

Brown & Brown NYSE: BRO
Analysis by Sheryl Sostarich
December 2005

Eye on Operations

Brown & Brown acts as an agent for insurance companies by selling insurance policies to consumers. Its agents earn commissions on the policies it sells. Unlike an insurance company, Brown & Brown is not a risk-bearer. Insurance products are generally standardized and to have a competitive edge, an agency needs to provide exceptional service. Brown & Brown handled thousands of claims in the wake of hurricanes that hit Florida and the Gulf Coast and the company believes it did a very good job in handling those claims. And despite the time away from core operations, the company did manage to post good results.

Brown & Brown earns the majority of its revenue by selling life, health, property and casualty insurance to commercial and government customers. The company also collects consulting and processing fees as a third-party administrator of workers compensation and health care plans. Brown & Brown recently started a new division to sell insurance to cities and townships. The majority of its clients reside in Florida, California, New York, Georgia and New Jersey.

J. Hyatt Brown joined his father's agency in 1959. He left for eight years (1972-1980) to serve in the Florida House of Representatives and then returned to the agency as chief executive officer. Hyatt Brown is credited with developing a culture where everyone is measured on an equal basis. "It's not what you did for me yesterday, it's what you do for me today."

Spitzer Raises His Hackles

The insurance industry typically goes through two-year pricing cycles, either a hard market where it is not difficult to raise insurance premiums or a soft market, where it is very difficult to raise premiums and not lose clients. The events of September 11, 2001 have allowed insurance companies to benefit from a hard market for the past four years. New York Attorney General Elliott Spitzer blew the whistle on insurance companies who paid bonuses to brokers for placing business through their companies. The practice, called bid rigging, had been going on for quite some time before Spitzer cracked down. Brown & Brown was not accused of engaging in the practice but its stock, nevertheless, traded down in sympathy with companies such as Marsh & McLennan who willingly accepted bribes.

Pricing Power

The prediction was that we were entering a soft market in 2005. That was before four hurricanes hit the southeast corridor of the United States. A soft market generally results in flat to reduced commissions on renewal business. Insurance agencies can mitigate that somewhat by acquisitions and signing new accounts. When insurance companies are hit

with catastrophic events, two things can happen – insurance companies raise their rates or they reduce capacity.

As a result of the hurricanes, Hyatt Brown and his colleagues expected that the capacity for writing commercial insurance in Florida would be reduced. That has not occurred. “Capacity is still there,” he insists. “Pricing is edging up a little and we’re seeing some additional changes in terms and conditions such as increased deductibles,” he admitted.

Capacity, however, is shrinking the Florida homeowners market. In many cases, the only insurer who is writing homeowners’ insurance is the Citizen Insurance Company, which is run by the state of Florida. In California, for a period of almost two years, Workers Compensation was very tight, meaning capacity wasn’t available. All of a sudden, it’s becoming more competitive as more insurance companies are willing to write Workers Compensation in the state of California.

The Outlook

Brown & Brown’s stated corporate objective has been to increase net income per share by at least 15% every year. The company has increased revenues from \$95.6 million in 1993 to \$646.9 million in 2004, a compound annual growth rate of 19%. A softening in the market is now less likely because insurance companies will be faced with issues related to securing reinsurance, investment yields will remain low, and reserves will have to be strengthened to maintain credit ratings. Brown & Brown’s revenues and earnings per share are expected to rise 16% in 2006. In addition, good expense control should keep operating margins at a healthy level. While the internal company growth rate is likely to stay at 5 percent, the company’s aggressive acquisition strategy should allow it to achieve its growth targets.

Key Statistics

The average rating of the eleven analysts who follow the Company is a hold. Two analysts rate the company a strong buy, eight analysts rate the company a hold, and one analyst rates the company a sell. Earnings growth for the next five years is projected at 15%. The PEG ratio is 1.65. This is a bit higher than our target of 1.50 but I do feel it’s warranted as I consider Brown & Brown best of breed among the insurance brokers. Brown & Brown is currently trading at a price/earnings ratio of 28.4. Pretax profit is up at 32% while return on equity is trending down but a respectable 20.6%. An investment in Brown & Brown has rewarded shareholders with above-average returns.

Judgments On the SSG

Brown & Brown has been an outperformer in its industry group for many years. I am upbeat on insurance brokers like Brown & Brown, as I believe they have pricing power in their favor. Firming interest rates will, over time, boost investment income and that will translate into higher commissions for brokers. The consensus believes that the company will grow its earnings at a 15% rate over the next five years. I’ve chosen judgments that match the analysts’ consensus.

In valuing an insurance broker it is important to plot the trends in book value. Clearly, the book value of Brown & Brown has been steadily increasing for over ten years. On November 28, shareholders' were rewarded with a 2-for-1 stock split and a 25% increase in the dividend.

The five-year average high and low P/Es are 29.4 and 16.8. I've chosen to strike the highest high P/E of 37.2 and the highest low P/E of the last five years and use the average high and low P/Es of 27.5 and 16. The relative value is 122%.

The Bottom Line

At 25/50/25 zoning and a current price of \$29.54, BRO has an upside potential of 2.2 to 1 with a buy below price of \$27. That puts the stock outside of our buy range. The projected return (PAR) is 9.8% and the total return is 14.9%.

I believe we will get our opportunity to add Brown & Brown to our portfolio. I recommend that we place this company on the Watchlist while we monitor the financial results.

PERT Worksheet-A

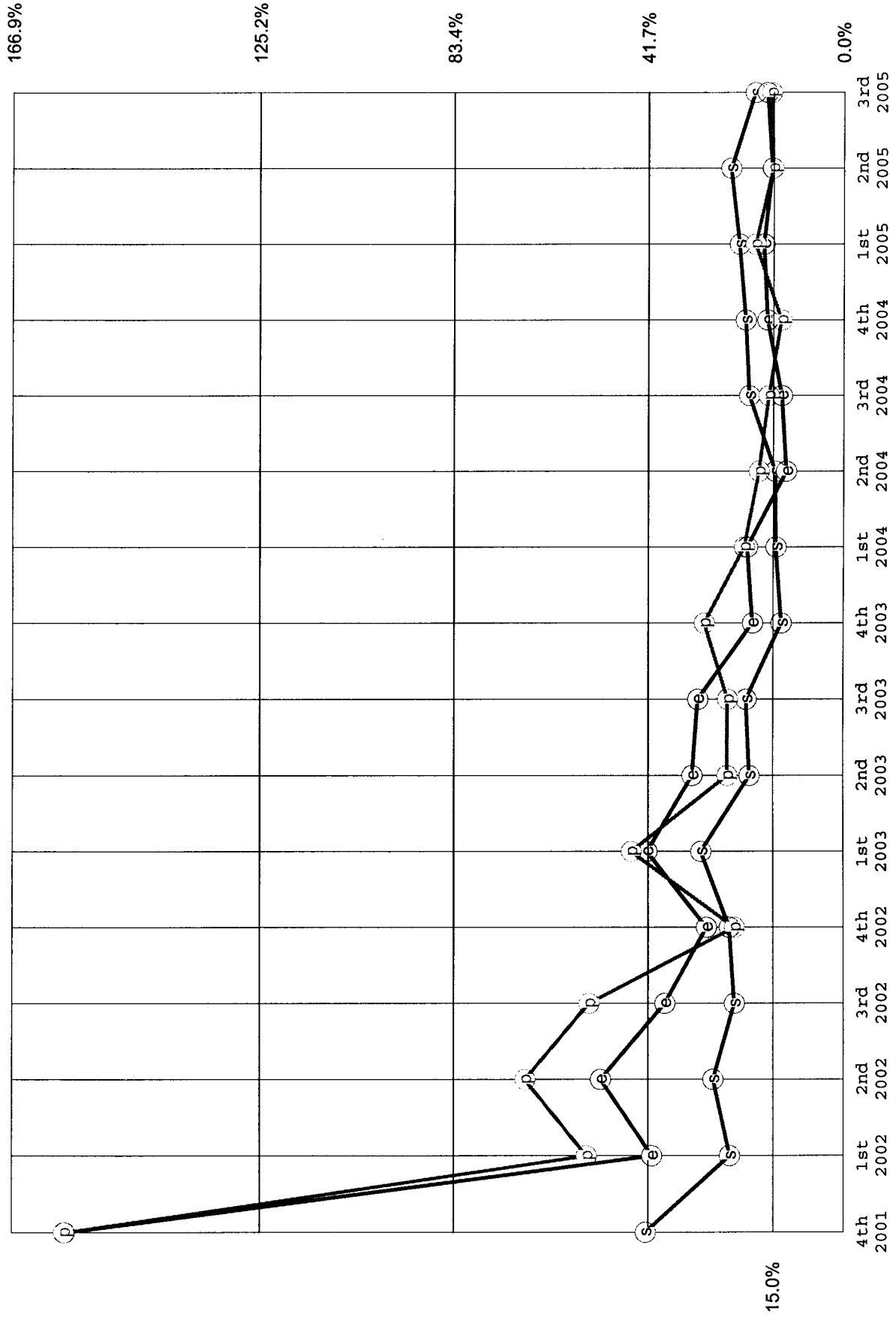
Company **BROWN & BROWN INC (BRO)**

PERIOD	QUARTERLY DATA										LAST 12 MONTHS DATA												
	EPS		PRE-TAX PROFIT		SALES		INCOME TAX		EPS		PRE-TAX PROFIT		SALES		INCOME TAX		% CHANGE						
	\$	% CHANGE	\$ MIL	% SALES	% CHANGE	\$ MIL	% CHANGE	TAX RATE	\$	% SALES	% CHANGE	\$ MIL	% SALES	\$ MIL	% TAX	\$ MIL	% TAX	EPS	PRE-TAX PROFIT	SALES			
03/00							38.4																
06/00							38.4																
09/00							38.4																
12/00	0.05		9.70	14.4		67.38	41.7																
03/01	0.11		21.75	24.3		89.41	40.4																
06/01	0.10		21.23	23.6		89.93	41.8																
09/01	0.11		21.62	24.1		89.81	38.6	0.36	74.30	22.1	336.5	30.2	40.6										
12/01	0.12	166.7	25.87	27.0	166.9	95.88	40.8	0.44	90.48	24.8	365.0	36.5	40.4										
03/02	0.16	40.9	33.71	30.4	55.0	111.04	40.1	0.48	102.44	26.5	386.7	41.3	40.3										
06/02	0.16	52.0	35.69	31.1	68.1	114.90	39.9	0.54	116.90	28.4	411.6	46.6	39.8										
09/02	0.15	38.1	33.40	30.2	54.4	110.66	40.1	0.58	128.67	29.8	432.5	51.7	40.2	58.8	73.2	28.5							
12/02	0.16	29.2	31.87	26.7	23.2	119.15	32.9	0.61	134.66	29.5	455.7	51.5	38.2	39.6	48.8	24.9							
03/03	0.22	41.9	49.00	33.9	45.4	144.74	38.1	0.68	149.95	30.6	489.4	56.6	37.7	40.0	46.4	26.6							
06/03	0.21	32.3	44.52	32.3	24.7	137.86	36.5	0.73	158.79	31.0	512.4	58.6	36.9	35.5	35.8	24.5							
09/03	0.19	31.0	41.63	31.2	24.6	133.55	37.0	0.77	167.02	31.2	535.3	60.4	36.1	33.9	29.8	23.8							
12/03	0.19	19.4	41.33	30.6	29.7	134.90	38.3	0.80	176.48	32.0	551.0	66.1	37.5	31.1	31.1	20.9							
03/04	0.27	20.5	59.36	35.9	21.1	165.57	38.2	0.85	186.84	32.7	571.9	70.1	37.5	25.2	24.6	16.8							
06/04	0.23	12.2	52.53	33.3	18.0	157.94	39.3	0.87	194.85	32.9	592.0	74.4	38.2	20.0	22.7	15.5							
09/04	0.22	13.2	48.26	30.1	15.9	160.38	38.0	0.90	201.48	32.6	618.8	77.4	38.4	16.2	20.6	15.6							
12/04	0.22	16.2	46.80	28.7	13.2	163.05	36.0	0.93	206.95	32.0	646.9	78.3	37.9	15.6	17.3	17.4							
03/05	0.31	17.0	70.51	34.8	18.8	202.37	38.7	0.97	218.10	31.9	683.7	82.8	38.0	14.8	16.7	19.6							
06/05	0.27	15.2	60.47	30.9	15.1	195.93	38.9	1.01	226.04	31.3	721.7	85.6	37.9	15.5	16.0	21.9							
09/05	0.25	16.3	55.69	29.2	15.4	190.65	37.3	1.04	233.47	31.0	752.0	88.1	37.7	16.2	15.9	21.5							
12/05							37.6							38.1									

Quarterly Data Points

PERT Worksheet-A Graph

Company BROWN & BROWN INC (BRO)





Stock Comparison Guide

Prepared by Ssostar

Date 12/12/2005

See Chapter 15 of the *Investors Manual* for complete instructions.

NAME OF COMPANY

GROWTH COMPARISONS

(From Section 1 of the BetterInvesting Stock Selection Guide)

	ARTHUR J G Guide AJG	BROWN & BR BRO	HILB ROGAL HRH	MARSH & MC MMC
4 (1) Historical % of Sales Growth	16.1 %	24.5 %	18.9 %	14.0 %
5 (2) Projected % of Sales Growth	11.0 %	15.0 %	9.0 %	11.0 %
4 (3) Historical % of Earnings Per Share Growth	14.9 %	24.7 %	24.2 %	12.6 %
5 (4) Projected % of Earnings Per Share Growth	11.0 %	15.0 %	9.0 %	11.0 %

MANAGEMENT COMPARISONS

(From Section 2 of the BetterInvesting Stock Selection Guide)

5 (5) % Profit Margin Before Taxes (Average for last 5 Years)	(2A) Trend	16.5 EVEN	28.8 UP	20.4 UP	19.2 DOWN
4 (6) % Earned on Equity (Average for last 5 Years)	(2B) Trend	26.4 DOWN	24.4 DOWN	19.9 DOWN	24.2 DOWN
(7) % of Common Owned by Management		NONE	NONE	NONE	NONE

PRICE COMPARISONS

(From Section 3-5 of the BetterInvesting Stock Selection Guide)

0 (8) Estimated Total Earnings Per Share For Next 5 Years		12.86	8.06	14.48	7.33
(9) Price Range Over Last 5 Years	High (3A) Low (3B)	11.50-38.80	3.90-23.40	12.80-46.20	22.80-67.80
(10) Present Price		30.61	29.54	38.70	32.64
0 Price Earnings Ratio Range Last 5 Years	(11) Highest (3D)	32.70	37.20	29.30	33.10
	(12) Average High (3D7)	24.50	29.40	23.50	25.20
	(13) Average (3-8)	19.10	23.10	18.90	20.00
	(14) Average Low (3E7)	13.60	16.80	14.40	14.70
	(15) Lowest (3E)	11.00	13.40	12.30	10.40
3 (16) Current Price Earnings Ratio	(3-9)	16.46	28.40	17.43	30.79
Estimated Price Zones	(17) Lower-Buy (4C2)	23.28-30.69	16.60-26.83	27.16-34.90	15.70-21.93
	(18) Middle-Maybe (4C3)	30.69-45.50	26.83-47.28	34.90-50.37	21.93-34.38
	(19) Upper-Sell (4C4)	45.50-52.90	47.28-57.50	50.37-58.10	34.38-40.60
0 (20) Present Price Range	(4C5)	-Buy-	-Hold-	-Hold-	-Hold-
3 (21) Upside Downside Ratio	(4D)	3.04	2.16	1.68	0.47
0 (22) Current Yield	(5A)	3.66	0.68	1.19	2.08
5 (23) Projected Average Return	(5C)	11.40	9.83	7.78	0.94

OTHER COMPARISONS

0 (24) Number of Common Shares Outstanding		95.20	69.50	35.77	544.03
0 (25) Potential Dilution from Debentures, Warrants, Options		None	None	None	None
0 (26) Percent Payout	(3G7)	42.70	17.90	25.80	47.30
5 (27) Relative Value		86.2 %	122.9 %	92.2 %	154.0 %
5 (28) Debt/Capital Ratio		13.0 %	46.0 %	35.0 %	49.0 %
(29) Date of Source Material		12/9/2005	12/9/2005	12/9/2005	12/9/2005
(30) Where Traded		NYSE	NYSE	NYSE	NYSE

BROWN & BROWN NYSE-BRO

RECENT PRICE **28.01** P/E RATIO **25.9** (Trailing: 26.9 Median: 20.0) RELATIVE P/E RATIO **1.43** DIV'D YLD **0.7%** VALUE LINE

TIMELINESS 2 Raised 10/28/05	High: 1.9	2.1	2.3	3.9	5.3	5.1	9.0	15.8	18.5	18.8	23.4	28.6	Target Price Range
SAFETY 2 Raised 5/28/04	Low: 1.4	1.7	1.9	2.1	3.6	3.7	3.9	7.2	12.0	13.4	16.0	21.0	2008 2009 2010
TECHNICAL 3 Raised 11/18/05	LEGENDS — 15.0 x "Cash Flow" p sh ···· Relative Price Strength 3-for-2 split 3/98 2-for-1 split 8/00 2-for-1 split 11/01 2-for-1 split 11/05 Options: Yes Shaded area indicates recession												
BETA .80 (1.00 = Market)	2008-10 PROJECTIONS Price Gain Ann'l Total High 40 (+45%) 10% Low 30 (+5%) 3%												
Insider Decisions	J F M A M J J A S to Buy 0 0 0 1 0 0 0 0 0 Options 0 0 1 0 0 0 0 0 0 to Sell 0 0 1 0 0 0 0 0 0												
Institutional Decisions	4Q2004 1Q2005 2Q2005 to Buy 111 79 88 to Sell 73 97 70 Hrs(Net) 89282 90318 94010 Percent shares traded 15 10 5												

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC. 08-10	
.72	.79	.77	.81	.94	.97	1.02	1.14	1.23	1.42	1.61	1.80	2.89	3.34	4.02	4.68	5.60	6.50	Revenues per sh	8.90
.10	.13	.14	.12	.15	.19	.20	.23	.26	.30	.36	.40	.60	.77	.99	1.16	1.35	1.55	"Cash Flow" per sh	2.20
.05	.07	.08	.05	.08	.13	.14	.16	.19	.22	.25	.29	.43	.61	.80	.93	1.08	1.25	Earnings per sh ^A	1.75
.03	.03	.03	.03	.03	.04	.04	.04	.04	.05	.06	.07	.08	.10	.12	.15	.17	.20	Div'ds Decl'd per sh	.26
.00	.03	.02	.02	.02	.02	.05	.04	.03	.32	.05	.04	.09	.05	.12	.07	.10	.12	Cap'l Spending per sh	.16
.11	.16	.22	.22	.27	.43	.52	.65	.74	.78	.94	1.04	1.39	2.87	3.63	4.51	5.50	6.60	Book Value per sh ^D	10.55
57.28	58.79	60.28	61.25	100.31	102.62	104.18	103.87	104.86	107.98	109.76	116.73	126.39	136.36	137.12	138.32	140.00	140.00	Common Shs Outst'g ^C	140.00
11.6	10.5	10.9	25.3	19.5	12.7	13.7	13.0	15.3	20.8	17.8	21.4	26.2	25.7	20.0	22.0	20.0	22.0	Avg Ann'l P/E Ratio	20.0
.88	.78	.70	1.53	1.15	.83	.92	.81	.88	1.08	1.01	1.39	1.34	1.40	1.14	1.16	1.16	1.16	Relative P/E Ratio	1.35
4.3%	3.6%	3.2%	2.9%	2.2%	2.1%	2.1%	2.0%	1.6%	1.1%	1.3%	1.1%	7%	8%	8%	7%	7%	7%	Avg Ann'l Div'd Yield	.7%

CAPITAL STRUCTURE as of 9/30/05	106.4	118.7	129.2	153.8	176.4	209.7	365.0	455.7	551.0	646.9	785	910	Revenues (\$mill)	1250
Total Debt \$269.9 mill. Due in 5 Yrs \$269.9 mill.	32.7%	29.9%	35.3%	30.8%	32.1%	32.3%	32.5%	35.2%	37.3%	37.9%	38.5%	38.5%	Operating Margin	39.0%
LT Debt \$217.5 mill. LT Interest \$14.8 mill. (23% of Cap'l)	6.5	7.5	8.1	9.4	11.8	13.2	22.4	21.3	25.7	31.1	40.0	45.0	Depreciation (\$mill)	60.0
Leases, Uncapitalized: Annual rentals \$24.6 mill.	14.8	16.5	19.4	23.1	27.2	33.2	53.9	83.1	110.3	128.8	150	175	Net Profit (\$mill)	245
No Defined Benefit Pension Plan	36.6%	39.0%	38.7%	38.5%	38.5%	38.5%	38.5%	36.6%	37.5%	37.7%	39.0%	39.0%	Income Tax Rate	40.0%
Pfd Stock None	13.9%	13.9%	15.0%	15.0%	15.4%	15.8%	14.8%	18.2%	20.0%	19.9%	19.1%	19.2%	Net Profit Margin	18.6%
Common Stock 139,006,402 shs. as of 11/9/05	10.8	5.7	14.9	3.1	6.6	4.3	450.1	34.6	42.0	174.9	60.0	80.0	Working Cap'l (\$mill)	110
(adjusted for the 2-for-1 stock split paid 11/28/05)	7.0	5.3	4.1	17.2	3.9	2.7	78.2	57.6	41.1	227.1	220	220	Long-Term Debt (\$mill)	220
MARKET CAP: \$3.9 billion (Mid Cap)	54.4	67.3	77.1	84.2	103.0	121.9	175.3	391.6	498.0	624.3	770	920	Shr. Equity (\$mill)	1480
	28.2%	23.4%	24.5%	23.0%	25.7%	26.9%	22.4%	19.0%	20.8%	15.6%	15.5%	15.5%	Return on Total Cap'l	14.5%
	27.2%	24.5%	25.1%	27.4%	26.4%	27.2%	30.8%	21.2%	22.2%	20.6%	19.5%	19.0%	Return on Shr. Equity	16.5%
	19.6%	18.2%	19.1%	20.9%	20.3%	21.0%	25.2%	17.8%	18.8%	17.4%	16.5%	16.0%	Retained to Com Eq	14.0%
	28%	26%	24%	24%	23%	23%	18%	16%	15%	16%	16%	16%	All Div'ds to Net Prof	15%

BUSINESS: Brown & Brown operates an insurance brokerage firm that markets property/casualty products and services to commercial, professional, and individual customers. The company's property insurance protects against physical damage to property and the resultant interruption of business caused by firestorm, windstorm, or other perils. Casualty insurance relates to legal liabilities, workers' compensation, commercial and private automobile insurance, and fidelity and surety insurance. Has about 3,960 empis. Off./ dir. own 20.9% of stock; J. Hyatt Brown, 15.6%; Ruane, Cunniff & Goldfarb, 9.2% (3/05 Proxy). Chairman and CEO: J. Hyatt Brown, Inc. FL. Address: 220 South Ridgewood Ave., Daytona Beach, FL 32114. Telephone: 386-252-9601. Internet: www.bbinsurance.com.

Brown & Brown reported a 14% increase in third-quarter earnings, as the top line advanced 19%. Acquisitions continue to be the primary driver of growth, with three deals completed in the September period. Nonetheless, internal growth was only 1.3%, reflecting the ongoing softening within the insurance premium pricing environment. Meanwhile, the company is implementing a 2-for-1 stock split effective November 28th, and has raised its dividend by 25%, to \$0.05 (post split). Note: All per-share data are split-adjusted.

The bottom line should increase 16% both this year and next. We expect insurance premium rates to remain depressed over the next year. We do not think that there will be a severe softening in prices, though, given the fact that underwriters will probably be faced with more issues to secure reinsurance, low investment yields, and the need to strengthen reserves. All told, revenues will probably rise 21% in 2005 and 16% in 2006 as the top line benefits from higher contingent commissions, as well as from further acquisitions. In addition, good expense control should keep operating margins at a healthy level. Brown managed to get through this past hurricane season relatively unscathed.

We project a healthy showing from Brown & Brown over the next 3 to 5 years. We expect moderate top-line gains of between 10% and 15% during this period as commissions grow at a steady rate. However, a slowdown in the premium pricing environment and industrywide underwritings will likely keep internal growth around 5% or less over the next couple of years. We believe that the main driver of Brown's growth will be its aggressive acquisition strategy. This, coupled with cost-containment efforts, will likely support the low annual double-digit earnings advances that we project out to decade's end.

These good-quality shares are ranked to outperform the broader market over the coming year. We do anticipate a further softening in the premium pricing environment, but Brown & Brown should be able to lift earnings through strategic acquisitions and cost discipline.

Randy Shrikishun November 25, 2005

Cal-endar	QUARTERLY REVENUES (\$ mill.)				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	111.0	114.9	110.7	119.1	455.7
2003	144.7	137.9	133.5	134.9	551.0
2004	165.6	157.9	160.4	163.0	646.9
2005	202.4	195.9	190.6	196.1	785
2006	225	220	230	235	910
Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	.16	.16	.15	.16	.63
2003	.22	.21	.19	.18	.80
2004	.27	.23	.22	.21	.93
2005	.31	.27	.25	.25	1.08
2006	.31	.30	.32	.32	1.25
Cal-endar	QUARTERLY DIVIDENDS PAID ^C				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2001	.019	.019	.019	.024	.08
2002	.024	.024	.024	.029	.10
2003	.029	.029	.029	.035	.12
2004	.035	.035	.035	.04	.15
2005	.04	.04	.04	.05	.16

(A) Diluted earnings. Next earnings report due mid-January. (B) Dividend historically paid in mid-February, May, August, and November. (C) In millions, adjusted for splits. (D) Includes intangibles. In '04: \$653.8 million, \$9.49 a share.

© 2005, Value Line Publishing, Inc. All rights reserved. Factual material is obtained from sources believed to be reliable and is provided without warranties of any kind. THE PUBLISHER IS NOT RESPONSIBLE FOR ANY ERRORS OR OMISSIONS HEREIN. This publication is strictly for subscriber's own, non-commercial, internal use. No part of it may be reproduced, resold, stored or transmitted in any printed, electronic or other form, or used for generating or marketing any printed or electronic publication, service or product.

To subscribe call 1-800-833-0046.

Company's Financial Strength	A
Stock's Price Stability	70
Price Growth Persistence	100
Earnings Predictability	90