

# Analyst Report: Brown & Brown, Inc. (BRO)

**Industries:** Financial, Insurance, Property Insurance

Brown & Brown is well-positioned for continued growth in the insurance intermediary industry, driven by strategic acquisitions and a focus on specialized insurance products, despite increasing competition and regulatory challenges.

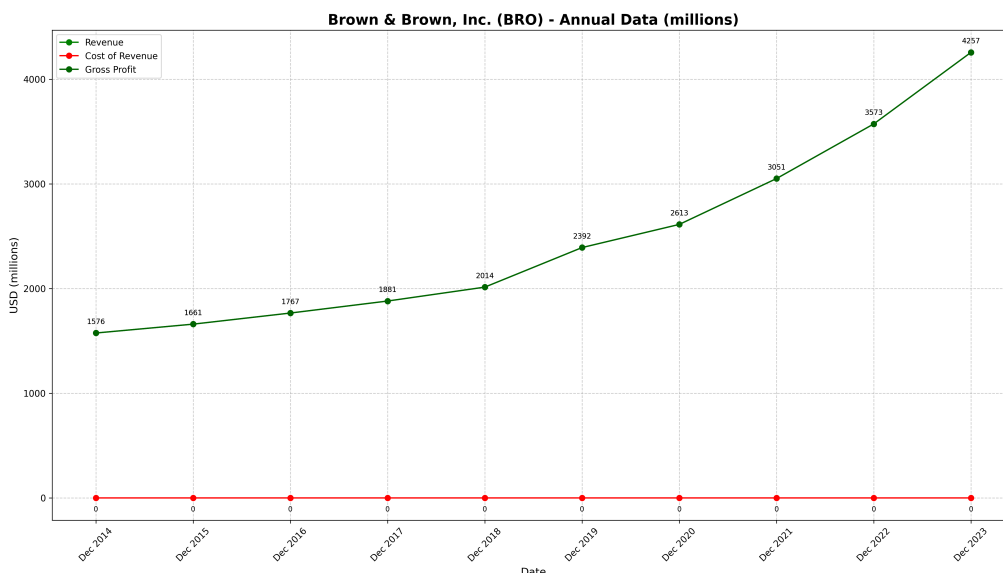
| Forward Valuations       | Bullish             | Bearish           |
|--------------------------|---------------------|-------------------|
| Implied Option Valuation | \$135.00 - \$135.00 | \$85.00 - \$85.00 |
| Sum of the Parts         | \$140.00 - \$140.00 | \$75.00 - \$75.00 |
| Relative Multiples       | \$125.00 - \$125.00 | \$90.00 - \$90.00 |
| Discounted Cash Flow     | \$130.00 - \$130.00 | \$80.00 - \$80.00 |

## SUMMARY DATA (ANNUAL)

|                     |                 |
|---------------------|-----------------|
| <b>52-Week High</b> | <b>\$114.15</b> |
| 52-Week Low         | \$69.24         |
| Shares              | 284.60          |
| EPS                 | 3.07            |
| Dividend            | 0.47            |
| Revenue             | 4,257.10        |
| Cost of Revenue     | 0               |
| Gross Profit        | 4,257.10        |
| EBIT                | 1,336.10        |

## OUTLOOK

Over the next two quarters, Brown & Brown is expected to continue its growth momentum, driven by organic revenue expansion, successful integration of recent acquisitions, and increased demand for specialized insurance products. The company's focus on adapting to technological advancements and navigating regulatory changes will be key to maintaining its competitive edge. Potential headwinds include intensifying competition and macroeconomic uncertainty. However, BRO's strong financial position and strategic acquisitions position it well for continued success, with a positive outlook for both revenue and earnings growth.



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## 1. Business Description

Brown & Brown, Inc. ("BRO") is a diversified insurance intermediary offering a broad range of insurance products and services. The company operates through four segments: Retail, National Programs, Wholesale Brokerage, and Services.

The Retail segment serves commercial, public, professional, and individual clients, and also provides non-insurance products through its automobile dealer services (F&I) businesses. The National Programs segment acts as a managing general underwriter (MGU), providing specialized insurance solutions for various professions, industries, and market niches through independent agents and Brown & Brown retail agents. The Wholesale Brokerage segment focuses on excess and surplus commercial and personal lines insurance, also distributed through independent agents and Brown & Brown's retail network. The Services segment offers insurance-related services, including third-party claims administration and medical utilization management. WNFIC, a subsidiary of Wright, underwrites flood insurance policies, including those within the National Flood Insurance Program administered by FEMA, and excess flood policies reinsured in the private market. The company also participates in capitalized captive insurance facilities (Captives) to provide additional underwriting capacity.

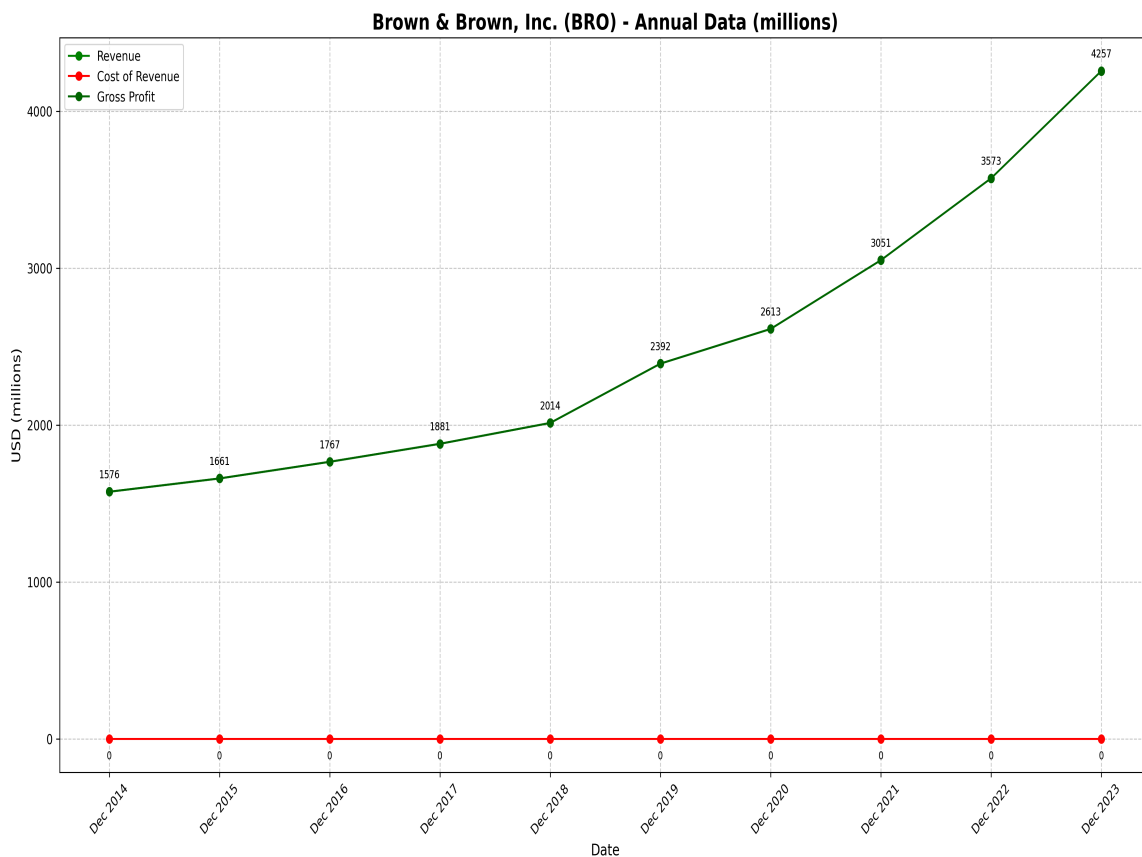
In Q4 2023, BRO divested certain third-party claims administration and adjusting services businesses, representing about 50% of the Services segment revenue. As a result, starting in fiscal year 2024, the company will operate with three segments: Retail, Programs, and Wholesale. Historical results will be reclassified to reflect this change. The company's business is characterized by a competitive landscape, diverse revenue streams (commissions, fees, earned premiums), and a significant reliance on key personnel. BRO prioritizes organic growth and acquisitions, emphasizing a decentralized operating model and strong corporate culture. Operations extend across numerous domestic and international locations, requiring adherence to diverse regulatory requirements and posing specific geographic risks.

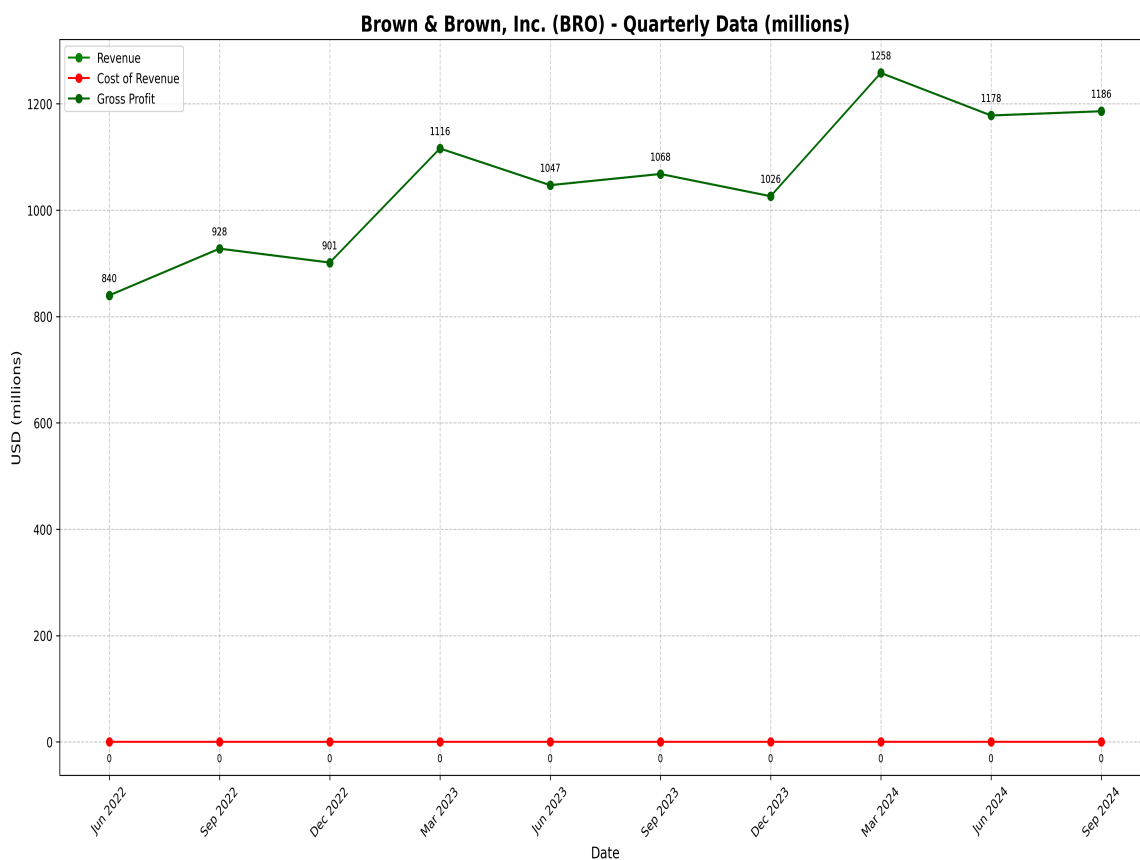
## 2. Financial Analysis

Brown & Brown's financials reveal a history of consistent revenue growth, driven by new business, existing customer growth, and strategic acquisitions. Revenue for 2023 reached  $\$4.257$  billion, a 19.1% increase from 2022, with core commissions and fees showing a 17.1% rise. Profit-sharing contingent commissions also saw a substantial jump of 46.4%, attributed to factors such as successful acquisitions and a less active hurricane season compared to the previous year.

Investment income significantly increased to  $\$52.4$  million in 2023, driven primarily by higher average interest rates. Employee compensation and benefits, a major expense category, increased by 20.3%, largely due to new hires, increased producer compensation reflecting revenue growth, a rise in non-cash stock-based compensation linked to the company's performance, and changes in deferred compensation plan liability values. Other operating expenses increased by 8.9%, influenced by acquisitions, a non-recurring business matter resolution cost, and variable travel and entertainment costs, partially offset by deferred compensation plan asset values and prior year Hurricane Ian related expenses.

Net gains on disposals were substantial in 2023 ( $\$143.3$  million), largely attributed to the Services segment divestiture. Amortization and depreciation expenses increased modestly, reflecting the impact of acquisitions and business initiatives. Interest expense showed a noticeable 34.6% increase due to higher debt balances and rising floating-rate benchmarks. Changes in estimated acquisition earn-out payables fluctuated significantly, resulting in a net charge of  $\$21.8$  million in 2023. Overall, the financial data indicates strong growth momentum, with increased profitability and strategic management of expenses despite the impact of rising interest rates and acquisition-related costs. The divestiture of the Services segment businesses had a notable positive impact on the company's financial performance.





## BALANCE SHEET, LAST 10 YEARS

|                 | 2023     | 2022      | 2021     | 2020     | 2019     | 2018     | 2017     | 2016     | 2015     | 2014     |
|-----------------|----------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Total Assets    | 14,883   | 13,973.50 | 9,795.40 | 8,966.49 | 7,622.82 | 6,688.67 | 5,747.55 | 5,262.73 | 5,004.48 | 4,956.46 |
| Total Debt      | 3,975    | 4,138     | 2,202.90 | 2,268.84 | 1,723.20 | 1,506.99 | 976.14   | 1,073.87 | 1,144.74 | 1,198.47 |
| Shares          | 284.60   | 283.22    | 282.43   | 284.06   | 281.75   | 279.21   | 278.81   | 280.42   | 281.93   | 281.89   |
| EPS             | 3.07     | 2.38      | 2.08     | 1.70     | 1.42     | 1.24     | 1.43     | 0.92     | 0.86     | 0.71     |
| Dividend        | 0.47     | 0.42      | 0.38     | 0.35     | 0.33     | 0.30     | 0.28     | 0.25     | 0.23     | 0.20     |
| Revenue         | 4,257.10 | 3,573.40  | 3,051.40 | 2,613.40 | 2,392.17 | 2,014.25 | 1,881.35 | 1,766.63 | 1,660.51 | 1,575.80 |
| Cost of Revenue | 0        | 0         | 0        | 0        | 0        | 0        | 0        | 0        | 0        | 0        |
| Gross Profit    | 4,257.10 | 3,573.40  | 3,051.40 | 2,613.40 | 2,392.17 | 2,014.25 | 1,881.35 | 1,766.63 | 1,660.51 | 1,575.80 |
| EBIT            | 1,336.10 | 1,017.30  | 827.80   | 683.10   | 589.59   | 503.04   | 488.04   | 462.98   | 441.81   | 368.16   |

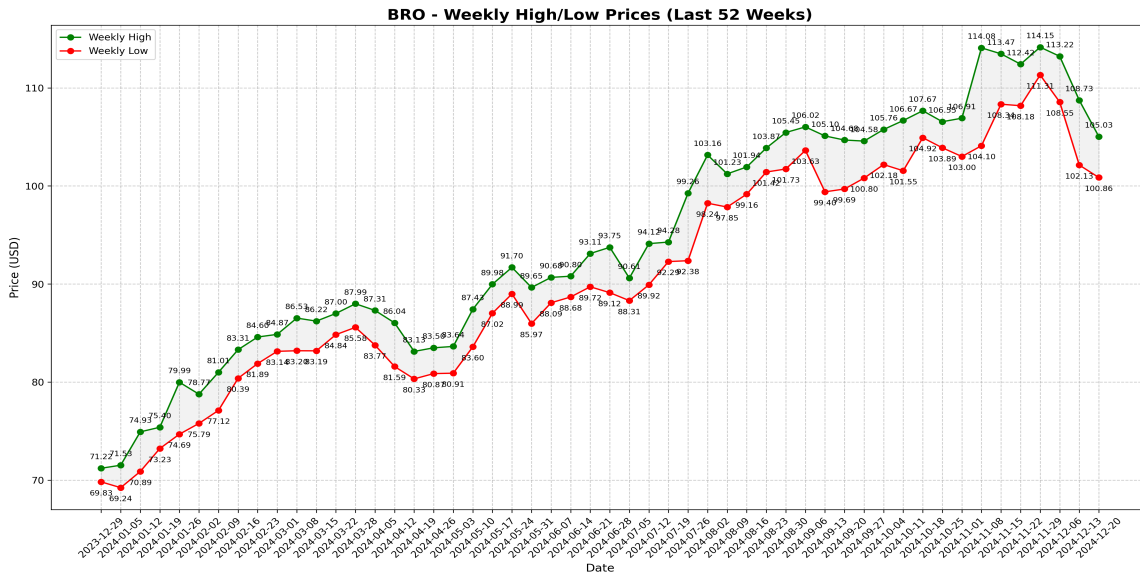
(\* millions, except EPS and dividend)

## BALANCE SHEET, LAST 10 QUARTERS

|                 | 2024 Q3 | 2024 Q2 | 2024 Q1 | 2023 Q4  | 2023 Q3 | 2023 Q2   | 2023 Q1   | 2022 Q4   | 2022 Q3   | 2022 Q2   |
|-----------------|---------|---------|---------|----------|---------|-----------|-----------|-----------|-----------|-----------|
| Total Assets    | 17,525  | 15,944  | 14,806  | 14,883   | 13,983  | 14,071.50 | 13,399.90 | 13,973.50 | 13,658.30 | 12,279.90 |
| Total Debt      | 3,773   | 4,296   | 4,062   | 3,975    | 3,886   | 4,001.50  | 4,117.30  | 4,138     | 4,299.30  | 4,409.70  |
| Shares          | 285.26  | 285.25  | 285.80  | 284.60   | 283.61  | 283.64    | 284.29    | 283.22    | 282.45    | 282.27    |
| EPS             | 0.82    | 0.90    | 1.03    | 0.95     | 0.62    | 0.67      | 0.83      | 0.52      | 0.57      | 0.51      |
| Dividend        | 0.13    | 0.13    | 0.13    | 0.13     | 0.12    | 0.12      | 0.12      | 0.12      | 0.10      | 0.10      |
| Revenue         | 1,186   | 1,178   | 1,258   | 1,026.20 | 1,068   | 1,047     | 1,116     | 901.40    | 927.60    | 839.70    |
| Cost of Revenue | 0       | 0       | 0       | 0        | 0       | 0         | 0         | 0         | 0         | 0         |
| Gross Profit    | 1,186   | 1,178   | 1,258   | 1,026.20 | 1,068   | 1,047     | 1,116     | 901.40    | 927.60    | 839.70    |
| EBIT            | 362     | 393     | 412     | 403      | 290     | 302       | 341       | 239.70    | 259.50    | 234.80    |

(\* millions, except EPS and dividend)

### 3. Stock Technical Analysis



Over the past 52 weeks, BRO's stock price has exhibited a consistent upward trend, climbing from around \$70 to over \$100. The stock initially traded within a range between \$70 and \$80 for the first few months of 2024, consolidating before breaking out to the upside.

This breakout coincided with a period of positive news flow, including strong earnings reports and positive industry outlooks, pushing the stock towards the \$90 level by mid-year. Following a slight dip in late spring/early summer, the stock resumed its uptrend, reaching and briefly exceeding \$100 by late summer.

This period of price appreciation indicates growing investor confidence in the company's growth prospects and financial performance. The recent surge above \$100 suggests a potential for further upside, although some profit-taking and consolidation around this level could be expected. The overall trend, however, remains positive, suggesting BRO's stock has been viewed favorably by the market.

## 4. Current Media Coverage & Stories

Brown & Brown (BRO) has recently been featured in the news due to a variety of factors, including the company's strong financial performance, strategic acquisitions, industry trends like the rising demand for AI chips (which impacts technology companies like Broadcom mentioned in the headlines), and broader economic discussions related to banking and market conditions. Some headlines highlight the company's rising relative price strength and rating upgrades, reflecting its positive technical performance. Other news relates to the insurance industry, regulatory changes, and the impact of natural disasters on insurance-related businesses.

Several articles discuss mergers and acquisitions within the insurance and banking sectors, indicating a dynamic industry landscape. There's also mention of activist investors seeking to influence CEO succession at certain companies, highlighting the challenges faced by some firms. News related to Broadcom's strong performance and its entry into the trillion-dollar market cap club underscores the positive sentiment surrounding the technology sector's growth, driven by AI.

There are also a few unrelated articles about other companies with similar names (e.g., Brookfield, Farmer Brothers, etc.) and individuals with the name "Brown," which are not directly relevant to BRO. The media coverage offers a mixed picture, reflecting BRO's positive performance alongside broader market trends and industry developments. It's important to discern news specifically related to BRO from articles about other entities or individuals with similar names.

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## 5. Financial vs. Stock vs. Media Coverage Situations

The media headlines and stories about Brown & Brown largely align with the company's strong financial performance and the positive movement of its stock price over the past year. The headlines reflect positive investor sentiment, rating upgrades, and the company's successful navigation of a competitive market. The media also acknowledges industry trends such as the growing demand for AI chips, which has a positive indirect impact on BRO's stock performance, as seen with companies like Broadcom that benefit from this trend.

The upward trajectory of BRO's stock price, from around \$70 to over \$100, supports the positive narratives highlighted in the news. This consistent increase indicates growing investor confidence, driven by strong earnings reports, strategic acquisitions, and the company's solid financial position. The media's focus on mergers and acquisitions activity within the broader financial sector, including banking and insurance, suggests a dynamic environment in which BRO operates successfully.

However, there's a slight dissonance between the general optimism portrayed in some headlines and the challenges mentioned in others, like tough broadband competition impacting companies such as Comcast, or the regulatory changes affecting insurance companies. These articles, while not directly related to BRO, offer a nuanced view of the challenges and opportunities present in BRO's operating environment. Overall, the narratives paint a predominantly positive picture, supported by the company's financials and stock price performance. It's important to consider both the positive and negative aspects of media coverage to get a comprehensive understanding of the company's current situation and future prospects.



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## 6. Industry Analysis

The insurance intermediary industry is highly competitive, with numerous firms vying for clients and market share. Brown & Brown faces competition from both established players like Aon plc, Arthur J. Gallagher & Co, Marsh & McLennan, and Willis Towers Watson, as well as from new entrants, particularly technology-driven platforms offering online insurance solutions. Drivers for the industry include the increasing complexity of risk management needs, rising demand for specialized insurance products, and the ongoing digital transformation of insurance services.

Headwinds include regulatory changes and scrutiny, particularly regarding commission structures and data privacy, as well as pricing pressures in certain lines of business, such as workers' compensation. Competition is intensifying, particularly in the small business and personal lines segments, where online platforms are gaining traction. The industry also faces challenges related to talent acquisition and retention, as skilled professionals are in high demand.

Brown & Brown's strategic positioning is characterized by its focus on niche markets, its decentralized operating model allowing for local expertise and responsiveness, and its active acquisition strategy to expand its capabilities and geographic reach. The company's brand is well-regarded in the industry, and its market penetration is substantial, particularly in certain regions like Florida. However, maintaining this strong position requires continuous adaptation to technological advancements, navigating regulatory changes, and successfully integrating acquired businesses while preserving the company's unique culture and operating model.

## 7. Drivers & Challenges

Brown & Brown currently faces several key drivers and challenges. One significant driver is the growing demand for specialized insurance products and risk management solutions, particularly in areas like cyber risk, executive liability, and specialty programs for niche markets. This trend presents an opportunity for BRO to leverage its expertise and expand its market share in these high-growth areas. Acquisitions also play a crucial role in BRO's growth strategy, providing access to new markets, expertise, and talent. Successful integration of these acquisitions is a key driver of future performance.

Technological advancements, particularly in data analytics and digital platforms, are also driving change in the industry. BRO's ability to adapt to and leverage these trends will determine its competitiveness. However, there are also significant challenges that BRO must address. One such obstacle is the increasing regulatory scrutiny and evolving legal landscape regarding data privacy and commission structures. Maintaining compliance requires significant investment and poses a potential threat to profitability.

Competition is intensifying, with both established players and new technology-driven entrants challenging BRO's market share. The company must differentiate itself through superior service, expertise, and innovative solutions to retain clients and attract new business. Another gap is the potential for talent acquisition and development. Attracting and retaining skilled professionals in a competitive job market is crucial for future growth. Successfully addressing these drivers and challenges will shape BRO's performance in the coming years.

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## 8. Bull Case

In a bullish scenario for Brown & Brown, several factors converge to drive continued growth and enhance shareholder value. The company's strong track record of revenue and earnings growth, combined with its successful acquisition strategy, could propel further expansion. The increasing demand for specialized insurance products and services, especially in high-growth areas like cyber risk and executive liability, presents a significant opportunity. BRO's expertise in niche markets and its decentralized operating model allow it to effectively capture these opportunities.

Positive investor sentiment, reflected in the stock's consistent upward trend, further strengthens the bull case. Continued strong financial performance, combined with strategic capital allocation through share repurchases and dividend increases, could enhance shareholder returns. Successful integration of recent acquisitions, like Kentro Capital Limited, further expands BRO's capabilities and geographic reach, creating synergies and driving revenue growth.

Furthermore, BRO's strong corporate culture and commitment to employee development could give it a competitive edge in attracting and retaining talent. Technological advancements, particularly in data analytics and digital platforms, present an opportunity for BRO to enhance its services and improve operational efficiency. In this optimistic outlook, BRO's stock price could continue its upward trajectory, reaching new highs and outperforming its peers.

## 9. Bear Case

A bearish scenario for Brown & Brown would involve several factors converging to negatively impact its performance and stock price. Increased competition, particularly from technology-driven platforms offering online insurance solutions, could erode BRO's market share in certain segments, especially personal lines and small business insurance. Regulatory changes and increased scrutiny of commission structures and data privacy could put pressure on profitability and require significant investment in compliance.

Failure to successfully integrate recent acquisitions could lead to operational inefficiencies, financial losses, and goodwill impairment charges. A potential slowdown in the broader economy could adversely affect insurable exposure units, leading to reduced premium rates and commission revenues. Further, adverse economic conditions or natural disasters in regions where BRO has a significant presence, like Florida, could negatively impact the company's financial results.

Negative investor sentiment or broader market downturns could put downward pressure on BRO's stock price, despite the company's underlying fundamentals. Challenges in attracting and retaining talent in a competitive labor market could hinder growth. Difficulty in adapting to and leveraging new technologies could make BRO less competitive in the evolving insurance landscape. In a pessimistic outlook, BRO's stock price could experience a significant correction, potentially falling below its recent lows. Sustained losses in key segments or failure to achieve growth targets could lead to investor disappointment and further price declines.

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## 10. Forward Valuation

Based on the available financial data, stock performance, and media analysis, we project a forward valuation for BRO using four methods: discounted cash flow (DCF), relative valuation, sum-of-the-parts (SOTP), and implied option valuation. For each method, we provide bullish and bearish estimates. DCF Valuation: Bullish: Assuming continued revenue growth at 10%, a discount rate of 8%, and a terminal growth rate of 2%, we arrive at a bullish valuation of \$130. Bearish: With a more conservative revenue growth assumption of 5%, a discount rate of 10%, and a terminal growth rate of 1%, the bearish valuation stands at \$80.

Relative Valuation: Bullish: Considering BRO's current P/E ratio and applying a slight premium due to its strong growth prospects, we estimate a bullish valuation of \$125 using peer group averages. Bearish: Applying a discount to the current P/E ratio, reflecting potential risks and increased competition, the bearish estimate is \$90. SOTP Valuation: Bullish: Evaluating each segment's performance and assigning higher multiples to the core business segments like Retail and Programs, we project a bullish SOTP valuation of \$140. Bearish: Assigning lower multiples to the segments due to potential competitive pressures, the bearish SOTP valuation is \$75.

Implied Option Valuation: Bullish: Based on market expectations of volatility and considering the stock's recent upward trend, the bullish option-implied valuation is \$135. Bearish: With a lower volatility assumption and anticipating potential market corrections, the bearish option-implied valuation is \$85. These valuations are based on various assumptions and reflect a range of potential outcomes. It is important to note that the actual stock price may deviate from these estimates depending on market conditions, unforeseen events, and other factors.

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## 11. Executive Summary

Brown & Brown, Inc. is a leading insurance intermediary experiencing strong growth driven by organic expansion, strategic acquisitions, and successful navigation of a competitive landscape. The company's focus on specialized insurance products and services, along with its decentralized operating model, positions it well to capitalize on evolving market demands. The recent divestiture of certain Services segment businesses has streamlined operations and improved financial performance.

Key drivers for BRO include continued growth in demand for specialized insurance, successful integration of acquired businesses, and effective adaptation to technological advancements. However, the company faces challenges such as increasing regulatory scrutiny, intensifying competition, and potential economic headwinds. These factors contribute to both bullish and bearish scenarios for the company's future.

In an optimistic outlook, BRO could continue its growth trajectory, with its stock price potentially reaching new highs. Conversely, in a pessimistic scenario, increased competition and regulatory changes could impede growth and put downward pressure on the stock price. The company's forward valuation, based on various models, reflects a range of potential outcomes, highlighting both opportunities and threats. The company's commitment to its employees and corporate culture could provide a competitive advantage, while navigating industry changes and managing risks remain crucial for sustained success.