

Progressive Corp.(PGR)

\$77.68 (As of 05/29/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Shares of Progressive have outperformed the industry year to date. Its focus on becoming a one-stop insurance destination, catering to customers opting for a combination of home and auto insurance, augurs well for growth. Riding on a solid product portfolio, the company's net premiums written continue to exhibit an upward trend. Policies in force and retention ratio are expected to remain healthy. However, exposure to catastrophe events induces volatility to the underwriting results of Progressive and the combined ratio is affected as well. Also, its escalating expenses due to higher losses and settlement expenses have put a strain on margin expansion. Progressive's first-quarter 2020 earnings of \$1.17 per share missed the Zacks Consensus Estimate by 19.3%. Nevertheless, the top line improved 11.1% year over year in the quarter.

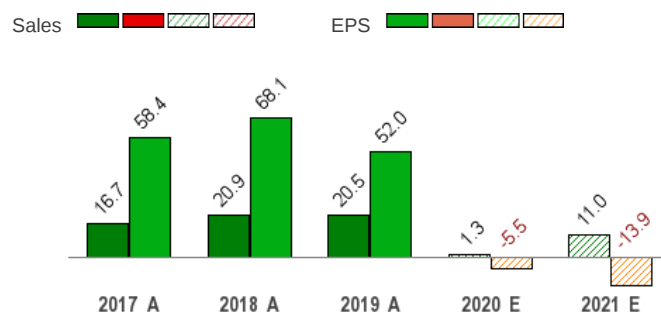
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.96 - \$62.18
20 Day Average Volume (sh)	3,300,418
Market Cap	\$45.5 B
YTD Price Change	7.3%
Beta	0.52
Dividend / Div Yld	\$0.40 / 0.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 24% (193 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-19.3%
Last Sales Surprise	-0.5%
EPS F1 Est- 4 week change	-2.0%
Expected Report Date	07/15/2020
Earnings ESP	-1.8%
P/E TTM	12.8
P/E F1	12.3
PEG F1	1.7
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	10,832 E	11,075 E	11,309 E	11,659 E	43,855 E
2020	9,877 A	9,525 E	9,861 E	10,416 E	39,515 E
2019	8,886 A	9,271 A	9,465 A	10,372 A	39,022 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.42 E	\$1.32 E	\$1.28 E	\$1.42 E	\$5.47 E
2020	\$1.17 A	\$1.69 E	\$1.24 E	\$1.26 E	\$6.35 E
2019	\$1.83 A	\$1.66 A	\$1.42 A	\$1.81 A	\$6.72 A

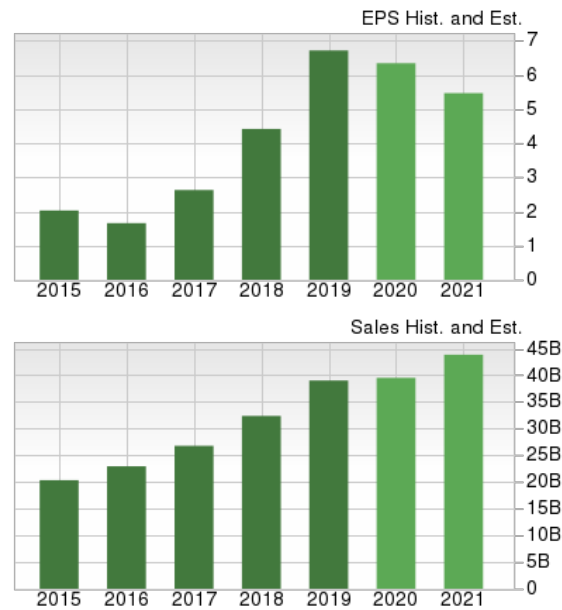
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/29/2020. The reports text is as of 06/01/2020.

Overview

Based in Mayfield Village, OH, The Progressive Corporation is one of the major auto insurers in the country. Founded in 1965, Progressive is a leading independent agency writer of private passenger auto coverage, and the market share leader for the motorcycle products since 1998. Progressive operates through three business segments.

- The **Personal Lines** segment (83% of net written premium in 2019) writes insurance for private passenger automobiles, recreational and other vehicles. This business generally offers more than one program in a single state, with each program targeted toward a specific distribution channel, market, or customer group. Personal Lines products comprise insurance for personal autos and special lines products. The agency business includes business written by Progressive's network of more than 35,000 independent insurance agencies located throughout the United States, as well as brokerages in New York and California and strategic alliance business relationships (other insurance companies, financial institutions, and national agencies). The direct business includes business written directly by the company online and over the phone.
- The **Commercial Lines** segment (12%) writes primary liability and physical damage insurance for automobiles and trucks owned by small businesses. The majority of its Commercial Auto customers insure two or fewer vehicles. The Commercial Lines business, which is primarily distributed through the independent agency channel, operates in the business auto and specialty truck markets. The business auto market accounts for one third of its total Commercial Auto premiums and approximately 60% of the vehicles Progressive insures in this business. The remainder is in the specialty truck commercial auto market, which includes dump trucks, logging trucks, tow trucks, local cartage and other short-haul commercial vehicles.
- The **Property** segment (5%) writes personal property insurance, for homeowners, other property owners, and renters, in the Agency channel in over 31 states and the District of Columbia for personal property insurance and in over four states for commercial property insurance.



Reasons To Buy:

- ▲ Shares of Progressive have gained 7.3% year to date, narrower than industry's decline of 18.8%. We expect improving operating revenues, continued premium growth and robust capital position to drive the stock higher in the future.
- ▲ Progressive is seen as a leader in product, service and distribution innovation, especially in personal auto. It is also a leader in underwriting technology and application of quantitative analytics in pricing and risk selection. The company's rates are very competitive in all its markets and it continues to gain from its expanded multi-product offering. Net premiums written continue to exhibit an upward trend. In first-quarter 2020, net premiums written increased nearly 7% year over year. We expect this momentum to continue, given its compelling product portfolio. Both its Vehicle and Property businesses continue to exhibit considerable strength with premiums registering growth in both its Personal and Commercial business lines.
- ▲ Management continues to focus on customer retention. Policy life expectancy (PLE), a measure for customer retention, has been exhibiting improvement over the last few years across all its business lines. The company has several initiatives underway aimed at providing consumers with distinctive new auto insurance options. The fastest personal auto growth area continues to be Internet-produced business. Also, Progressive's Snapshot programs, and commercial auto coverage should continue to drive growth. Moreover, this auto insurer remains well poised to gain from declining claims amid a reduction in the number of vehicles plying on roads due to the COVID-19 pandemic. The reduction in travel has led to lower claims, which bodes well for Progressive. We expect the company to continue reporting higher PLE in the coming quarters due to emphasis on competitive pricing to retain current customers and address customer needs with new offerings.
- ▲ Over the past 10 years (2009-2019), the company's combined ratio has averaged less than 93%, which compares favorably with the industry average combined ratio of more than 100%. A combined ratio below 100% signifies underwriting profitability. The company's combined ratio shows that it has been able to maintain its profitability better than the industry. Notably, the metric improved 190 basis points to 86.9% in first-quarter 2020.

Progressive's growth is likely to be aided by an expanded multi-product lineup, solid policies in force, competitive rates and leadership position in product, service and distribution innovation.

Reasons To Sell:

- ▼ Being a property and casualty insurer, Progressive has been exposed to catastrophe loss, which renders volatility to its underwriting results and affected the combined ratio as well. A low interest rate environment in the United States due to the COVID-19 pandemic is adding to the insurer's woes as it is likely to keep margins under pressure.
- ▼ Progressive has been experiencing increasing expenses primarily due to higher losses and loss adjustment expenses, policy acquisition costs, service expense and interest expense. In first-quarter 2020, total expenses increased more than 9% year over year. Therefore, the company should strive to achieve revenue growth higher than the rate of increase in expenses. Otherwise, expenses will tend to weigh on operating margin expansion.
- ▼ Progressive's high debt levels have added to the insurer's woes. As of Mar 31, 2020, the company's long-term debt came in at \$5.4 billion, which increased 22.4% from the 2019-end level. As of Mar 31, 2020 the company's total debt/ total capital of 27.3% is higher than its figure of 24% at 2019-end. Further, the company's times interest earned of 24.5 as on Mar 31, 2020 is poor when compared with the 2019-end figure of 28.2, implying that its earnings are not sufficient to cover interest obligations.
- ▼ Valuation remains stretched at current level. Looking at the company's price-to-book ratio, the best multiple for valuing insurers, investors might not want to pay any further premium. The company currently trading at 3.38x trailing 12-month book value, which compares to 1.22x for the industry.

Progressive's exposure to catastrophe loss inducing underwriting volatility, increasing expenses weighing on margin expansion and intensifying competition challenging growth are concerns.

Last Earnings Report

Progressive Q1 Earnings Lag Estimates, Revenues Rise Y/Y

The Progressive Corporation's first-quarter 2020 earnings per share of \$1.17 missed the Zacks Consensus Estimate by 19.3%. The bottom line deteriorated 36% year over year.

Behind the Headlines

Net premiums written were \$9.9 billion in the quarter under review, up 7% from the year-ago period. Net premiums earned grew 11% year over year to \$9.4 billion.

Net realized loss on securities was \$553.6 million against the year-ago gain of \$414.5 million.

Operating revenues were \$9.9 billion, up 11.1% year over year. The improvement was owing to an 11% increase in premiums and 18% growth in fees and other revenues as well as 21% increase in service revenues. The top line however missed the Zacks Consensus Estimate by 0.5%.

Total expenses increased 9% year over year to \$8.4 billion driven by 7% rise in losses and loss adjustment expenses, 10% increase in policy acquisition costs, 20% higher other underwriting expenses and 25% increase in service expenses.

Combined ratio — percentage of premiums paid out as claims and expenses — improved 190 basis points (bps) from the prior-year quarter's level to 86.9%.

March Results

In March, policies in force were impressive at the Personal Auto segment, having improved 10% from the year-ago month to 15.3 million. Special Lines improved 4% from the prior-year month's figure to 4.6 million.

In Progressive's Personal Auto segment, Direct Auto grew 11% year over year to 8.1 million while Agency Auto improved 8% year over year to 7.2 million.

Progressive's Commercial Auto segment rose 7% year over year to 0.7 million. The Property business had about 2.3 million policies in force in the reported month, up 13% year over year.

Financial Update

Progressive's book value per share was \$23.68 as of Mar 31, 2020, up 19% year over year.

Return-on-equity for March 2020 was 28.5%, having contracted 190 bps year over year. Debt-to-total capital ratio deteriorated 60 bps year over year to 27.3% as of Mar 31, 2020.

Quarter Ending 03/2020

Report Date	Apr 15, 2020
Sales Surprise	-0.47%
EPS Surprise	-19.31%
Quarterly EPS	1.17
Annual EPS (TTM)	6.06

Recent News

Progressive's April Earnings Rise on Higher Revenues - May 20, 2020

Progressive Corporation reported earnings per share of \$1.62 for April 2020, soaring 96% year over year on an improved top line.

Numbers in April

Progressive recorded net premiums written of \$3.8 billion in the month, up 3% from \$3.7 billion in the year-ago quarter. Net premiums earned were about \$3.6 billion, up 9% from \$3.3 billion last April.

Net realized gain on securities in the quarter was \$537.3 million, up from a gain of \$131.6 million in the prior-year quarter.

Combined ratio — percentage of premiums paid out as claims and expenses — improved 400 basis points (bps) year over year to 83.4%.

Total operating revenues came in at \$4.5 billion, improving 29.3% year over year owing to an 8.5% increase in premiums, 2.2% higher investment income and other revenues plus a 13.7% rise in service revenues. However, 12.8% lower fees was a partial relief.

Total expenses rose 3.3% to nearly \$3.1 billion, primarily because of a 6.3% rise in losses and loss adjustment expenses and 13.2% jump in other underwriting expenses. However, 21.9% lower losses and loss adjustment expenses limited the downside.

In April, policies in force were impressive in both Vehicle and Property business. In its vehicle business, Personal Auto segment improved 10% year over year to nearly 15.5 million. Special Lines increased 4% from the year-earlier month to 4.6 million policies.

In Progressive's Personal Auto segment, Agency Auto expanded 7.2% to 8 million while Direct Auto increased 11% to nearly 8.3 million.

Progressive's Commercial Auto segment rose 6% year over year to 0.8 million. The Property business had 2.3 million policies in force in the reported month, up 13% year over year.

Progressive's book value per share was \$25.74 as of Apr 30, 2020, up 24.1% from \$20.74 as of Apr 30, 2019.

Return on equity in the trailing 12 months was 33.4%, up 60 bps from 32.8% in Apr 2019. The debt-to-total-capital ratio improved 120 bps year over year to 25.7 as of Apr 30, 2020.

Progressive Declares Quarterly Dividend – May 8, 2020

The board of directors of Progressive declared a quarterly dividend of 10 cents per share. The dividend will be paid out on Jul 15, 2020 to shareholders of record as of Jul 7.

Valuation

Progressive shares are up 7.3% in the year-to-date period and 2.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.8% and 2.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10.5% and 13.2%, respectively.

The S&P 500 index are down nearly 5.4% in the year-to-date period but up 11.1% in the past year.

The stock is currently trading at 3.28x trailing 12-month book value, which compares to 1.22x for the Zacks sub-industry, 2.25x for the Zacks sector and 4.17x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.19x and as low as 2.2x, with a 5-year median of 3.08x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 3.49x book value.

The table below shows summary valuation data for PGR

Valuation Multiples -PGR					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	3.28	1.22	2.25	4.17
	5-Year High	4.19	1.67	2.9	4.56
	5-Year Low	2.2	0.93	1.71	2.83
	5-Year Median	3.08	1.46	2.53	3.65
P/S F12M	Current	1.09	1.4	5.8	3.43
	5-Year High	1.25	11.26	6.69	3.44
	5-Year Low	0.72	1.4	4.98	2.53
	5-Year Median	0.99	1.87	6.06	3.02
P/E F12M	Current	12.99	23.80	16.13	22.09
	5-Year High	22.9	31.55	16.18	22.09
	5-Year Low	11.75	21.01	11.57	15.23
	5-Year Median	15.5	25.55	13.96	17.49

As of 05/29/2020

Industry Analysis Zacks Industry Rank: Bottom 24% (193 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
American International Group, Inc. (AIG)	Neutral	3
The Allstate Corporation (ALL)	Neutral	2
Chubb Limited (CB)	Neutral	4
CNA Financial Corporation (CNA)	Neutral	3
Tokio Marine Holdings Inc. (TKOMY)	Neutral	4
The Travelers Companies, Inc. (TRV)	Neutral	3
Axis Capital Holdings Limited (AXS)	Underperform	5
Alleghany Corporation (Y)	Underperform	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	PGR	X Industry	S&P 500	ALL	CB	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	4	3
VGM Score	A	-	-	A	B	B
Market Cap	45.47 B	1.17 B	21.48 B	30.72 B	55.04 B	27.05 B
# of Analysts	8	2	14	8	7	7
Dividend Yield	0.51%	1.22%	1.96%	2.21%	2.46%	3.07%
Value Score	A	-	-	A	B	B
Cash/Price	0.07	0.25	0.06	0.20	0.10	0.18
EV/EBITDA	8.52	4.96	12.56	4.65	9.74	3.28
PEG Ratio	1.68	2.44	2.87	1.16	1.24	3.06
Price/Book (P/B)	3.28	1.03	2.92	1.38	1.05	1.07
Price/Cash Flow (P/CF)	10.60	8.92	11.74	7.20	10.35	3.49
P/E (F1)	12.29	13.07	21.35	8.68	12.36	11.37
Price/Sales (P/S)	1.16	0.72	2.27	0.70	1.53	0.85
Earnings Yield	8.16%	7.09%	4.52%	11.52%	8.09%	8.80%
Debt/Equity	0.39	0.26	0.76	0.30	0.26	0.26
Cash Flow (\$/share)	7.33	3.12	6.96	13.58	11.78	30.61
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	35.17%	4.86%	10.87%	19.27%	-0.23%	-4.52%
Proj. EPS Growth (F1/F0)	-5.58%	-1.98%	-10.48%	8.07%	-2.43%	-1.96%
Curr. Cash Flow Growth	48.16%	5.61%	5.39%	30.84%	0.06%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	24.96%	7.31%	8.55%	9.17%	8.77%	-1.19%
Current Ratio	0.39	0.45	1.29	0.31	0.31	0.38
Debt/Capital	28.14%	20.55%	44.54%	21.53%	20.93%	20.65%
Net Margin	9.18%	3.92%	10.59%	9.38%	10.21%	7.61%
Return on Equity	26.80%	7.52%	16.26%	17.53%	8.69%	9.61%
Sales/Assets	0.72	0.31	0.55	0.37	0.21	0.29
Proj. Sales Growth (F1/F0)	4.01%	0.00%	-2.53%	-1.06%	-1.42%	0.68%
Momentum Score	A	-	-	D	F	C
Daily Price Chg	1.42%	-1.12%	-0.11%	-0.46%	-1.43%	-0.57%
1 Week Price Chg	-1.96%	6.92%	4.99%	-0.59%	17.60%	10.84%
4 Week Price Chg	0.49%	-0.49%	4.40%	-3.84%	12.90%	5.70%
12 Week Price Chg	-3.55%	-16.43%	-2.75%	-9.82%	-15.84%	-16.43%
52 Week Price Chg	-3.07%	-18.38%	0.07%	2.00%	-16.35%	-26.59%
20 Day Average Volume	3,300,418	142,513	2,425,602	2,027,172	3,540,176	1,857,492
(F1) EPS Est 1 week change	0.08%	0.00%	0.00%	-1.06%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.00%	-8.59%	-1.70%	2.50%	0.00%	0.07%
(F1) EPS Est 12 week change	15.15%	-18.82%	-16.00%	7.92%	-9.35%	-9.42%
(Q1) EPS Est Mthly Chg	-10.88%	-6.99%	-3.25%	0.44%	0.00%	0.09%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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