

BROWN & BROWN INC
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 001-13619

BROWN & BROWN, INC.
(Exact name of Registrant as specified in its charter)

Florida 59-0864469
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)
220 South Ridgewood Avenue, 32114
Daytona Beach, FL
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (386) 252-9601

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the Registrant's common stock, \$0.10 par value, outstanding as of November 4, 2016 was 140,209,157.

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Disclosure Regarding Forward-Looking Statements

Brown & Brown, Inc., together with its subsidiaries (collectively, “we,” “Brown & Brown” or the “Company”), makes “forward-looking statements” within the “safe harbor” provision of the Private Securities Litigation Reform Act of 1995, as amended, throughout this report and in the documents we incorporate by reference into this report. You can identify these statements by forward-looking words such as “may,” “will,” “should,” “expect,” “anticipate,” “believe,” “intend,” “estimate,” “plan” and “continue” or similar words. We have based these statements on our current expectations about potential future events. Although we believe the expectations expressed in the forward-looking statements included in this Quarterly Report on Form 10-Q and the reports, statements, information and announcements incorporated by reference into this report are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf. Important factors which could cause our actual results to differ materially from the forward-looking statements in this report include but are not limited to the following items, in addition to those matters described in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations”:

Future prospects;

Material adverse changes in economic conditions in the markets we serve and in the general economy;

Downward pressure on commercial property and casualty premiums or employee benefits premiums;

Future regulatory actions and conditions in the states in which we conduct our business;

The occurrence of adverse economic conditions, an adverse regulatory climate, or a disaster in California, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Massachusetts, Michigan, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Texas, Virginia and Washington, because a significant portion of business written by us is for customers located in these states;

Our ability to attract, retain and enhance qualified personnel;

Competition from others in or entering into the insurance agency, wholesale brokerage, insurance programs and service business;

The integration of our operations with those of businesses or assets we have acquired or may acquire in the future and the failure to realize the expected benefits of such integration;

Risks that could negatively affect our acquisition strategy, including continuing consolidation among insurance intermediaries and the increasing presence of private equity investors driving up valuations;

Exposure units, and premium rates set by insurance companies which have traditionally varied and are difficult to predict;

Our ability to forecast liquidity needs through at least the end of 2017;

Our ability to renew or replace expiring leases;

Outcomes of existing or future legal proceedings and governmental investigations;

Policy cancellations and renewal terms, which can be unpredictable;

Potential changes to the tax rate that would affect the value of deferred tax assets and liabilities and the impact on income available for investment or distributable to shareholders;

The inherent uncertainty in making estimates, judgments, and assumptions in the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”);

Our ability to effectively utilize technology in providing improved value for our customers or carrier partners as well as applying effective internal controls and efficiencies in operations; and

Other risks and uncertainties as may be detailed from time to time in our public announcements and Securities and Exchange Commission filings.

Assumptions as to any of the foregoing and all statements are not based on historical fact, but rather reflect our current expectations concerning future results and events. Forward-looking statements that we make or that are made by others on our behalf are based on a knowledge of our business and the environment in which we operate, but because of the factors listed above, among others, actual results may differ from those in the forward-looking statements.

Consequently, these cautionary statements qualify all of the forward-looking statements we make herein. We cannot assure you that the results or developments anticipated by us will be realized or, even if substantially realized, that those results or developments will result in the expected consequences for us or affect us, our business or our operations in the way we expect. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We assume no obligation to update any of the forward-looking statements.

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PART I — FINANCIAL INFORMATION

ITEM 1 — Financial Statements (Unaudited)

BROWN & BROWN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share data)	For the three months		For the nine months	
	ended September 30,	ended September 30,	ended September 30,	ended September 30,
	2016	2015	2016	2015
REVENUES				
Commissions and fees	\$461,652	\$431,863	\$1,329,649	\$1,252,888
Investment income	230	228	1,150	708
Other income, net	392	76	2,166	2,316
Total revenues	462,274	432,167	1,332,965	1,255,912
EXPENSES				
Employee compensation and benefits	237,653	216,156	692,814	645,419
Other operating expenses	67,433	66,121	197,329	191,591
Gain on disposal	(277)	(654)	(3,131)	(1,259)
Amortization	21,805	22,158	65,025	65,406
Depreciation	5,195	5,215	15,867	15,635
Interest	9,883	9,882	29,617	29,404
Change in estimated acquisition earn-out payables	3,610	459	6,846	2,194
Total expenses	345,302	319,337	1,004,367	948,390
Income before income taxes	116,972	112,830	328,598	307,522
Income taxes	45,427	45,403	128,733	122,139
Net income	\$71,545	\$67,427	\$199,865	\$185,383
Net income per share:				
Basic	\$0.51	\$0.48	\$1.43	\$1.31
Diluted	\$0.50	\$0.47	\$1.41	\$1.29
Dividends declared per share	\$0.12	\$0.11	\$0.37	\$0.33
See accompanying Notes to Condensed Consolidated Financial Statements.				

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BROWN & BROWN, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except per share data)	September 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 488,683	\$ 443,420
Restricted cash and investments	278,279	229,753
Short-term investments	13,287	