Progressive Corp.(PGR)

$88.83 (As of 08/17/20)

Price Target (6-12 Months): **$93.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/16/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: B | Growth: B | Momentum: C	

Summary

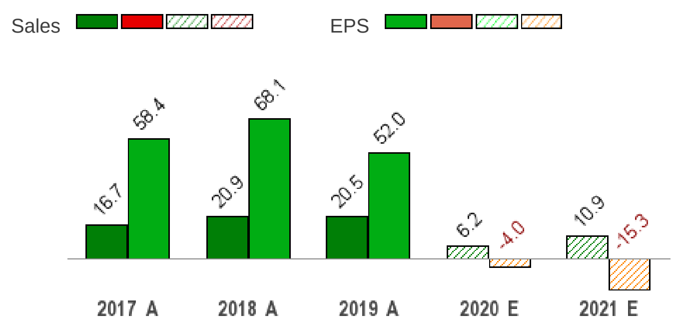
Progressive's second-quarter bottom line beat estimates on higher premiums. Focus on becoming a one-stop insurance destination, catering to customers opting for a combination of home and auto insurance, augurs well for growth. Riding on a solid product portfolio, the company's net premiums written continue to exhibit an upward trend. Policies in force and retention ratio should remain healthy. Competitive pricing to retain current customers and address customer needs with new offerings should drive policy life expectancy. Shares of Progressive have outperformed the industry year to date. However, exposure to cat events induces volatility to the underwriting results. Also, escalating expenses due to higher losses and settlement expenses have put a strain on margin expansion. High debt level along with low times earned interest concern.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$91.81 - $62.18
20 Day Average Volume (sh)	2,182,750
Market Cap	$52.0 B
YTD Price Change	22.7%
Beta	0.54
Dividend / Div Yld	$0.40 / 0.5%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 35% (163 out of 252)
Last EPS Surprise	6.4%
Last Sales Surprise	1.4%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	10/21/2020
Earnings ESP	-11.9%
P/E TTM	14.3
P/E F1	13.8
PEG F1	1.9
P/S TTM	1.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	11,079 E	11,139 E	11,381 E	12,252 E	45,944 E
2020	9,877 A	10,081 A	10,436 E	11,278 E	41,440 E
2019	8,886 A	9,271 A	9,465 A	10,372 A	39,022 A

EPS Estimates

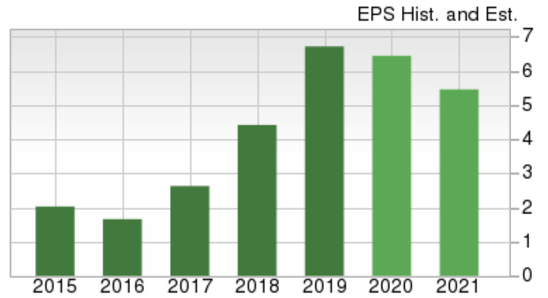
	Q1	Q2	Q3	Q4	Annual*
2021	$1.44 E	$1.36 E	$1.27 E	$1.38 E	$5.46 E
2020	$1.92 A	$1.83 A	$1.35 E	$1.31 E	$6.45 E
2019	$1.83 A	$1.66 A	$1.42 A	$1.81 A	$6.72 A

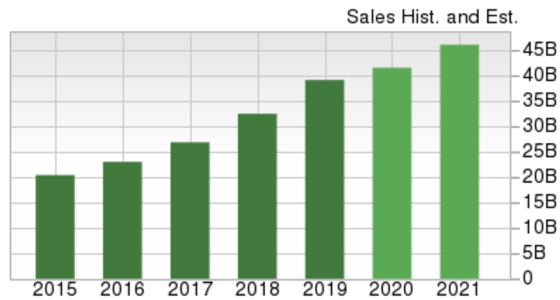
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/17/2020. The reports text is as of 08/18/2020.

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:

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.

- Shares of Progressive have gained 22.7% year to date, compared to industry's decline of 10.8. 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-half 2020, net premiums written increased 9% 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 270 basis points to 87.7 in second-quarter 2020.

- Progressive has been consistently putting in efforts to further penetrate customer households through cross-selling auto policies and Progressive Home Advantage (PHA). Growth momentum at Progressive's Robinson (bundled home and auto) continued with policies in force growth of about 30%. The acquisition of ARX Holding Corp in April 2020 will complement the company's effort to reach and grow its bundled auto and home Robinsons consumer segment. Going forward, we expect Progressive to make further acquisitions, thereby enhancing its bundling strategy.

Reasons To Sell:

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

- 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- half 2020, total expenses increased more than 8% 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 Jun 30, 2020, the company's debt level increased 22.4% from 2019 end. However, the leverage ratio remained flat with 2019 end level at 24.4. 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 3.22x trailing 12-month book value, which compares to 1.24x for the industry.

Last Earnings Report

Progressive Q2 Earnings Surpass Estimates, Rise Y/Y

Quarter Ending	06/2020
Report Date	Jul 15, 2020
Sales Surprise	1.38%
EPS Surprise	6.40%
Quarterly EPS	1.83
Annual EPS (TTM)	6.98

Progressive second-quarter 2020 earnings per share of $1.83 beat the Zacks Consensus Estimate of $1.72. Moreover, the bottom line increased 10.2% from the year-ago quarter.

Behind the Headlines

Net premiums written were $10.1 billion in the quarter under review, up 11% from $9.1 billion in the year-ago period. Net premiums earned grew 9% year over year to $9.6 billion.

Net realized gains on securities were $890.8 million, marking a nearly five-fold increase year over year.

Combined ratio — percentage of premiums paid out as claims and expenses — improved 27 basis points (bps) from the prior-year quarter's level to 87.7.

June Numbers Solid

Operating revenues were $3.2 million, up 9.3% year over year. The improvement can be attributed to a 10.1% increase in premiums, 3.3% growth in fees and other revenues and 18.8% rise in service revenues. However, 16% lower investment income was a partial offset.

Total expenses increased 3.4% year over year to $2.7 billion due to 25.2% higher other underwriting expenses and 9.4% increase in policy acquisition costs. Expenses also include $16 million in policyholder credit expense.

In June, policies in force were impressive at the Personal Auto segment, having improved 11% from the year-ago month to 15.9 million. Special Lines improved 6% from the prior-year month's figure to 4.8 million.

In Progressive's Personal Auto segment, Direct Auto grew 13% year over year to 8.5 million while Agency Auto improved 9% year over year to 7.4 million.

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

Financial Update

Progressive's book value per share was $27.63, as of Jun 30, 2020, up 25.7% from $21.98 as of Jun 30, 2019.

Return-on-equity in the second quarter of 2020 was 34.9%, having expanded 60 bps year over year. Debt-to-total capital ratio improved 40 bps year over year to 24.4% as of Jun 30, 2020.

Recent News

Progressive's May Earnings and Revenues Increase - Jun 17, 2020

The Progressive Corporation reported earnings per share of 62 cents for May 2020, up nearly five-fold year over year on an improved top line.

Numbers in May

Total operating revenues came in at $4.5 billion, improving 9% year over year owing to a 9.5% increase in premiums and a 22.2% rise in service revenues. However, 5.2% lower investment income was a partial offset.

Total expenses rose 11.9% to $2.9 billion, primarily because of 7% higher losses and loss adjustment expense, and 13.1% jump in other underwriting expenses and policyholder credit expense in May 2020. The company incurred $510 million in policyholder credit expense in tandem with the plan to issue a credit to personal auto customers with a policy in force on May 31, 2020, in response to the reduction in auto accident frequency resulting from COVID-19 restrictions.

Combined ratio deteriorated 210 basis points (bps) year over year to 93.7%.

In May, policies in force were impressive in both Vehicle and Property business. In its vehicle business, Personal Auto segment improved 11% year over year to nearly 15.8 million. Special Lines increased 4.7% from the year-earlier month to 5 million policies.

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 $26.60 as of May 31, 2020, up 26.2% from $21.08 as of May 31, 2019. Return on equity in the trailing 12 months was 35%, up 330 basis points (bps) from 31.7% in May 2019. Debt-to-total-capital ratio improved 50 bps year over year to 25.1 as of May 31, 2020.

Valuation

Progressive shares are up 22.7% in the year-to-date period and 14% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 10.8% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 3% and 7.2%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and 15.8% in the past year.

The stock is currently trading at 3.22x trailing 12-month book value, which compares to 1.24x for the Zacks sub-industry, 2.48x for the Zacks sector and 4.54x for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.19x and as low as 2.22x, with a 5-year median of 3.13x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $93 price target reflects 3.37x 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	3.22	1.24	2.48	4.54
	5-Year High	4.19	1.67	2.91	4.56
	5-Year Low	2.22	0.93	1.72	2.83
	5-Year Median	3.13	1.45	2.53	3.74
P/S F12M	Current	1.17	1.71	6.22	3.71
	5-Year High	1.25	11.26	6.67	3.71
	5-Year Low	0.72	1.39	4.97	2.53
	5-Year Median	1.01	1.84	6.06	3.05
P/E F12M	Current	15.24	25.23	16.65	22.87
	5-Year High	22.9	31.55	16.65	22.87
	5-Year Low	11.75	21.01	11.6	15.25
	5-Year Median	15.46	25.42	14.26	17.58

As of 08/17/2020

Industry Analysis **Zacks Industry Rank:** Bottom 35% (163 out of 252)

Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty

	PGR	X Industry	S&P 500	Industry Peers ALL	CB	TRV
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	4
VGM Score	A	-	-	A	C	A
Market Cap	52.00 B	1.25 B	23.75 B	29.74 B	56.80 B	29.35 B
# of Analysts	9	2	14	8	7	8
Dividend Yield	0.45%	1.33%	1.62%	2.27%	2.48%	2.93%
Value Score	B	-	-	A	B	A
Cash/Price	0.09	0.27	0.07	0.20	0.10	0.22
EV/EBITDA	9.33	5.40	13.49	4.53	9.96	3.36
PEG Ratio	1.89	2.04	3.03	1.03	1.75	2.04
Price/Book (P/B)	3.21	0.96	3.18	1.19	1.04	1.09
Price/Cash Flow (P/CF)	12.13	10.28	12.85	7.01	10.68	3.79
P/E (F1)	13.85	14.81	22.17	7.72	17.49	13.58
Price/Sales (P/S)	1.28	0.83	2.49	0.68	1.59	0.94
Earnings Yield	7.26%	5.67%	4.32%	12.95%	5.72%	7.36%
Debt/Equity	0.33	0.24	0.77	0.27	0.25	0.26
Cash Flow ($/share)	7.33	3.12	6.94	13.58	11.78	30.61
Growth Score	B	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	39.54%	3.85%	10.44%	21.39%	-1.69%	-5.11%
Proj. EPS Growth (F1/F0)	-4.07%	-6.42%	-5.97%	18.22%	-28.81%	-11.11%
Curr. Cash Flow Growth	48.16%	3.77%	5.22%	30.84%	0.06%	3.77%
Hist. Cash Flow Growth (3-5 yrs)	24.96%	4.81%	8.52%	9.17%	8.77%	-1.19%
Current Ratio	0.44	0.43	1.33	0.30	0.31	0.40
Debt/Capital	24.45%	20.03%	44.59%	19.73%	20.32%	20.74%
Net Margin	10.85%	5.15%	10.13%	10.28%	6.10%	5.81%
Return on Equity	29.04%	6.81%	14.51%	17.25%	5.98%	7.20%
Sales/Assets	0.72	0.31	0.51	0.37	0.20	0.28
Proj. Sales Growth (F1/F0)	9.07%	0.00%	-1.67%	0.03%	2.60%	-0.03%
Momentum Score	C	-	-	A	B	A
Daily Price Chg	-0.16%	-0.62%	-0.02%	-0.93%	-3.30%	-2.27%
1 Week Price Chg	-1.94%	0.07%	1.09%	-0.82%	0.15%	1.06%
4 Week Price Chg	0.79%	4.70%	4.83%	4.73%	-6.29%	-2.41%
12 Week Price Chg	18.88%	10.99%	13.09%	0.43%	7.56%	15.79%
52 Week Price Chg	14.02%	-14.27%	2.77%	-8.42%	-19.20%	-21.46%
20 Day Average Volume	2,182,750	130,067	1,932,479	1,762,513	1,632,102	1,308,580
(F1) EPS Est 1 week change	-0.14%	0.00%	0.00%	5.23%	0.00%	0.00%
(F1) EPS Est 4 week change	0.21%	1.08%	1.80%	11.49%	3.88%	2.78%
(F1) EPS Est 12 week change	5.13%	-0.35%	2.88%	10.48%	-27.76%	-9.13%
(Q1) EPS Est Mthly Chg	0.62%	6.19%	0.80%	21.20%	3.13%	8.16%

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	C
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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