

Brown & Brown Inc.(BRO)

\$41.20 (As of 01/21/20)

Price Target (6-12 Months): **\$43.00**

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:D

Value: D

Growth: B

Momentum: C

Summary

Brown & Brown's 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. Strategic efforts continue to drive commission and fees. Premium rate has been improving too. For 2019, it expects premium rates to increase slightly across most lines of business. The acquisition of Hays Companies was considered as the most important transaction as it has contributed to the results of the company. Solid capital positions it well for long-term growth. Sturdy performance is boosting cash flow, helping the company deploy capital in shareholder-friendly moves. However, escalating expenses are likely to hurt margins.

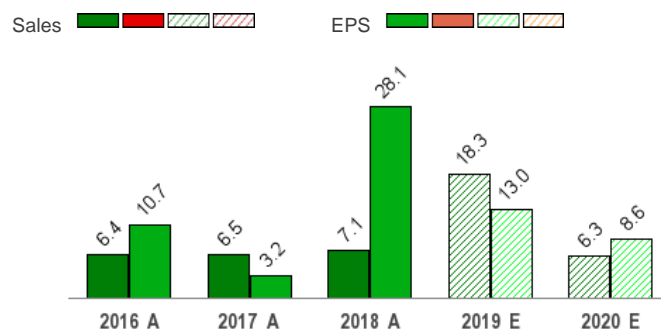
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.50 - \$26.23
20 Day Average Volume (sh)	1,081,198
Market Cap	\$11.6 B
YTD Price Change	4.4%
Beta	0.69
Dividend / Div Yld	\$0.34 / 0.8%
Industry	Insurance - Brokerage
Zacks Industry Rank	Top 7% (18 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/27/2020
Earnings ESP	0.0%
P/E TTM	29.9
P/E F1	27.3
PEG F1	2.7
P/S TTM	5.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	655 E	599 E	652 E	597 E	2,533 E
2019	619 A	575 A	619 A	568 E	2,382 E
2018	502 A	473 A	531 A	509 A	2,014 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.46 E	\$0.33 E	\$0.41 E	\$0.31 E	\$1.51 E
2019	\$0.41 A	\$0.32 A	\$0.39 A	\$0.27 E	\$1.39 E
2018	\$0.33 A	\$0.26 A	\$0.38 A	\$0.26 A	\$1.23 A

*Quarterly figures may not add up to annual.

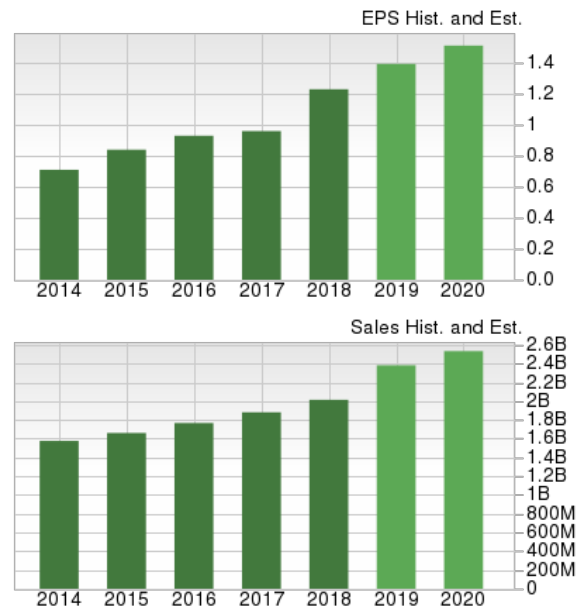
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

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 2018 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 45.5% in a year's time, outperforming the industry's increase of 34.8%. 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 the first nine months of 2019, the company closed 18 transactions with annualized revenues of \$86 million. The last year 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. In fact the company estimates Hays to deliver \$210 million to \$220 million of annual revenues, \$47 million to \$53 million of EBITDAC and net income per share of 2 cents to 3 cents in 2019. 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.

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.

▲ Strategic efforts drove commission and fees, which witnessed five-year CAGR of 5.1% during 2014-2018. Commission and fees increased 20% in the first nine months of 2019. Increasing commission and fees in turn pushed up revenues, which witnessed a five-year CAGR (2014-2018) of 5%. Revenues increased 20% in the first nine months of 2019. For 2019, the company estimates contingent commissions in National Programs to decline about \$12 million to \$14 million but grow substantially in Retail. For Wholesale it is expected to be flat to down \$2 million. Thus, the company estimates contingent commissions in 2019 to be down about \$2 million to \$4 million from 2019. Brown & Brown sticks to its own belief that improving commissions and fees will lead to revenue growth in the future as well.

Workers' compensation declined. For 2019, the company expects premium rates to increase slightly across most lines of business.

▲ Brown & Brown aims to have a diverse offering of national programs that will deliver balanced growth. To that end, the company remains focused on developing the same. Brown & Brown noted that risk carriers and programs businesses continue to develop new programs and witnessed growth across many programs. Going forward, the company will be implementing a new annual incentive program for its middle-market producers in the Retail division, which has been created to pay for increased activities. The company anticipates this program to fuel inorganic growth in the future through focus on customer retention and new business.

▲ Brown & Brown, in collaboration with QBE, launched the new Core Commercial Program. The company is optimistic about this program as it offers wide business owner as well as commercial package policies. The program will be licensed in all 50 states, mainly targeting the middle market companies with annual premiums of \$0.1 million and below.

In line with expectation, the program slated to help the company in technology improvement, continued to show progress. The investments made in this program are focused toward churning out numerous benefits to support the insurance broker's sustained growth and profitability.

▲ 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. During the fourth quarter of 2018, the company initiated a \$100 million share buyback to offset the dilution related to the Hays acquisition. Its board of directors also authorized another additional \$372.5 million worth buyback program. The company thus currently has \$500 million under its authorization.

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.

Reasons To Sell:

- ▼ Brown & Brown has been experiencing rising expenses due to higher compensation and operating expenses. Total expenses witnessed a five-year CAGR (2015-2018) of 4.3%. Through the first nine months of 2019, expenses increased 21.5%. Such expenses continue to weigh on the bottom line. Besides, escalating expenses have affected margins over the years.

For 2019, the company estimates non-cash stock compensation cost to increase \$3 million to \$5 million, interest expense in the range of \$66 million to \$68 million, and amortization between \$100 million and \$102 million.

- ▼ 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 of equity is 12.4% while that of the industry is 25.9%.
- ▼ Brown & Brown generates a major portion of its commission revenues from a limited number of insurance companies. Failure to retain any of these clients might not favor the company's top line and result in lower market share and higher expenses.
- ▼ 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 Q3 Earnings In Line, Revenues Up Y/Y

Brown & Brown third-quarter 2019 adjusted earnings of 39 cents per share matched the Zacks Consensus Estimate and grew 2.6% year over year.

The company's performance was driven by increased investment income, commissions and fees and recent acquisitions.

Behind the Headlines

Total revenues of \$619 million beat the Zacks Consensus Estimate by 1.7%. Moreover, the top line rose 16.6% year over year on higher commissions and fees plus net investment income.

Commissions and fees grew 16.5% year over year to \$617.4 million.

Investment income surged 112.5% year over year to \$1.7 million.

Total expenses increased 20.2% to \$466.8 million, driven by a rise in employee compensation and benefits, amortization, depreciation as well as other operating expenses and interest expense.

EBITDAC was \$195 million, up 9.5% year over year. EBITDAC margin contracted 200 basis points year over year to 31.5%.

Financial Update

Brown & Brown exited the third quarter of 2019 with cash and cash equivalents of \$497.5 million, up 13.3% from 2018-end level.

Long-term debt of \$1.5 billion as of Sep 30, 2019 was up 3.8% from 2018 end.

Net cash provided by operating activities in the first nine months of 2019 was \$447.1 million, up 25.8% year over year.

Dividend Update

The company paid out cash dividend of 8 cents per share in the third quarter, up 6.7% year over year.

Acquisition Update

Brown & Brown closed five acquisitions in the reported quarter.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	1.69%
EPS Surprise	0.00%
Quarterly EPS	0.39
Annual EPS (TTM)	1.38

Recent News

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.

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 Declares the Asset Acquisition of Insurance Management Group — Dec 17, 2019

The company acquired all the assets of the Insurance Management Group, Inc.

Brown & Brown to Buy Special Risk Insurance Managers — Dec 9, 2019

The company entered into an agreement to purchase the assets of Special Risk Insurance Managers, Ltd. Subject to closing conditions, the buyout is expected to be completed on Jan 1, 2020.

Valuation

Brown & Brown shares have gained 45.5% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 34.8% and 13%, respectively.

The S&P 500 index are up 25.6% in the past year.

The stock is currently trading at 27.13X forward 12-month earnings, which compares to 20.56X for the Zacks sub-industry, 14.71X for the Zacks sector and 19.18X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.37X and as low as 15.96X, with a 5-year median of 21.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 28.4X 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	27.13	20.56	14.71	19.18
	5-Year High	28.37	20.56	16.21	19.34
	5-Year Low	15.96	14.49	12.01	15.17
	5-Year Median	21.75	16.65	13.98	17.44
P/S F12M	Current	4.56	3.25	6.53	3.57
	5-Year High	4.68	3.25	6.61	3.57
	5-Year Low	2.32	1.83	5.2	2.54
	5-Year Median	3.29	2.48	6.04	3
P/B TTM	Current	3.5	6.45	2.86	4.55
	5-Year High	3.51	6.45	2.89	4.55
	5-Year Low	1.87	3.32	1.83	2.85
	5-Year Median	2.57	4.42	2.51	3.61

As of 01/21/2020

Industry Analysis Zacks Industry Rank: Top 7% (18 out of 255)



Top Peers

eHealth, Inc. (EHTH)	Outperform
Fanhua Inc. (FANH)	Outperform
Arthur J. Gallagher & Co. (AJG)	Neutral
Aon plc (AON)	Neutral
Erie Indemnity Company (ERIE)	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	D	-	-	D	C	D
Market Cap	11.59 B	2.28 B	24.43 B	17.94 B	49.02 B	57.51 B
# of Analysts	5	6	13	6	8	8
Dividend Yield	0.83%	1.27%	1.75%	1.79%	0.83%	1.60%
Value Score	D	-	-	D	D	D
Cash/Price	0.08	0.08	0.04	0.14	0.02	0.02
EV/EBITDA	19.90	18.93	14.00	18.47	23.71	22.37
PEG Ratio	2.73	1.82	2.06	2.38	1.70	1.82
Price/Book (P/B)	3.50	3.07	3.39	3.65	13.89	7.38
Price/Cash Flow (P/CF)	25.11	18.73	13.69	16.64	18.26	21.11
P/E (F1)	27.28	22.33	19.00	23.27	20.40	22.33
Price/Sales (P/S)	4.99	3.02	2.68	2.53	4.50	3.57
Earnings Yield	3.67%	4.48%	5.26%	4.29%	4.90%	4.48%
Debt/Equity	0.46	0.34	0.72	0.78	1.72	1.47
Cash Flow (\$/share)	1.64	1.53	6.94	5.78	11.57	5.40
Growth Score	B	-	-	B	B	C
Hist. EPS Growth (3-5 yrs)	14.39%	12.01%	10.60%	12.01%	10.42%	12.17%
Proj. EPS Growth (F1/F0)	8.46%	9.43%	7.57%	14.59%	13.38%	9.86%
Curr. Cash Flow Growth	18.64%	7.57%	14.00%	12.53%	7.57%	8.07%
Hist. Cash Flow Growth (3-5 yrs)	8.65%	10.69%	9.00%	19.23%	5.07%	9.31%
Current Ratio	0.97	1.40	1.23	1.05	1.38	1.14
Debt/Capital	31.35%	24.86%	42.99%	43.72%	63.22%	59.45%
Net Margin	17.04%	9.34%	11.15%	9.69%	13.79%	9.34%
Return on Equity	12.39%	13.05%	17.16%	14.38%	51.63%	29.40%
Sales/Assets	0.33	0.38	0.55	0.39	0.38	0.56
Proj. Sales Growth (F1/F0)	6.33%	6.18%	4.05%	8.98%	5.79%	7.64%
Momentum Score	C	-	-	F	D	C
Daily Price Chg	-0.51%	0.00%	-0.27%	-0.27%	-0.28%	-0.17%
1 Week Price Chg	2.50%	2.01%	2.29%	1.06%	1.82%	2.19%
4 Week Price Chg	5.18%	1.64%	2.13%	1.72%	1.71%	2.14%
12 Week Price Chg	10.43%	7.73%	6.99%	6.95%	12.03%	11.63%
52 Week Price Chg	45.48%	30.13%	21.25%	31.08%	37.45%	37.02%
20 Day Average Volume	1,081,198	113,548	1,415,064	534,023	592,679	1,190,124
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.52%	0.00%	-0.02%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.61%	-0.07%	0.19%
(F1) EPS Est 12 week change	-0.09%	-0.05%	-0.34%	-0.65%	-0.05%	0.17%
(Q1) EPS Est Mthly Chg	0.55%	0.00%	0.00%	-0.56%	0.00%	0.00%

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	D

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

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