

The background features a financial chart with a red overlay. The chart shows a line graph with a peak and a subsequent decline. Text on the chart includes "Change on day 32.30", "Change on day 1.95", and "ImgnTech Share Price".

Progressive Corp. Fundamental Analysis

Bearish Bulls

***Andrew Rosen - Cole Wall
Robert Nathson - Austin Glenn***

11/4/2024

Company Overview

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Company Name	The Progressive Corporation
Ticker	PGR: <i>an insurance holdings company with subsidiaries across Personal, Commercial, Property, and Reinsurance segments</i>
Business Summary	
Current Price	\$242.72
Current Date	11/1/24
Target Price	\$272.81 (12.39% gain)
Target Date	11/1/2024
Industry	Financial
Sector	Insurance
Change in Shares Outstanding (TTM)	400,000 (+0.07%)
Market Cap	143.24 Billion
Monthly Trading Volume	43.54 Million
Beta	0.35 (5 Year Monthly)
Sharpe Ratio	1.29
EPS	1.4
PE Ratio (TTM)	17.63
52-week Low/High	149.14 - 260.46

Investment Thesis

BUY \$20,000 of PGR with Cash from School Fund

PROS

Steady Growth (CAGR 14%)

Low Beta (0.35)

Favorable Under Valuation (7.7% undervalued)

CONS

Over Exposure to Auto (~83% of Revenue)

Suboptimal Macro Environment



Business Model

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Progressive Corporation - insurance holding company with insurance and non-insurance subsidiaries

Insurance Subsidiaries

- Personal auto
- Commercial auto
- Residential property insurance
- Specialty property-casualty
- Commercial liability and property
- Worker's compensation

Non-Insurance Subsidiaries

- Investment operations
- Administrative services
- Technology development

Risk-Based Pricing

- AI models
- Snapshot safe driving program
- Telematics

Market-Based Competitive Matching

- Dynamically priced against competitors

Bundling

- Discounts for customers who bundle different types of policies
- "Bundle home and auto with Progressive!"
- Custom bundles with partnering insurance companies



Industry Trends – Past and Present Timeline

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Company and Industry History

1920s - 1930s: The Great Depression

- Growth of auto insurance as car ownership increases. Progressive, founded in 1937, capitalizes on this trend by focusing on auto insurance from the start.

1980s: Deregulation and Innovation

- Deregulation efforts begin, leading to increased competition. The insurance market sees the emergence of new companies and more innovative insurance products.
- Progressive became one of the first insurers to offer a drive-in claims service, demonstrating innovation in customer service.

2008: Financial Crisis

- Increased homeowners' claims
- Regulatory scrutiny

2010s: The Rise of Insurtech

- Insurtech, utilizing technology to provide innovative insurance solutions and enhanced customer experiences. Progressive invests heavily in technology and digital platforms to maintain its competitive edge.
- Transparency
- Big data
- Customer-centric models
- The financial crisis reveals weaknesses in risk assessment practices across various sectors, including insurance, prompting increased scrutiny and regulation.
- **Personalization and Telematics Tech** companies begin to emerge
- Progressive launches its Snapshot program, using telematics to provide personalized pricing based on driving behavior, showcasing the company's innovative approach.

2020s: Pandemic and Post-Pandemic Era

- COVID-19 pandemic accelerates digital transformation in the insurance industry as companies adapt to remote operations and changing consumer needs.
- Industry trends include a focus on sustainability, data analytics, and the use of artificial intelligence for risk assessment and customer service. The push for telematics and personalized insurance products continues to grow.
- Reduced driving activity
- Shift to digital services



Historical Analysis

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

- **+52.39% YTD (vs SPY 20.9%)**
- 5 year return: +247.84%
 - Outperform IAK by 167.82%
 - **Outperform SPY by 186.7%**
- -6.81% from the 52 week high
- Standard deviation 21.62%
- Max drawdown: 22.91%
- **Beta: 0.35**
- **R²: 0.005**
- From the high before covid to the subsequent trough, SPY dropped 34.1% while PGR dropped 16.14%
- During GFC PGR dropped 11.7% less than SPY



Financial Statement Analysis

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Financial Statement Overview

All numbers in thousands

TTM basis

Revenue	67,801,000
Net Income	6,899,200
Operating Margin	13.55%
Operating Cash Flow	30,6869
CAPEX	(590.2)
Free Cash Flow	30,095.7
Total Assets	88,690,800
Total Liabilities	68,413,700
Dividends	1.8% (5 year average)
ROA	7.78%
ROE	34.45%
ROI	26.74%
Goodwill / Intangibles	1502.2
Debt to Equity	25.4% (current) 34% (5 year average)

Company Commentary

- Combined ratio: 89% for Q3 down from 93.4% earlier in the year
- Premium growth
- Expense management initiatives to maintain profitability
- Increased claim costs
- Catastrophic events impact
- Emphasis on cyber security and autonomous vehicle insurance



PESTEL Analysis

Investment Thesis

Historicals

Business Model

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

P

Political

**Government
Regulation &
Intervention**

**Geopolitical
Tensions**

E

Economical

Interest rates

Inflation

**Economic
Cycles**

S

Social

**Lifestyle
Changes**

**Consumer
Expectations**

T

Technological

**Insurtech
Innovation**

**Big Data &
Analytics**

Cybersecurity

E

Environmental

**Climate
Change &
Natural
Disasters**

L

Legal

**Data Privacy
Laws**

Liability Laws



Competitive Landscape

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

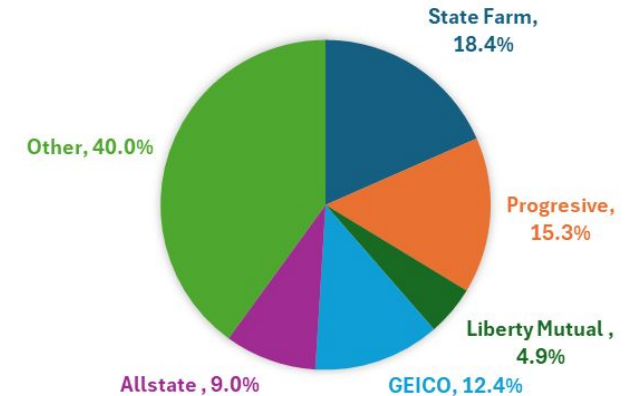
Risk and Growth

Valuation

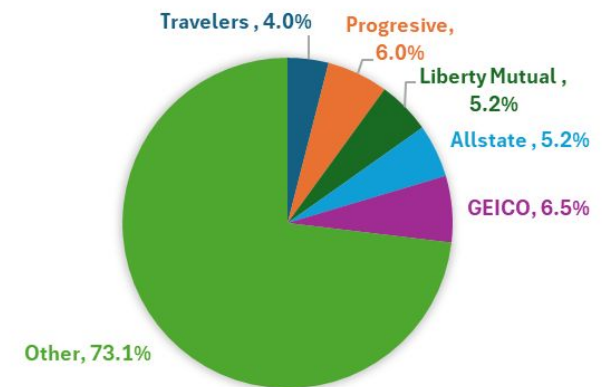
Conclusion

- *Progressive's Competitive Advantage*
 - *Economies of scale and brand loyalty*
 - *Innovation and research investment*
 - *Workers rights and economic justice*
- *Auto Insurance Industry CAGR of 10.8%*
 - *Worth \$923.4 Billion in 2023*
 - *Projected to grow to \$2.27 Trillion in 2032*
- *Commercial Property and Casualty Insurance CAGR of 5.5%*
 - *Worth \$1.8 trillion currently*
- *P/E Ratio of 17.6x*
 - *Analyst believe it PGR to have a fair P/E of 14.3x*
 - *Compared to the industry average of 13.4x*

AUTO INSURANCE MARKET SHARE



COMMERCIAL INSURANCE MARKET SHARE



Porter's 5 Forces

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Threat of New Entrants (Low)

- **High Barriers of Entry:** Heavily regulated, needs significant capital to fund claims
- **Economies of Scale:** Large players benefit from marketing and lower cost per customer
- **Brand Loyalty and Trust:** Decades of experience and claims paid with good track record

Bargaining Power of Suppliers (Low)

- **Data and Analytics:** Progressive has in-house analysis/actuaries to price policies and rates
- **Talent Pool:** Progressive has an attractive name to actuaries and data scientists pulling talent from suppliers



Threat of Substitutes (Moderate)

- **Alternative Products:** Self-insurance and captives for high value consumers
- **Other Transportation:** Rising levels of public transit, ride sharing, and telecommuting can reduce demand for auto insurance
- **Autonomous Vehicles:** With increased use traditional auto insurance model can become obsolete or change entirely

Bargaining Power of Buyers (Moderate)

- **Price Sensitivity:** Consumers and brokers shop around for insurance frequently, comparison tools empower customers to switch providers
- **Product Differentiation:** Progressive has combated this through branding such as Flo campaigns and products like the Snapshot program and bundling
- **Loyalty Programs:** Progressive's rewards for safe driving and bundling building customer loyalty



Management

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

- **Leadership and Track Record:**
 - CEO Susan Griffith has been with Progressive for over three decades, and 8 years as CEO
 - She emphasises technology, innovation, and customer experience
 - Progressive was the first to implement mobile apps for claims management and comparison tools, both industry-first movers
 - C-suite Management average tenure is 8 years with average board of executives of 10
- **Recent Management Changes:**
 - Pat Callahan as President of Personal Lines
 - Remi Kent as Chief Marketing Officer.
- **Executive Compensation:**
 - Executive compensation at Progressive is performance-oriented, with a mix of base salary, cash bonuses, and stock options
 - CEO compensation of \$15.64 million, 94% of compensation is given through stock performance and bonuses
- **Positive Labor Relations:**
 - Featured on Forbes 100 best places to work
 - Emphasis on employee engagement, diversity, and inclusion minimizes labor disputes.
 - 74% of employees would recommend employment to a friend
 - 93% CEO approval rating



SWOT Analysis

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Strengths

1. *Brand recognition through advertising*
2. *Digital and data-driven innovation*
3. *Strong market position*
4. *Diverse Products*
5. *Financially strong and stable*

Weaknesses

1. *High and unpredictable claim frequency*
2. *Mixed customer satisfaction*
3. *Limited physical presence*
4. *High reliance on auto insurance*
5. *Disadvantages in niche markets*

Opportunities

1. *Expansion into new insurance lines*
2. *Growing demand for telematics*
3. *International market growth*
4. *Other business partnerships*

Threats

1. *Intense industry competition*
2. *Regulatory risks and changes*
3. *Economic downturns*
4. *Cybersecurity risks*



DCF - WACC

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

WACC Calculations	
Capital Structure	
Total Debt	6,889
Total Equity	142,185
Debt-to-Total Capitalization	4.6%
Equity-to-Total Capitalization	95.4%
Cost of Debt	
Interest Expense	268
Cost of Debt	3.9%
Tax Rate	22.0%
After-Tax Cost of Debt	3.0%
Cost of Equity	
Risk-free Rate	4.2%
Market Risk Premium	5.7%
Levered Beta	0.35
Cost of Equity	6.2%
WACC	6.1%



DCF – Assumptions Base

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Select Operating Data

Period	Historical Data			Projected Annual Forecast				
	2021	2022	2023	2024	2025	2026	2027	2028
				1	2	3	4	5
Revenue	47,702	49,611	62,109	68,319	75,151	78,909	82,854	86,997
Growth Rate (%)		4.0%	25.2%	10.0%	10.0%	5.0%	5.0%	5.0%
EBITDA	2,268	1,356	4,672	4,353	4,788	5,027	5,279	5,543
EBITDA Margin (%)	4.8%	2.7%	7.5%	6.4%	6.4%	6.4%	6.4%	6.4%
EBIT	1,700	922	4,210	3,533	3,886	4,080	4,284	4,499
EBIT Margin (%)	3.6%	1.9%	6.8%	5.2%	5.2%	5.2%	5.2%	5.2%
Depreciation & Amortization	568	434	462	820	902	947	994	1,044
D&A as a % of revenue	1.2%	0.9%	0.7%	1.2%	1.2%	1.2%	1.2%	1.2%
Cash Growth (%)		8.8%	(58.3%)	5.0%	8.0%	8.0%	8.0%	8.0%
Accounts Receivable Growth (%)		10.8%	14.8%	10.0%	10.0%	10.0%	10.0%	10.0%
Inventories Growth (%)				0.0%	0.0%	0.0%	0.0%	0.0%
Prepaid Expenses Growth (%)				0.0%	0.0%	0.0%	0.0%	0.0%
Accounts Payable / Accrued Expenses Growth (%)		(8.8%)	26.6%	15.0%	15.0%	12.5%	10.0%	10.0%
Capital Expenditures Growth (%)		19.9%	(13.7%)	14.0%	12.0%	11.0%	11.0%	11.0%



DCF - Calculations

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Sum of present values of FCFs **15,621**

Terminal Value

Growth in perpetuity method:

Long term growth rate	4.5%
WACC	6.1%
Free cash flow (t+1)	4,080
Terminal Value	257,819
Present Value of Terminal Value	191,909

DCF Approach	Implied Share Price		
	Base	Downside	Upside
Perpetuity	\$342.65	\$286.73	\$548.00

Enterprise Value to Equity Value

Enterprise Value	207,530
Less: Net debt	6,804
Equity Value	200,726
Diluted Shares Outstanding	586
Equity Value Per Share	\$342.65



Multiples

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Comparable Companies

Peer Group Relevance			
Company Name	Industry	Sector	Largest Geographical Segment
Target			
The Progressive (NYS: PGR)	Insurance	Financials	United States
Comparable companies			
Allstate (NYS: ALL)	Insurance	Financials	United States
Cincinnati Financial (NAS: CINF)	Insurance	Financials	United States
Everest Group (Hamilton) (NYS: EG)	Insurance	Financials	United States
QBE Insurance Group (ASX: QBE)	Insurance	Financials	United States
Zurich Insurance Group (SWX: ZURN)	Insurance	Financials	Europe, Middle East, and Africa

Company Name	Market and Financial Data						Valuation		
	Price	Market Cap (B)	Enterprise Value (M)	LTM Sales (M)	LTM EBITDA (M)	Earnings (M)	EV / Sales	EV / EBITDA	P/E
Target									
The Progressive (NYS: PGR)	242.72	142	155,452.57	71,959	5,888	8,111	2.2x	26.4x	17.5x
Comparable companies									
Allstate (NYS: ALL)	186.52	49	58,620	62,432	6,114	1,708	0.9x	9.6x	28.9x
Cincinnati Financial (NAS: CINF)	140.81	22	21,136	12,155	4,062	3,070	1.7x	5.2x	7.2x
Everest Group (Hamilton) (NYS: EG)	355.61	15	17,138	16,277	2,659	3,070	1.1x	6.4x	5.0x
QBE Insurance Group (ASX: QBE)	11.31	17	18,505	22,790	2,552	1,811	1.6x	7.3x	9.3x
Zurich Insurance Group (SWX: ZURN)	589.48	85	94,228	74,779	8,674	5,303	0.8x	10.9x	16.0x
Mean							1.2x	7.9x	13.28
Median							1.1x	7.3x	9.3x
25 Percentile							0.9x	6.4x	7.17
75 Percentile							1.6x	9.6x	16.01
Standard deviation							0.412	2.315	9.666



Weighted Valuation

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

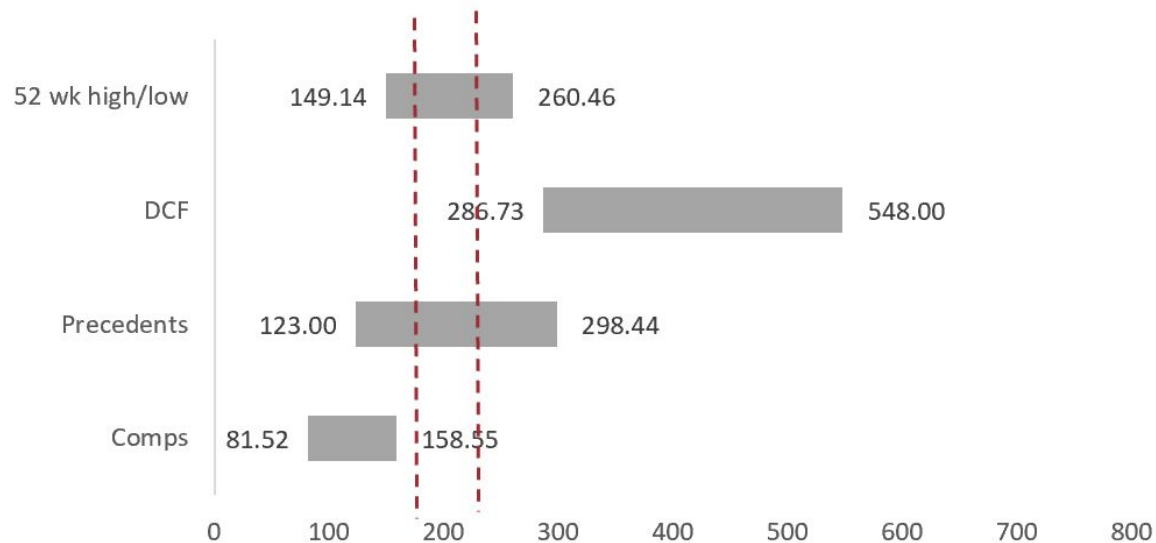
Football Field Data

	Low bar	Difference	High Bar
Comps	81.52	77.03	158.55
Precedents	123.00	175.44	298.44
DCF	286.73	261.27	548.00
52 wk high/low	149.14	111.32	260.46

Implied Stock Price

Total DCF	\$342.65
Comparables	\$125.93
Precedent Transactions	\$216.29

Valuation Summary - Equity Value per Share



Weights

DCF	50%
Comparables	20%
Precedent Transactions	30%

Target Price **261.40**

Current price **242.72**



Conclusion

Investment Thesis

Business Model

Historicals

Industry Analysis

Governance

Risk and Growth

Valuation

Conclusion

Investment Thesis/Company Overview – *BUY \$20,000 of PGR using cash from School Fund*

Business Model – Auto and commercial insurance leader

Industry Analysis – *High expected growth, high competition*

Risks and Growth – *Highly affected by government, natural disasters, and insurtech*

Governance – *Impressive management team – Good past and good forecasted future initiatives and incentives*

Valuation – *Implied Stock Price at \$261.40 which is 7.7% higher than current*

Recommendation - *BUY \$20,000 (equal to ~82.40), target price: \$261.40*

Target Revaluation date : 11/4/2024

	Before	After PGR
Total fund beta	1.15	1.14
School fund beta	1.22	1.19





The background of the image is a blurred financial market data page. It features several line charts and tables. One prominent chart is titled 'ImgnTech Share Price' and shows a price trend from 2013/2013 to 2013/2013. Another chart shows 'Change on day 1.95'. A table lists various stock prices and changes, including 'K+S' and 'StatePlus'. The word 'Exhibits' is centered in white text on a red rectangular background.

Exhibits