

ProAssurance Corp. (PRA)

\$33.23 (As of 02/11/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: D

Momentum: F

Summary

ProAssurance's has been performing well on the back of growth across its operating segments. Moreover, the company significantly achieved inorganic growth via successful acquisitions and integration of companies on the back of its solid financial strength. It is also moving toward its joint marketing and shared risk programs. Stable cash flows and reduced debt levels are added advantages for the company. Its shares have underperformed its industry in a year. However, growing expenses weighs on its bottom line. Volatility in premium retention pertaining to the company's physician business is other concern. Another major risk is associated with its investment portfolio, which primarily consists of fixed income securities. As a property and casualty insurer, it is exposed to catastrophic events, which continues to bother.

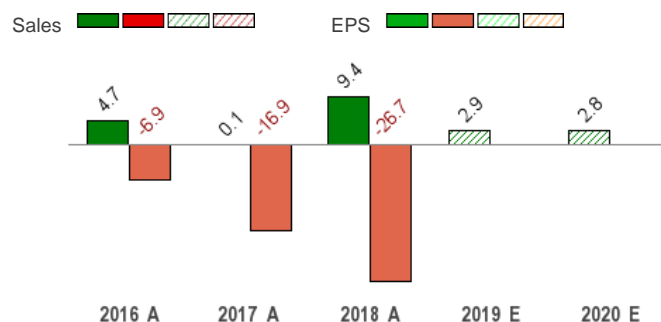
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$45.45 - \$29.45
20 Day Average Volume (sh)	307,336
Market Cap	\$1.8 B
YTD Price Change	-8.1%
Beta	0.52
Dividend / Div Yld	\$1.24 / 3.7%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 44% (111 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	150.0%
Last Sales Surprise	0.8%
EPS F1 Est- 4 week change	-92.4%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	51.9
P/E F1	664.6
PEG F1	NA
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	240 E	243 E	247 E	245 E	975 E
2019	233 A	235 A	242 A	237 E	948 E
2018	212 A	248 A	229 A	229 A	921 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.02 E	\$0.01 E	\$0.01 E	\$0.01 E	\$0.05 E
2019	\$0.08 A	\$0.08 A	\$0.30 A	-\$1.65 E	-\$1.19 E
2018	\$0.40 A	\$0.48 A	\$0.42 A	\$0.18 A	\$1.48 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 02/11/2020. The reports text is as of 02/12/2020.

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 reports through four segments:

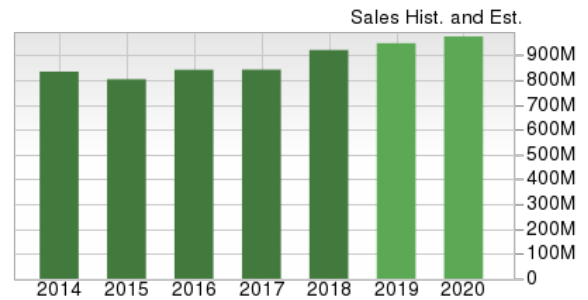
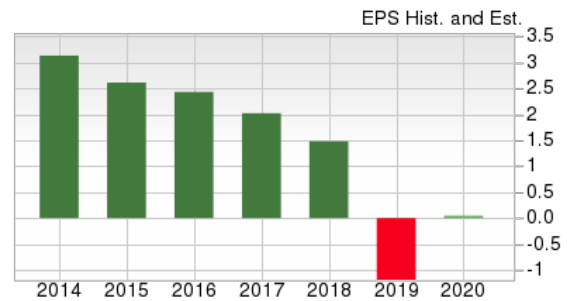
Specialty P&C Insurance Segment (accounted for 55% of the total revenues in 3Q19): The segment primarily focused on professional liability insurance and medical technology liability insurance.

Workers' Compensation Segment (21%): The segment provides workers' compensation products primarily to employers with 1,000 or fewer employees.

Segregated Portfolio Cell Reinsurance (8.8%) – This unit reflects the operating results of SPCs at Eastern Re and Inova Re, its Cayman Islands SPC operations.

Lloyd's Syndicate Segment (8%): The segment includes operating results from ProAssurance's 58% participation in Lloyd's of London Syndicate 1729.

Corporate Segment: 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 2015-2018 CAGR of 5.6%, mainly owing to strategic acquisitions and strength in the new physician business. Following the trend, the same inched up 2.8% in the first nine months of 2019. 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. With further penetration, we expect the company to generate more profitable business.

▲ **Share Price Performance:** Shares of the company have lost nearly against its industry's growth in a year's time. However, its solid fundamentals such as rising premiums are likely to help the stock bounce back going forward.

▲ **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. In 2018, cash flow from operating activities increased 2.3%. Moreover, it has been decreasing its debt level since 2016. Last year, the same declined 30% year over year. Further, its leverage ratio (total debt to equity) stands at 19.4%, lower than its industry average of 25.5%. We believe that the company's impressive financial strength will continue to buoy investor optimism.

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 improved in some business lines during 2018, the retention rate in the first nine months of 2019 was almost flat. 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 3.5% year over year in the first nine months of 2019, we expect the same to be persistently subdued in the coming quarters due to still-low interest rates.
- ▼ **Rising Expenses:** ProAssurance has been constantly enduring higher underwriting, policy acquisition and operating expenses. On average, these expenses rose at 5.2% rate from 2015-2018, weighing on the company's margin. An increase in net loss and loss adjustment expenses as well as underwriting, policy acquisition and operating expenses resulted in higher expenses during 2018. Expenses of the company further rose 8% year over year in the first nine months of 2019. 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 Q3 Earnings Beat Estimates, Drop Y/Y

ProAssurance Corporation's third-quarter 2019 operating earnings per share of 30 cents beat the Zacks Consensus Estimate of 12 cents by 150%, primarily driven by higher revenues. However, the bottom line declined 28.6% year over year. The company's quarterly operating revenues rose 5.7% to \$242 million from the prior-year period on the back of premium growth. The top line also surpassed the Zacks Consensus Estimate by 0.8%.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	0.76%
EPS Surprise	150.00%
Quarterly EPS	0.30
Annual EPS (TTM)	0.64

Quarterly Operational Update

Gross premiums written inched up 2.2% year over year to \$265 million, riding on the company's Workers' Compensation Insurance segment, Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments.

Also, net premiums earned rose 4.7% year over year on solid segmental performances, especially Specialty P&C segment.

Net investment income increased 1.8% year over year.

Total expenses rose 6% year over year to \$231 million due to higher net losses and loss adjustment expenses.

Quarterly Segment Results

Specialty P&C Segment

Total revenues of \$127 million improved 4% year over year. Gross premiums written were \$164.9 million, down 1.6% year over year due to decline in healthcare facilities premium and the pending renewal of a \$3.6-million physician policy. Total expenses of \$137 million rose 8.7% year over year due to net loss and loss adjustment expenses.

Workers' Compensation Segment

Total revenues of \$49.9 million rose 4.8% year over year. Gross premiums written were \$70.1 million in the quarter under review, up 6.6% year over year. This was on the back of new business additions and a hike in audit premium. Total expenses of \$47.2 million increased 2.6% year over year.

Segregated Portfolio Cell Reinsurance Segment

Gross premiums of \$17.3 million were up 29% year over year owing to new business and 96% renewal retention rate.

Lloyd's Syndicate Segment

Total revenues of \$22.5 million improved 12.1% year over year. Gross premiums written were \$30.4 million, up 15.3% from the figure acquired in the comparable quarter last year. This upside can be attributed to volume expansion on renewal business and renewal pricing increases, new business written, etc. Total expenses of \$21.3 million increased 15.4% year over year due to higher net losses and loss adjustment expenses and higher underwriting, policy acquisition and operating expenses.

Corporate Segment

Total revenues of \$22.8 million deteriorated 41.7% year over year. Operating expenses of \$2.6 million declined 46.9% from the year-ago level on the back of some lower compensation-related expenses. Interest expense of \$4.2 million increased 17.3% year over year.

Financial Position

As of Sep 30, 2019, ProAssurance's total investments of \$3.4 billion were up 4.4% from the number registered at 2018 end.

At third-quarter end, the company's total assets were \$4.8 billion, up 4.9% from the level at 2018 end.

As of Sep 30, 2019, the insurer's shareholder equity increased 4.3% to \$1.5 billion from the tally on Dec 31, 2018.

Share Repurchase & Dividend Update

The company did not buy back any shares in the reported quarter. As of Oct 31, 2019, it had approximately \$110 million of shares available under its board-authorized stock repurchase program. In August 2019, the company's board members approved a regular dividend of 31 cents, paid out in October.

Recent News

ProAssurance Announces Preliminary Loss Estimates — Jan 22, 2020

ProAssurance declared a preliminary estimate of \$37 million for adverse development in its prior accident year loss reserves in the fourth quarter of last year. This loss was incurred at the company's Specialty Property & Casualty segment.

ProAssurance Approves Quarterly Dividend — Dec 30, 2019

ProAssurance has declared a cash dividend of 31 cents per share, payable Jan 14, 2020 to its shareholders of record on Dec 27, 2019.

Valuation

ProAssurance's shares are down 23.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 11.9% and 10%, respectively.

The S&P 500 index is up 21.1% in the past year.

The stock is currently trading at 1.13X trailing 12-month tangible book value, which compares to 1.45X for the Zacks sub-industry, 2.86X for the Zacks sector and 4.33X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.91X and as low as 1.02X, with a 5-year median of 1.38X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 1.19X 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	1.13	1.45	2.86	4.33
	5-Year High	1.91	1.67	2.89	4.42
	5-Year Low	1.02	1.26	1.83	2.85
	5-Year Median	1.38	1.47	2.51	3.62
P/S F12M	Current	1.83	1.71	6.55	3.56
	5-Year High	4.11	11.26	6.65	3.56
	5-Year Low	1.66	1.55	5.39	2.54
	5-Year Median	3.11	1.89	6.04	3
P/E F12M	Current	582.1	26.86	15	19.3
	5-Year High	590.7	31.55	16.21	19.34
	5-Year Low	16.23	22.77	12.01	15.18
	5-Year Median	25.16	25.9	14.15	17.47

As of 02/11/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 254)



Top Peers

RLI Corp. (RLI)	Outperform
Arch Capital Group Ltd. (ACGL)	Neutral
The Allstate Corporation (ALL)	Neutral
Axis Capital Holdings Limited (AXS)	Neutral
Donegal Group, Inc. (DGICA)	Neutral
Hallmark Financial Services, Inc. (HALL)	Neutral
The Progressive Corporation (PGR)	Neutral
United Insurance Holdings Corp. (UIHC)	Neutral

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	PRA Neutral	X Industry	S&P 500	AXS Neutral	PGR Neutral	RLI Outperform
VGM Score	F	-	-	B	A	D
Market Cap	1.79 B	2.04 B	24.31 B	5.47 B	48.91 B	4.38 B
# of Analysts	4	2	13	3	10	2
Dividend Yield	3.73%	0.98%	1.78%	2.52%	0.48%	0.94%
Value Score	C	-	-	C	B	F
Cash/Price	0.24	0.18	0.04	0.22	0.04	0.02
EV/EBITDA	25.26	9.82	13.97	23.12	14.34	54.40
PEG Ratio	NA	1.78	2.06	2.54	2.10	NA
Price/Book (P/B)	1.12	1.24	3.24	1.14	3.58	4.39
Price/Cash Flow (P/CF)	17.68	13.75	13.65	13.26	16.86	43.88
P/E (F1)	662.80	13.84	19.12	12.70	15.42	39.12
Price/Sales (P/S)	1.92	1.06	2.67	1.06	1.25	4.37
Earnings Yield	0.15%	6.97%	5.23%	7.87%	6.49%	2.56%
Debt/Equity	0.19	0.21	0.70	0.33	0.32	0.15
Cash Flow (\$/share)	1.88	3.05	6.94	4.91	4.96	2.23
Growth Score	D	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	-22.80%	0.72%	10.85%	-22.01%	31.71%	-3.84%
Proj. EPS Growth (F1/F0)	103.79%	12.38%	7.30%	103.57%	-19.27%	-2.72%
Curr. Cash Flow Growth	-26.62%	11.68%	8.92%	-541.78%	55.42%	26.39%
Hist. Cash Flow Growth (3-5 yrs)	-17.07%	7.23%	8.36%	-13.32%	19.35%	-3.04%
Current Ratio	0.39	0.44	1.22	0.55	0.42	0.38
Debt/Capital	16.24%	18.09%	42.90%	22.20%	25.31%	12.99%
Net Margin	3.86%	6.63%	11.81%	6.25%	10.17%	19.10%
Return on Equity	2.19%	7.50%	16.98%	5.40%	30.68%	12.21%
Sales/Assets	0.20	0.31	0.54	0.20	0.75	0.30
Proj. Sales Growth (F1/F0)	2.85%	4.11%	3.90%	1.70%	9.98%	8.28%
Momentum Score	F	-	-	C	C	D
Daily Price Chg	1.62%	0.41%	0.65%	-0.02%	0.08%	0.71%
1 Week Price Chg	6.52%	1.84%	2.47%	0.86%	3.19%	3.66%
4 Week Price Chg	-7.15%	0.78%	1.35%	8.28%	12.67%	8.75%
12 Week Price Chg	-11.90%	3.79%	5.63%	10.74%	16.91%	-1.42%
52 Week Price Chg	-23.50%	7.60%	16.19%	16.97%	20.72%	41.97%
20 Day Average Volume	307,336	89,776	1,995,746	494,524	2,943,596	219,500
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-92.37%	0.00%	0.00%	2.53%	0.46%	2.04%
(F1) EPS Est 12 week change	-92.37%	0.00%	-0.19%	1.79%	-2.49%	2.04%
(Q1) EPS Est Mthly Chg	-90.00%	0.00%	0.00%	1.37%	0.38%	1.37%

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	D
Momentum Score	F
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.