

Progressive Corp.(PGR)

\$75.29 (As of 03/09/20)

Price Target (6-12 Months): **\$79.00**

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:B

Value: C

Growth: A

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 are expected to remain healthy. It 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 due to higher losses, acquisition costs and settlement expenses, weigh on its operating margin. The Progressive's earnings per share of \$1.81 beat the Zacks Consensus Estimate by 58.8% and grew 311% year over year.

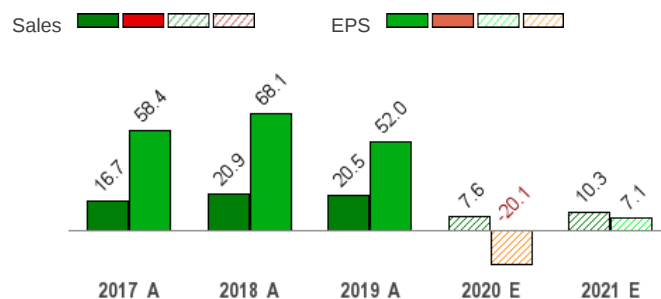
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$84.96 - \$67.95
20 Day Average Volume (sh)	3,556,693
Market Cap	\$44.1 B
YTD Price Change	4.0%
Beta	0.67
Dividend / Div Yld	\$0.40 / 0.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 37% (159 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	58.8%
Last Sales Surprise	8.4%
EPS F1 Est- 4 week change	-1.0%
Expected Report Date	04/21/2020
Earnings ESP	-2.3%
P/E TTM	11.2
P/E F1	14.0
PEG F1	1.9
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,222 E	11,654 E	11,919 E	12,109 E	46,341 E
2020	10,193 E	10,378 E	10,548 E	10,963 E	42,001 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	\$1.51 E	\$1.44 E	\$1.41 E	\$1.49 E	\$5.75 E
2020	\$1.38 E	\$1.37 E	\$1.31 E	\$1.71 E	\$5.37 E
2019	\$1.83 A	\$1.66 A	\$1.42 A	\$1.81 A	\$6.72 A

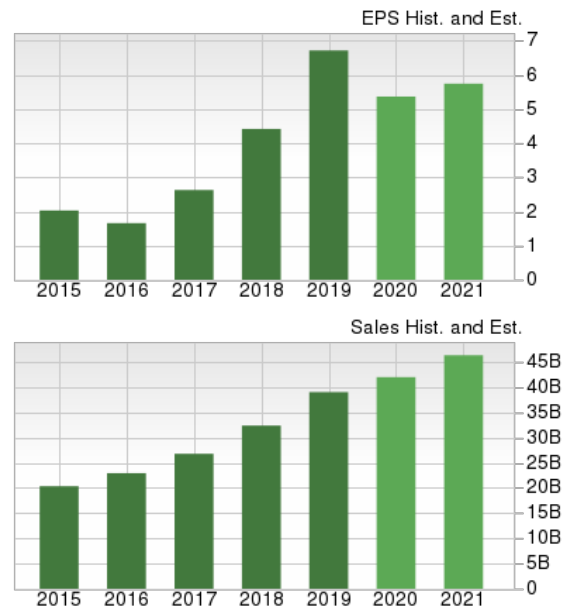
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/09/2020. The reports text is as of 03/10/2020.

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 outperformed the industry in a year's time. 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 2019, net premiums written rose 15% 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.
- ▲ 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.
- ▲ 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'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 3.34, higher than the industry's 1.1. The shares are trading above the median of 3.04X.
- ▼ 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. The company's exposure to catastrophes will continue to keep
- ▼ Progressive has been experiencing increasing expenses mainly due to higher losses and settlement expenses plus policy acquisition costs. In 2019, expenses increased 18% 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 Q4 earnings Beat Estimates

The Progressive Corporation's earnings per share of \$1.81 beat the Zacks Consensus Estimate by 58.8% and grew 311% year over year.

Behind the Headlines

Net premiums written were \$9.6 billion in the quarter under review, up 21% from \$7.9 billion in the year-ago period. Net premiums earned grew 21% year over year to \$9.9 billion from \$8.2 billion a year ago.

Net realized gains on securities were \$369.4 million.

Combined ratio — percentage of premiums paid out as claims and expenses — improved 10 basis points (bps) from the prior-year quarter's level to 92.4%.

Full Year Highlights

Operating revenues rose 16.9% year over year to \$37.9 billion driven by 27% higher investment income, 17% rise in premiums earned, 23% rise in service revenues and 19% higher fees as well as other revenues.

Total expense increased 18% to \$33.8 billion. This increase can be primarily attributed to 17% rise in loss and loss adjustment expenses, 17% increase in policy acquisition costs, 33% increase in service expense and 19% increase in other underwriting expenses.

Policies in Force Solid in December

In December, "policies in force" were impressive at the Personal Auto segment, up 11% from the year-ago month to 14.9 million. Special Lines inched up 4% from the prior-year month's figure to 4.5 million.

In Progressive's Personal Auto segment, Direct Auto grew 12% year over year to 7.9 million while Agency Auto improved 10% year over year to 7 million.

Progressive's Commercial Auto segment rose 8% year over year to 0.7 million. The Property business had about 2.2 million policies in force in the reported month, up 14% year over year.

Financial Update

Progressive's book value per share was \$22.54 as of Dec 31, 2019, up 27.3% from \$17.71 as of Dec 31, 2018.

Return-on-equity on a trailing 12-month basis was 35%, up 1120 bps year over year. Debt-to-total capital ratio deteriorated 450 bps year over year to 24.4% as of Dec 31, 2018.

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	8.37%
EPS Surprise	58.77%
Quarterly EPS	1.81
Annual EPS (TTM)	6.72

Recent News

Progressive Declares Quarterly Dividend – Feb 19, 2020

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

The board also declared a dividend of \$26.875 per Series B share. The dividend will be paid out on Mar 16, 2020 to shareholders of record as of Feb 28.

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%.

Valuation

Progressive shares are up nearly 4% in the year-to-date period and 3.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 14.1% and 20.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 4.7% and 13.9%, respectively.

The S&P 500 index are down nearly 14.7% in the year-to-date period and 2.3% in the past year.

The stock is currently trading at 3.3x trailing 12-month book value, which compares to 1.1x for the Zacks sub-industry, 2.2x for the Zacks sector and 3.7x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.2x and as low as 2.2x, with a 5-year median of 3x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$79 price target reflects 3.5x 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	3.34	1.1	2.23	3.69
	5-Year High	4.19	1.67	2.89	4.56
	5-Year Low	2.17	1.1	1.83	2.85
	5-Year Median	3.04	1.47	2.52	3.63
P/S F12M	Current	1.03	1.73	5.99	2.91
	5-Year High	1.25	11.26	6.64	3.44
	5-Year Low	0.72	1.55	5.39	2.54
	5-Year Median	0.97	1.89	6.04	3
P/E F12M	Current	13.84	22.77	11.81	15.75
	5-Year High	22.9	31.55	16.21	19.34
	5-Year Low	11.75	22.77	11.81	15.18
	5-Year Median	15.5	25.42	13.97	17.42

As of 03/09/2020

Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 253)



Top Peers

CNA Financial Corporation (CNA)	Outperform
The Allstate Corporation (ALL)	Neutral
Axis Capital Holdings Limited (AXS)	Neutral
Chubb Limited (CB)	Neutral
Tokio Marine Holdings Inc. (TKOMY)	Neutral
The Travelers Companies, Inc. (TRV)	Neutral
American International Group, Inc. (AIG)	Underperform
Alleghany Corporation (Y)	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	A
Market Cap	44.06 B	1.23 B	19.13 B	30.30 B	61.17 B	29.63 B
# of Analysts	10	2	13	9	8	9
Dividend Yield	0.53%	1.21%	2.26%	2.26%	2.22%	2.82%
Value Score	C	-	-	B	C	C
Cash/Price	0.04	0.19	0.05	0.14	0.09	0.17
EV/EBITDA	8.25	6.43	11.99	4.82	10.58	3.48
PEG Ratio	1.91	1.58	1.68	1.11	1.23	1.31
Price/Book (P/B)	3.34	1.05	2.64	1.30	1.11	1.16
Price/Cash Flow (P/CF)	10.28	10.39	10.70	7.04	11.45	3.80
P/E (F1)	14.02	12.11	15.44	9.22	12.28	11.21
Price/Sales (P/S)	1.13	0.83	2.05	0.68	1.73	0.94
Earnings Yield	7.13%	8.25%	6.47%	10.85%	8.14%	8.92%
Debt/Equity	0.33	0.21	0.70	0.28	0.25	0.25
Cash Flow (\$/share)	7.33	2.92	7.01	13.58	11.78	30.61
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	31.71%	2.31%	10.85%	16.31%	-0.89%	-5.01%
Proj. EPS Growth (F1/F0)	-20.10%	11.02%	6.25%	-0.61%	8.70%	8.00%
Curr. Cash Flow Growth	48.16%	7.94%	6.09%	30.84%	0.06%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	24.96%	8.81%	8.52%	9.17%	8.77%	-1.19%
Current Ratio	0.36	0.44	1.24	0.29	0.32	0.39
Debt/Capital	25.31%	18.05%	42.57%	20.32%	20.04%	20.18%
Net Margin	10.17%	8.63%	11.69%	10.85%	12.61%	8.30%
Return on Equity	30.98%	8.06%	16.74%	16.05%	8.59%	10.03%
Sales/Assets	0.75	0.32	0.54	0.38	0.20	0.29
Proj. Sales Growth (F1/F0)	10.55%	2.08%	3.76%	3.71%	3.54%	4.10%
Momentum Score	D	-	-	B	B	B
Daily Price Chg	-6.50%	-7.39%	-7.65%	-10.76%	-6.80%	-6.92%
1 Week Price Chg	10.06%	0.62%	-0.67%	1.80%	-0.14%	4.20%
4 Week Price Chg	-9.93%	-14.96%	-19.26%	-22.86%	-17.37%	-14.70%
12 Week Price Chg	5.89%	-15.05%	-17.26%	-12.78%	-13.22%	-14.67%
52 Week Price Chg	3.35%	-8.46%	-6.83%	1.59%	1.17%	-11.88%
20 Day Average Volume	3,556,693	106,654	2,684,709	2,053,126	2,157,564	1,920,679
(F1) EPS Est 1 week change	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.03%	0.00%	-0.06%	0.72%	0.00%	0.00%
(F1) EPS Est 12 week change	-3.18%	-0.31%	-0.46%	1.69%	-0.13%	-4.21%
(Q1) EPS Est Mthly Chg	-5.40%	0.00%	-0.40%	2.33%	0.00%	0.00%

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	C
Growth Score	A
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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