

Brown & Brown Inc.(BRO)

\$40.05 (As of 06/24/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/30/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: F

Summary

Shares of Brown & Brown 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 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 in shareholder-friendly moves via dividend hikes and share buybacks. It also boasts of a strong balance sheet backed by a solid cash position. However, escalating expenses are likely to put a stain on margin expansion. Weak ROE implies inefficient utilization of shareholders' funds.

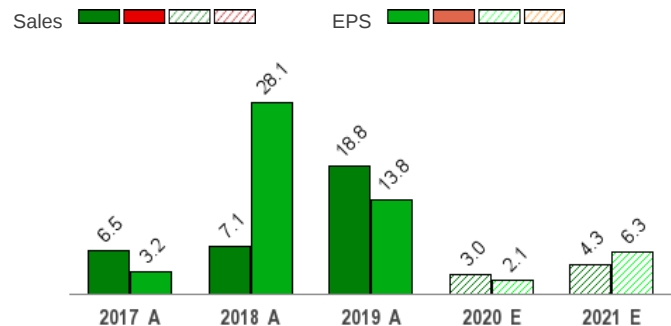
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.69 - \$30.70
20 Day Average Volume (sh)	1,355,388
Market Cap	\$11.4 B
YTD Price Change	1.4%
Beta	0.68
Dividend / Div Yld	\$0.34 / 0.8%
Industry	Insurance - Brokerage
Zacks Industry Rank	Bottom 9% (229 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.9%
Last Sales Surprise	2.4%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	07/27/2020
Earnings ESP	-1.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	743 E	636 E	680 E	644 E	2,570 E
2020	699 A	575 E	611 E	568 E	2,463 E
2019	619 A	575 A	619 A	579 A	2,392 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.51 E	\$0.33 E	\$0.44 E	\$0.30 E	\$1.52 E
2020	\$0.51 A	\$0.28 E	\$0.39 E	\$0.24 E	\$1.43 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.

P/E TTM	26.7
P/E F1	28.0
PEG F1	2.8
P/S TTM	4.6

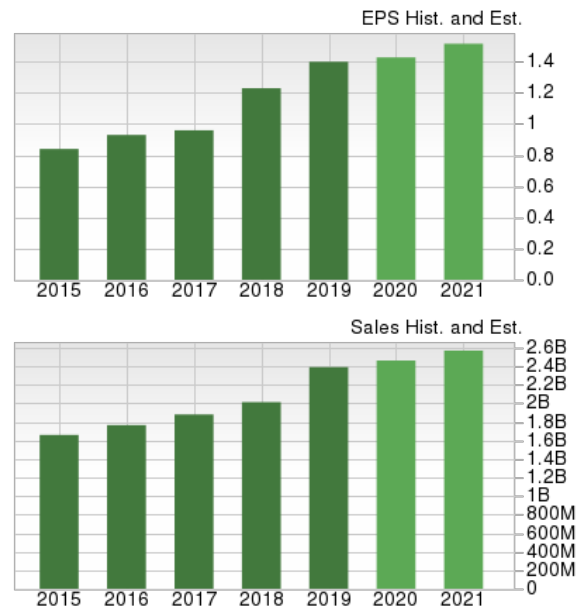
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/24/2020. The reports text is as of 06/25/2020.

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 23.1% in a year's time, against the industry's decline of 1.3%. 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. The company closed five buyouts in first-quarter 2020. In 2019, the company closed 23 transactions with annualized revenues of \$105 million. 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 estimates negative organic growth in the second quarter due to impact of the COVID 19 pandemic. Organic growth for 2020 is expected to be slightly positive or down low to mid-single-digits.
- ▲ Strategic efforts drove commission and fees, which witnessed five-year CAGR of 5.1% during 2014-2018. Commission and fees increased 12.8% in first-quarter 2020.
- ▲ 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 1% to the company.
- ▲ 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 \$58.8 million as of Mar 31, 2020, cash and cash equivalents came in at \$385.8 million for the same period. This suggests that the company has sufficient cash reserves to meet its short-term debt obligations. Also, the company announced that it has access to about \$1 billion of liquidity. Additionally, as of Mar 31, 2020, the company's total debt capital of 30.7% is lower than its figure of 31.7% at 2019-end. Further, the company's times interest earned of 10.1 as on Mar 31, 2020 is good when compared with the 2019-end figure of 9.3, implying that its earnings are sufficient to cover interest obligations. In addition, the company intends to borrow about \$250 million under its revolving line of credit, part of which will be used to strengthen financial position to counter the impact of COVID-19 pandemic deferring payments from customers or carriers.

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 first-quarter 2020, expenses increased 4.8%. 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 12.7% while that of the industry is 27.4%.
- ▼ 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 Q1 Earnings Top Estimates, Revenues Up Y/Y

Brown & Brown's first-quarter 2020 adjusted earnings of 51 cents per share beat the Zacks Consensus Estimate by 10.9%. The bottom line also improved 24.4% year over year.

The company's results were driven by higher commissions and fees, and improved operational excellence.

Q1 in Details

Total revenues of \$699 million outpaced the Zacks Consensus Estimate by 2.4%. Moreover, the top line improved 12.8% year over year. The upside can primarily be attributed to increased commission and fees, and high organic growth.

Commissions and fees grew 12.8% year over year to \$696.5 million. Organic revenues improved 5.6% to \$627.4 million in the quarter under review.

Investment income surged 9.1% year over year to \$1.2 million.

EBITDAC was \$242 million, up 22.8% year over year. EBITDAC margin expanded 280 basis points year over year to 34.6%.

Total expenses increased 4.8% to \$493.2 million courtesy of a rise in employee compensation and benefits, and amortization, interest and other operating expenses.

Financial Update

Brown & Brown exited first-quarter 2020 with cash and cash equivalents of \$385.8 million, down 28.8% from 2019-end level.

Long-term debt of \$1.5 billion as of Mar 31, 2020 was down 1.1% from 2019 end.

Net cash provided by operating activities in the first quarter was \$33.8 million, up 525.9% year over year.

Acquisition Update

Brown & Brown closed five buyouts in the reported quarter.

Quarter Ending **03/2020**

Report Date	Apr 27, 2020
Sales Surprise	2.44%
EPS Surprise	10.87%
Quarterly EPS	0.51
Annual EPS (TTM)	1.50

Recent News

Brown & Brown Closes the Buyout of Loan Protector – May 4, 2020

Brown & Brown has completed the acquisition of assets of U.S.-based LP Insurance Services (Loan Protector). The acquisition will expand the lender-placed insurance capabilities of Proctor Financial Insurance, a division of Brown & Brown, which it acquired in 2004.

Valuation

Brown & Brown's shares are up 1.5% and 23.1% 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 8.5% and 22.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 1.3% and 15.7%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period and up 7.5% in the past year.

The stock is currently trading at 27.34x forward 12-month earnings, which compares to 19.46x for the Zacks sub-industry, 15.89x for the Zacks sector and 22.46x 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 22.3x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$42 price target reflects 28.77x 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	27.34	19.46	15.89	22.46
	5-Year High	31.16	21.01	16.18	22.46
	5-Year Low	15.96	14.5	11.57	15.23
	5-Year Median	22.3	16.7	13.98	17.49
P/S F12M	Current	4.51	3.03	6	3.42
	5-Year High	5.28	3.31	6.66	3.44
	5-Year Low	2.32	1.83	4.96	2.53
	5-Year Median	3.47	2.53	6.06	3.02
P/B TTM	Current	3.26	5.95	2.27	4.17
	5-Year High	4.07	6.85	2.91	4.56
	5-Year Low	1.87	3.33	1.71	2.83
	5-Year Median	2.68	4.61	2.53	3.68

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Bottom 9% (229 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
eHealth, Inc. (EHTH)	Outperform	1
Arthur J. GallagherCo. (AJG)	Neutral	3
Aon plc (AON)	Neutral	4
MarshMcLennan Companies, Inc. (MMC)	Neutral	4
Robert Half International Inc. (RHI)	Neutral	3
RLI Corp. (RLI)	Neutral	3
Willis Towers Watson Public Limited Company (WLTW)	Neutral	4
Erie Indemnity Company (ERIE)	Underperform	5

Industry Comparison Industry: Insurance - Brokerage				Industry Peers		
	BRO	X Industry	S&P 500	AJG	AON	MMC
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	4
VGM Score	F	-	-	C	D	F
Market Cap	11.35 B	1.99 B	21.05 B	17.97 B	43.34 B	52.60 B
# of Analysts	5	6	14	7	7	8
Dividend Yield	0.85%	1.18%	1.99%	1.90%	0.94%	1.75%
Value Score	F	-	-	D	F	F
Cash/Price	0.07	0.10	0.07	0.15	0.02	0.03
EV/EBITDA	16.72	15.35	12.43	15.35	17.76	17.27
PEG Ratio	2.79	3.53	2.85	2.17	NA	4.88
Price/Book (P/B)	3.26	3.26	2.87	3.54	13.32	7.06
Price/Cash Flow (P/CF)	21.28	16.48	11.32	15.14	15.70	17.32
P/E (F1)	27.93	23.64	20.46	23.64	19.29	22.50
Price/Sales (P/S)	4.59	2.67	2.19	2.54	3.91	3.05
Earnings Yield	3.57%	4.23%	4.57%	4.23%	5.18%	4.45%
Debt/Equity	0.43	0.31	0.77	0.85	1.91	1.51
Cash Flow (\$/share)	1.88	2.99	7.01	6.26	11.94	6.00
Growth Score	D	-	-	C	B	D
Hist. EPS Growth (3-5 yrs)	15.14%	12.31%	10.84%	10.92%	11.29%	11.97%
Proj. EPS Growth (F1/F0)	2.00%	2.44%	-10.79%	9.86%	6.00%	-0.86%
Curr. Cash Flow Growth	15.55%	6.15%	5.46%	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	0.97	1.45	1.29	1.07	1.29	1.13
Debt/Capital	29.89%	23.58%	45.14%	45.98%	65.64%	60.12%
Net Margin	17.69%	9.63%	10.53%	9.63%	14.84%	10.33%
Return on Equity	12.71%	14.70%	16.06%	15.29%	63.91%	30.94%
Sales/Assets	0.33	0.35	0.55	0.36	0.38	0.55
Proj. Sales Growth (F1/F0)	2.96%	0.00%	-2.70%	-0.06%	-1.93%	0.62%
Momentum Score	F	-	-	A	F	B
Daily Price Chg	-2.84%	-1.45%	-3.07%	-2.81%	-0.78%	-1.73%
1 Week Price Chg	1.13%	1.11%	0.92%	-0.61%	2.66%	-0.73%
4 Week Price Chg	0.23%	0.23%	-3.03%	1.02%	-5.21%	-1.92%
12 Week Price Chg	16.29%	19.92%	22.03%	23.09%	22.03%	26.71%
52 Week Price Chg	23.08%	-2.14%	-8.53%	11.99%	-1.24%	6.52%
20 Day Average Volume	1,355,388	109,757	2,805,937	1,322,613	1,577,751	2,588,557
(F1) EPS Est 1 week change	-0.14%	-0.01%	0.00%	1.41%	-0.23%	-0.03%
(F1) EPS Est 4 week change	-0.14%	0.00%	0.00%	2.11%	-0.27%	0.00%
(F1) EPS Est 12 week change	-6.30%	-6.30%	-12.33%	-2.50%	-6.23%	-8.56%
(Q1) EPS Est Mthly Chg	-0.70%	0.00%	0.00%	5.03%	-0.30%	0.07%

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	F
Growth Score	D
Momentum Score	F
VGM Score	F

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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