

Brown & Brown

4Q23 top line beat on contingents, organic growth, and investment income

Reiterate Rating: NEUTRAL | PO: 80.00 USD | Price: 75.29 USD

Brown & Brown reports adj. EPS of \$0.58

This is a beat vs our forecast of \$0.52 and Consensus of \$0.53. Stronger-than-expected contingent commissions comprised the largest share of the beat (+\$0.06/sh), driven by the National Programs segment. Investment income and organic growth in core commissions and fees also modestly beat our forecast, offset by higher compensation expenses. The consolidated adj. EBITDAC margin of 31.0% declined 40bps YoY, largely related to challenging YoY comps; however, it slightly exceeded our est. 30.8%.

Organic growth beat driven by Retail and Wholesale

Organic growth of +7.7% compared favorably vs our modeled +6.2%, driven by strength in the Retail and Wholesale segments. National Programs was modestly below our forecast at +5.4% vs est. +6.0%; while our estimates anticipated a drag from lower flood claim revenues YoY, results were also negatively impacted by a one-time reinsurance adjustment. Although management expects property catastrophe insurance rates to moderate in 1H24E, it does not expect significant changes in market conditions for other lines. We have modestly increased our forward outlook for organic growth, expecting more gradual deceleration towards historical mid-single-digit levels as nominal GDP growth cools.

Expecting flattish margins moving forward

The FY23E adj. EBITDAC margin of 33.9% expanded 120bps YoY, in line with the company's guidance for improvement of at least 100bps. We forecast 10bps of improvement in 2024E to 34.0%; however, we expect modest contraction the following year. Brokers, including Brown & Brown, have recently benefited from elevated fiduciary income due to higher short-term interest rates. However, with widespread expectations for rate cuts commencing later this year, current margin levels should be increasingly difficult to defend.

Price objective to \$80

Upon integrating 4Q23 results into our model, our forward EPS estimates net rise on higher organic growth. We update our price objective to \$80 from \$77, reflecting 135% the year-ahead S&P 500 P/E multiple (18x) on our higher 2025E EPS forecast. Relatively modest upside vs our PO underlies our Neutral recommendation.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.28	2.81	3.01	3.29	3.62
GAAP EPS	2.37	3.05	2.98	3.27	3.60
EPS Change (YoY)	4.1%	23.2%	7.1%	9.3%	10.0%
Consensus EPS (Bloomberg)			3.04	3.32	3.65
DPS	0.42	0.48	0.54	0.62	0.70
Valuation (Dec)					
P/E	33.0x	26.8x	25.0x	22.9x	20.8x
GAAP P/E	31.8x	24.7x	25.3x	23.0x	20.9x
Dividend Yield	0.6%	0.6%	0.7%	0.8%	0.9%

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Timestamp: 22 January 2024 09:35PM EST

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	77.00	80.00
2024E EPS	2.98	3.01
2025E EPS	3.26	3.29
2026E EPS	3.58	3.62

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Stock Data

Price	75.29 USD
Price Objective	80.00 USD
Date Established	22-Jan-2024
Investment Opinion	B-2-7
52-Week Range	52.82 USD - 76.25 USD
Mrkt Val (mn) / Shares Out (mn)	21,427 USD / 284.6
Free Float	82.1%
Average Daily Value (mn)	111.77 USD
BoFA Ticker / Exchange	BRO / NYS
Bloomberg / Reuters	BRO US / BRO.N
ROE (2024E)	0%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

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 Brown & Brown

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	3,563	4,199	4,499	4,871	5,259
Net Investment Income	7	52	52	32	32
Total Revenue	3,573	4,257	4,556	4,908	5,296
Total Cost of Benefits and Claims	(1,817)	(2,187)	(2,307)	(2,489)	(2,682)
S,G & A (Including Commissions)	NA	NA	NA	NA	NA
Total Operating Expenses	(2,697)	(3,111)	(3,424)	(3,667)	(3,928)
Pre-Tax Operating Earnings	876	1,146	1,131	1,241	1,368
Income Tax Expense	(204)	(276)	(277)	(305)	(336)
Operating Earnings After Tax	635	789	850	930	1,026
Net Income (Reported)	672	870	854	937	1,033
Diluted Shares	279	281	282	283	283
Operating Earnings Per Share	2.28	2.81	3.01	3.29	3.62
Net Income (Reported) Per Share	2.37	3.05	2.98	3.27	3.60

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	2,712	3,413	4,152
Total Assets	13,974	14,916	15,486	16,382	17,353
Reserves	2,265	2,727	2,727	2,727	2,727
LT Debt	3,692	3,227	2,979	2,981	2,983
Total Liabilities	9,367	9,337	9,122	9,174	9,227
Total Equity	4,607	5,579	6,364	7,209	8,126
Total Equity (Ex FAS 115)	4,607	5,579	6,364	7,209	8,126
Book Value per Share (Reported)	16.27	19.60	22.32	25.23	28.39
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	2.5x	2.3x	2.2x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	16.9%	17.9%	7.1%	8.3%	8.0%
Net Investment Income	491.4%	706.2%	0.1%	-38.5%	0%
Total Revenue	17.1%	19.1%	7.0%	7.7%	7.9%
Operating Earnings per Share	4.1%	23.2%	7.1%	9.3%	10.0%
Asset	42.7%	6.7%	3.8%	5.8%	5.9%
Reported Book Value per Share	9.5%	20.5%	13.8%	13.1%	12.5%

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	5.3%	5.5%	5.6%	5.8%	6.1%
Operating Margin	17.8%	18.5%	18.6%	19.0%	19.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	44.5%	36.6%	31.9%	29.3%	26.9%
Net Income % Operating Income	105.7%	110.3%	100.5%	100.7%	100.7%
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, the stock's premium valuation largely already reflects these advantages, leading us to a Neutral rating.

Stock Data

Average Daily Volume 1,524,033

Quarterly Earnings Estimates

	2023	2024
Q1	0.84A	0.96E
Q2	0.68A	0.75E
Q3	0.71A	0.72E
Q4	0.58A	0.58E

Price objective basis & risk

Brown & Brown (BRO)

Our \$80 price objective is based on 135% of the S&P 500's 2025E P/E multiple (18x) 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

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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
	American International Group	AIG	AIG 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				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA 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
	Chubb Ltd	CB	CB 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



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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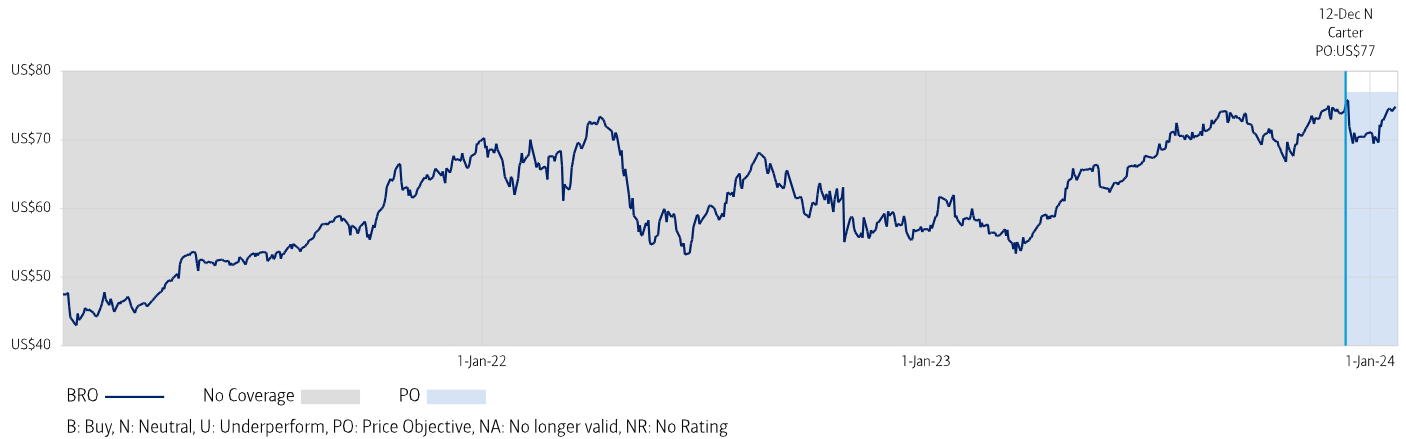
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Brown & Brown (BRO) Price Chart



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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}
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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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