



The Progressive Corporation (PGR)

Updated October 25th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$96	5 Year CAGR Estimate:	12.5%	Market Cap:	\$56.9 B
Fair Value Price:	\$96	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	01/07/2022 ¹
% Fair Value:	99%	5 Year Valuation Multiple Estimate:	0.1%	Dividend Payment Date:	01/15/2022
Dividend Yield:	5.1%	5 Year Price Target	\$141	Years Of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	C	Last Dividend Increase:	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 October 14th, 2021, Progressive reported its Q3-2021 results for the quarter ending September 30th, 2021. The company achieved record net premiums written of \$4.0 billion, a 15% increase year-over-year, while EPS came in at negative (\$0.23) vs. \$0.39 in Q3-2020. The growth in Progressive's premiums was attributed to increased net premiums and fees. Still, the bottom line was once again compressed following the acquisition of Protective Insurance Corporation and its subsidiaries back in June and higher claims due to pandemic restrictions easing and transportation volumes resuming towards the pre-pandemic levels.

Following this quarter's results, we lower our FY2021 EPS estimate from \$9.60 to \$7.70. We have set our DPS expectations in line with last year's as the company's quarterly dividend has remained constant. Management's annual special dividend for the year could be more generous, though, resulting in DPS growth for the year.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.61	\$1.50	\$1.95	\$2.17	\$2.16	\$1.77	\$2.74	\$4.45	\$6.75	\$9.71	\$7.70	\$11.31
DPS	\$0.41	\$0.28	\$0.49	\$0.69	\$0.89	\$0.68	\$1.12	\$2.51	\$2.65	\$4.90	\$4.90	\$7.20
Shares²	637	608	604	595	589	585	586	587	587	588	584	550

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, while it is likely to increase further through its recent acquisition. The company's 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 rates have been north of 34 and 48%, respectively, although a good deal of that came from what may be a temporary boost from the pandemic last year. We lower our growth estimate from 10% to 8% from this point to reflect a reasonable slowdown in the medium term. Our DPS growth forecast is also lowered from 12% to 8% for the same reason. Keep in mind that the company pays a small \$0.10

¹ Estimate.

² Share count is in millions.

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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.

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	12.4	12.5
Avg. Yld.	2.2%	1.3%	2.0%	2.8%	3.1%	1.7%	2.1%	3.8%	3.6%	5.6%	5.1%	5.1%

Despite Progressive's solid profitability growth and dividend growth, the market has shown modest appreciation for the stock over the years, attaching a humble valuation to it. The company is currently trading at around 12.4 times our expected EPS, close to its historical average. We expect the P/E ratio to remain at similar levels. The stock's high yield at the current ultra-low-rate environment could assist in a valuation expansion, though we remain conservative.

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%	64%	64%

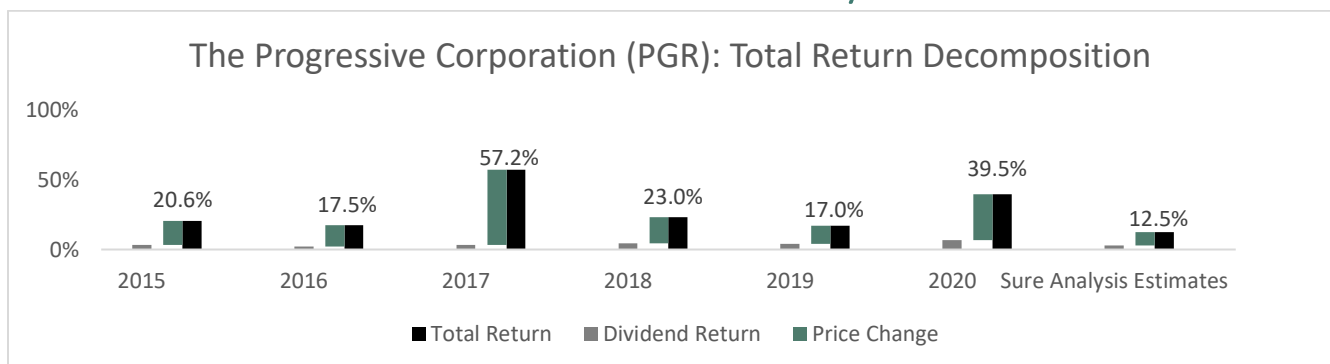
Progressive's current dividend payout should be quite safe, as the company retains around half of its net income, leaving a wide margin of error in the event of a temporary challenge. The company remains an industry-leader, while its financials are quite healthy, featuring a long-term debt/equity of just 26.3%. 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 insurance disruptor 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. While Protective Insurance's acquisition and last year's inflated results may weigh slightly on this year's profitability, the company's growth story remains intact. We are forecasting 12.5% annualized returns, consisting of an 8% growth rate, 5.1% dividend yield, and constant valuation expectations. However, we do note that this thesis hinges on Progressive's growth being sustained. 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
Revenue	15,761	17,070	18,156	19,377	20,832	23,417	26,816	31,955	38,998	42,640
D&A Exp.	89	94	101	97	151	200	236	262	306	332
Net Profit	1,016	902	1,165	1,281	1,268	1,031	1,592	2,615	3,970	5,705
Net Margin	6.4%	5.3%	6.4%	6.6%	6.1%	4.4%	5.9%	8.2%	10.2%	13.4%
Free Cash Flow	1,419	1,564	1,760	1,618	2,162	2,518	3,601	6,019	5,898	6,682
Income Tax	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
Total Assets	21,845	22,695	24,408	25,788	29,819	33,428	38,701	46,575	54,895	64,100
Cash & Equivalents	156	179	75	108	224	212	265	70	226	77
Acc. Receivable	2,930	3,184	3,311	3,538	3,988	4,509	5,423	6,497	7,507	12,180
Goodwill & Int.	---	---	---	13	943	882	819	747	681	624
Total Liabilities	16,038	16,688	18,219	18,859	22,530	25,470	29,416	35,753	41,222	47,060
Accounts Payable	1,771	1,684	1,785	1,894	2,068	2,496	3,481	5,047	5,963	4,956
Long-Term Debt	2,442	2,063	1,861	2,165	2,708	3,148	3,306	4,405	4,407	5,396
Total Equity	5,807	6,007	6,190	6,929	7,289	7,957	9,285	10,328	13,179	16,540
D/E Ratio	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
Return on Assets	4.7%	4.1%	4.9%	5.1%	4.6%	3.3%	4.4%	6.1%	7.8%	9.6%
Return on Equity	17.1%	15.3%	19.1%	19.5%	17.8%	13.5%	18.5%	26.7%	33.8%	38.4%
ROIC	12.5%	11.1%	14.5%	14.9%	13.3%	9.8%	13.4%	18.8%	23.8%	28.2%
Shares Out.	608	604	595	589	585	586	587	587	588	588
Revenue/Share	24.75	28.09	30.08	32.58	35.36	40.03	45.78	54.47	66.41	72.5
FCF/Share	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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