

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Brown & Brown, Inc. (NYSE:BRO)



POWELL BROWN has served as Chief Executive Officer of Brown & Brown, Inc., since 2009. Based in Daytona Beach, Florida, Brown & Brown has 8,500 teammates across 41 states, Bermuda, Canada, Grand Cayman and the United Kingdom. Serving business, public entity, individual, trade and professional organizations nationwide for over 75 years, Brown & Brown is ranked by *Business Insurance* magazine as the sixth-largest insurance intermediary in the United States. 2007 was a pivotal year for Mr. Brown, being named President of Brown & Brown in January and appointed as a director in October. Prior to that time, he served as Regional Executive Vice President and was responsible for overseeing the wholesale brokerage and service division operations, as well as the public entity business of certain subsidiaries across the United States. Mr. Brown currently serves on the board of directors of WestRock — an international paper and packaging company providing solutions for consumer and corrugated packaging markets. He has been involved with WestRock and its predecessor, Rock Tenn, both publicly held companies, since January 2010. He also serves on the board of directors of Camp Boggy Creek, a not-for-profit camp for chronically ill children.

SECTOR — INSURANCE

TWST: Let's start with an introduction, if you will, of Brown & Brown to our readers — a bit of the company's history and any important recent milestones.

Mr. Brown: Brown & Brown was founded in Daytona Beach, Florida, in 1939 by my grandfather. Our significant growth really started in 1980 when we were at \$2 million in revenue. From 1980 to the end of 1992, we grew at a compounded annual growth rate of 27.5%. About 70% of our growth was organic growth, so we just sold more business.

At the end of 1992, we were the largest insurance agency in the state of Florida. We were private. There were 30-plus people that owned shares of the company that were not family members. They had a chance to buy in over time. We're a company that has always been a meritocracy, so people move up based upon their abilities; it doesn't matter where you went to school, what your last name is, who you know or anything like that.

We became a public company through a reverse merger in 1993 with a company that was based in Tampa called Poe & Associates. They were larger, at \$50 million in revenue, and we were \$35 million in revenue. So the combined entity, upon the merger in April of 1993, was \$85 million of revenue. We got the board seats and were actually making the management decisions. The Poe family sold all of their shares in a secondary offering in 1995. We were known as Poe & Brown from 1993 to 1999, and we went from the Nasdaq to the New York Stock Exchange and then changed the name back to the older of the two firms, Brown & Brown, in 1999.

We have grown since then as a public company, and we crossed the \$1 billion mark as an organization at the end of 2011. Last year, we were just under \$1.9 billion, so we like to think we will cross the \$2 billion threshold this year. And really, we do four things in our business. We are an insurance broker. We do not bear risk; we're not an insurance company. The largest segment of our business, which makes up 52% of our company, is retail. That's where we go out and sell commercial property and casualty and employee benefits. For example, you're the owner of a contractor business in Southern Nevada, or you own 12 nursing homes, or you're a homebuilder, or you're a food distributor. We also sell personal lines through our retail segment.

The second-largest segment of our business, national programs, is an area where we will underwrite specific types of risks on behalf of an insurance company. Three examples would be professional liability on dentists across the country; earthquake coverage in California, both commercial and residential; and wind in cat-prone areas, specifically Florida. National programs is responsible for 25% of our revenue.

The third segment is wholesale, simply described as the risks that standard companies you likely know by name don't like to write. You would say, "Like what?" Underwater demolition contractor, the D&O on a small publicly traded technology company or the property if you owned a \$50 million cold storage warehouse in Miami. No standard market is going to write that whole thing, so you do it in Lloyd's of London and other not-admitted markets, either domestically or around the world. The wholesale segment brings in 15% of our company's revenue.

The remaining 8% is what we call our services division, which provides services as though we're almost an outsourced insurance company. We're not bearing risk, but we're adjusting claims on your behalf or advocating on your behalf. The client could be the insurance company, a large self-insured client or a whole bunch of different things. That's the history of our company and what we do.

TWST: Is there anything you'd add to an overview of the business today in terms of geographic reach, size, number of employees and offices?

Mr. Brown: We have about 8,700 teammates. We don't have "employees" at Brown & Brown; we have teammates. We think of ourselves as a group pursuing common goals and objectives. It's almost like an athletic team that operates under this umbrella called Brown & Brown. We're predominately in the United States, but we do have teammates in the U.K., Canada and in Bermuda. We operate in 240 different physical locations in the United States and those two locations overseas, and we are actively looking to invest in all four of our divisions.

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TWST: That's a good segue to my next question, which is that M&A seems to be a key element of your business plan. Certainly, last year, you were an acquirer. What's behind the M&A strategy, and just how much have you been growing in recent years this way?

Mr. Brown: Number one, M&A is an integral part of our growth strategy, and the most important thing about M&A is cultural fit, followed by the financial sensibility of the transaction. It has to meet those two criteria. We have been a very acquisitive company. Over the last three years, we acquired less revenue than we had in the years prior, not by design but because of the continued involvement of private equity in the insurance brokerage space. We're always looking for firms that fit culturally and that make sense financially.

If you go back four years, we were doing somewhere in the neighborhood of \$90 million to \$100 million a year in acquisitions. Last year, we did \$17 million, and the two prior years we did \$56 million each. We've done about \$9.5 million in the first quarter this year, and we are always actively talking to people. We believe there are a lot of opportunities to invest in firms that can help expand our capabilities in terms of our offerings to our customers, but we have to make sure they fit culturally and make sense financially.

TWST: Do you have particular growth goals in mind for this year and looking beyond this year as well?

Mr. Brown: We don't have a stated acquisition target, and we don't give organic growth guidance. However, we believe the business is a low- to mid-single-digit organic growth business in a steady-state economy. Acquisitions at our size can be lumpy, so sometimes we might do a lot in one year, less in another year, like we did last year. Right now, we're focused on trying to get over the \$2 billion threshold, and once we get over \$2 billion, we'll create a new goal, like \$4 billion, and we'll march toward that goal. Ultimately, it's all about doing what's in the best interest of our customers each and every time, and as every teammate knows, when we do that, it will work out for us as a company long term.

TWST: How would you describe the overall strength of your balance sheet, and with regard to growth, what's your typical finance strategy for acquisitions?

Mr. Brown: Relative to our balance sheet, if you look back over the last 10 years, our net debt to EBITDA is under one, so less than one times. We have a conservative balance sheet, and we are very willing to take it up and leverage the balance sheet for the right opportunity, but then, we typically pay it down quickly. We're very pleased and well-positioned financially to do pretty much any acquisition that we believe makes sense financially and fits culturally.

When it comes to our acquisitions, we pay with cash. There are three things that you can say with certainty about Brown & Brown in terms of acquisitions: Number one, when we give you a term sheet, that's not a license to renegotiate that term sheet after due diligence; number two, we pay with cash — it's hard to argue with greenbacks; and number three, when we make a decision, we giddy-up and go, so we do it with speed. Those are all good things.

TWST: What were the important takeaways that you'd want investors to be aware of from your first-quarter earnings?

Mr. Brown: First of all, I thought we had a great quarter, growing 5.7% organically. We are a company that, in the past, some people may have thought of us only as a retail insurance broker, when we are actually a diversified insurance broker. We do retail, which is 52% of our company; we have national programs, which is 25%; wholesale is 15%; and the remaining is services. Each of those four divisions performed really well.

It's an exciting time in the insurance brokerage space. Many people would think after the losses last year of \$140 billion in the industry that rates in coastal areas, as an example, would go up more than they have. We have had a very conservative view on rate increases post storms of 2017, and that's a good thing for our clients. There's a lot of other capital out there that's trying to work its way into our industry. The majority of it is in the risk-bearing area, and some of it is in the brokerage space.

They want to come to companies like Brown & Brown who have a lot of customer relationships and figure out how they can access some of that business, which gives many of our customers and our teammates more options to serve our customers. This makes us feel really good about where we are positioned. We think the first quarter was a really good quarter, and we are excited about the year.

TWST: What led to the recent two-for-one stock split in late March?

Mr. Brown: As you know, stock splits today are not nearly as popular as they may have been 20 years ago. When I joined the company in 1995, every time the stock got over \$50 a share, we considered splitting the stock, and we've done that several times. Then, as we got up over \$50 a share, a number of our teammates would ask me, "Are we going to split the stock?"

I spoke to the board about it, and we know that when you split the stock, you have no additional value until the stock price goes up. But some people perceive there's additional value because it is a so-called

“less expensive stock.” I know logically that’s not the case, but I will tell you that when we split the stock, the enthusiasm in our company and in our communities is significant. So I don’t know if we’ll split the stock again when we get to \$50, but we would consider it. Our goal is to grow the value of the company, and we were pleased that we were able to split the stock and with where the stock is today.

TWST: Who do you consider to be your main competitors, and what are the main differentiators between Brown & Brown and your peers?

Mr. Brown: Our biggest competitors are typically local insurance agents or brokers, so in any community around the country, the largest insurance agent in that town is typically our competition — and potentially an acquisition target for us. Having said that, there are other publicly traded brokers out there. Their business models are significantly different than ours, so comparing us to the others would be a little bit like comparing an apple and an orange. There are also some private equity-backed firms that have segments of their business that are comparable to ours, but there’s not really another company out there that I’m aware of that has the makeup that we do in our company. So we kind of compare ourselves to ourselves, and we try to improve each and every day.

TWST: What key industry trends do you most closely watch, and how might they affect the company, whether it’s in the form of an opportunity or a challenge?

Mr. Brown: There are a couple. The first would be the way carriers and other capital are approaching the industry. What do I mean by that? There are some insurance carriers that are starting to try to go directly into micro business, and we’ve seen it in personal lines in some instances already. There’s some of this other capital out there that’s trying to get to the risk bearers or get to the distribution providers, which is us. That provides other options for us and, therefore, something I watch a lot and think a lot about, number one.

Number two would be the impact of technology on our business; it is making it more efficient. I think about it as it impacts our

teammate experience and our customer experience. I think about those two things and how innovation and technology going forward can help shape our business. However, the biggest thing — and I don’t think it’s necessarily a trend — that I think about is talent, meaning our talent, and how do we take a company that is 8,700 teammates and over time grow it to 25,000-plus teammates and ensure we have the right types of people on our team that fit culturally and put the customer first every time. I think of those three things as our key hot spots — carrier and capital, innovation and technology, and talent.

TWST: Is there anything else you’d want to make sure our investment community readership knows about Brown & Brown?

Mr. Brown: We believe we’re a different kind of public company because roughly 29% of the company is owned by teammates. That means, collectively, we would be the largest single shareholder in the company. When people invest in Brown & Brown, they’re investing alongside a large, broad number of teammates, leadership included. I think that creates an incredible alignment because there are very few companies that have market caps that are over \$5 billion or \$6 billion and have close to \$2 billion in sales and have that much insider ownership. That is a very positive thing and one of the many things that Brown & Brown presents as an investment option to investors. I would want everybody to know that.

TWST: Thank you. (MN)

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