

ProAssurance Corp. (PRA)

\$24.79 (As of 03/23/20)

Price Target (6-12 Months): **\$26.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

ProAssurance's has been performing well on the back of its operating segments. The company 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. Reduced debt level is another advantage for the company. However, its shares have underperformed its industry in a year's time. Growing expenses weighs on its bottom line. Volatility in premium retention is other concern. Another major risk is associated with its investment portfolio. As a property and casualty insurer, it is exposed to catastrophic events, which bothers ProAssurance.

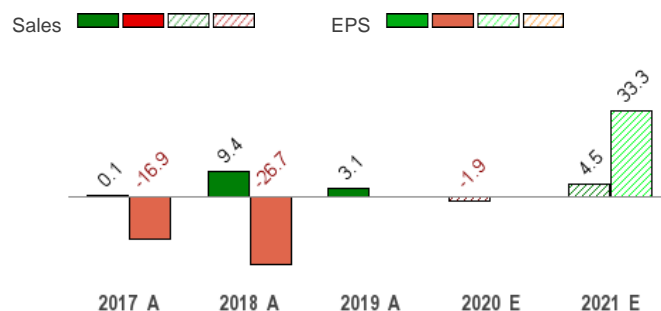
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.03 - \$18.00
20 Day Average Volume (sh)	414,042
Market Cap	\$1.3 B
YTD Price Change	-31.4%
Beta	0.60
Dividend / Div Yld	\$1.24 / 5.0%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 33% (170 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.0%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	650.0%
Expected Report Date	04/23/2020
Earnings ESP	-6.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	240 E	245 E	254 E	259 E	974 E
2020	236 E	232 E	233 E	230 E	932 E
2019	233 A	235 A	242 A	239 A	950 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.06 E	\$0.13 E	\$0.11 E	\$0.13 E	\$0.40 E
2020	\$0.07 E	\$0.08 E	\$0.11 E	\$0.05 E	\$0.30 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.

P/E TTM	NA
P/E F1	82.6
PEG F1	NA
P/S TTM	1.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/23/2020. The reports text is as of 03/24/2020.

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:

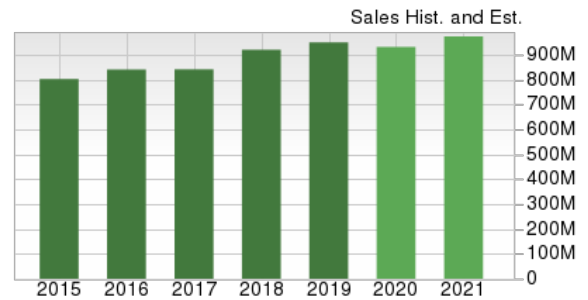
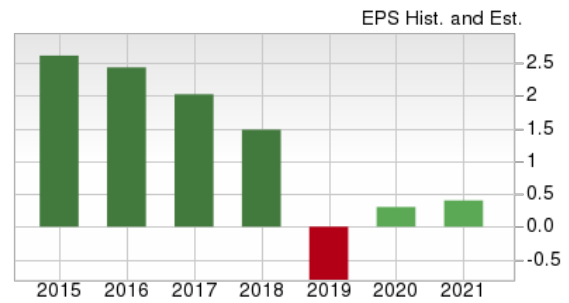
Specialty P&C Insurance Segment (accounted for 52.2% of the total revenues in 2019): The segment primarily focused on professional liability insurance and medical technology liability insurance.

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. We expect that the addition of profitable businesses to expand the company's key business lines will drive growth going forward.

▲ **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. Although cash flow from operating activities declined to some extent in 2019, we expect it to grow going forward on the back of its capital strength. Moreover, the same has been decreasing the company's debt level since 2016. In 2018 and 2019, the debt load fell 30% and 0.8% year over year. Further, the company's leverage ratio (total debt to equity) stands at 20.4%, lower than its industry average of 24.3%. We believe that its impressive financial strength will continue to buoy investor optimism.

▲ **Price Performance:** Shares of the company have lost more than its industry in a year's time. Moreover, its solid fundamentals would likely help the stock continue its rally 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.

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 for some business lines during 2018, the retention rate in 2019 was flat at 91%. 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, 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 2019, expenses for the company rose 20% year over year. 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's Q4 Earnings and Revenues Beat Estimates

ProAssurance's fourth-quarter 2019 operating loss per share of \$1.27 was narrower than the Zacks Consensus Estimate of a loss of \$1.65. Meanwhile, the bottom line came in against the year-ago earnings per share of 18 cents. This downside is mainly due to lower gross premiums reported in the quarter under review. Quarterly operating revenues rose 4.4% to \$239 million from the prior-year period. The top line also beat the Zacks Consensus Estimate by 0.8%.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	1.05%
EPS Surprise	23.03%
Quarterly EPS	-1.27
Annual EPS (TTM)	-0.81

Quarterly Operational Update

Gross premiums written decreased 5.1% year over year to \$200.8 million due to soft contribution from the Specialty P&C Segment, Workers' Compensation Insurance segment and Segregated Portfolio Cell Reinsurance. Also, net premiums earned rose 6.1% year over year to \$214 million on solid Specialty P&C segment contribution, which in turn, was driven by rate increases. Net investment income decreased 4% year over year. Total expenses rose 55.3% year over year to \$338.6 million due to higher net losses and loss adjustment expenses, underwriting, policy acquisition and operating expenses.

Quarterly Segment Results

Specialty P&C Segment

Total revenues of \$125 million improved 8.4% year over year. Gross premiums written were \$118.4 million, down 2.2% year over year due to decline in healthcare facilities premiums. Total expenses of \$242.3 million soared 101.5% year over year on account of high net losses and loss adjustment expenses, underwriting, policy acquisition and operating expenses.

Workers' Compensation Segment

Total revenues of \$47.7 million declined 7.3% year over year. Gross premiums written were \$54.8 million in the quarter under review, down 15.6% year over year. This was due to renewal rate decreases and a decline in new business writings, all reflecting a very competitive workers' compensation marketplace. Total expenses of \$42.3 million fell 5.7% year over year, mainly on the back of lower net losses and loss adjustment expenses.

Segregated Portfolio Cell Reinsurance Segment

Gross premiums of \$16.6 million from this segment slid 1.5% year over year.

Lloyd's Syndicate Segment

Total revenues of \$24.5 million improved 28.4% year over year. Gross premiums written were \$27.6 million, up 7.2% from the figure acquired in the comparable quarter last year. This upside can be attributed to volume expansion in renewal business and renewal pricing increases, new business written, etc. Total expenses of \$21.9 million decreased 22.8% year over year on the back of lower net losses and loss adjustment expenses, underwriting, policy acquisition and operating costs.

Corporate Segment

Total revenues of \$30.3 million improved 236.3% year over year. Operating expenses of \$6.4 million flared up 89.4% from the year-ago level due to some one-time compensation-related costs and a hike in employee health plan expenses. Interest expense of \$3.8 million decreased 22% year over year.

Financial Position

As of Dec 31, 2019, ProAssurance's total investments of \$3.4 billion inched up 1.2% from the number registered at 2018 end. At fourth-quarter end, the company's total assets of \$4.8 billion were up 4.5% from the level at 2018 end. As of Dec 31, 2019, this insurer's shareholder equity slipped 0.7% to \$1.5 billion from the level on Dec 31, 2018.

Share Repurchase & Dividend Update

The company did not buy back any shares in 2019. As of Feb 14, 2020, it had approximately \$110 million of shares available under its board-authorized stock repurchase program. In December 2019, the company's board members approved a regular dividend of 31 cents, paid out on Jan 14, 2020.

Full-Year Update

In 2019, the company reported total revenues of \$999 million, up 12.8% year over year. For the year ended Dec 31, 2019, the company incurred operating loss per share of 81 cents versus 2018's earnings per share of \$1.48.

Recent News

ProAssurance Approves Quarterly Dividend — Mar 4, 2020

ProAssurance has declared a cash dividend of 31 cents per share, payable Apr 15, 2020 to its shareholders of record on Mar 27, 2020.

ProAssurance to Buy NORCAL Group — Feb 21, 2020

ProAssurance to acquire NORCAL Group, in which the latter will become a part of ProAssurance in a \$450 million transaction following the demutualization of NORCAL Mutual Insurance Company. Subject to closing conditions, the companies expect to close the deal by 2020 end.

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.

Valuation

ProAssurance's shares are down 31.4% and 29% 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 26.5% and 36.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 17.7% and 30%, respectively.

The S&P 500 index is down 28% in the year-to-date period and 18% in the past year.

The stock is currently trading at 0.8x trailing 12-month tangible book value, which compares to 0.9x for the Zacks sub-industry, 1.8x for the Zacks sector and 3.1x for the S&P 500 index.

Over the past five years, the stock has traded as high as 1.9x and as low as 0.7x, with a 5-year median of 1.4x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$26 price target reflects 0.9x 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	0.88	0.98	1.76	3.11
	5-Year High	1.91	1.67	2.89	4.56
	5-Year Low	0.72	0.98	1.76	2.85
	5-Year Median	1.38	1.47	2.51	3.62
P/S F12M	Current	1.42	1.73	5.99	2.5
	5-Year High	4.11	11.26	6.64	3.43
	5-Year Low	1.16	1.55	5.39	2.5
	5-Year Median	3.11	1.89	6.04	3
P/E F12M	Current	76.81	19.52	16.21	13.75
	5-Year High	590.7	31.55	9.76	19.34
	5-Year Low	16.23	19.52	13.97	13.75
	5-Year Median	25.32	25.42	9.76	17.42

As of 03/23/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 254)



Top Peers

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

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	-	-	D	A	F
Market Cap	1.33 B	1.12 B	15.21 B	3.00 B	38.95 B	3.38 B
# of Analysts	4	2	13	3	10	2
Dividend Yield	5.00%	1.60%	2.82%	4.60%	0.60%	1.22%
Value Score	D	-	-	C	C	F
Cash/Price	0.41	0.24	0.07	0.49	0.05	0.01
EV/EBITDA	166.05	4.58	9.67	7.89	7.35	14.00
PEG Ratio	NA	1.12	1.37	1.39	1.70	NA
Price/Book (P/B)	0.88	0.77	1.99	0.63	2.95	3.39
Price/Cash Flow (P/CF)	NA	7.98	8.15	7.98	9.08	27.11
P/E (F1)	82.63	8.64	11.83	6.95	12.49	30.49
Price/Sales (P/S)	1.33	0.61	1.60	0.58	1.00	3.36
Earnings Yield	1.21%	10.87%	8.21%	14.39%	8.01%	3.27%
Debt/Equity	0.20	0.21	0.70	0.41	0.33	0.15
Cash Flow (\$/share)	-0.47	3.12	7.01	4.47	7.33	2.77
Growth Score	F	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	-23.69%	2.31%	10.85%	-22.01%	31.71%	-3.84%
Proj. EPS Growth (F1/F0)	137.04%	10.27%	4.20%	103.57%	-20.71%	-4.09%
Curr. Cash Flow Growth	-124.92%	5.61%	5.93%	-8.72%	48.16%	25.36%
Hist. Cash Flow Growth (3-5 yrs)	NA%	7.31%	8.55%	-11.78%	24.96%	0.86%
Current Ratio	0.43	0.43	1.23	0.57	0.36	0.36
Debt/Capital	16.92%	18.05%	42.57%	26.09%	25.31%	13.04%
Net Margin	0.10%	8.63%	11.57%	6.25%	10.17%	19.10%
Return on Equity	-2.80%	8.30%	16.74%	5.39%	30.98%	12.07%
Sales/Assets	0.21	0.32	0.54	0.20	0.75	0.29
Proj. Sales Growth (F1/F0)	-1.91%	1.42%	2.76%	1.70%	9.97%	7.83%
Momentum Score	D	-	-	D	B	F
Daily Price Chg	-2.09%	-1.91%	-3.98%	-6.55%	-2.53%	2.06%
1 Week Price Chg	15.83%	-15.31%	-16.96%	-11.93%	-12.54%	-6.70%
4 Week Price Chg	-21.95%	-31.86%	-36.64%	-42.22%	-17.81%	-15.90%
12 Week Price Chg	-31.01%	-34.14%	-37.10%	-39.93%	-7.98%	-16.64%
52 Week Price Chg	-29.41%	-29.41%	-28.90%	-35.86%	-8.48%	8.07%
20 Day Average Volume	414,042	171,435	4,200,337	979,330	5,275,080	348,965
(F1) EPS Est 1 week change	0.00%	0.00%	-0.16%	0.00%	-0.41%	-1.40%
(F1) EPS Est 4 week change	650.00%	-0.31%	-1.37%	0.00%	-0.73%	-1.40%
(F1) EPS Est 12 week change	-49.15%	-0.60%	-2.41%	2.12%	-1.43%	0.61%
(Q1) EPS Est Mthly Chg	575.00%	0.00%	-1.16%	0.00%	-0.54%	-1.35%

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	D
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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