

Progressive Corp.(PGR)

\$74.32 (As of 01/03/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: D

Summary

Shares of Progressive have outperformed the industry in a year's time. 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. Policies in force and retention ratio is expected to remain healthy. The company's Snapshot, Robinson and Home Quote Explorer programs should continue to drive its business. The company also pays back its shareholders via annual and special dividends and share repurchases. However, the company's growth could be challenged by intense competition. Exposure to catastrophe events induces volatility to the underwriting results of Progressive and the combined ratio is affected as well. Also, escalating expenses caused by higher losses, acquisition costs and settlement expenses weigh on its operating margin expansion.

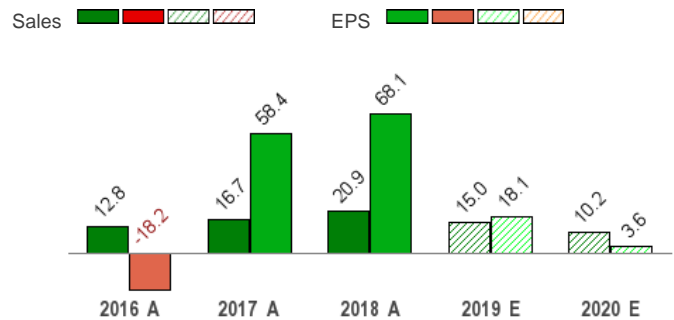
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.96 - \$59.20
20 Day Average Volume (sh)	2,867,384
Market Cap	\$43.4 B
YTD Price Change	2.7%
Beta	0.64
Dividend / Div Yld	\$0.40 / 0.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 38% (96 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.8%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	-2.5%
Expected Report Date	01/22/2020
Earnings ESP	-1.6%
P/E TTM	13.9
P/E F1	13.7
PEG F1	1.9
P/S TTM	1.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	9,872 E	10,020 E	10,305 E	10,612 E	41,038 E
2019	8,886 A	9,271 A	9,465 A	9,597 E	37,231 E
2018	7,478 A	7,985 A	8,314 A	8,607 A	32,385 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.45 E	\$1.35 E	\$1.32 E	\$1.33 E	\$5.41 E
2019	\$1.83 A	\$1.66 A	\$1.42 A	\$1.20 E	\$5.22 E
2018	\$1.22 A	\$1.19 A	\$1.57 A	\$0.44 A	\$4.42 A

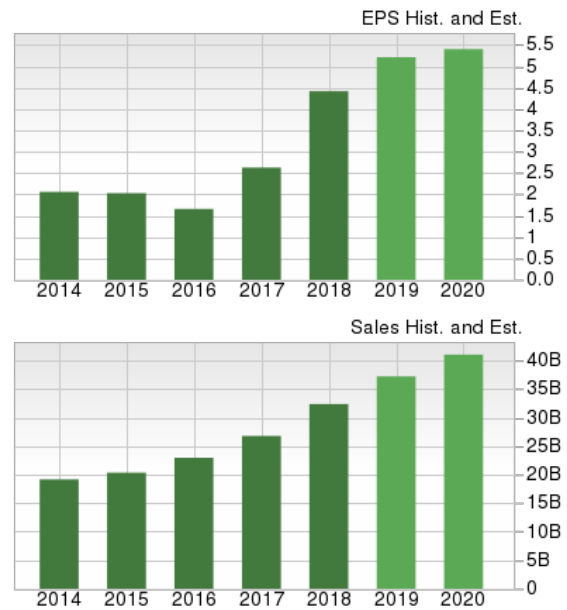
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

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 2018) 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 23.8% in a year's time, outperforming the industry's 15.5% increase. 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 the first nine months of 2019, net premiums written rose 16% 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. Moreover, Progressive's Snapshot programs, and commercial auto coverage should continue to drive growth. 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.
- ▲ To return more value to shareholders, Progressive undertakes share buybacks besides paying out annual and special dividends. The company has made a change in its dividend policy effective 2019 replacing annual dividend by quarterly dividend. With respect to share buybacks, the company has been engaged in share repurchases. Given its financial strength, we expect prudent capital deployment going forward.
- ▲ Progressive has also been consistently putting in efforts to further penetrate customer households through cross-selling auto policies and Progressive Home Advantage (PHA). PHA is a program where the company bundles its auto product with property insurance provided by unaffiliated insurance carriers. These bundled products form an integral part of the company's strategy to cater to its customers opting for a combination of home and auto insurance. Growth momentum at Progressive's Robinson (bundled home and auto) continued with policies in force of about 30%. PHA is currently provided by American Strategic Insurance (ASI) and 10 unaffiliated insurance carriers. The acquisition helps Progressive reach the under-penetrated market segment of bundled customers. Going forward, we expect Progressive to make further acquisitions, thereby enhancing its bundling strategy. The company is working toward its Platinum offering, which is a combined offering of home and auto insurance, in its Agency channel.

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:

- ▼ 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 has a trailing 12-month P/B ratio of 3.19, higher than the industry's 1.42. The shares are trading above the median of 2.95X.
- ▼ Being a property and casualty insurer, Progressive has been exposed to catastrophe loss, which rendered volatility to its underwriting results and affected the combined ratio as well. In the first nine months of 2019, the company incurred catastrophe losses of \$442.4 million, up 16% year over year. These losses led to a deterioration of 170 basis points to the combined ratio. Combined ratio represents the percentage of premiums paid out as claims and expenses and is a primary measure of underwriting profitability. A higher combined ratio is thus a risk for the company's profitability.
- ▼ Progressive has been experiencing increasing expenses mainly due to higher losses and settlement expenses plus policy acquisition costs. In the first nine months of 2019, expenses increased 17% 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 exposure to catastrophe loss inducing underwriting volatility, increasing expenses weighing on margin expansion and intensifying competition challenging growth are concerns.

Last Earnings Report

Progressive Q3 Earnings Surpass Estimates, Down Y/Y

The Progressive Corporation's third-quarter 2019 earnings per share of \$1.42 beat the Zacks Consensus Estimate of \$1.33. However, the bottom line declined 9% from the year-ago quarter.

Behind the Headlines

Net premiums written were \$9.6 billion in the quarter under review, up 12% from \$8.6 billion in the year-ago period. Net premiums earned grew 14% year over year to \$9 billion.

Net realized gains on securities were \$65.4 million compared with \$182.1 million in the year-ago quarter.

September Numbers Solid

Operating revenues were \$2.9 billion, up 13.1% year over year. The improvement can be attributed to 13.1% increase in premiums, 14.1% higher investment income, 9.8% growth in fees and other revenues and 18.1% rise in service revenues.

Total expenses increased 15.8% year over year to \$2.7 billion due to 16.7% rise in loss and loss adjustment expenses, 12% increase in policy acquisition costs and 13.4% higher other underwriting expenses.

In September, policies in force were impressive at the Personal Auto segment, having improved 11% from the year-ago month to 14.6 million. Special Lines improved 3% from the prior-year month's figure to 4.6 million.

In Progressive's Personal Auto segment, Direct Auto grew 10% year over year to 6.9 million while Agency Auto improved 12% year over year to 7.7 million.

Progressive's Commercial Auto segment rose 8% year over year to 0.7 million. The Property business had about 2.1 million policies in force in the month, up 15% year over year.

Financial Update

Progressive's book value per share was \$23.31, as of Sep 30, 2019, up 19.6% from \$19.49 as of Sep 30, 2018.

Return on equity in September 2019 was 32.7%, having expanded 560 basis points year over year. Debt-to-total capital ratio improved 80 basis points year over year to 23.8% as of Sep 30, 2019.

Quarter Ending 09/2019

Report Date	Oct 16, 2019
Sales Surprise	0.92%
EPS Surprise	6.77%
Quarterly EPS	1.42
Annual EPS (TTM)	5.35

Recent News

Progressive's November Earnings & Revenues Rise Y/Y - Dec 11, 2019

The Progressive Corporation reported earnings per share of 52 cents for November 2019. Earnings rose 26% year over year on the back of an increase in the top line.

Progressive recorded net premiums written of \$2.6 billion in the month, up 12% from \$2.3 billion in the year-earlier period. Net premiums earned were about \$2.8 billion, up 12% from \$2.5 billion recorded last year in November.

Net realized income on securities was \$150.3 million, substantially up from \$18.5 million in the year-ago month.

The board of directors of Progressive recently declared a quarterly dividend of 10 cents per share and an annual payout of \$2.25 per share. The dividend will be paid out on Jan 15, 2020 to shareholders of record as of Jan 8, 2020. The company's current dividend yield is 0.6%, noticeably better than the industry average of 0.4%.

Progressive's October Earnings Improve, Revenues Up Y/Y – Nov 13, 2019

The Progressive Corporation reported earnings per share of 52 cents for October 2019, against its year-ago loss of 6 cents. Improvement in the top line was offset by higher expenses.

Progressive recorded net premiums written of \$3.6 billion in the month, up 12% from \$3.2 billion in the prior-year period. Net premiums earned were about \$3.5 billion, up 13% year over year.

Progressive August Earnings Decrease, Revenues Rise Y/Y– Sep, 13, 2019

Progressive reported August earnings per share of 30 cents, down 36% year over year. Improvement in the top line was offset by higher expenses.

Net premiums written improved 13% to \$2.9 billion. Combined ratio deteriorated 110 basis points to 93.4%.

Valuation

Progressive shares are up 23.8% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and Zacks Finance sector are up 15.5% and 16.6%, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 3.19X trailing 12-month book value, which compares to 1.42X for the Zacks sub-industry, 2.83X for the Zacks sector and 4.41X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.19X and as low as 2.17X, with a 5-year median of 2.95X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$78 price target reflects 3.34X trailing 12-month 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	3.19	1.42	2.83	4.41
	5-Year High	4.19	1.67	2.89	4.45
	5-Year Low	2.17	1.26	1.83	2.85
	5-Year Median	2.95	1.47	2.5	3.6
P/S F12M	Current	1.06	1.67	6.53	3.47
	5-Year High	1.25	11.26	6.61	3.47
	5-Year Low	0.72	1.55	5.2	2.54
	5-Year Median	0.94	1.93	6.04	3
P/E F12M	Current	13.73	26.40	14.77	18.7
	5-Year High	22.9	31.55	16.21	19.34
	5-Year Low	11.75	22.77	12.01	15.17
	5-Year Median	15.5	25.57	13.98	17.44

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 252)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	PGR Neutral	X Industry	S&P 500	ALL Neutral	CB Neutral	TRV Neutral
VGM Score	B	-	-	A	B	B
Market Cap	43.45 B	1.98 B	23.66 B	36.55 B	70.60 B	35.37 B
# of Analysts	6	2	13	8	7	7
Dividend Yield	0.54%	1.02%	1.79%	1.77%	1.93%	2.39%
Value Score	B	-	-	A	B	A
Cash/Price	0.04	0.17	0.04	0.16	0.06	0.14
EV/EBITDA	12.91	9.44	13.88	11.26	12.76	4.33
PEG Ratio	1.89	1.43	1.99	1.33	1.42	1.37
Price/Book (P/B)	3.19	1.26	3.36	1.58	1.29	1.38
Price/Cash Flow (P/CF)	14.98	13.65	13.62	11.56	13.45	4.77
P/E (F1)	13.87	13.75	18.74	11.06	14.16	12.66
Price/Sales (P/S)	1.20	1.02	2.67	0.86	2.04	1.13
Earnings Yield	7.28%	7.17%	5.32%	9.04%	7.06%	7.90%
Debt/Equity	0.32	0.21	0.72	0.29	0.24	0.26
Cash Flow (\$/share)	4.96	3.05	6.94	9.76	11.58	28.75
Growth Score	B	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	26.87%	-0.55%	10.56%	13.91%	-1.51%	-5.81%
Proj. EPS Growth (F1/F0)	3.62%	7.23%	7.41%	1.21%	6.39%	14.33%
Curr. Cash Flow Growth	55.42%	9.94%	14.83%	5.36%	12.66%	8.43%
Hist. Cash Flow Growth (3-5 yrs)	19.35%	7.23%	9.00%	1.93%	8.90%	-1.60%
Current Ratio	0.36	0.44	1.23	0.30	0.31	0.38
Debt/Capital	24.69%	17.79%	42.92%	20.23%	19.94%	20.39%
Net Margin	8.69%	5.34%	11.08%	6.57%	10.48%	7.57%
Return on Equity	26.09%	6.81%	17.10%	13.83%	8.60%	9.13%
Sales/Assets	0.72	0.31	0.55	0.37	0.20	0.29
Proj. Sales Growth (F1/F0)	10.23%	5.00%	4.20%	4.46%	5.00%	5.57%
Momentum Score	D	-	-	B	D	B
Daily Price Chg	-0.01%	0.04%	-0.61%	0.01%	-0.15%	-0.36%
1 Week Price Chg	0.54%	-0.63%	0.13%	0.26%	0.18%	0.27%
4 Week Price Chg	2.60%	1.85%	2.60%	3.00%	3.65%	2.02%
12 Week Price Chg	-0.59%	1.38%	8.87%	5.31%	0.25%	-3.21%
52 Week Price Chg	27.63%	11.67%	29.34%	40.51%	24.95%	18.88%
20 Day Average Volume	2,867,384	114,680	1,603,615	1,509,828	1,284,882	1,041,913
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.51%	0.00%	0.00%	0.06%	0.00%	0.00%
(F1) EPS Est 12 week change	-3.78%	-0.81%	-0.57%	0.08%	-0.81%	-5.80%
(Q1) EPS Est Mthly Chg	-3.77%	0.00%	0.00%	0.07%	-0.07%	0.00%

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	B
Growth Score	B
Momentum Score	D
VGM Score	B

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.

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