

BRP Group, Inc.

4Q23 earnings beat as management focuses on margin expansion in 2024

Reiterate Rating: BUY | PO: 42.00 USD | Price: 27.33 USD

BRP reports 4Q23 adj. EPS of \$0.14

BRP's 4Q23 result came in slightly ahead of our forecast of \$0.11 and Street consensus of \$0.12. The quarter's result also exceeded management's prior guidance of \$0.10-\$0.12. Organic revenue of 15% came modestly below than our forecast of 17%, albeit above management's guide of 12-14%, as management noted higher interest rates and insurance pricing, impacting project-based work in sectors such as construction. Adjusted EBITBA margins grew 16% YoY, reflecting 10bps of expansion despite headwinds from lower contingents and start-up costs for its Juniper Re initiative.

1Q24E guide anticipates forward margin expansion

Management guided 1Q23 adj. EBITDA of \$95-100mn and \$315-320mn for FY24E, modestly down from prior guidance \$320-335mn. The margin expansion is largely driven by operating leverage and expense discipline around compensation, operating expenses and travel and entertainment. We are currently modeling \$100.7mn in adjusted EBITBA, slightly above guidance. Organic growth is expected at the high-end of BRP's long-term range of 10-15% throughout 2024. We are modeling 15% organic growth throughout 2024 but we would not be surprised if 2024 organic growth exceeds our forecast following management's expectations for double-digit growth in all segments (some in excess of 20%) and given the company's historical propensity to surpass guidance.

Selling wholesale brokerage platform to Amwins

BRP announced that they were selling Connected Risk Solutions, their wholesale brokerage platform to Amwins for \$59mn. The transaction is expected to be neutral to net income, but management believes it will be accretive to both 2024 organic margin growth and adjusted EBITDA margins. The wholesale brokerage market is very concentrated with the top 3 brokerages representing over 50% marketshare. Management noted that no other businesses are likely to be considered for disposition.

Price objective to \$42; Reiterate Buy

Modestly higher interest payments as well higher employee expenses result in our EPS forecasts to decline. We are lowering our adj. EBITDA forecast \$339mn to \$320mn following the updated guidance. Our PO falls to \$42 from \$44, which is based on 20x our 2024E adj. EPS. Material upside potential vs our PO underlies our Buy rating. We believe the underlying value of the BRP asset are below where shares trade today and expect, should interest rates decline, a material overhang over shares would dissipate.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.03	1.12	1.51	2.11	2.61
GAAP EPS	(0.74)	(1.50)	(0.54)	0.52	1.16
EPS Change (YoY)	28.8%	8.7%	34.8%	39.7%	23.7%
Consensus EPS (Bloomberg)			1.62	2.17	2.80
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.5x	24.4x	18.1x	13.0x	10.5x
GAAP P/E	NM	NM	NM	52.6x	23.6x

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Timestamp: 28 February 2024 11:34PM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	44.00	42.00
2024E EPS	1.72	1.51
2025E EPS	2.20	2.11
2026E EPS	2.57	2.61

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Stock Data

Price	27.33 USD
Price Objective	42.00 USD
Date Established	28-Feb-2024
Investment Opinion	C-1-9
52-Week Range	17.33 USD - 29.41 USD
Mkt Val (mn) / Shares Out (mn)	1,769 USD / 64.7
Free Float	98.3%
Average Daily Value (mn)	9.49 USD
BofA Ticker / Exchange	BRP / NAS
Bloomberg / Reuters	BRP US / BRP.OQ
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM BRP Group, Inc.

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	981	1,219	1,411	1,623	1,904
Net Investment Income	NA	NA	NA	NA	NA
Total Revenue	981	1,219	1,411	1,623	1,904
Total Cost of Benefits and Claims	NA	NA	NA	NA	NA
S,G & A (Including Commissions)	(719)	(911)	(971)	(1,085)	(1,234)
Total Operating Expenses	(1,012)	(1,261)	(1,360)	(1,446)	(1,513)
Pre-Tax Operating Earnings	(31)	(43)	51	177	391
Income Tax Expense	(1)	(1)	0	0	0
Operating Earnings After Tax	119	131	182	258	344
Net Income (Reported)	(42)	(90)	(44)	22	175
Diluted Shares	116	117	120	122	132
Operating Earnings Per Share	1.03	1.12	1.51	2.11	2.61
Net Income (Reported) Per Share	(0.74)	(1.50)	(0.54)	0.52	1.16

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	118	116	547	978	1,514
Total Assets	3,462	3,444	3,613	4,233	4,952
Reserves	NA	NA	NA	NA	NA
LT Debt	1,315	1,309	1,402	1,645	1,888
Total Liabilities	2,322	2,439	2,631	3,019	3,412
Total Equity	1,140	1,018	996	1,228	1,554
Total Equity (Ex FAS 115)	1,140	1,018	996	1,228	1,554
Book Value per Share (Reported)	NA	NA	NA	NA	NA
Book Value per Share (Ex FAS 115)	NA	NA	NA	NA	NA

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	73.4%	74.8%	68.8%	66.8%	64.8%
Loss Ratio	0%	0%	0%	0%	0%
Combined Ratio	73.4%	74.8%	68.8%	66.8%	64.8%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	2.7x	3.2x	3.5x	3.5x	3.3x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	72.9%	24.3%	15.8%	15.1%	17.3%
Net Investment Income	NM	NM	NM	NM	NM
Total Revenue	72.9%	24.3%	15.8%	15.1%	17.3%
Operating Earnings per Share	28.8%	8.7%	34.8%	39.7%	23.7%
Asset	20.4%	-0.5%	4.9%	17.2%	17.0%
Reported Book Value per Share	NM	NM	NM	NM	NM

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	3.8%	3.8%	5.1%	6.6%	7.5%
Operating Margin	12.2%	10.8%	12.9%	15.9%	18.1%
Long Term Debt to Cap Ratio (Ex FAS 115)	53.6%	56.2%	58.5%	57.3%	54.9%
Net Income % Operating Income	-35.0%	-68.7%	-24.3%	8.5%	50.7%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

BRP is an insurance broker. BRP has a diversified revenue stream, with presence in middle market retail, personal lines, Medicare Advantage, wholesale commercial broking, and an MGA platform for renters' insurance. Rapid growth has come from organic growth and via acquisitions, which have accelerated recently. The senior management team is relatively young and the team has built a growth-oriented, entrepreneurial culture.

Investment Rationale

BRP is a rapidly growing business with strong runway for continued growth given opportunities for market share gains and bolt-on acquisitions in a fragmented space. The company has a goal of being in the top-10 US brokers within 10 years (8 years remaining) vs its current spot of #19, implying a continuation of partnership activity and associated capital raises. Upside to the current share price is bolstered by the growth outlook, which informs our Buy rating.

Stock Data

Average Daily Volume 347,213

Quarterly Earnings Estimates

	2023	2024
Q1	0.42A	0.53E
Q2	0.27A	0.37E
Q3	0.29A	0.40E
Q4	0.14A	0.21E

Price objective basis & risk

BRP Group, Inc. (BRP)

Our PO of \$42 is based on a 20x year-ahead (2025E) P/E multiple. Although this represents a premium to the broker peer group (19x), we believe it is merited due to BRP's double-digit organic growth vs mid-single digit for large cap brokers. We believe there is adequate upside to recommend acquiring shares of BRP with a margin of safety that covers its strong M&A appetite.

Downside risks are macroeconomic pressures on the top line, M&A integration risk, and dilution from larger-than-expected share issuance (to fund M&A) moving forward. Upside risks are faster-than-expected economic recovery, continued P&C pricing hardening, and elevated acquired revenues vs expectations.

Analyst Certification

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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
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	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
	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



US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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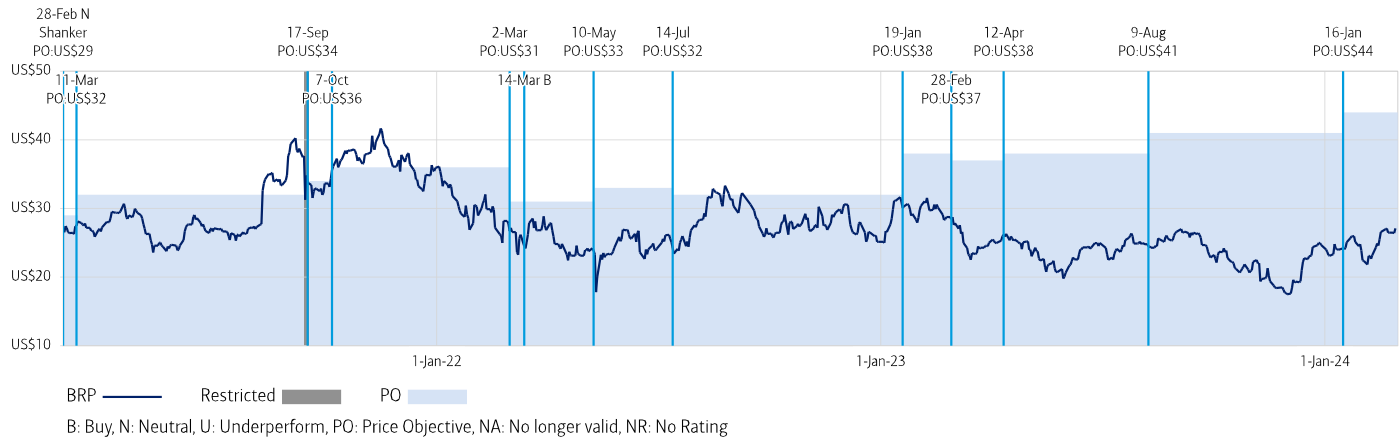
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BRP Group, Inc. (BRP) Price Chart



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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}
Buy	≥ 10%	≤ 70%
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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