

ProAssurance Corp. (PRA)

\$14.42 (As of 07/09/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: C

Summary

ProAssurance has been performing well on the back of its operating segments. It is also moving toward its joint marketing and shared risk programs. Following the NORCAL buyout, the combined entity is expected to create the nation's third largest specialty writer of liability insurance for healthcare professionals and facilities. The company has also been witnessing significant cash flow from operating activities for quite some time courtesy of strong balance sheet. Its shares have underperformed its industry in a year's time. Nevertheless, reduced debt level is another advantage for the company. However, growing expenses weighs on its bottom line. Volatility in premium retention is other concern. Another major risk is associated with its investment portfolio. It is exposed to catastrophic events, which imparts volatility to its earnings.

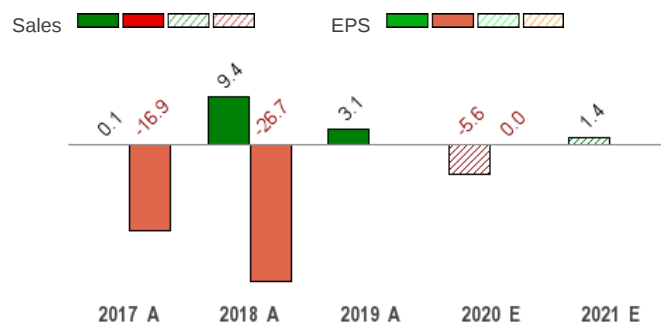
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.03 - \$12.67
20 Day Average Volume (sh)	547,013
Market Cap	\$776.4 M
YTD Price Change	-60.1%
Beta	0.24
Dividend / Div Yld	\$0.20 / 1.4%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 25% (189 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-140.0%
Last Sales Surprise	-3.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/10/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	222 E	228 E	236 E	240 E	910 E
2020	227 A	226 E	224 E	220 E	897 E
2019	233 A	235 A	242 A	239 A	950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.01 E	\$0.05 E	\$0.02 E	\$0.05 E	\$0.13 E
2020	-\$0.02 A	-\$0.78 E	-\$0.03 E	\$0.03 E	-\$0.81 E
2019	\$0.08 A	\$0.08 A	\$0.30 A	-\$1.27 A	-\$0.81 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 07/09/2020. The reports text is as of 07/10/2020.

Overview

Headquartered in Birmingham, AL, ProAssurance Corporation operates as a holding company for many property and casualty insurance companies. With a single business segment principally in the Mid-Atlantic, Midwest and Southern U.S., the company provides professional liability insurance products primarily to physicians, dentists, other healthcare providers and healthcare facilities through its subsidiaries.

The company was incorporated in Delaware in 2001 as the successor to Medical Assurance, Inc. in conjunction with its merger with Professionals Group, Inc.

The company reports through four segments:

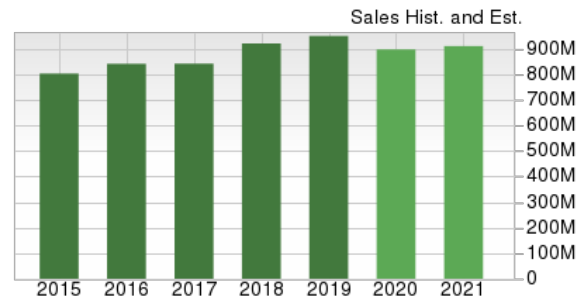
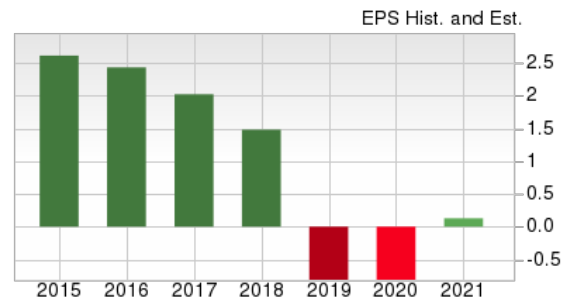
Specialty P&C Insurance Segment (accounted for 52.2% of the total revenues in 2019): The segment primarily focused on professional liability insurance and medical technology liability insurance. Medical technology liability insurance is offered to medical technology and life sciences companies that manufacture or distribute products including entities conducting human clinical trials.

Workers' Compensation Segment (19.8%): The segment provides workers' compensation products primarily to employers with 1,000 or fewer employees.

Segregated Portfolio Cell Reinsurance (5.2%) – This unit reflects the operating results of SPCs at Eastern Re and Inova Re, its Cayman Islands SPC operations.

Lloyd's Syndicate Segment (8.8%): The segment includes operating results from ProAssurance's 58% participation in Lloyd's of London Syndicate 1729.

Corporate Segment (14%): The segment includes ProAssurance's investment operations, interest expense and U.S. income taxes, all of which are managed at the corporate level with the exception of investment assets solely allocated to Syndicate 1729.



Reasons To Buy:

▲ **Rising Premium Income:** ProAssurance's core business has been witnessing a substantial improvement over the past few quarters. The main growth drivers in this regard are the strategic acquisitions that have been accretive to premiums. The company is also moving toward its joint marketing and shared risk programs. Gross premiums written witnessed a 2015-2019 CAGR of 5.1%, mainly owing to strategic acquisitions, segmental contributions and strength in the new physician business. However, the metric declined 6.6% year over year in first-quarter 2020, primarily due to lower premiums across the Specialty P&C segment, Workers' Compensation Insurance segment and Segregated Portfolio Cell Reinsurance segments. Premiums are also expected to remain under pressure due to financial turmoil induced by the COVID-19 pandemic. Nevertheless, we expect that the addition of profitable businesses to expand the company's key business lines will drive growth going forward.

Inorganic growth strategies such as acquisitions and integrations and increasing premiums owing to buyouts and strength in the new physician business are major tailwinds for the company.

▲ **Inorganic Growth:** ProAssurance has significantly achieved inorganic growth via successful acquisitions and integrations of companies. Its financial size and strength have helped it in this regard. The acquisitions of American Physicians Service Group, Medmarc, Eastern Insurance Holdings significantly strengthened its position in the workers' compensation market. In February 2020, the company inked a deal to buy NORCAL, which is expected to increase ProAssurance's concentration on Medical Professional Liability Insurance. The deal is anticipated to provide financial and strategic benefits to the company along with an expected \$18 million in pre-tax synergies. The buyout is expected to enhance the company's size and scale in the MPLI space, making the combined entity the nation's third-largest specialty writer of liability insurance for healthcare professionals and facilities. With further penetration, we expect the company to generate more profitable business.

▲ **Solid Capital Position:** The company has been enjoying significant cash flow from operating activities over the last few quarters on the back of its strong balance sheet. The company has effectively lowered its debts over the last few years. The debt levels also declined marginally in first-quarter 2020. As of Mar 31, 2020, its cash and cash equivalents stood at \$612 million, higher than its long-term debt obligation of \$307 million. Also, as of Mar 31, 2020, the company's total debt to total capital of 17.7% is lower than the industry's average of 21.8%. Set to expire on November 2024, ProAssurance even has a revolving credit facility of up to \$250 million, which can also be utilized to meet debt obligations. Thus, the company's solvency level looks impressive.

▲ **Price Performance:** Shares of the company have underperformed its industry in a year's time. However, its solid fundamentals are likely to help it bounce back going forward.

Reasons To Sell:

- ▼ **Volatility in Premium Retention:** ProAssurance has been facing volatility in premium retention in its physician business for quite some time now, mainly due to increased competition. Retention rate (retained premium divided by all premiums subject to renewal) kept declining since 2011 to 2017. Although the same remained at 86% in 2019, retention rate was reported at 81% in first-quarter 2020. The volatility in premium retention continues to bother the company.
- ▼ **Deteriorating Investment Portfolio:** Another major risk is associated with ProAssurance's investment portfolio, which primarily consists of fixed income securities. The sustained soft interest rate environment in the recent past kept the investment income at a lower level since 2008. The net investment income declined on average of 7.4% from 2014 to 2018, primarily due to a fall in the fixed income portfolio, which is a major concern for the company. Although net investment income increased marginally 0.8% year over year in 2019, the metric declined 8.7% in the first quarter. We expect the same to be persistently subdued in the coming quarters.
- ▼ **Rising Expenses:** ProAssurance has been constantly enduring higher underwriting, policy acquisition and operating expenses over the past many years. In the first quarter of 2020, expenses for the company inched up 0.2% year over year, primarily due to higher net loss and loss adjustment expenses and underwriting, policy acquisition and operating expenses. This persistently rising operating expenses could weigh on the bottom line, going ahead.
- ▼ **Exposure to Catastrophe Loss:** As a property and casualty insurer, the company is substantially exposed to catastrophic events, weighing on its underwriting results. Exposure to cat events and thus cat losses are likely to remain a potential threat to earnings.

Deteriorating investment portfolio, volatility in premium retention and growing expenses are some headwinds facing the stock. Exposure to cat loss is another concern.

Last Earnings Report

ProAssurance Misses Q1 Earnings & Revenue Estimates

ProAssurance reported first-quarter 2020 operating loss per share of 2 cents against the Zacks Consensus Estimate of operating income of 5 cents. In the year-ago quarter, operating income was 8 cents. Quarterly operating revenues of ProAssurance were down 2.6% to \$227 million from the prior-year quarter's level, mainly due to lower premiums. The top line also missed the Zacks Consensus Estimate by 3.4%.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	-3.59%
EPS Surprise	-140.00%
Quarterly EPS	-0.02
Annual EPS (TTM)	-0.91

Quarterly Operational Update

Gross premiums written were down 6.2% year over year to \$262 million, primarily due to lower premiums across the Specialty P&C segment, Workers' Compensation Insurance segment and Segregated Portfolio Cell Reinsurance segments. Moreover, net premiums earned were down 2.1% year over year to \$204 million. Net investment income decreased 8.7% year over year to \$20.8 million.

Total expenses inched up 0.2% year over year to \$230.7 million. Combined ratio deteriorated 500 basis points (bps) year over year to 111.3% due to increase in consolidated underwriting expense and net loss ratios.

Quarterly Segmental Results

Specialty P&C Insurance Segment

Total revenues of \$122 million decreased 2.6% from the prior-year quarter figure due to lower premiums earned. Gross premiums written declined 6.6% year over year to \$155.4 million, indicating the company's strategy to strengthen rate levels in the physician's book of business and continued re-underwriting efforts related to their national accounts, excess and surplus lines and healthcare facilities business. Total expenses of \$140 million increased 2.4% year over year, primarily due to net loss and loss adjustment expenses. Combined ratio deteriorated 610 basis points year over year to 116.8%.

Workers' Compensation Segment

Total revenues of \$45.3 million decreased 3% year over year, mainly due to lower premiums earned. Gross premiums written were \$79.2 million, down 11.3% from the year-earlier period's number, mainly due to reduction in renewal pricing and premium retention of 83%, partially offset by an increase in new business written. Total expenses of \$43.9 million were down 1.6% year over year. Combined ratio deteriorated 150 basis points year over year to 98.7%.

Lloyd's Syndicate Segment

Total revenues of \$23 million increased 16.9% year over year on the back of higher premiums and net investment income. Gross premiums written were \$27.9 million, up 18.1% from the figure acquired in the comparable quarter last year, primarily driven by volume increases on renewal business and renewal pricing increases, primarily property insurance coverage as well as new business written, primarily casualty coverage. Total expenses of \$23.9 million rose 23.4% year over year due to higher net losses and loss adjustment expenses and underwriting, policy acquisition and operating expenses. Combined ratio deteriorated 490 basis points year over year to 108.8%.

Segregated Portfolio Cell Reinsurance segment

Total revenues of \$68 million decreased 23.1% year over year mainly due to lower premiums earned and net investment income. Gross premiums written were \$27.1 million, down 25.4% the year-earlier period's number, mainly due to the reduction in premium funding for a large workers' compensation alternative market program. Combined ratio deteriorated 310 basis points year over year to 85%.

Corporate Segment

The company reported negative revenues of \$7.1 million against year-ago quarter revenues of \$55 million. Operating expenses of \$4.8 million increased 5.6% from the prior-year quarter's level. Interest expense of \$4.1 million decreased 4.6% year over year.

Financial Position

As of Mar 31, 2020, ProAssurance's total investments were \$3.2 billion, down 4.4% from the number registered at year-end 2019. At first-quarter end, the company's total assets were \$4.7 billion, down 1.6% from the count at 2019 end. As of Mar 31, 2020, the insurer's shareholder equity decreased 5.6% to \$1.4 billion from the figure as of Dec 31, 2019. Return on equity was (6%) against the year-ago quarter return on equity of 8%. Book value was \$26.51 per share as of Mar 31, 2020, down 5.7% from the figure as of Dec 31, 2019.

Share Repurchase & Dividend Update

The board of directors declared a regular dividend of 5 cents per share, which will be paid out to its shareholders on Jul 8, 2020. This dividend reflects reduction from 31 cents paid earlier given uncertainties introduced by the COVID-19 pandemic. The company has not repurchased any shares of the stock in 2020 and 2019. As of May 1, 2020, it has \$110 million remaining under its Board-authorized stock repurchase program.

Recent News

ProAssurance Cuts Down on its Dividend — May 7, 2020

Concurrent with first-quarter 2020 earnings release, the company's board of directors declared a regular dividend of 5 cents per share, which will be paid out to its shareholders on Jul 8, 2020. This dividend reflects reduction from 31 cents paid earlier given uncertainties introduced by the COVID-19 pandemic.

Valuation

ProAssurance's shares are down 60% and 62.4% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 21% and 20.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 18% and 15%, respectively.

The S&P 500 index is down 0.4% in the year-to-date period and up 8.2% in the past year.

The stock is currently trading at 0.54x trailing 12-month tangible book value, which compares to 1.18x for the Zacks sub-industry, 2.28x for the Zacks sector and 4.34x for the S&P 500 index.

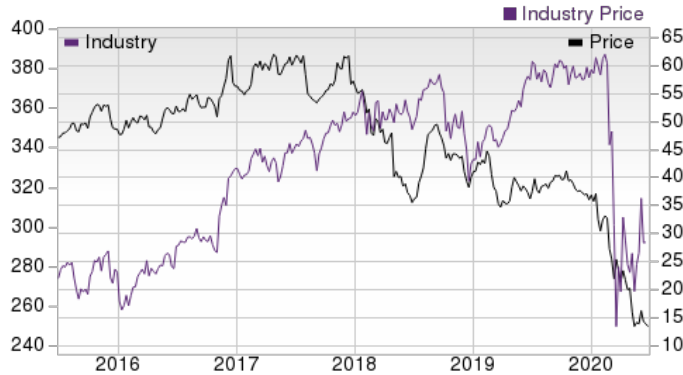
Over the past five years, the stock has traded as high as 1.91x and as low as 0.49x, with a 5-year median of 1.38x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$15 price target reflects 0.56x tangible book value.

The table below shows summary valuation data for PRA

Valuation Multiples - PRA					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	0.54	1.18	2.28	4.34
	5-Year High	1.91	1.63	2.98	4.65
	5-Year Low	0.49	1.05	1.78	2.81
	5-Year Median	1.38	1.42	2.51	3.69
P/S F12M	Current	0.86	1.7	6.04	3.51
	5-Year High	4.11	11.26	6.7	3.51
	5-Year Low	0.75	1.39	4.96	2.54
	5-Year Median	3.09	1.85	6.06	3.04

As of 07/09/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (189 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Donegal Group, Inc. (DGICA)	Outperform	3
Kinsale Capital Group, Inc. (KNSL)	Outperform	3
American Financial Group, Inc. (AFG)	Neutral	3
The Allstate Corporation (ALL)	Neutral	3
The Progressive Corporation (PGR)	Neutral	3
ProSight Global, Inc. (PROS)	Neutral	4
RLI Corp. (RLI)	Neutral	3
United Insurance Holdings Corp. (UIHC)	Neutral	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	PRA	X Industry	S&P 500	ALL	PGR	RLI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	A	A	F
Market Cap	776.44 M	1.08 B	21.19 B	26.96 B	45.53 B	3.39 B
# of Analysts	4	2	14	7	9	2
Dividend Yield	1.39%	1.39%	1.96%	2.52%	0.51%	1.27%
Value Score	D	-	-	A	A	F
Cash/Price	0.81	0.22	0.07	0.20	0.06	0.01
EV/EBITDA	72.51	4.87	12.56	4.12	8.53	14.08
PEG Ratio	NA	2.00	2.85	1.07	2.09	NA
Price/Book (P/B)	0.54	1.00	3.00	1.21	3.29	3.70
Price/Cash Flow (P/CF)	NA	8.73	11.41	6.32	10.62	27.25
P/E (F1)	NA	12.43	20.79	8.04	12.52	33.56
Price/Sales (P/S)	0.84	0.73	2.19	0.62	1.17	3.95
Earnings Yield	-5.62%	7.73%	4.52%	12.43%	7.98%	2.98%
Debt/Equity	0.21	0.23	0.76	0.30	0.39	0.16
Cash Flow (\$/share)	-0.47	3.12	6.94	13.58	7.33	2.77
Growth Score	F	-	-	A	C	F
Hist. EPS Growth (3-5 yrs)	-24.72%	7.13%	10.90%	19.27%	35.17%	-2.00%
Proj. EPS Growth (F1/F0)	0.00%	-3.12%	-9.99%	2.34%	-7.57%	-12.45%
Curr. Cash Flow Growth	-124.92%	5.61%	5.51%	30.84%	48.16%	25.36%
Hist. Cash Flow Growth (3-5 yrs)	NA%	6.06%	8.55%	9.17%	24.96%	0.86%
Current Ratio	0.45	0.45	1.30	0.31	0.39	0.36
Debt/Capital	17.69%	19.85%	44.46%	21.53%	28.14%	14.02%
Net Margin	-5.67%	3.92%	10.62%	9.38%	9.18%	7.57%
Return on Equity	-3.21%	7.24%	15.75%	17.53%	26.80%	11.79%
Sales/Assets	0.19	0.31	0.55	0.37	0.72	0.25
Proj. Sales Growth (F1/F0)	-5.55%	0.00%	-2.52%	-0.96%	8.05%	3.03%
Momentum Score	C	-	-	B	A	D
Daily Price Chg	5.72%	-2.25%	-1.52%	-2.72%	0.54%	-2.49%
1 Week Price Chg	5.03%	1.55%	3.66%	-0.52%	1.72%	1.53%
4 Week Price Chg	3.82%	-2.12%	0.36%	-9.46%	2.46%	-4.90%
12 Week Price Chg	-28.22%	-1.94%	10.41%	-14.12%	-1.64%	-9.82%
52 Week Price Chg	-63.57%	-22.90%	-8.70%	-16.80%	-7.12%	-13.99%
20 Day Average Volume	547,013	154,522	2,339,510	2,014,287	2,711,148	204,065
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.01%	0.45%	-4.26%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-2.24%	0.18%	-4.26%
(F1) EPS Est 12 week change	-370.00%	-14.29%	-7.77%	4.28%	14.51%	-8.72%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.07%	1.57%	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	D
Growth Score	F
Momentum Score	C
VGM Score	F

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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