



The Progressive Corporation (PGR)

Updated January 27th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$108	5 Year CAGR Estimate:	-0.6%	Market Cap:	\$62.8 B
Fair Value Price:	\$63	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	04/06/2022 ¹
% Fair Value:	171%	5 Year Valuation Multiple Estimate:	-10.2%	Dividend Payment Date:	04/15/2022
Dividend Yield:	1.8%	5 Year Price Target	\$93	Years Of Dividend Growth:	N/A
Dividend Risk Score:	D	Retirement Suitability Score:	F	Last Dividend Increase:	N/A

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 January 26th, 2022, Progressive reported its Q4-2021 results for the period ending December 31st, 2021. The company once again achieved record net premiums written of \$10.7 billion, a 13% increase year-over-year. The growth in Progressive's premiums was attributed to increased net premiums and fees. In the month of December, for instance, the company's total personal auto special line policies grew by 6% and 8 % to 17.4 million and 5.2 million, respectively. Total commercial line and property business policies grew 18% and 12% as well.

However, following higher claim volumes due to pandemic restrictions easing and transportation volumes resuming towards the pre-pandemic levels, EPS declined by 43% to \$1.63. Consequently, FY-2021 EPS came in at \$5.69, a 41.4% decline compared to the previous year.

Following this year's results, we soften our expectations going forward. We forecast FY-2022 EPS of around \$4.50. Besides the current trajectory in claims, a further decline in EPS next year is also signaled by the company's annual/special dividend slash, which Progressive set at \$1.50 compared to \$4.50 last year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.50	\$1.95	\$2.17	\$2.16	\$1.77	\$2.74	\$4.45	\$6.75	\$9.71	\$5.69	\$4.50	\$6.61
DPS	\$0.28	\$0.49	\$0.69	\$0.89	\$0.68	\$1.12	\$2.51	\$2.65	\$4.90	\$1.90	\$1.90	\$2.79
Shares²	608	604	595	589	585	586	587	587	585	585	585	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 13.3% has grown significantly from around 9% four 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 it saves 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. That said, a good deal of Progressive's EPS growth over the past couple of years may be attributed to a temporary boost from the pandemic. We retain our EPS and DPS growth estimates to 8% over the medium term, as the company's premiums keep growing at a double-digit pace despite the recent rise in claims.

¹ Estimate.

² Share count is in millions.

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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. This was illustrated in the annual dividend's slash in FY-2021-end.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	14.2	12.8	11.5	13.4	22.1	19.4	14.9	10.8	9.0	17.5	23.9	14.0
Avg. Yld.	1.3%	2.0%	2.8%	3.1%	1.7%	2.1%	3.8%	3.6%	5.6%	1.9%	1.8%	3.0%

Despite Progressive's solid profitability growth over the years, the market has shown modest appreciation for the stock over the years, attaching a humble valuation to shares. The company is currently trading at around 23.9 times our expected EPS, implying a significant premium. It should be noted that the risk of a multiple compression to a target P/E around 14 could hurt the stock in a meaningful way if EPS growth lags the market's expectations.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	19%	25%	32%	41%	38%	41%	56%	39%	50%	33%	42%	42%

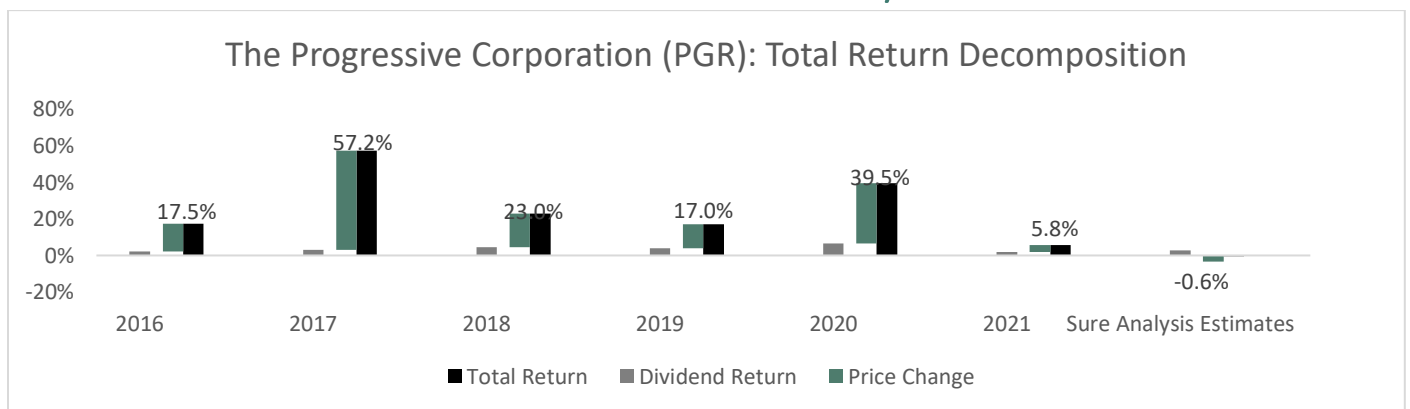
Progressive's dividend levels following the slash of its annual payout should be rather well-covered, as the payout ratio still stands below 50%. That said, the annual dividend can easily be swayed either way based on each year's underlying net income.

The company remains an industry-leader, while its financials are quite healthy, featuring a debt/total capital ratio of just 21.2%. 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). Additionally, 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 financials enjoyed a significant boost during the pandemic. While the premiums continue to grow at a rapid pace, the market seems to be pricing the company based on the peak margins it achieved during 2020. Unless Progressive's EPS improves substantially in the coming quarters, investors could be facing a significant valuation compression risk. We are forecasting -0.6% annualized returns based on such a scenario in which EPS/DPS compound at around 8% through 2027 and Progressive's valuation normalizes, to be prudent. Therefore, we rate shares a sell.

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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