



# The Progressive Corporation (PGR)

Updated April 24<sup>th</sup>, 2021 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$101	<b>5 Year CAGR Estimate:</b>	14.2%	<b>Market Cap:</b>	\$59.2 B
<b>Fair Value Price:</b>	\$99	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	07/06/2021 <sup>1</sup>
<b>% Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.4%	<b>Dividend Payment Date:</b>	07/15/2021
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$159	<b>Years Of Dividend Growth:</b>	4
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	C	<b>Last Dividend Increase:</b>	84.9%

## Overview & Current Events

Progressive, headquartered in Mayfield, Ohio, offers personal and commercial insurance throughout the United States. The company's Personal Lines segment writes insurance for personal autos, recreational and other vehicles. Its Commercial Lines business writes auto-related primary liability and physical damage insurance, and general liability and property insurance, primarily for small businesses. Finally, its Property business writes residential property insurance for homeowners, other property owners, and renters. The company generates around \$42 billion in annual revenues, and it based in Mayfield, Ohio.

On April 15<sup>th</sup>, 2021, Progressive reported its Q1-2021 results for the quarter ending March 31<sup>st</sup>, 2021. The company achieved record quarterly revenues of \$11.4 billion, a 22.7% increase year-over-year, and EPS of \$2.51, 115% higher vs. Q1-2020. The increase in Progressive's financials was the result of higher net premiums and fees. Simultaneously, the pandemic's staying-at-home economy has reduced traffic, leading to fewer accidents, decreasing the number of claims, and boosting the company's profitability. Additionally, Progressive's continuous expansion has led to its gross profit constantly growing, currently sitting at a decade-high of 21.6%. Amid Q1's results being in line with our expectations, we retain our FY2021 EPS estimate at \$11.00. Our DPS expectations also remain constant. Though management's annual special dividend for the year could be more generous, we remain prudent.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$1.61	\$1.50	\$1.95	\$2.17	\$2.16	\$1.77	\$2.74	\$4.45	\$6.75	\$9.71	<b>\$11.00</b>	<b>\$17.72</b>
<b>DPS</b>	\$0.41	\$0.28	\$0.49	\$0.69	\$0.89	\$0.68	\$1.12	\$2.51	\$2.65	\$4.90	<b>\$5.00</b>	<b>\$8.81</b>
<b>Shares<sup>2</sup></b>	637	608	604	595	589	585	586	587	587	588	<b>586</b>	<b>550</b>

Progressive is a best-of-breed insurer that has done a great job of capturing a substantial market share position in an industry known for its brutal competition. Its current market share of around 12% has grown significantly from around 9% three years ago. Its expanded portfolio of insurance offerings not only contributes to diversification but also allows Progressive to cross-sell customers. Bundling is an old strategy, but it works great if you save clients money. As a result, revenues have constantly been growing, while at the same time operating leverage and selling costs for existing customers are lower than acquiring a brand-new customer. The company's 5-year EPS and DPS growth rate have been north of 40%, although a good deal of that came from what may be a temporary boost from the pandemic in 2020. We are forecasting 10% growth from this point to reflect a reasonable slowdown in the medium term.

Our DPS forecast remains at 12%, as more rapid increases could be comfortably covered by EPS moving forward. Keep in mind that the company pays a small \$0.10 quarterly dividend and one large year-end dividend each year. This allows the company to exhibit capital allocation flexibility, paying a much higher payment in good times or reducing the payment in lesser times.

<sup>1</sup> Estimate.

<sup>2</sup> Share count is in millions.

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## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.7	14.2	12.8	11.5	13.4	22.1	19.4	14.9	10.8	9.0	9.2	9.0
Avg. Yld.	2.2%	1.3%	2.0%	2.8%	3.1%	1.7%	2.1%	3.8%	3.6%	5.6%	5.0%	5.5%

Despite Progressive's solid profitability growth and dividend growth, the market has shown little appreciation for the stock over the years, attaching a humble valuation to it. A slight valuation expansion to around 9 times earnings, which reflects what we believe, is a fair P/E ratio, materialized as of this quarter. We expect it to settle at these levels. Its relatively high yield at the current ultra-low-rate environment could also assist in boosting the valuation slightly higher.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	25%	19%	25%	32%	41%	38%	41%	56%	39%	50%	45%	50%

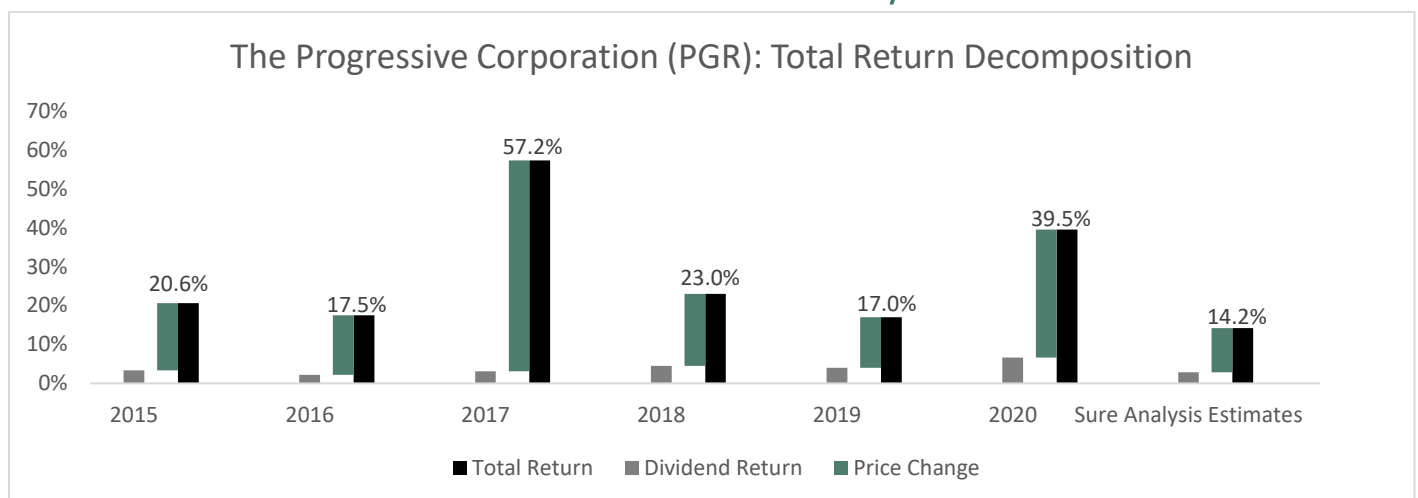
Progressive's current dividend payout should be quite safe, as the company retains around half of its net income, leaving a wide margin of error in the event of a temporary challenge. The company remains an industry-leader, while its financials are quite healthy, featuring a long-term debt/equity of just 30.3%. At the same time, however, we cannot ignore the fact the industry is highly competitive. In the future it could be massive disrupted by innovators such as the recently listed Lemonade (LMND).

Another potential risk is small businesses possibly claiming that the pandemic has caused permanent interruption and therefore they must be covered by insurers. Despite commercial lines consisting of only 7.5% of Progressive's business, such a scenario could suppress its short-term profitability nonetheless. So far this has not been the case. Finally, a recession could significantly hurt the company's financials, as was the case during the Great Financials Crisis. Still, with its strong qualities the company should be able to recover quickly as proven over the past decade.

## Final Thoughts & Recommendation

Progressive has managed to improve dramatically over the past few years. Judging from its most recent quarter, the company could achieve an equally impressive FY2021. We are forecasting 14.2% annualized returns, consisting of a 10% growth rate, 5.0% dividend yield, and slight headwind from valuation. However, we do note that this thesis hinges on growth continuing to be robust. Shares earn a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Revenue</b>	15,761	17,070	18,156	19,377	20,832	23,417	26,816	31,955	38,998	42,640
<b>D&amp;A Exp.</b>	89	94	101	97	151	200	236	262	306	332
<b>Net Profit</b>	1,016	902	1,165	1,281	1,268	1,031	1,592	2,615	3,970	5,705
<b>Net Margin</b>	6.4%	5.3%	6.4%	6.6%	6.1%	4.4%	5.9%	8.2%	10.2%	13.4%
<b>Free Cash Flow</b>	1,419	1,564	1,760	1,618	2,162	2,518	3,601	6,019	5,898	6,682
<b>Income Tax</b>	472	415	555	626	611	414	541	543	1,180	1,469

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Total Assets</b>	21,845	22,695	24,408	25,788	29,819	33,428	38,701	46,575	54,895	64,100
<b>Cash &amp; Equivalents</b>	156	179	75	108	224	212	265	70	226	77
<b>Acc. Receivable</b>	2,930	3,184	3,311	3,538	3,988	4,509	5,423	6,497	7,507	12,180
<b>Goodwill &amp; Int.</b>	---	---	---	13	943	882	819	747	681	624
<b>Total Liabilities</b>	16,038	16,688	18,219	18,859	22,530	25,470	29,416	35,753	41,222	47,060
<b>Accounts Payable</b>	1,771	1,684	1,785	1,894	2,068	2,496	3,481	5,047	5,963	4,956
<b>Long-Term Debt</b>	2,442	2,063	1,861	2,165	2,708	3,148	3,306	4,405	4,407	5,396
<b>Total Equity</b>	5,807	6,007	6,190	6,929	7,289	7,957	9,285	10,328	13,179	16,540
<b>D/E Ratio</b>	0.42	0.34	0.30	0.31	0.37	0.40	0.36	0.41	0.32	0.32

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<b>Return on Assets</b>	4.7%	4.1%	4.9%	5.1%	4.6%	3.3%	4.4%	6.1%	7.8%	9.6%
<b>Return on Equity</b>	17.1%	15.3%	19.1%	19.5%	17.8%	13.5%	18.5%	26.7%	33.8%	38.4%
<b>ROIC</b>	12.5%	11.1%	14.5%	14.9%	13.3%	9.8%	13.4%	18.8%	23.8%	28.2%
<b>Shares Out.</b>	608	604	595	589	585	586	587	587	588	588
<b>Revenue/Share</b>	24.75	28.09	30.08	32.58	35.36	40.03	45.78	54.47	66.41	72.5
<b>FCF/Share</b>	2.23	2.57	2.92	2.72	3.67	4.30	6.15	10.26	10.04	11.37

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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