



# The Progressive Corporation (PGR)

Updated January 27<sup>th</sup>, 2021 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$88	<b>5 Year CAGR Estimate:</b>	17.0%	<b>Market Cap:</b>	\$51 B
<b>Fair Value Price:</b>	\$99	<b>5 Year Growth Estimate:</b>	10.0%	<b>Ex-Dividend Date:</b>	04/06/2021 <sup>1</sup>
<b>% Fair Value:</b>	89%	<b>5 Year Valuation Multiple Estimate:</b>	2.3%	<b>Dividend Payment Date:</b>	04/15/2021
<b>Dividend Yield:</b>	5.7%	<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>	B	<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. Progressive trades with a \$51 billion market capitalization.

On January 27<sup>th</sup>, 2021, Progressive reported its Q4 and full FY2020 results for the quarter ending December 31<sup>st</sup>, 2020. The company achieved record annual revenues of \$42.6 billion, a 9% increase year-over-year, and EPS of \$9.71, a 43.8% increase vs. FY2019. 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 18.7%. Management revealed that January's performance has already generated a "monthly EPS" of \$1.25, implying an FY2021 EPS of \$15 at this run-rate. Our FY2021 EPS estimate is \$11.00, which depends greatly on what happens with the pandemic this year.

## 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>\$8.05</b>
<b>Shares<sup>2</sup></b>	637	608	604	595	589	585	586	587	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. 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 35%, 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, implying ~15% annual growth going back to 2019, which could be too lofty considering the artificially high starting base. Still, it is clear that Progressive is performing well currently.

We also expect FY2021's dividend to grow and be comfortably covered by EPS. 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	<b>8.0</b>	<b>9.0</b>
Avg. Yld.	2.2%	1.3%	2.0%	2.8%	3.1%	1.7%	2.1%	3.8%	3.6%	5.6%	<b>5.7%</b>	<b>5.1%</b>

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. While we don't expect massive valuation expansion, we believe that a slightly higher P/E of around 9 times earnings better reflects its ongoing profitability growth phase. 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%	<b>45%</b>	<b>45%</b>

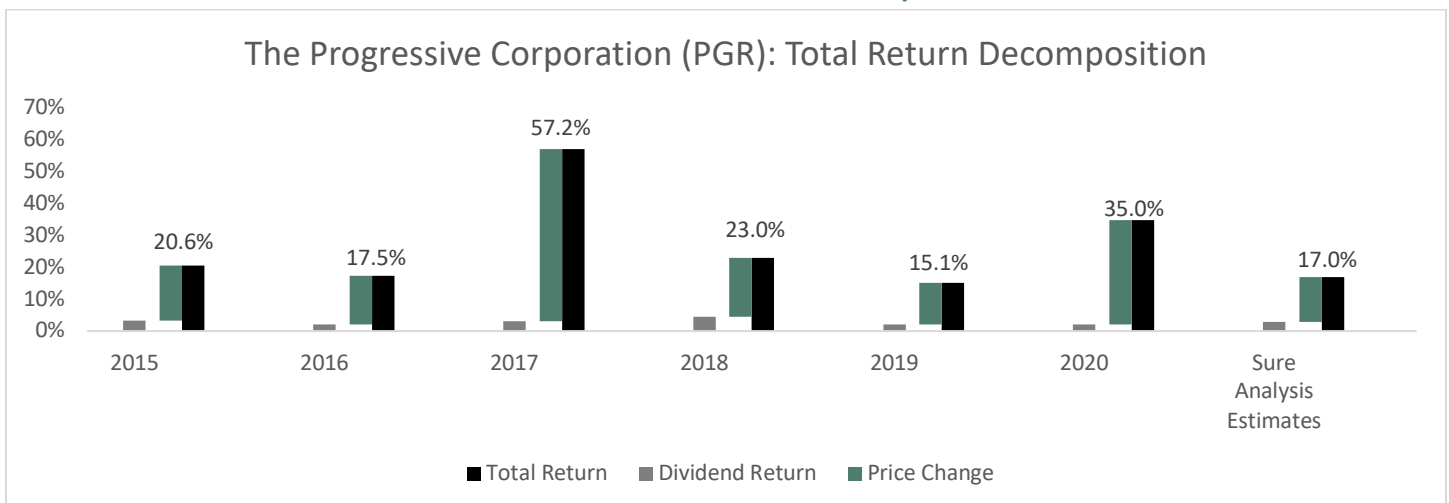
Progressive's current dividend payout should be quite safe, as the company retains around half of its net income, leaving a wide margin of error in the event of a temporary challenge. The company remains an industry-leader, while its financials are quite healthy, featuring a long-term debt/equity of just 31%. 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 12% of Progressive's business, such a scenario could suppress its short-term profitability. 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, and judging from January's impressive data, the company could achieve an equally impressive FY2021. We are forecasting 17.0% annualized returns, consisting of a 10% growth rate, 5.7% dividend yield and the potential for a valuation tailwind. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	15,197	15,761	17,070	18,156	19,377	20,832	23,417	26,816	31,955	38,998
<b>D&amp;A Exp.</b>	83	89	94	101	97	151	200	236	262	306
<b>Net Profit</b>	1,068	1,016	902	1,165	1,281	1,268	1,031	1,592	2,615	3,970
<b>Net Margin</b>	7.0%	6.4%	5.3%	6.4%	6.6%	6.1%	4.4%	5.9%	8.2%	10.2%
<b>Free Cash Flow</b>	1,615	1,419	1,564	1,760	1,618	2,162	2,518	3,601	6,019	5,898
<b>Income Tax</b>	497	472	415	555	626	611	414	541	543	1,180

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	21,150	21,845	22,695	24,408	25,788	29,819	33,428	38,701	46,575	54,895
<b>Cash &amp; Equivalents</b>	159	156	179	75	108	224	212	265	70	226
<b>Acc. Receivable</b>	2,738	2,930	3,184	3,311	3,538	3,988	4,509	5,423	6,497	7,507
<b>Goodwill &amp; Int.</b>	---	---	---	---	13	943	882	819	747	681
<b>Total Liabilities</b>	15,101	16,038	16,688	18,219	18,859	22,530	25,470	29,416	35,753	41,222
<b>Accounts Payable</b>	---	1,771	1,684	1,785	1,894	2,068	2,496	3,481	5,047	5,963
<b>Long-Term Debt</b>	1,958	2,442	2,063	1,861	2,165	2,708	3,148	3,306	4,405	4,407
<b>Total Equity</b>	6,049	5,807	6,007	6,190	6,929	7,289	7,957	9,285	10,328	13,179
<b>D/E Ratio</b>	0.32	0.42	0.34	0.30	0.31	0.37	0.40	0.36	0.41	0.32

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	5.2%	4.7%	4.1%	4.9%	5.1%	4.6%	3.3%	4.4%	6.1%	7.8%
<b>Return on Equity</b>	18.1%	17.1%	15.3%	19.1%	19.5%	17.8%	13.5%	18.5%	26.7%	33.8%
<b>ROIC</b>	13.4%	12.5%	11.1%	14.5%	14.9%	13.3%	9.8%	13.4%	18.8%	23.8%
<b>Shares Out.</b>	637	608	604	595	589	585	586	587	587	588
<b>Revenue/Share</b>	22.91	24.75	28.09	30.08	32.58	35.36	40.03	45.78	54.47	66.41
<b>FCF/Share</b>	2.43	2.23	2.57	2.92	2.72	3.67	4.30	6.15	10.26	10.04

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

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