



Brown & Brown, Inc.

First Quarter 2017 Results – April 17, 2017





Information Regarding Forward-Looking Statements

This presentation and the statements made during our Earnings Call may contain certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. These forward-looking statements include information about possible or assumed future results of our operations.

All statements, other than statements of historical facts, included in this document that address activities, events or developments that we expect or anticipate may occur in the future, including such things as those relating to our anticipated financial results for the first quarter 2017, the market performance of our business segments, quarterly interest expense, share repurchases, margin expansion, changes in exposure units, the pipeline of acquisition candidates, future capital expenditures, growth in commissions and fees including revenue organic growth, business strategies, competitive strengths, goals, the benefits of new initiatives, plans, and references to future successes are forward-looking statements. Also, when we use words such as ‘anticipate’, ‘believe’, ‘estimate’, ‘expect’, ‘intend’, ‘plan’, ‘probably’ or similar expressions, we are making forward-looking statements.

There are important uncertainties, events and factors that could cause our actual results or performance to differ materially from those forward-looking statements contained in this document or made during our Earnings Call, including the following: our determination as we finalize our financial results for the first quarter 2017 that our financial results differ from the current preliminary unaudited numbers set forth herein; the impact of any regional, national or global political, economic, business, competitive, market, environmental or regulatory conditions on our business operations; the impact of current market conditions on our results of operations and financial condition; any insolvencies of, or other difficulties experienced by our clients, insurance carriers or financial institutions; volatility or declines in insurance markets and premiums on which our commissions are based, but which we do not control; our ability to continue to manage our indebtedness; our ability to compete effectively in our industry, material changes in commercial property and casualty markets generally or the availability of insurance products or changes in premiums resulting from a catastrophic event, such as a hurricane; our ability to retain key employees and clients and attract new business; risks that could negatively affect the success of our acquisition strategy, including continuing consolidation in our industry, which could make it more difficult to identify targets and could make them more expensive, execution risks, integration risks, the risk of post-acquisition deterioration leading to intangible asset impairment charges, and the risk we could incur or assume unanticipated regulatory liabilities such as those relating to violations of anti-corruption and sanctions laws; the timing or ability to carry out share repurchases; the timing or ability to carry out refinancing or take other steps to manage our capital and the limitations in our long-term debt agreements that may restrict our ability to take these actions; fluctuations in our earnings as a result of potential changes to our valuation allowance(s) on our deferred taxes; any fluctuations in exchange and interest rates that could affect expenses and revenue; the potential costs and difficulties in complying with a wide variety of laws and regulations and any related changes; changes in the tax or accounting policies or treatment of our operations and fluctuations in our tax rate; any potential impact of US healthcare or Federal Income Tax reform, or National Flood Insurance Program legislation; exposure to potential liabilities arising from errors and omissions and other potential claims against us; and the interruption or loss of our information processing systems or failure to maintain secure information systems.

Many risks and uncertainties may impact the matters addressed in these forward-looking statements. Information about such risks and uncertainties may be found in our filings with the Securities and Exchange Commission. These risks and uncertainties could cause our results or performance to differ materially from those we express in our forward-looking statements.

Our forward-looking statements speak only as of the date made and we will not update these forward-looking statements unless the securities laws require us to do so.



Important Disclosures Regarding Non-GAAP Measures

This presentation contains references to "non-GAAP financial measures" as defined in SEC Regulation G, including Total revenues – adjusted, Net income – adjusted, EBITDAC, EBITDAC Margin, EBITDAC – adjusted, EBITDAC Margin – adjusted, Income before income taxes – adjusted, Diluted earnings per share – adjusted, and Organic Revenue. We present these measures because we believe they are of interest to the investment community and because we believe they provide additional meaningful methods of evaluating certain aspects of the Company's operating performance from period to period on a basis that may not be otherwise apparent on a generally accepted accounting principles (GAAP) basis. These financial measures should be considered in addition to, not in lieu of, the Company's consolidated income statements and balance sheets as of the relevant date. Consistent with Regulation G, a description of such information is provided below and a reconciliation of such items to GAAP information can be found in our periodic filings with the SEC. Our method of calculating these non-GAAP financial measures may differ from the methods used by other companies and, therefore, comparability may be limited.

Earnings Measures – We believe these non-GAAP measures, as defined below, provide a meaningful representation of the operating performance of the Company and improve the comparability of results between periods by eliminating the impact of certain items that have a high degree of variability.

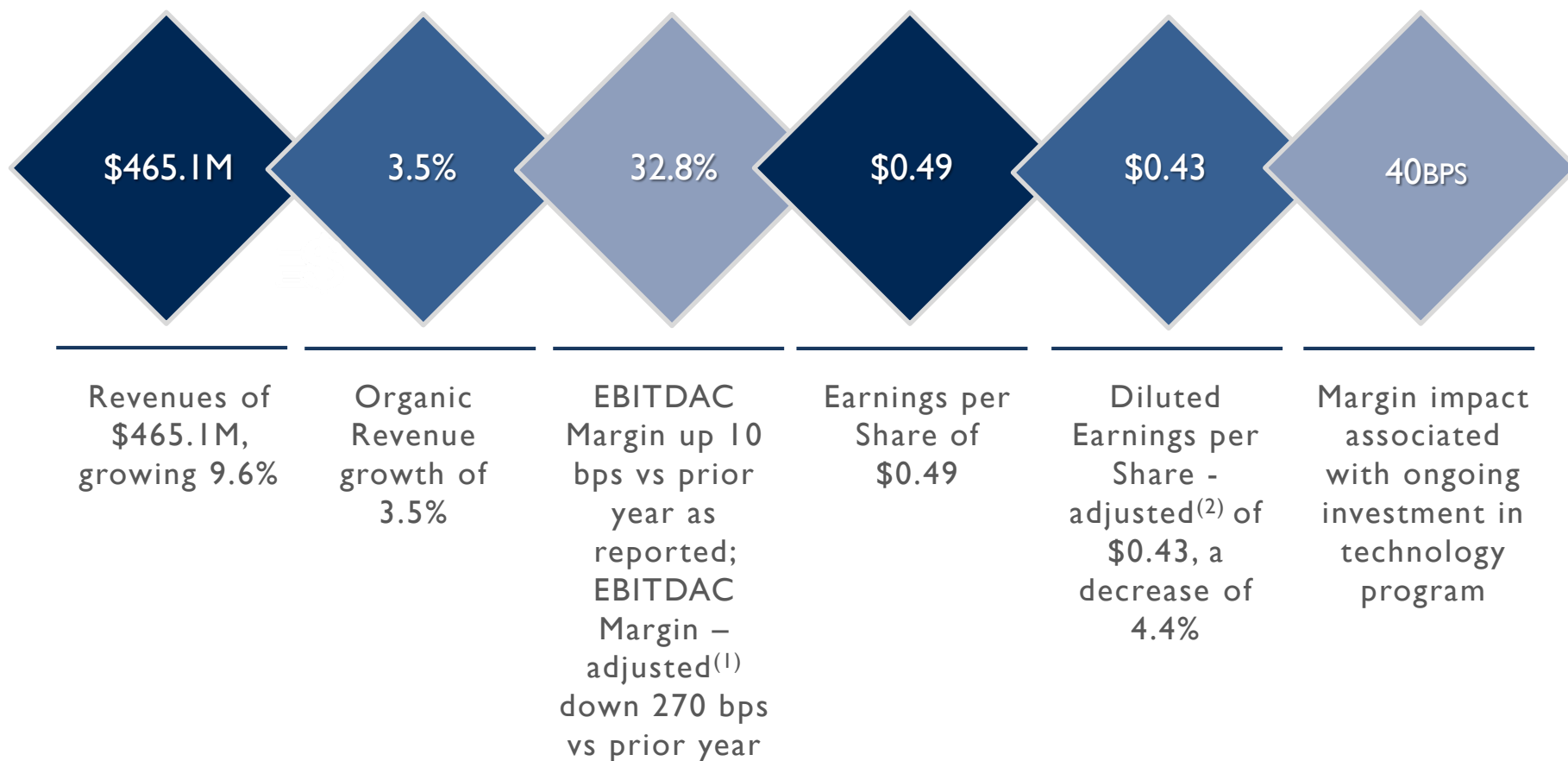
- **Total revenues – adjusted** is defined as Total revenues when excluding a legal settlement of \$20.0M.
- **Net income – adjusted** is defined as Net income when removing the after tax change in estimated acquisition earn-out payables in 2016 and 2017, for the first quarter of 2017 when removing a pre-tax legal settlement, net of associated legal costs, of \$18.8M, and restating 2016 to be same basis as current year due to FASB Accounting Standards Update 2016-09, Compensation—Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09").
- **EBITDAC** is defined as income before interest, income taxes, depreciation, amortization and the change in estimated acquisition earn-out payables.
- **EBITDAC Margin** is defined as EBITDAC divided by Total revenues.
- **EBITDAC - adjusted** is defined as EBITDAC adjusted for a legal settlement, net of associated legal costs, of an adjustment of \$18.8M pre-tax.
- **EBITDAC margin – adjusted** is defined as EBITDAC - adjusted divided by Total revenues - adjusted.
- **Income before income taxes – adjusted** is defined as Income before income taxes, after removing the pre-tax change in estimated acquisition earn-out payables and an adjustment for a legal settlement.
- **Diluted earnings per share - adjusted** is defined as earnings per share after removing the change in estimated acquisition earn-out payables and the adjustment for the legal settlement in 2017, both on a post tax basis, and presenting 2016 to be on the same basis as the current year due to adoption of ASU 2016-09.

Revenue Measures – We believe that Organic Revenue, as defined below, provides a meaningful representation of the Company's operating performance and improves the comparability of results between periods by eliminating the impact of certain items that have a high degree of variability. The Company has historically viewed Organic Revenue growth as an important indicator when assessing and evaluating the performance of its four segments.

- **Organic Revenue**, a non-GAAP measure, is defined as Commissions and fees less (i) the first twelve months of commission and fee revenues generated from acquisitions, less (ii) profit-sharing contingent commissions (revenues from insurance companies based upon the volume and the growth and/or profitability of the business placed with such companies during the prior year - "Contingents"), less (iii) guaranteed supplemental commissions (commissions from insurance companies based solely upon the volume of the business placed with such companies during the current year - "GSCs"), and less (iv) divested business (net commissions and fees generated from offices and books of business sold by the Company) with the associated revenue removed from the corresponding period of the prior year.



First Quarter 2017 Results



(1) Q1 2017 was adjusted to remove a pre-tax legal settlement, net of associated costs, of \$18.8M.

(2) Q1 2017 was adjusted to remove a pre-tax legal settlement, net of associated costs, of \$18.8M, and the expense associated with the change in estimated acquisition earn-out payables of \$4.0M. Q1 2016 was adjusted for the removal of the expense associated with the change in estimated acquisition earn-out payables of (\$0.8M) and the impact of adopting ASU 2016-09 of \$1.3.



Market Overview – 1Q17



Economic expansion continues to drive increases in exposure units in many industries and geographic locations



Capital within the insurance market remain high, with risk bearers seeking to aggressively deploy capital, which continues to drive down insurance premiums



Healthcare landscape continues to be one of uncertainty and focus upon cost containment/management. Delay of ACA repeal or modification is causing continued concern



Premium rates across most lines and markets were flat to down slightly. Coastal properties down 2%-10%.



Commercial auto rates continue to be flat to up 5% due to increasing frequency of losses. Professional liability rates remain generally flat, with some lines up slightly





Consolidated Financial Highlights

(\$ Millions, except per share data; unaudited)

First Quarter

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Total revenues	\$465.1	\$424.2	\$40.9	9.6%
Organic revenue	\$401.2	\$387.7	\$13.5	3.5%
Income before income taxes	\$111.0	\$102.6	\$8.4	8.2%
% of total revenues	23.9%	24.2%		(30bps)
EBITDAC	\$152.4	\$138.6	\$13.8	10.0%
% of total revenues	32.8%	32.7%		10bps
Net income	\$70.1	\$62.1	\$8.0	12.9%
Diluted earnings per share	\$0.49	\$0.44	\$0.05	11.4%
Weighted average number of shares outstanding – Diluted (in thousands)	139,026	136,940	2,086	1.5%
Dividends declared per share ⁽¹⁾	\$0.14	\$0.12	\$0.02	10.2%

(1) Actual dividend per share is \$0.1350, an increase of 10.2% vs \$0.1225 in 2016



Consolidated Financial Highlights – adjusted ⁽¹⁾

(\$ Millions, except per share data; unaudited)

First Quarter

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Total revenues - adjusted	\$445.1	\$424.2	\$20.9	4.9%
Organic revenue	\$401.2	\$387.7	\$13.5	3.5%
Income before income taxes - adjusted	\$96.2	\$101.8	(\$5.6)	(5.5%)
% of total revenues	21.6%	24.0%		(240bps)
EBITDAC - adjusted	\$133.6	\$138.6	(\$5.0)	(3.6%)
% of total revenues	30.0%	32.7%		(270bps)
Net income - adjusted	\$60.8	\$62.9	(\$2.1)	(3.3%)
Diluted earnings per share - adjusted	\$0.43	\$0.45	(\$0.02)	(4.4%)

(1) Q1 2017 Total revenues were adjusted for the removal of the legal settlement of \$20.0M, Income before income taxes were adjusted for the legal settlement net of associated legal costs of \$18.8M and the expense associated with the change in estimated acquisition earn-out payables of \$4.0M. Q1 2016 was adjusted for the removal of the expense associated with the change in estimated acquisition earn-out payables of (\$0.8M) and the impact of adopting ASU 2016-09 of \$1.3.



Revenue Analysis

(\$ Millions; unaudited)		First Quarter		
<u>REVENUES</u>	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Total revenues	\$465.1	\$424.2	\$40.9	9.6%
Investment income	(0.2)	(0.4)	0.2	
Other income, net	(20.3)	(1.4)	(18.9)	
Commissions and fees	444.6	422.4	22.2	5.3%
Profit-sharing contingent commissions	(30.0)	(31.0)	1.0	
Guaranteed supplemental commissions	(2.7)	(3.1)	0.4	
Core commissions and fees	411.9	388.3	23.6	6.2%
Acquisitions	(10.7)	-	(10.7)	
Dispositions	-	(0.6)	0.6	
Organic Revenue	\$401.2	\$387.7	\$13.5	3.5%



EBITDAC Analysis

First Quarter

EBITDAC Margin - 2016	32.7%
Legal Settlement	2.7%
2016 Wright Tax Refunds	(0.7%)
2016 SIP Credits	(0.7%)
2016 Gain on Disposal	(0.5%)
Incremental IT Spending	(0.4%)
Retail 5 for 5 Incentive Plan	(0.4%)
Other	0.1%
EBITDAC Margin – 2017	32.8%

Retail Segment

(\$ Millions; unaudited)

First Quarter

	<u>2017</u>	<u>2016</u>	<u>\$ Change</u>	<u>% Change</u>
Total revenues	\$239.3	\$232.2	\$7.1	3.1%
Organic revenue	\$216.1	\$207.8	\$8.3	4.0%
Income before income taxes	\$48.9	\$50.5	(\$1.6)	(3.2%)
% of total revenues	20.4%	21.7%		(130bps)
EBITDAC	\$73.4	\$72.6	\$0.8	1.1%
% of total revenues	30.7%	31.3%		(60bps)

Business and Market Commentary

Continued solid new business and improved retention, driving overall organic growth

Improved performance year on year across almost all lines of business. Organic revenue benefited by ~100bps of timing related items

Rates flattened out slightly for certain lines. CAT property is down 2-10% and commercial auto remains up 5%. EB up mid single digits

Income before income taxes down due to incremental acquisition earn-out costs of \$4.8M and some offset for lower intercompany interest charges

EBITDAC Margins decreased due to lower contingent commissions and prior year gain on book sale

National Programs Segment

(\$ Millions; unaudited)

First Quarter

	2017	2016	\$ Change	% Change
Total revenues	\$101.2	\$101.1	\$0.1	0.1%
Organic revenue	\$95.4	\$95.5	(\$0.1)	(0.1%)
Income before income taxes	\$12.5	\$13.8	(\$1.3)	(9.4%)
% of total revenues	12.4%	13.6%		(120bps)
EBITDAC	\$31.5	\$35.5	(\$4.0)	(11.3%)
% of total revenues	31.1%	35.1%		(400bps)

Business and Market Commentary

Organic revenues impacted by change in carriers for two programs and continued rate pressure on coastal property programs

Realized solid Organic Growth from lender placed business & several other programs

Continue to engage with carriers regarding creation of new programs

Income before income taxes decreased due to non-recurring premium tax refunds in 1Q 2016, partially offset by lower interest charges

EBITDAC Margins decreased primarily due to non-recurring premium tax refunds in 1Q 2016 and lower organic revenue

Wholesale Brokerage Segment

(\$ Millions; unaudited)

First Quarter

	2017	2016	\$ Change	% Change
Total revenues	\$65.2	\$53.4	\$11.8	22.1%
Organic revenue	\$51.4	\$47.9	\$3.5	7.4%
Income before income taxes	\$15.3	\$14.6	\$0.7	4.8%
% of total revenues	23.5%	27.3%		(380bps)
EBITDAC	\$20.4	\$17.8	\$2.6	14.6%
% of total revenues	31.3%	33.3%		(200bps)

Business and Market Commentary

Delivered growth across most lines of business, driven by solid new business

Brokerage business growth impacted by continued coastal property rate declines, but rate decreases are now in the range of 2% - 10%

Income before income taxes down due to inter company interest charge, amortization and lower margins related to an acquisition in Q216

EBITDAC Margin contraction primarily related to an acquired business in 2016, higher volumes of transactions and business mix



Services Segment

(\$ Millions; unaudited)	First Quarter			
	2017	2016	\$ Change	% Change
Total revenues	\$39.3	\$36.6	\$2.7	7.4%
Organic revenue	\$38.3	\$36.5	\$1.8	4.9%
Income before income taxes	\$6.1	\$5.1	\$1.0	19.6%
% of total revenues	15.5%	13.9%		160bps
EBITDAC	\$8.6	\$7.8	\$0.8	10.3%
% of total revenues	21.9%	21.3%		60bps

Business and Market Commentary

Organic revenue growth primarily driven by Texas storm claim activity and social security advocacy businesses

EBITDAC margin expansion due to leveraging revenue growth and managing expense base



Closing Comments



Delays in Tax and Healthcare reform are causing increased uncertainty about potential impacts



Expect most premium rates to remain under pressure for 2017, even with overall economic improvement and interest rate increases



Retail 5 for 5 Incentive Plan and carrier changes within National Programs on track with expectations



Technology investment programs progressing along well, with Retail initiatives gaining momentum



M&A space remains very competitive. A lot of activity and opportunities in the marketplace – cultural and financial fit are key





Brown & Brown, Inc.

First Quarter 2017 Reconciliation of Non-GAAP Measures





GAAP to adjusted Reconciliation – First Quarter 2017

(\$ Millions, except per share data; unaudited)		First Quarter		
	As Reported <u>2017</u>	Change in Earn-Out <u>Payables</u>	<u>Legal</u> <u>Settlement</u>	Adjusted <u>2017</u>
Total revenues	\$465.1	-	(\$20.0)	\$445.1
Income before income taxes	\$111.0	\$4.0	(\$18.8)	\$96.2
<i>% of total revenues</i>	23.9%	-	-	21.6%
EBITDAC	\$152.4	-	(\$18.8)	\$133.6
<i>% of total revenues</i>	32.8%	-	-	30.0%
Net income	\$70.1	\$2.5	(\$11.8)	\$60.8
Diluted earnings per share	\$0.49	\$0.02	(\$0.08)	\$0.43



GAAP to adjusted Reconciliation – First Quarter 2016

(\$ Millions, except per share data; unaudited)		First Quarter		
	As Reported <u>2016</u>	Change in Earn-Out <u>Payables</u>	ASU <u>2016-09</u>	Adjusted <u>2016</u>
Total revenues	\$424.2	-	-	\$424.2
Income before income taxes	\$102.6	(\$0.8)	-	\$101.8
<i>% of total revenues</i>	24.2%	-	-	24.0%
EBITDAC	\$138.6	-	-	\$138.6
<i>% of total revenues</i>	32.7%	-	-	32.7%
Net income	\$62.1	(\$0.5)	\$1.3	\$62.9
Diluted earnings per share	\$0.44	-	\$0.01	\$0.45

Income before income taxes to EBITDAC

(\$ Millions, except per share data; unaudited)

First Quarter

	<u>Retail</u>		<u>Programs</u>		<u>Wholesale</u>		<u>Services</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Income before income taxes	\$48.9	\$50.5	\$12.5	\$13.8	\$15.3	\$14.6	\$6.1	\$5.1
Amortization	10.6	11.0	6.9	7.1	2.9	2.4	1.1	1.1
Depreciation	1.4	1.6	2.0	1.9	0.5	0.5	0.4	0.4
Interest	8.6	10.4	10.0	12.6	1.7	0.3	1.0	1.2
Change in estimated acquisition earn-out payables	3.9	(0.9)	0.1	0.1	0.0	0.0	0.0	0.0
EBITDAC	\$73.4	\$72.6	\$31.5	\$35.5	\$20.4	\$17.8	\$8.6	\$7.8
EBITDAC Margin	30.7%	31.3%	31.1%	35.1%	31.3%	33.3%	21.9%	21.3%



Commissions and Fees to Core Commissions and Fees

(\$ Millions; unaudited)

First Quarter

	Commissions and Fees		Total Net Change	Total Net Growth %	Contingents		GSCs		Core Commissions and Fees(2)	
	2017	2016			2017	2016	2017	2016	2017	2016
Retail ⁽¹⁾	\$239.1	\$231.7	\$7.4	3.2%	\$19.5	\$20.8	\$2.3	\$2.6	\$217.3	\$208.3
National Programs	101.1	100.8	0.3	0.3%	5.7	5.2	-	-	95.4	95.6
Wholesale Brokerage	65.2	53.4	11.8	22.1%	4.8	5.0	0.4	0.5	60.0	47.9
Services	39.2	36.5	2.7	7.5%	-	-	-	-	39.2	36.5
Commissions & fees	\$444.6	\$422.4	\$22.2	5.3%	\$30.0	\$31.0	\$2.7	\$3.1	\$411.9	\$388.3

(1) The Retail Segment includes commissions and fees reported in the “Other” column of the Segment Information in Note 15 of the Notes to the Consolidated Financial Statements, which includes corporate and consolidation items.

(2) Core commissions and fees is defined as Commissions and fees less (i) profit-sharing contingent commissions (revenues from insurance companies based upon the volume and the growth and/or profitability of the business placed with such companies during the prior year (“Contingents”) and less (ii) guaranteed supplemental commissions (commissions from insurance companies based solely upon the volume of the business placed with such companies during the current year (“GSCs”).

Core Commissions and Fees to Organic Revenue

(\$ Millions; unaudited)

First Quarter

	Core Commissions and Fees(2)		Acquisition Revenues	Divested Business	Organic Revenue(3)		Organic Revenue Growth	Organic Revenue Growth %
	2017	2016			2017	2016	2017	2016
Retail ⁽¹⁾	\$217.3	\$208.3	\$1.2	\$0.5	\$216.1	\$207.8	\$8.3	4.0%
National Programs	95.4	95.6	-	0.1	95.4	95.5	(0.1)	-0.1%
Wholesale Brokerage	60.0	47.9	8.6	-	51.4	47.9	3.5	7.3%
Services	39.2	36.5	0.9	-	38.3	36.5	1.8	4.9%
Core commissions & fees	\$411.9	\$388.3	\$10.7	\$0.6	\$401.2	\$387.7	\$13.5	3.5%

- (1) The Retail Segment includes commissions and fees reported in the "Other" column of the Segment Information in Note 15 of the Notes to the Consolidated Financial Statements, which includes corporate and consolidation items.
- (2) Core commissions and fees is defined as Commissions and fees less (i) profit-sharing contingent commissions (revenues from insurance companies based upon the volume and the growth and/or profitability of the business placed with such companies during the prior year ("Contingents") and less (ii) guaranteed supplemental commissions (commissions from insurance companies based solely upon the volume of the business placed with such companies during the current year ("GSCs").
- (3) "Organic Revenue," which is a non-GAAP financial measure, is defined as Core commissions and fees less (i) the first twelve months of net commission and fee revenues generated from acquisitions and less (ii) divested business (net commissions and fees generated from offices or books of business sold by the Company) with the associated revenue removed from the corresponding period of the prior year.



The Cheetah:

Since our beginning, we've known that doing the best for our customers requires constant persistence and vision. The cheetah, which represents vision, swiftness, strength, and agility, embodies our corporate culture and has served as a symbol for our company since 1983.

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For additional information:

R. Andrew Watts | Executive Vice President & Chief Financial Officer | 386-239-5770 | awatts@bbins.com

