Brown & Brown

Downgrading to Underperform following recent rally

Rating Change: UNDERPERFORM | PO: 86.00 USD | Price: 85.90 USD

Recent surge has eroded upside; d/g to Underperform

Since reporting earnings on January 22, BRO shares have increased +14% vs large-cap broker peers and the S&P 500 each up +7%. 4Q23 results included an organic growth beat, in sharp contrast with decelerating growth in peer results. Brown & Brown remains a high-quality name, and favorable 4Q23 results (especially vs the group) merited appreciation. However, the stock's rapid rise has stretched valuation, in our view. Given growth and margin headwinds for the broker group, we are reluctant to increase our relative valuation vs the S&P 500 beyond historical averages. We downgrade the stock to Underperform from Neutral.

Organic growth poised to decelerate

Broker organic growth is tightly correlated with nominal GDP growth and has recently benefited from higher inflation. Industry organic growth has surged beyond historical mid-single-digit % levels over 2021-23 into the high-single-digit % range. As CPI decelerates, so should organic growth for brokers, incl. Brown & Brown. We expect reversion toward historical levels over the next two years, forecasting +6.4% and +4.6% in 2024E and 2025E, respectively, compared to +10.2% reported in 2023.

Margins nearing peak levels

Brown & Brown has industry-leading margins, which we expect to continue. However, margins are currently near the upper end of management's long-term expected range of 30-35%, implying limited expansion under even the best scenarios. Furthermore, higher short-term interest rates have materially boosted investment income in recent quarters. Expectations for falling short-term rates should translate to tough YoY margin comparisons across the group. We expect Brown & Brown margins to peak in 2024E at 34.3% and modestly retreat in 2025E as investment income recedes.

Price objective increased to $86

We update our PO to $86 from $80, reflecting 135% of the year-ahead S&P 500 P/E multiple (19x vs prior 18x) on our 2025E EPS forecast (incl. amortization). The relative valuation vs the S&P 500 reflects the historical trading range. Lack of upside vs our PO underlies our Underperform rating. We increase our EPS forecast materially to reflect a change in company definition to excl. amortization; on a comparable basis, EPS increases 2-3%. Upside risks are higher (in)organic growth, above-average investment income, and stronger margins. Downside risks are margin contraction, claims volatility, more rapid deceleration in organic growth, and challenges integrating M&A.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	2.68	3.25	3.55	3.86	4.22
GAAP EPS	2.37	3.05	3.06	3.35	3.69
EPS Change (YoY)	6.3%	21.3%	9.2%	8.7%	9.3%
Consensus EPS (Bloomberg)			3.40	3.70	4.20
DPS	0.42	0.48	0.54	0.62	0.70
Valuation (Dec)					
P/E	32.1x	26.4x	24.2x	22.3x	20.4x
GAAP P/E	36.2x	28.2x	28.1x	25.6x	23.3x
Dividend Yield	0.5%	0.6%	0.6%	0.7%	0.8%

Refer to important disclosures on page 12 to 14. Analyst Certification on page 10. Price Objective Basis/Risk on page 10. **12669841**

Timestamp: 13 March 2024 06:00AM EDT

13 March 2024

Equity

Key Changes

(US$)	Previous	Current
Inv. Opinion	B-2-7	B-3-7
Inv. Rating	NEUTRAL	UNDERPERFORM
Price Obj.	80.00	86.00
2024E EPS	3.01	3.55
2025E EPS	3.29	3.86
2026E EPS	3.62	4.22

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Stock Data

Price	85.90 USD
Price Objective	86.00 USD
Date Established	13-Mar-2024
Investment Opinion	B-3-7
52-Week Range	52.82 USD - 86.53 USD
Mrkt Val (mn) / Shares Out (mn)	24,550 USD / 285.8
Free Float	82.1%
Average Daily Value (mn)	104.77 USD
BofA Ticker / Exchange	BRO / NYS
Bloomberg / Reuters	BRO US / BRO.N
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

iQprofile℠ Brown & Brown

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	3,563	4,199	4,542	4,933	5,332
Net Investment Income	7	52	61	34	32
Total Revenue	**3,573**	**4,257**	**4,607**	**4,972**	**5,370**
Total Cost of Benefits and Claims	(1,817)	(2,187)	(2,323)	(2,515)	(2,713)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	**(2,697)**	**(3,111)**	**(3,446)**	**(3,701)**	**(3,969)**
Pre-Tax Operating Earnings	**876**	**1,146**	**1,161**	**1,271**	**1,401**
Income Tax Expense	(204)	(276)	(285)	(312)	(344)
Operating Earnings After Tax	**747**	**913**	**1,002**	**1,091**	**1,195**
Net Income (Reported)	**672**	**870**	**876**	**959**	**1,057**
Diluted Shares	279	281	282	283	283
Operating Earnings Per Share	2.68	3.25	3.55	3.86	4.22
Net Income (Reported) Per Share	2.37	3.05	3.06	3.35	3.69

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	2,045	2,314	2,951	3,756	4,604
Total Assets	**13,974**	**14,916**	**15,795**	**16,835**	**17,948**
Reserves	2,265	2,727	2,827	2,927	3,027
LT Debt	3,692	3,227	3,129	3,131	3,133
Total Liabilities	**9,367**	**9,337**	**9,409**	**9,581**	**9,753**
Total Equity	**4,607**	**5,579**	**6,386**	**7,254**	**8,195**
Total Equity (Ex FAS 115)	**4,607**	**5,579**	**6,386**	**7,254**	**8,195**
Book Value per Share (Reported)	16.27	19.60	22.40	25.40	28.65
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	NM	NM	NM	NM	NM
Loss Ratio	52.3%	53.7%	52.5%	52.2%	52.0%
Combined Ratio	**52.3%**	**53.7%**	**52.5%**	**52.2%**	**52.0%**
Avg Assets / Avg Eq (Ex FAS 115) Ratio	2.7x	2.8x	2.6x	2.4x	2.3x

Growth Rates (YoY) (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	16.9%	17.9%	8.1%	8.6%	8.1%
Net Investment Income	491.4%	706.2%	15.5%	-43.3%	-5.9%
Total Revenue	17.1%	19.1%	8.2%	7.9%	8.0%
Operating Earnings per Share	6.3%	21.3%	9.2%	8.7%	9.3%
Asset	42.7%	6.7%	5.9%	6.6%	6.6%
Reported Book Value per Share	9.5%	20.5%	14.3%	13.4%	12.8%

Performance Metrics (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	NA	NA	NA	NA	NA
Operating ROE (Ex FAS 115)	NA	NA	NA	NA	NA
Operating Return on Average Assets	6.3%	6.3%	6.5%	6.7%	6.9%
Operating Margin	20.9%	21.4%	21.7%	21.9%	22.3%
Long Term Debt to Cap Ratio (Ex FAS 115)	44.5%	36.6%	32.9%	30.1%	27.7%
Net Income % Operating Income	90.0%	95.4%	87.5%	87.9%	88.4%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

Brown & Brown is an insurance broker offering retail brokerage, wholesale brokerage, insurance programs, and insurance-related services. The company's broking capabilities span commercial, personal, and specialty property & casualty lines as well as employee benefits across account sizes, with a particular emphasis in middle market. The company is primarily domestic but has added international operations in recent years.

Investment Rationale

Brown & Brown consistently exhibits industry-leading margins, cash flow conversion, and earnings quality. However, with growing headwinds for industry organic growth and margins, we believe that current valuation overly reflects the outlook for earnings growth, informing our Underperform rating.

Stock Data

Average Daily Volume	1,219,633

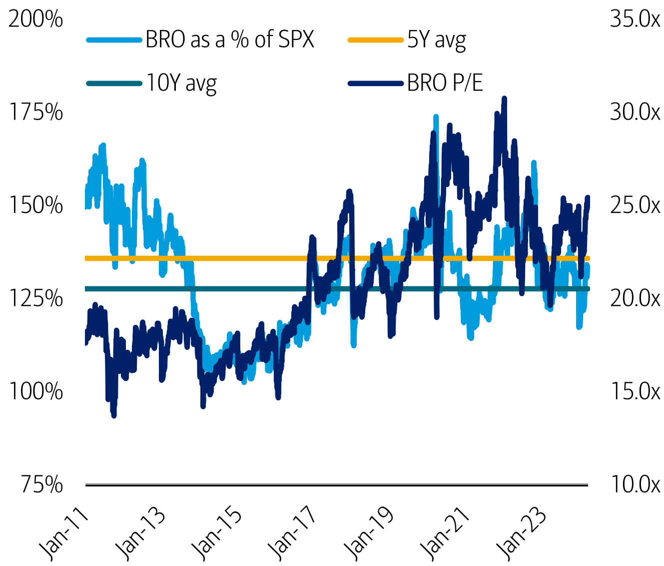
Quarterly Earnings Estimates

	2023	2024
Q1	0.96A	1.10E
Q2	0.79A	0.88E
Q3	0.81A	0.86E
Q4	0.69A	0.72E

We downgrade BRO on valuation

Brown & Brown is a high-quality insurance broker with best-in-class margins and free cash flow conversion. However, in recent weeks, rapid appreciation of BRO stock has eaten into future upside potential. We maintain our prior valuation methodology of 135% the year-ahead S&P 500 P/E on our 2025E EPS estimate (incl. amortization), reflecting the 5Y average relative valuation vs the broad market. We increase our PO to $86 from $80, reflecting broad-market multiple expansion (19x vs prior 18x) and, to a lesser extent, higher EPS. Negligible upside vs our PO leads us to downgrade BRO shares to Underperform from Neutral.

Exhibit 1: BRO P/E vs S&P 500
BRO P/E is currently relatively in line with the 5Y avg vs the S&P 500.



Source: Bloomberg
Note: We adjust BRO P/E to reflect the change in EPS definition to exclude amortization expense following 4Q23 results. We assume ½ of the Street immediately adjusted EPS post-earnings, increasing to 2/3 today, and subtract amortization expense accordingly to bring Consensus in line with historical data.
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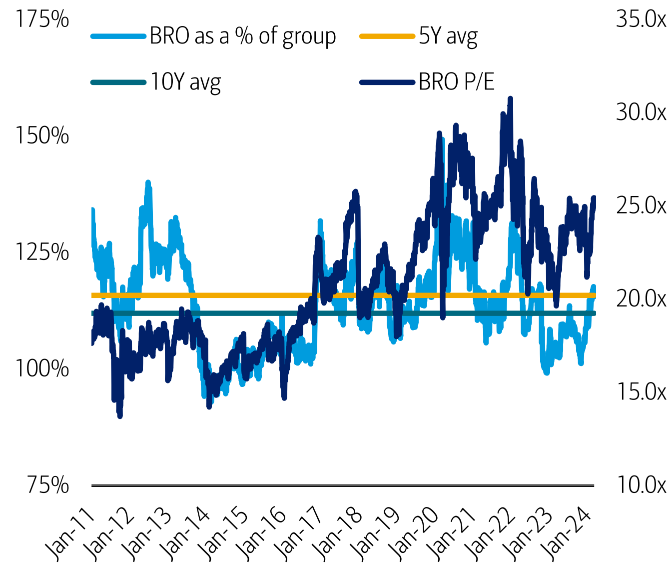
Exhibit 2: BRO P/E vs broker peers
BRO relative P/E valuation is relatively in line with the 5Y avg vs broker peers.



Source: Bloomberg
Note: We adjust BRO P/E to reflect the change in EPS definition to exclude amortization expense following 4Q23 results. We assume ½ of the Street immediately adjusted EPS post-earnings, increasing to 2/3 today, and subtract amortization expense accordingly to bring Consensus in line with historical data. We also adjust P/E for peers AON, AJG, and WTW for amortization.
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Brown & Brown reported favorable 4Q23 earnings, including +7.7% organic growth, or +9.9% excluding a one-time reinsurance adjustment. This result surpassed our forecast of +6.2% and Visible Alpha consensus of +6.6%, easily overcoming a tough growth comparison from the prior year. However, subsequent organic growth prints from peers Arthur J. Gallagher, Marsh McLennan, and Aon were below investor expectations. Mix likely explains part of the dichotomy: Brown & Brown has greater exposure to the growthy wholesale market than most publicly traded peers, and it lacks material exposure to the current slowdown in the M&A/IPO markets.

Exhibit 5: 4Q23 reported vs expected brokerage organic growth
Brown & Brown's 4Q23 organic growth outperformed expectations, in contrast with most peers.

	Actual	Consensus	Δ
Brown & Brown	7.7%	6.6%	1.1%
AJG Brokerage	7.2%	7.8%	-0.6%
Aon Commercial Risk	4.0%	4.9%	-0.9%
Marsh	6.0%	7.3%	-1.3%
WTW Risk & Broking	12.0%	8.4%	3.6%

Source: Company reports and Visible Alpha
Note: WTW organic growth includes the benefit of higher fiduciary investment income, while peer growth metrics do not.
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Brown & Brown's favorable 4Q results have contributed to outperformance vs the group and the broad market YTD, and deservedly so. However, we have concerns that the magnitude of outperformance overstates the future earnings growth trajectory. Despite favorable 4Q23 results, we hesitate to increase our relative valuation vs the S&P 500 beyond recent averages due to (1) a slowing organic growth outlook; and (2) potential margin erosion.

Exhibit 6: Recent absolute share appreciation

BRO has recently outperformed the S&P 500 and broker peers.

Starting point	S&P 500	BRO	AJG	AON	MMC	WTW	Brokers incl BRO	Brokers ex BRO
Since BofA initiation (12/12/23)	11%	13%	3%	-4%	3%	12%	4%	3%
Year-to-date	9%	21%	13%	10%	9%	14%	12%	12%
Since BRO 4Q23 earnings (1/22/24)	7%	14%	7%	5%	4%	10%	7%	7%

Source: Bloomberg

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Exhibit 7: Broker share performance vs the S&P 500

BRO has recently outperformed the S&P 500 and broker peers.

Starting point	S&P 500 increase	BRO	AJG	AON	MMC	WTW	Brokers incl BRO	Brokers ex BRO
Since BofA initiation (12/12/23)	11%	195bps	-853bps	-1,501bps	-836bps	11bps	-780bps	-852bps
Year-to-date	9%	1,230bps	481bps	166bps	94bps	550bps	388bps	324bps
Since BRO 4Q23 earnings (1/22/24)	7%	740bps	59bps	-208bps	-221bps	369bps	51bps	-2bps

Source: Bloomberg

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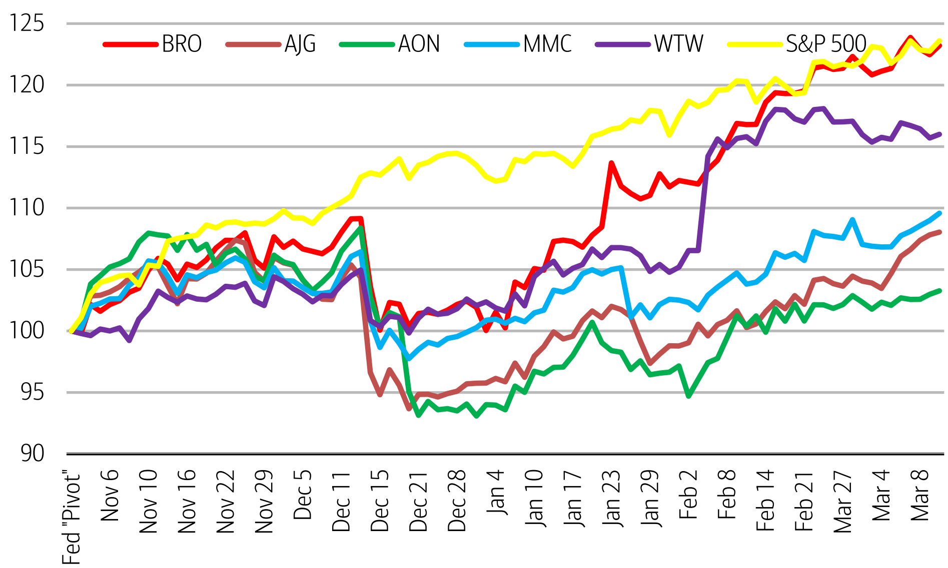
Exhibit 6: Broker performance since fall 2023 Fed "pivot"

Brokers have broadly outperformed since markets started to "bake in" potential interest rate cuts. In contrast, BRO has performed in line with the broad market.



Source: Bloomberg

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Organic growth poised to decelerate

Broker organic growth is predominantly driven by four factors: (1) new business wins; (2) retention of existing clients; (3) GDP growth, and (4) the insurance pricing environment.

Brown & Brown management has often described organic growth as driven one-third insurance rates and two-thirds exposures (macroeconomic growth). Historically, broker underlying growth has hovered in the mid-single-digit range. However, in the post-pandemic environment, growth has broken out of this range, buoyed by higher nominal GDP and a firm insurance rate environment.

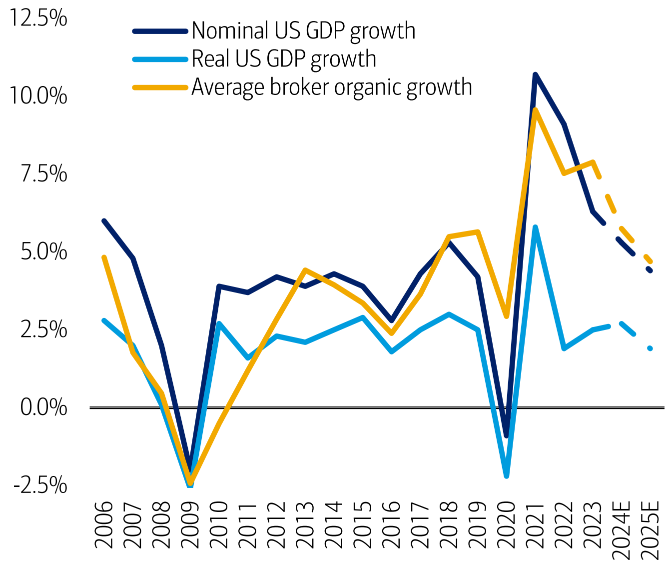
Brokers are often compensated as a percentage of insurance premiums placed. Hypothetically, as insurance pricing rises, premiums rise, and broker commissions follow. However, we are skeptical that insurance pricing materially influences organic growth; for example, clients can reduce the amount of coverage they purchase to cushion the impact of higher prices. At the end of the day, the insureds are the broker's clients, not the insurer's, and the broker's role is to seek the most economical risk management solutions for the insureds.

Organic growth is poised to slow as nominal GDP growth decelerates.

The correlation between broker organic growth and nominal GDP growth is stronger than the correlation with insurance pricing. As businesses start and expand, they require more coverage, and vice versa. Broker organic growth has a stronger correlation with nominal GDP than real GDP because inflation influences the amount of coverage needed. For instance, premiums for liability coverage are tethered to sales, workers' compensation to wages, and property to property replacement values.

For 2024, industry participants expect the overall insurance rate environment to remain firm, albeit with some deceleration in areas of the property market. Nominal GDP, on the other hand, should decelerate along with inflation. As such, we expect broker organic growth, including at Brown & Brown, to converge gradually toward historical mid-single-digit % growth levels over the next two years. 4Q23 misses at peers reinforce this view. It is possible that Brown & Brown's stronger presence in the faster-growing wholesale space vs most publicly traded peers could comparably slow the decline. However, over the long run, company management has described the business as having a low- to mid-single-digit underlying growth profile in a "steady state" economy, in line with our expectations.

Exhibit 7: Broker organic growth vs US GDP growth
Broker organic growth is closely tied to nominal GDP growth.



Source: Company reports, Bureau of Economic Analysis, BofA Global Research estimates
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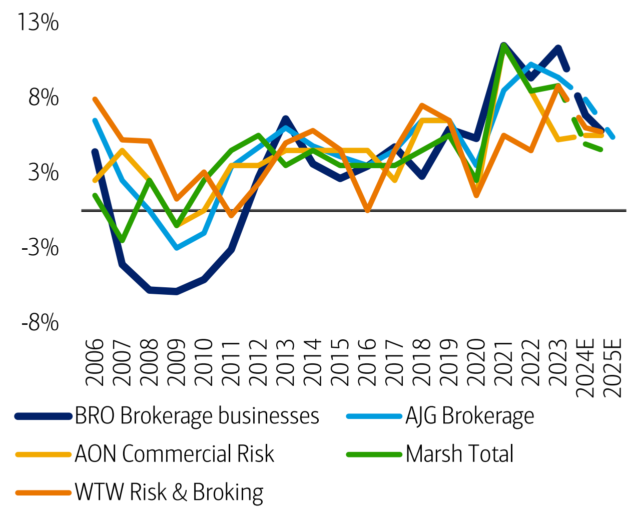
Exhibit 8: Organic growth across broker peers
We expect group organic growth to revert to mid-single-digit % over time.



Source: Company reports, BofA Global Research estimates
Note: WTW data excludes fiduciary investment income in line with peers commencing in 2023.
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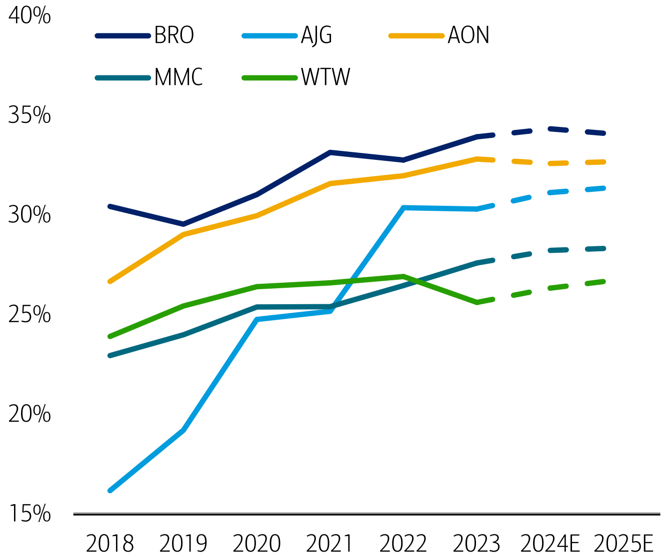
Margins nearing peak levels

Brown & Brown has historically recorded best-in-class adj. EBITDAC margins (earnings before interest, tax, depreciation, amortization, and change in estimated acquisition earnout payables). In addition, the company has achieved better margins with limited “below the line” adjustments for restructuring programs and deal integration. While we believe the company’s attractive margin profile can continue, we currently forecast peak margins in 2024E. Management has indicated that margins should remain in the 30-35% range over the long-term; breaching 35% for an extended period would imply insufficient reinvestment into the business. Margins have recently hovered at the upper end of the range near 34%, boosted by favorable organic growth and fiduciary investment income.

Exhibit 9: Consolidated adjusted EBITDAC margins

Brown & Brown has historically recorded best-in-class margins.



Source: Company reports and BofA Global Research estimates

Note: Data commences in 2018 given a change in accounting standards that limits comparability of prior years. Historical BRO adjusted data excludes gains/losses on disposal, in line with the current definition of adjustments. WTW data prior to 2021 includes the since-divested reinsurance broking operations.

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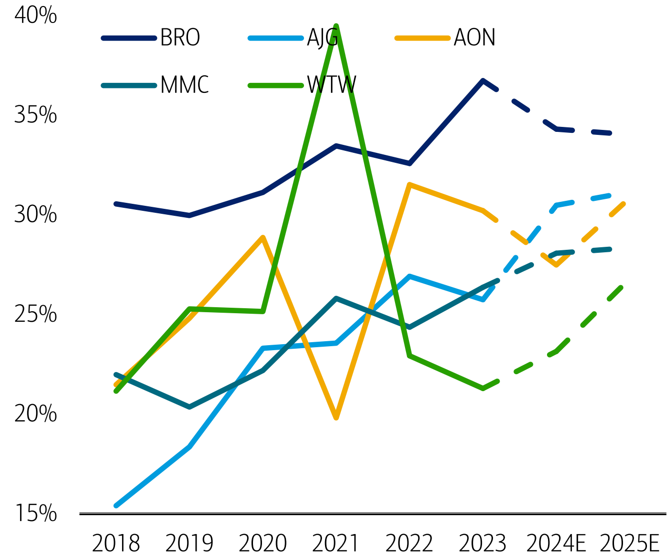
Exhibit 10: Consolidated EBITDAC margins

Brown & Brown margins include fewer below-the-line adjustments than those of peers.



Source: Company reports and BofA Global Research estimates

Note: Note: Data commences in 2018 given a change in accounting standards that limits comparability of prior years. Historical BRO adjusted data excludes gains/losses on disposal, in line with the current definition of adjustments. WTW data prior to 2021 includes the since-divested reinsurance broking operations. Aon and WTW 2021 results are impacted by the $1bn break-fee Aon paid to WTW following its failed acquisition attempt.

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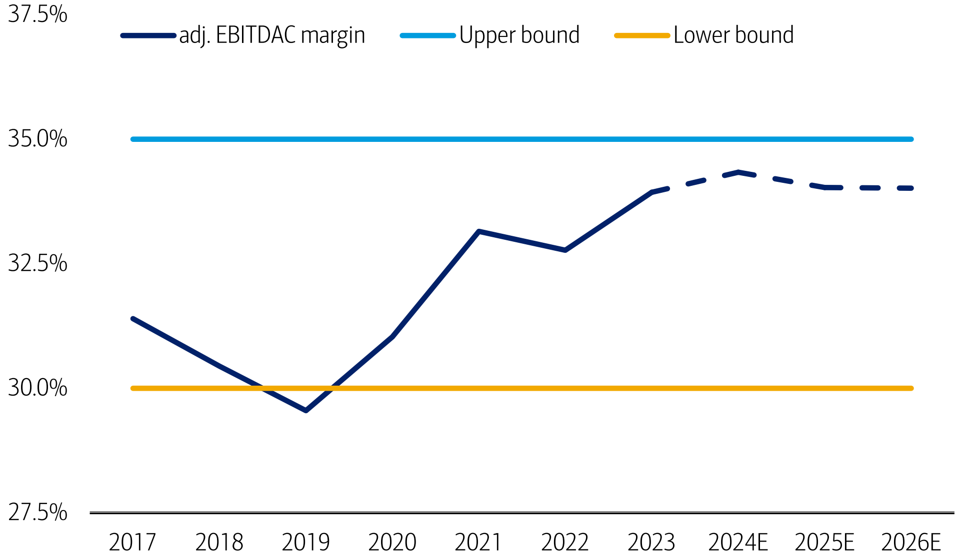
Since brokers serve as the intermediaries between their clients and insurance carriers, they often hold funds in a fiduciary capacity as premium payments transfer from insured to insurer and claims payments move from insurer to insured. Given the brief holding period for fiduciary cash, broker investment income has materially risen in recent months as short-term interest rates have surged. Fiduciary investment income is effectively 100% margin revenue and has contributed to broker margin improvement. As such, widespread expectations for lower short-term rates imply future headwinds for fiduciary income and, therefore, margins.

We expect 40bps of margin expansion to 34.3% for Brown & Brown in 2024E, in line with management's outlook for modest improvement. We expect margins to decline modestly in 2025E as investment income recedes, albeit remaining near the top of the guided range. Brown & Brown has historically been less leveraged to investment income than peers, limiting the expense effort needed to cushion the drag. We acknowledge upside to our forecast if the company generates sufficient operating leverage to offset the headwind of lower investment income. That said, the 35% upper threshold limits potential improvement from current levels in any environment.

Exhibit 11: Brown & Brown adj. EBITDAC margin vs guided 30-35% range
Margins are nearing the upper end of the guided range.



Source: company reports and BofA Global Research estimates

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Our EPS forecast is modestly below consensus

With 4Q23 results, Brown & Brown announced that it would start excluding amortization expense from its definition of adjusted earnings, in line with peers Arthur J. Gallagher, Aon, and WTW. We update our EPS forecasts to reflect this change. Brown & Brown has historically had better earnings quality than peers, with more limited below-the-line adjustments. We are sympathetic to the arguments that (1) amortization has no impact on cash flows; and (2) differing definitions of adj. EPS have led BRO's P/E to look expensive vs peers at first blush. However, we generally consider amortization to be an operating expense for companies like Brown & Brown that frequently engage in M&A. While we still believe that the company has best-in-class earnings quality, we believe this historical differentiator has partly eroded given (1) more adjustments for integration/other unusual expenses in the recent past (albeit still infrequent); paired with (2) excluding amortization expense.

> While Brown & Brown's earnings quality remains better than that of peers, recent adjustments to earnings have partly eroded this differentiator.

Consensus EPS estimates are currently cloudy due to partial adoption of the new EPS definition across the Street. We have used individual line items in Visible Alpha to calculate consensus EPS, and we estimate that we are modestly below the Street in 2024E and 2025E. For the two most important metrics, organic growth and margins, we are favorable to in line except for 2025E margins. We believe the largest differences between our forecasts and consensus lie in contingent commissions and investment income:

- Brokers earn contingent commissions from carriers based on the profitability of the accounts placed. This is a notoriously difficult line item to model given dependence on the weather. Modeling challenges are exacerbated for Brown & Brown given higher share in hurricane-prone Florida, the company's home state. Management has guided to flat-to-down contingents in 2024E vs favorable 2023 results of $130mn. Our -13% YoY decrease assumes that light 2023 hurricane activity does not repeat. We acknowledge bidirectional risk to our forecast dependent on catastrophe activity.

- Investment income is heavily influenced by the short-term interest rate environment. Actual results will heavily depend on the path of Fed rate cuts. While our estimates and consensus both assume a drop in 2025E vs 2024E, it is possible that Street forecasts have not fully encompassed the outlook for lower interest rates.

Exhibit 14: BofA forecasts vs consensus

Our adj. EPS forecast is modestly below consensus.

	2024E			2025E		
	BofA	Consensus	Δ	BofA	Consensus	Δ
Organic growth	6.4%	5.7%	0.6%	4.6%	4.4%	0.1%
Adj. EBITDAC margin	34.3%	34.2%	0.1%	34.0%	34.2%	-0.2%
Adj. EPS excl. amortization	$ 3.55	$ 3.61	-1%	$ 3.86	$ 3.93	-2%
Adj. EPS incl. amortization	$ 3.09	$ 3.12	-1%	$ 3.37	$ 3.42	-1%
Contingent commissions ($mn)	114	120	-6%	116	127	-9%
Investment income ($mn)	61	61	-1%	34	49	-30%

Source: Visible Alpha and BofA Global Research estimates

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Price objective basis & risk

Brown & Brown (BRO)

Our $86 price objective is based on 135% of the S&P 500's 2025E P/E multiple (19x) on our corresponding EPS estimate, reflecting the historical average trading range. We believe the historical relative valuation remains appropriate given our forecasts for reversion to long-term organic growth levels in the mid-single-digits, margins remaining in the target 30-35% range, and a continuation of industry-leading cash flow conversion.

Upside risks to our PO include persistently above-average organic growth and greater-than-expected margin expansion. Downside risks include margin contraction, earnings volatility from claims in the captive insurers, falling fiduciary investment income, and challenges in integrating M&A.

Analyst Certification

I, Grace Carter, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	American International Group	AIG	AIG US	Joshua Shanker
	Aon	AON	AON US	Joshua Shanker
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 − Tax Rate) + Goodwill Amortization	Total Assets − Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations − Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt − Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations − Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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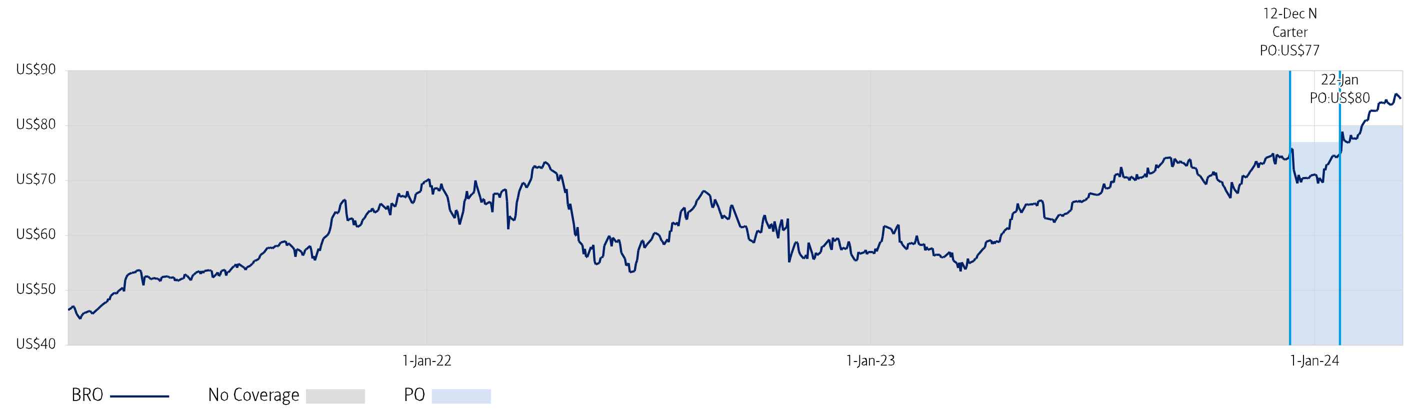
Important Disclosures

Brown & Brown (BRO) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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