & Brown well for long-term growth. The company's sturdy performance has been boosting cash flow, helping it deploy capital in shareholder-friendly moves. However, escalating expenses due to rise operating expenses, interest expense and amortisation costs are likely to weigh on margin expansion.

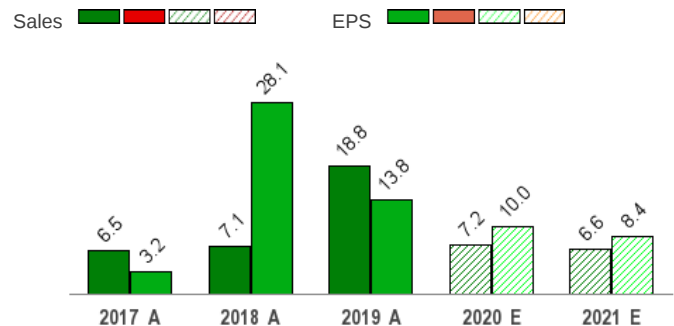
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.69 - \$28.61
20 Day Average Volume (sh)	1,784,701
Market Cap	\$11.7 B
YTD Price Change	5.4%
Beta	0.65
Dividend / Div Yld	\$0.34 / 0.8%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 11% (28 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.7%
Last Sales Surprise	1.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	04/27/2020
Earnings ESP	0.0%
P/E TTM	29.7
P/E F1	27.0
PEG F1	2.7
P/S TTM	4.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	725 E	657 E	713 E	662 E	2,732 E
2020	669 E	598 E	653 E	617 E	2,564 E
2019	619 A	575 A	619 A	579 A	2,392 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.37 E	\$0.49 E	\$0.33 E	\$1.67 E
2020	\$0.46 E	\$0.32 E	\$0.45 E	\$0.31 E	\$1.54 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.

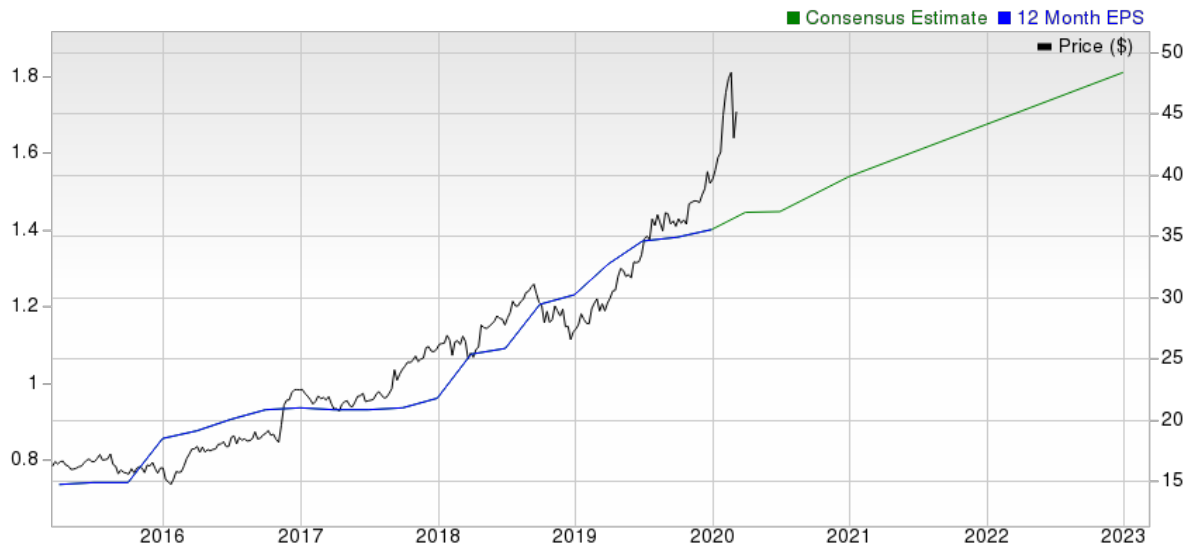
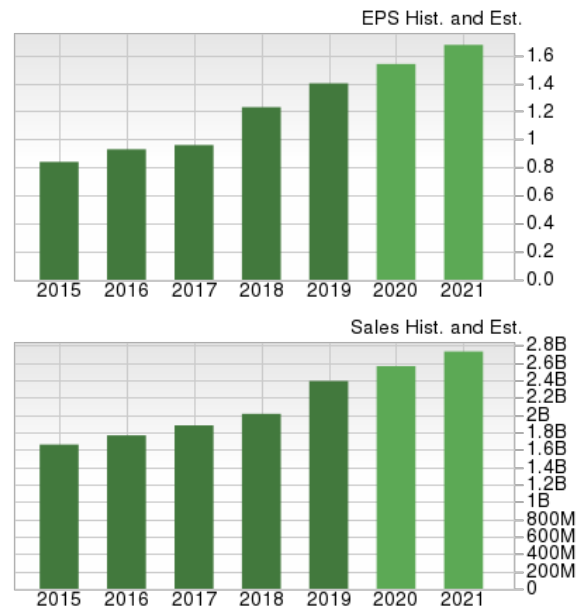
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/11/2020. The reports text is as of 03/12/2020.

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 42.6% in a year's time, outperforming the industry's increase of 10.7%. Solid fundamentals should help the stock move up 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. In 2019, the company closed 23 transactions with annualized revenues of \$105 million. The year 2018 was the biggest ever in terms of acquisition activity and Hays Companies was the most significant buyout. It has already started to contribute to results. 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.
 - ▲ Strategic efforts drove commission and fees, which witnessed five-year CAGR of 5.1% during 2014-2018. Commission and fees increased 18.6% in 2019.
 - ▲ 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. This aids in generating sufficient free cash flow to be deployed in strategic initiatives as well as for shareholder-friendly moves.
- ▲ 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 its payout each year. In October 2019, the company raised dividend by 6.25%, marking the 26th yearly dividend hike by the broker. Dividend increased at a five-year CAGR of 10.8% and currently yields 0.8% to the company.

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 five-year CAGR (2015-2018) of 4.3%. In 2019, expenses increased 20.3%. Such expenses continue to weigh on the bottom line. Besides, escalating expenses have affected margins over the years.

For 2020, the company expects stock compensation cost to increase approximately \$6 million to \$8 million from 2019. Based on the current rate outlook, interest expense is projected to be relatively flat year on year. Amortization expense is estimated in the range of \$100 million to \$105 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 12.2% while that of the industry is 25.9%.
 - ▼ 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.
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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 Q4 Earnings & Revenues Beat Estimates

Brown & Brown, Inc. fourth-quarter 2019 adjusted earnings of 28 cents per share beat the Zacks Consensus Estimate by 3.7% and grew 7.7% year over year.

Earnings were driven by higher commissions and fees, increased investment income and recent acquisitions.

Behind the Headlines

Total revenues of \$579 million beat the Zacks Consensus Estimate by 1.9%. Moreover, the top line rose 13.7% year over year on higher commissions and fees plus net investment income.

Commissions and fees grew 13.6% year over year to \$577 million.

Investment income surged 150% year over year to \$1.5 million.

Total expenses increased 16.9% to \$477 million due to a rise in employee compensation and benefits, amortization, change in estimated acquisition earn-out payables as well as other operating expenses and interest expense.

EBITDAC was \$156.2 million, up 9.2% year over year. EBITDAC margin contracted 110 basis points year over year to 27%.

Financial Update

Brown & Brown exited the fourth quarter of 2019 with cash and cash equivalents of \$542.2 million, up 23.5% from 2018-end level.

Long-term debt of \$1.5 billion as of Dec 31, 2019 was up 3% from 2018 end.

Net cash provided by operating activities in the year 2019 was \$678.2 million, up 19.5% year over year.

Dividend Update

The company paid out cash dividend of 8.5 cents per share in the fourth quarter, up 6.3% year over year.

Acquisition Update

Brown & Brown closed four acquisitions in the reported quarter.

Quarter Ending 12/2019

Report Date	Jan 27, 2020
Sales Surprise	1.92%
EPS Surprise	3.70%
Quarterly EPS	0.28
Annual EPS (TTM)	1.40

Recent News

Brown & Brown Inks a Deal to Acquire Loan Protector — Mar 10, 2020

Brown & Brown has agreed to acquire the assets of U.S.-based LP Insurance Services (Loan Protector). The deal, following the fulfillment of certain closing conditions, is projected to close in April 2020. The acquisition is expected to expand the lender-placed insurance capabilities of Proctor Financial Insurance, a division of Brown & Brown, which it acquired in 2004.

Brown & Brown's Unit Acquires Northeast Dealer Consultants — Mar 6, 2020

Brown & Brown's subsidiary Brown & Brown of Kentucky, Inc. has acquired the assets of Northeast Dealer Consultants (NEDC). The acquisition of NEDC will provide Brown & Brown with a wealth of experience in finance and insurance (F&I) performance and products.

Brown & Brown Declares Quarterly Dividend — Jan 22, 2020

The board of directors of Brown & Brown recently declared a quarterly dividend of 8.5 cents per share. The dividend will be paid out on Feb 19 to shareholders of record as of Feb 5.

Brown & Brown's Subsidiary Acquires Texas All Risk Assets – Jan 17, 2020

Brown & Brown subsidiary, Hull & Company, LLC has acquired the assets of All Risk General Agency, Inc., Select General Agency, LLC, TARGA Investment Corporation, TARGA Premium Finance Company, Inc., and Texas All Risk General Agency, Inc., collectively known as Texas All Risk.

The addition of Texas All Risk to Brown & Brown's portfolio is a strategic step forward for the acquirer. The deal will boost growth opportunities for the Wholesale Brokerage Segment, enabling it to expand its presence across Texas and also in Louisiana and Oklahoma.

Brown & Brown Closes Special Risk Insurance Managers Buyout – Jan 7, 2020

Brown & Brown concluded the acquisition of Special Risk Insurance Managers, Ltd. The addition of Special Risk to Brown & Brown's portfolio is a strategic step forward for the acquirer, enabling it to boost its presence in the insurance brokerage market in Canada. Also, the combination will provide Special Risk with major insurer opportunities, enhanced Lloyd's relationships and innovative products for retail brokers.

Valuation

Brown & Brown's shares are up 5.3% and 42.6% 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 6.2% and 17.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 13% and down 10.7%, respectively.

The S&P 500 index is down 10.6% in the year-to-date period and up 1.5% in the past year.

The stock is currently trading at 26.6x forward 12-month earnings, which compares to 18.5x for the Zacks sub-industry, 12.4x for the Zacks sector and 16.6x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.2x and as low as 16x, with a 5-year median of 21.9x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 28.2x 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	26.59	18.48	12.42	16.58
	5-Year High	31.16	20.9	16.21	19.34
	5-Year Low	15.96	14.49	12.01	15.18
	5-Year Median	21.94	16.67	13.97	17.42
P/S F12M	Current	4.51	3.02	5.99	3.05
	5-Year High	5.28	3.28	6.64	3.44
	5-Year Low	2.32	1.83	5.39	2.54
	5-Year Median	3.34	2.49	6.04	3.01
P/B TTM	Current	3.49	5.93	2.34	3.88
	5-Year High	4.07	6.95	2.89	4.56
	5-Year Low	1.87	3.32	1.83	2.85
	5-Year Median	2.6	4.5	2.52	3.63

As of 03/11/2020

Industry Analysis Zacks Industry Rank: Top 11% (28 out of 253)



Top Peers

eHealth, Inc. (EHTH)	Outperform
Arthur J. Gallagher & Co. (AJG)	Neutral
Aon plc (AON)	Neutral
Erie Indemnity Company (ERIE)	Neutral
Fanhua Inc. (FANH)	Neutral
Marsh & McLennan Companies, Inc. (MMC)	Neutral
Robert Half International Inc. (RHI)	Neutral
Willis Towers Watson Public Limited Company (WLTW)	Neutral

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	BRO Neutral	X Industry	S&P 500	AJG Neutral	AON Neutral	MMC Neutral
VGM Score	C	-	-	C	C	C
Market Cap	11.71 B	2.32 B	19.20 B	17.88 B	42.84 B	49.86 B
# of Analysts	5	5.5	13	7	9	9
Dividend Yield	0.82%	1.17%	2.31%	1.90%	0.95%	1.84%
Value Score	F	-	-	D	D	D
Cash/Price	0.08	0.08	0.05	0.14	0.02	0.02
EV/EBITDA	16.99	15.00	11.76	14.90	17.70	16.47
PEG Ratio	2.70	1.48	1.73	2.33	1.45	1.48
Price/Book (P/B)	3.49	2.87	2.64	3.40	12.45	6.29
Price/Cash Flow (P/CF)	22.11	15.49	10.55	15.17	15.49	16.49
P/E (F1)	27.01	19.52	15.66	22.85	17.76	19.52
Price/Sales (P/S)	4.90	2.59	2.06	2.50	3.89	2.99
Earnings Yield	3.70%	5.12%	6.38%	4.38%	5.63%	5.12%
Debt/Equity	0.45	0.34	0.70	0.73	1.92	1.35
Cash Flow (\$/share)	1.88	2.99	7.01	6.26	11.94	6.00
Growth Score	B	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	14.79%	12.02%	10.85%	11.61%	10.83%	12.03%
Proj. EPS Growth (F1/F0)	9.86%	10.33%	6.02%	13.89%	13.60%	8.75%
Curr. Cash Flow Growth	15.55%	9.99%	6.09%	9.99%	-0.54%	11.40%
Hist. Cash Flow Growth (3-5 yrs)	10.82%	12.81%	8.52%	13.27%	3.75%	9.25%
Current Ratio	0.97	1.29	1.24	1.02	1.52	1.06
Debt/Capital	30.93%	24.65%	42.57%	42.25%	65.77%	57.49%
Net Margin	16.66%	10.46%	11.69%	9.34%	13.91%	10.46%
Return on Equity	12.23%	14.14%	16.74%	14.28%	55.95%	29.72%
Sales/Assets	0.33	0.38	0.54	0.37	0.38	0.53
Proj. Sales Growth (F1/F0)	7.17%	6.46%	3.55%	7.81%	5.97%	7.08%
Momentum Score	D	-	-	C	B	D
Daily Price Chg	-4.70%	-2.64%	-5.37%	-2.64%	1.03%	-4.02%
1 Week Price Chg	5.00%	0.59%	-0.67%	3.44%	3.27%	1.06%
4 Week Price Chg	-11.15%	-10.94%	-20.57%	-10.94%	-19.89%	-16.67%
12 Week Price Chg	5.64%	-10.75%	-17.57%	0.58%	-10.22%	-11.28%
52 Week Price Chg	42.61%	8.16%	-8.21%	20.14%	10.71%	7.87%
20 Day Average Volume	1,784,701	115,319	2,882,511	1,104,364	1,810,204	2,567,082
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.23%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	1.72%	0.55%	-0.60%	-0.11%	0.55%	-0.53%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.52%	0.00%	0.00%	0.00%

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	F
Growth Score	B
Momentum Score	D
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.

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