



# The Progressive Corporation (PGR)

Updated January 24<sup>th</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$180	<b>5 Year CAGR Estimate:</b>	-0.2%	<b>Market Cap:</b>	\$104.81 B
<b>Fair Value Price:</b>	\$120	<b>5 Year Growth Estimate:</b>	8.0%	<b>Ex-Dividend Date:</b>	01/18/2024
<b>% Fair Value:</b>	150%	<b>5 Year Valuation Multiple Estimate:</b>	-7.7%	<b>Dividend Payment Date:</b>	01/26/2024
<b>Dividend Yield:</b>	0.2%	<b>5 Year Price Target</b>	\$176	<b>Years Of Dividend Growth:</b>	N/A
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	F	<b>Rating</b>	Sell

## 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 \$50 billion in annual revenues.

On January 24<sup>th</sup>, 2024, Progressive reported its Q4-2023 and full year results for the period ending December 31<sup>st</sup>, 2023. For the quarter, Progressive once again achieved strong net premiums written growth of 21% to \$15.1 billion. The growth in Progressive's premiums was attributed to increased net premiums and fees. For instance, in the month of December, the company's total commercial lines and property business policies grew by 5% and 9% to 1.1 million and 3.1 million, respectively. Total personal lines in force also rose by 9% to 25.5 million year-over-year. This was due to a 7% increase in special lines and a 9% increase in total personal auto lines.

Being an insurer, Progressive invests its float in a myriad of securities. With some of Progressive's securities, especially equities, rebounding lately, its net income was positively affected by their improved values. Progressive, thus, reported earnings-per-share of \$3.37 for the quarter compared to earnings-per-share of \$1.40 in the prior-year period. EPS for the year was therefore boosted to \$6.69. We believe that the company has an earnings power of \$8.00 per share, excluding any extraordinary gains/losses from changes in the value of securities.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$2.17	\$2.16	\$1.77	\$2.74	\$4.45	\$6.75	\$9.71	\$5.69	\$1.19	\$6.69	<b>\$8.00</b>	<b>\$11.75</b>
<b>DPS</b>	\$0.69	\$0.89	\$0.68	\$1.12	\$2.51	\$2.65	\$4.90	\$1.90	\$0.40	\$1.15	<b>\$0.40</b>	<b>\$0.59</b>
<b>Shares<sup>1</sup></b>	595	589	585	586	587	587	585	586	587	588	<b>588</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. With a market share of 13.7% in the auto insurance industry, Progressive is behind only State Farm and Geico, with a market share of 16.8% and 14.1%, respectively.

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, Progressive's EPS can be extremely volatile over the years. In 2020-2021, for instance, EPS came in strong due to a reduction in claims resulting from softer transportation levels during the pandemic. On the contrary, changes in the value of the company's investments in 2022 adversely impacted EPS. We retain our EPS and DPS growth estimates to 8% over the medium-term, as the company's premiums keep growing at a strong pace despite the recent rise in claims.

<sup>1</sup> 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. For instance, no special dividends were paid during fiscal 2022, as earnings were indeed weak, but a special dividend of \$0.75 was declared with respect to fiscal 2023 following a rebound in earnings.

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.5	13.4	22.1	19.4	14.9	10.8	9.0	17.5	---	20.1	<b>22.4</b>	<b>15.0</b>
Avg. Yld.	2.8%	3.1%	1.7%	2.1%	3.8%	3.6%	5.6%	1.9%	0.3%	0.9%	<b>0.2%</b>	<b>0.3%</b>

Over the years, Progressive has traded with P/E in the mid-teens, in line with most of its industry peers. The company is currently trading at 22.4 times our expected EPS under “normal” conditions, implying a premium to its historical valuation. It should be noted that the risk of a multiple compression to a target P/E around 15 could notably hurt total investor returns, especially if we have overestimated the company’s earnings power.

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

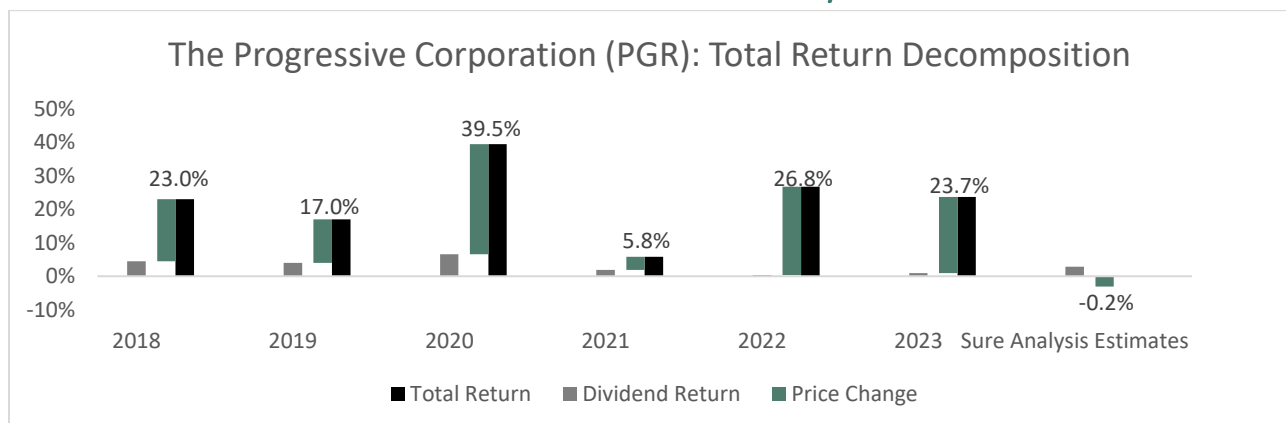
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	41%	38%	41%	56%	39%	50%	33%	34%	17%	<b>5%</b>	<b>5%</b>

Progressive’s base dividend, especially given the easily adjustable nature of special payouts, should continue to be very well-covered. The company remains an industry-leader, while its financials are quite healthy, featuring a debt/equity ratio of ~40%. At the same time, however, we cannot ignore the fact the industry is highly competitive. In the future, it could possibly be disrupted by innovators such as the high-growth insurance disruptor Lemonade (LMND), amongst others. Additionally, a recession or a rise in claims could significantly hurt the company’s financials, as was the case during the Great Financials Crisis. Still, with its strong qualities and sticky business model, the company should be able to recover, as proven in multiple such occasions in the past.

## Final Thoughts & Recommendation

While Progressive’s premiums continue to grow at a rapid pace, the market is essentially pricing the company based on the peak margins it achieved during the pandemic. We believe Progressive does have a strong EPS power potential, but investors could be facing the risk of a valuation compression. While the stock has continued to produce exceptional returns, contrasting our historically cautious outlook on the name, we find it hard to ignore the underlying risks attached to Progressive’s valuation. A multiple compression could notably hamper future returns. Thus, shares earn a sell rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	18,156	19,377	20,832	23,417	26,816	31,955	38,998	42,640	47,680	49,590
<b>D&amp;A Exp.</b>	101	97	151	200	236	262	306	332	337	337
<b>Net Profit</b>	1,165	1,281	1,268	1,031	1,592	2,615	3,970	5,705	3,351	722
<b>Net Margin</b>	6.4%	6.6%	6.1%	4.4%	5.9%	8.2%	10.2%	13.4%	7.0%	1.5%
<b>Free Cash Flow</b>	1,760	1,618	2,162	2,518	3,601	6,019	5,898	6,682	7,518	6,557
<b>Income Tax</b>	555	626	611	414	541	543	1,180	1,469	859	201

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	24,408	25,788	29,819	33,428	38,701	46,575	54,895	64,100	71,130	75,460
<b>Cash &amp; Equivalents</b>	75	108	224	212	265	70	226	77	187	204
<b>Acc. Receivable</b>	3,311	3,538	3,988	4,509	5,423	6,497	7,507	12,180	14,380	16,250
<b>Goodwill &amp; Int.</b>	---	13	943	882	819	747	681	624	570	314
<b>Total Liabilities</b>	18,219	18,859	22,530	25,470	29,416	35,753	41,222	47,060	52,900	59,570
<b>Accounts Payable</b>	1,785	1,894	2,068	2,496	3,481	5,047	5,963	4,956	6,011	5,533
<b>Long-Term Debt</b>	1,861	2,165	2,708	3,148	3,306	4,405	4,407	5,396	4,899	6,388
<b>Total Equity</b>	6,190	6,929	7,289	7,957	9,285	10,328	13,179	16,540	17,740	15,400
<b>LTD/E Ratio</b>	0.30	0.31	0.37	0.40	0.36	0.41	0.32	0.32	0.27	0.40

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	4.9%	5.1%	4.6%	3.3%	4.4%	6.1%	7.8%	9.6%	5.0%	1.0%
<b>Return on Equity</b>	19.1%	19.5%	17.8%	13.5%	18.5%	26.7%	33.8%	38.4%	19.6%	4.4%
<b>ROIC</b>	14.5%	14.9%	13.3%	9.8%	13.4%	18.8%	23.8%	28.2%	14.7%	3.2%
<b>Shares Out.</b>	595	589	585	586	587	587	588	588	587	587
<b>Revenue/Share</b>	30.08	32.58	35.36	40.03	45.78	54.47	66.41	72.5	81.21	84.46
<b>FCF/Share</b>	2.92	2.72	3.67	4.30	6.15	10.26	10.04	11.37	12.81	11.17

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

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