

## ProAssurance Corp. (PRA)

**\$15.38** (As of 08/24/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/24/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: A

## Summary

ProAssurance's second-quarter 2020 operating loss per share of 60 cents is narrower than the Zacks Consensus Estimate of an operating loss of 67 cents. In the year-ago quarter, the company delivered an operating income of 8 cents. Its segments have been operating strongly. 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. 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.

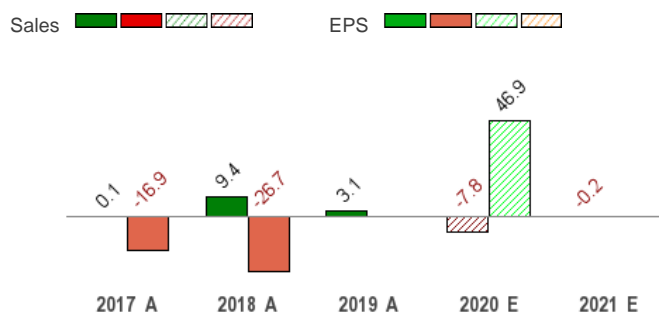
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$42.03 - \$12.67
20 Day Average Volume (sh)	380,237
Market Cap	\$828.8 M
YTD Price Change	-57.4%
Beta	0.24
Dividend / Div Yld	\$0.20 / 1.3%
Industry	<a href="#">Insurance - Property and Casualty</a>
Zacks Industry Rank	Top 47% (118 out of 252)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.5%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	38.4%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.9

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	210 E	210 E	208 E	207 E	874 E
2020	227 A	227 A	213 E	208 E	876 E
2019	233 A	235 A	242 A	239 A	950 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.03 E	\$0.09 E	\$0.09 E	\$0.10 E	\$0.31 E
2020	-\$0.02 A	-\$0.60 A	\$0.14 E	\$0.05 E	-\$0.43 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 08/24/2020. The reports text is as of 08/25/2020.

## 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:

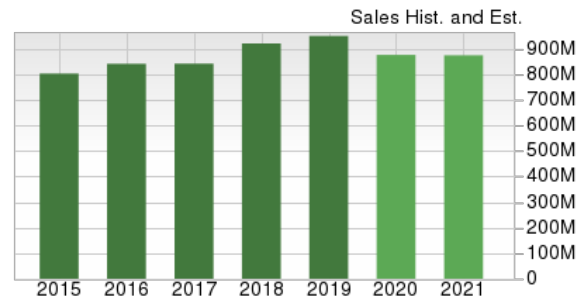
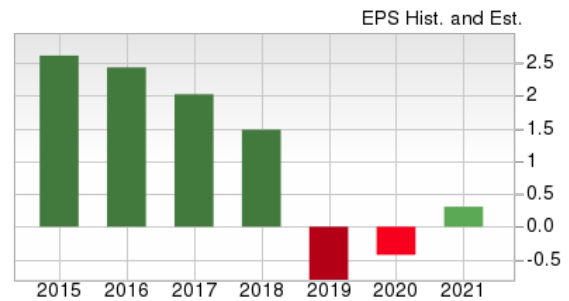
**Specialty P&C Insurance Segment (accounted for 52.2% of the total revenues in 2019):** The segment primarily focused on professional liability insurance and medical technology liability insurance. Medical technology liability insurance is offered to medical technology and life sciences companies that 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 10.7% year over year in first six months of 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:** 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 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. The company has proceeded with the NORCAL buyout, which is expected to close by 2020 end. 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. As of Jun 30, 2020, it had cash and cash equivalents of \$224 million and a revolving credit facility of up to \$250 million (Set to expire on November 2024), higher than its long-term debt obligation of \$285.3 million. The company's total debt to total capital of 17.2% is lower than the industry's average of 66.7%. 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.

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 remained at 86% in 2019, retention rate was reported at 81% in first six months of 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 plunged 31.4% in the first six months. 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 six months of 2020, expenses for the company increased 11% 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 Reports Loss in Q2, Beats on Revenues

ProAssurance reported second-quarter 2020 operating loss per share of 60 cents, narrower than the Zacks Consensus Estimate of an operating loss of 67 cents. However, in the year-ago quarter, the company delivered an operating income of 8 cents.

Quarterly operating revenues of ProAssurance dipped 3.6% to \$227.11 million from the prior-year quarter's level, mainly due to lower premiums.

The top line, however, beat the Zacks Consensus Estimate by 0.4%.

Quarter Ending **06/2020**

Report Date	Aug 10, 2020
Sales Surprise	<b>0.38%</b>
EPS Surprise	<b>10.45%</b>
Quarterly EPS	<b>-0.60</b>
Annual EPS (TTM)	<b>-1.59</b>

### Quarterly Operational Update

Gross premiums written were down 16.4% year over year to \$185 million, primarily due to strategy to strengthen rate levels in Standard Physician business, premium credits recognition in relation to the pandemic along with re-underwriting efforts in Specialty business. Moreover, net premiums earned were down 0.9% year over year to \$207.3 million.

Net investment income decreased 23% year over year to \$18 million.

Net realized investment gain of the company was \$19.9 million, up 114.7% year over year.

Total expenses increased 22% year over year to \$278.5 million. This rise in costs mainly stemmed from higher net loss and loss adjustment expenses, and SPC dividend income.

Combined ratio expanded 1960 basis points (bps) year over year to 130.1%.

### Quarterly Segmental Results

#### Specialty P&C Insurance Segment

Total revenues of \$128 million inched up 0.6% from the prior-year quarter's figure in the segment.

Gross premiums written declined 16.3% year over year to \$107 million, reflective of the company's strategy to strengthen rate levels in the Standard Physician business, recognitions of premium credits regarding the pandemic and re-underwriting efforts in the Specialty business along with timing differences.

Total expenses of \$184 million increased 36% year over year.

Combined ratio expanded 3760 basis points year over year to 145.4%.

#### Workers' Compensation Segment

Total revenues of \$43 million decreased 9.2% year over year, mainly due to lower premiums earned.

Gross premiums written were \$57.2 million, down 10.9% from the year-earlier period's number, mainly due to reduction in renewal pricing and retention losses along with decrease in audit premium. However, the same was offset by new business written.

Total expenses of \$41.9 million were down 6.9% year over year.

Combined ratio expanded 210 basis points year over year to 98.7%.

#### Lloyd's Syndicate Segment

Total revenues of \$22.7 million increased 21.1% year over year on the back of higher premiums.

Gross premiums written were \$20.7 million, down 29.1% from the figure acquired in the comparable quarter last year due to decreased participation in the operating results of Syndicate 1729.

Total expenses of \$22.6 million rose 16.7% year over year.

Combined ratio contracted 460 basis points year over year to 108.8%.

#### Segregated Portfolio Cell Reinsurance Segment

Gross premiums written were \$15 million, down 11.3% the year-earlier period's number, mainly due to the premium retention for worker's compensation business in the segregated portfolio cells.

Combined ratio contracted 5630 basis points year over year to 77.9%.

#### Corporate Segment

Net investment income of \$16.7 million declined 24% year over year due to decreased allocation to equities and lower yields on short-term investments.

Operating expenses of \$7.7 million increased 43.1% from the prior-year quarter's level. Interest expense of \$3.7 million decreased 12.6% year

---

over year.

### **Financial Position**

As of Jun 30, 2020, ProAssurance's total investments were \$3.2 billion, down 2.7% from the number registered at 2019 end.

At second-quarter end, the company's total assets were \$4.7 billion, down 0.5% from the figure at 2019 end.

As of Jun 30, 2020, the insurer's shareholder equity slipped 2.5% to \$1.4 billion from the figure as of Dec 31, 2019.

Return on equity was (5%) against the year-ago quarter's return on equity of 2.9%.

Book value was \$27.36 per share as of Jun 30, 2020, down 2.7% from the figure as of Dec 31, 2019.

---

---

## 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 57% and 58.4% 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 11% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2% and 4.6%, respectively.

The S&P 500 index is up 6.7% in the year-to-date period and up 21% in the past year.

The stock is currently trading at 0.57x trailing 12-month tangible book value, which compares to 1.34x for the Zacks sub-industry, 2.42x 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 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 \$16 price target reflects 0.6x 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	0.57	1.34	2.42	4.54
	5-Year High	1.91	1.67	2.91	4.56
	5-Year Low	0.49	0.93	1.72	2.81
	5-Year Median	1.38	1.46	2.51	3.73
P/S F12M	Current	0.95	1.74	6.23	3.76
	5-Year High	4.11	11.26	6.66	3.76
	5-Year Low	0.75	1.39	4.96	2.54
	5-Year Median	3.03	1.85	6.06	3.04

As of 08/24/2020

## Industry Analysis Zacks Industry Rank: Top 47% (118 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
American Financial Group, Inc. (AFG)	Outperform	3
The Allstate Corporation (ALL)	Outperform	2
Donegal Group, Inc. (DGICA)	Outperform	1
Kinsale Capital Group, Inc. (KNSL)	Outperform	1
RLI Corp. (RLI)	Outperform	2
The Progressive Corporation (PGR)	Neutral	3
ProSight Global, Inc. (PROS)	Underperform	2
United Insurance Holdings Corp. (UIHC)	Underperform	4

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	PRA	X Industry	S&P 500	ALL	PGR	RLI
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	2	3	2
VGM Score	C	-	-	A	A	F
Market Cap	828.82 M	1.27 B	23.81 B	29.67 B	53.86 B	4.23 B
# of Analysts	4	2	14	8	9	2
Dividend Yield	1.30%	1.29%	1.64%	2.27%	0.43%	1.02%
Value Score	B	-	-	A	B	D
Cash/Price	1.01	0.29	0.07	0.20	0.09	0.02
EV/EBITDA	51.36	5.40	13.37	4.52	9.66	17.30
PEG Ratio	NA	2.13	3.02	1.01	2.24	NA
Price/Book (P/B)	0.56	0.99	3.17	1.19	3.33	4.03
Price/Cash Flow (P/CF)	NA	10.50	12.77	7.00	12.56	33.98
P/E (F1)	NA	13.90	21.72	7.60	13.62	37.30
Price/Sales (P/S)	0.91	0.82	2.48	0.68	1.33	4.61
Earnings Yield	-2.80%	5.75%	4.44%	13.17%	7.34%	2.69%
Debt/Equity	0.21	0.24	0.76	0.27	0.33	0.14
Cash Flow (\$/share)	-0.47	3.12	6.93	13.58	7.33	2.77
Growth Score	F	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	-25.78%	3.85%	10.41%	21.39%	39.54%	0.41%
Proj. EPS Growth (F1/F0)	46.91%	-3.84%	-5.05%	19.89%	0.51%	-1.75%
Curr. Cash Flow Growth	-124.92%	3.77%	5.20%	30.84%	48.16%	25.36%
Hist. Cash Flow Growth (3-5 yrs)	NA%	4.81%	8.50%	9.17%	24.96%	0.86%
Current Ratio	0.51	0.43	1.33	0.30	0.44	0.38
Debt/Capital	17.18%	20.03%	44.50%	19.73%	24.45%	12.44%
Net Margin	-9.04%	5.15%	10.13%	10.28%	10.85%	12.70%
Return on Equity	-5.71%	6.81%	14.66%	17.25%	29.04%	12.03%
Sales/Assets	0.19	0.31	0.51	0.37	0.72	0.26
Proj. Sales Growth (F1/F0)	-7.83%	0.00%	-1.45%	0.03%	9.98%	2.91%
Momentum Score	A	-	-	A	A	F
Daily Price Chg	4.84%	1.86%	1.32%	0.54%	0.20%	1.01%
1 Week Price Chg	-3.17%	-2.02%	-1.45%	-1.70%	3.20%	2.57%
4 Week Price Chg	1.85%	4.17%	3.38%	2.48%	5.38%	3.51%
12 Week Price Chg	12.76%	9.85%	7.69%	-4.11%	17.44%	20.34%
52 Week Price Chg	-59.72%	-13.25%	3.85%	-7.95%	21.39%	3.49%
20 Day Average Volume	380,237	134,944	1,873,293	1,648,585	2,220,554	189,132
(F1) EPS Est 1 week change	12.69%	0.00%	0.00%	1.42%	4.77%	0.00%
(F1) EPS Est 4 week change	38.35%	3.75%	1.00%	14.28%	4.63%	6.32%
(F1) EPS Est 12 week change	46.91%	-0.17%	3.40%	14.70%	9.30%	7.45%
(Q1) EPS Est Mthly Chg	566.67%	1.50%	0.00%	27.36%	27.56%	-5.36%

---

## 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>B</b>
Growth Score	<b>F</b>
Momentum Score	<b>A</b>
VGM Score	<b>C</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.

---

### 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.