

## Investment ideas. Stocks.

**Progress Software Corporation (PRGS US)** develops, markets, and distributes software. It serves customers in the United States. The Company specializes in software for creation and deployment of applications and off-rs databases, application, messaging servers, and development tools. The most important product is OPenEdge platform which allows users to create applications.

<b>Company</b>	<b>PROGRESS SOFTWARE</b>
Ticker	PRGS US
<b>Sector</b>	<b>Software development</b>
Capitalization, \$ million	1,869
EV, \$ million	2,180
Dividend yield	1.6%
Entry level, \$	40.55
Current price, \$	42.27
Result	4.2%

Source: Bloomberg

## Key investment attractiveness factors.

- 1) **Growing demand for life insurance.** According to MIB Group, the number of applications for life insurance policies spiked 4% in 2020. This has been a record year-on-year growth figure in this segment since 2001. The increase in the number of applications was catalyzed by nagging concern about COVID-19 death rates extensively spread by media. Interestingly, the growth was mainly driven by younger people: the number of applications from persons under 45 increased by 7.9% (and by only 3.8% from people aged 45 – 59). We won't rule out possibility this trend will remain in the future, which will undoubtedly have a positive effect on Lincoln National's performance.
- 2) **Finance: high profitability and dividends, and low debt.** According to forecasts, the company is expected to show revenue growth at 1.5% due to the increase in demand for insurance in 2020. On the other hand, net profit may decrease due to growing insurance payouts. At the same time, Bloomberg expects profit figures to return to growth in 2021. Apart from that, there are benefits such as high operating margin (about 34%), good dividends (yield at 3.4%) and low debt burden (net debt to operating margin at 0.6x).
- 3) **Substantial discount with reference to multipliers.** Lincoln National's stock is traded momentarily substantially cheaper than U.S. benchmarks in insurance companies sector. Discount for P/S multiplier is around 97%, for P/Book Value — 345%, and for P/E — 119%.

**Key risks.** In theory, growing COVID-19 death rates can do the company more harm than good, because in this case insurance premiums will grow as well, which will put pressure on net profit. Low rates are a risk too, since companies invest the major portion of insurance premiums in high-rated bonds. Additionally, competition is very tight today in the U.S. insurance and finance consulting sector.

Financial highlights, \$ million	2019	2020P*	2021P*	Change, %
Revenue	413	442	516	17%
Gross profit	338	380	455	20%
EBITDA	148	179	196	9%
Net profit	66	102	147	43%
EPS	1.48	2.28	3.25	43%
<i>Gross margin</i>	82%	77%	79%	2%
<i>EBITDA margin</i>	36%	41%	38%	-3%
<i>Net margin</i>	16%	23%	28%	5%

Debt burden, \$ million	2019	2020	2021P*	Change, %
Gross debt	295	416	417	0%
Cash	174	106	106	0%
Net debt	121	310	311	0%
Net debt/EBITDA	0.1	2.1	1.7	-

Benchmarking against similar companies	Country	P/S	EV/EBITDA	P/E
GAZPROM	Russia	0.7	5.0	5.6
NOVATEK	Russia	4.6	12.8	15.0
TEEKAY	USA	1.9	7.1	4.3
DHT HOLDINGS	USA	3.0	6.1	13.6
DORIAN	USA	2.0	5.5	6.3
HAFNIA	Norway	1.2	7.7	10.3
NAVIGATOR	USA	1.6	6.6	7.2
INTERNATIONAL SEWAYS	USA	1.5	7.3	12.4
<b>Weighted average</b>		<b>2.1</b>	<b>7.3</b>	<b>9.4</b>

<b>PROGRESS SOFTWARE</b>	<b>USA</b>	<b>3.6</b>	<b>11.1</b>	<b>12.8</b>
<i>Discount/(premium)</i>		-43%	-35%	-27%

\*P – Projection

Source: Bloomberg

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