Progressive

January quirks as Progressive heads into January 2024 results

Reiterate Rating: BUY | PO: 249.00 USD | Price: 182.36 USD

13 February 2024

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	244.00	249.00

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Progressive to report January 2024 results tomorrow

On February 14, Progressive, a monthly reporter of its financial results, will release its January 2024 financial report. Given the wide gap between our high-on-the-Street 2024 EPS forecast of $10.45 and a much lower consensus forecast of just $8.47, we believe that the first monthly report for 2024 has the potential to set the tone for what we believe will be material upward EPS revisions through the year. That said, January, in general, and January 2024, in particular, have some seasonal and prior-year comparable issues that may obscure the trends in the soon-to-be-reported numbers.

Persistent prior-year adverse loss development in January

For the past eight Januarys (2016-2023), Progressive has reported adverse prior-year loss development on the prior-year, which often is merely late-reported December claims emerging in January. However, in 2023, it was more troublesome as it related to a comprehensive overestimation of 2022 underwriting margins. We are modeling 2.9% of adverse prior-year loss development in the January 2024 numbers, essentially to mimic the pattern of the past, though there are some reasons to believe it won't recur in 2024. We would not view 3%ish adverse development as particularly surprising, but the lack thereof might suggest a negative recurring issue at the company isn't actually endemic.

Difficult year-over-year revenue comps with January 2023

January 2024 has 31 days of revenue accrual as compared with 35 in January 2023. Further, the surge in policycount growth in January 2023 caused operating cash flow and net premiums written to also be outsized that month. We believe it will be difficult (though not impossible) for Progressive to match the 436k net new Personal Auto policies it added in January 2023. We are forecasting just 279k, though we note that Progressive added more net new policies in December 2023 than in December 2022.

Increasing price objective to $249; remains Buy-rated

With shares of Progressive at essentially all-time/52-wk highs, we would propose that any weakness created by the January 2024 earnings release represents a particularly attractive opportunity. That said, a strong policycount growth number might fuel the stock better than weird margin/revenue quirks hold it back. A surge in the S&P 500 consensus 2025 P/E multiple to 18.7x (from 18.2x previously) causes us to lift our PO to $249 from $244 as we value PGR shares at parity with the market as they have traded at this multiple historically.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	4.14	6.11	10.45	13.30	15.20
GAAP EPS	1.18	6.58	10.45	13.30	15.20
EPS Change (YoY)	14.0%	47.6%	71.0%	27.3%	14.3%
Consensus EPS (Bloomberg)			8.47	10.20	10.85
DPS	0.40	0.40	4.65	8.40	8.90
Valuation (Dec)					
P/E	44.0x	29.8x	17.5x	13.7x	12.0x
GAAP P/E	154.5x	27.7x	17.5x	13.7x	12.0x
Dividend Yield	0.2%	0.2%	2.5%	4.6%	4.9%

Stock Data

Price	182.36 USD
Price Objective	249.00 USD
Date Established	13-Feb-2024
Investment Opinion	B-1-7
52-Week Range	110.92 USD -184.28 USD
Mrkt Val / Shares Out (mn)	106,735 USD / 585.3
Free Float	99.7%
Average Daily Value	390.06 USD
BofA Ticker / Exchange	PGR / NYS
Bloomberg / Reuters	PGR US / PGR.N
ROE (2024E)	27.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Refer to important disclosures on page 10 to 12. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.

iQprofile℠ Progressive

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	49,241	58,664	69,178	78,989	87,061
Net Investment Income	1,260	1,892	2,818	3,581	4,163
Total Revenue	**48,889**	**61,219**	**72,296**	**82,871**	**91,524**
Total Cost of Benefits and Claims	(38,123)	(45,650)	(51,244)	(58,308)	(64,220)
S,G & A (Including Commissions)	(9,055)	(10,018)	(12,718)	(14,066)	(15,316)
Total Operating Expenses	**(47,967)**	**(56,311)**	**(64,589)**	**(73,050)**	**(80,274)**
Pre-Tax Operating Earnings	**922**	**4,909**	**7,706**	**9,821**	**11,250**
Income Tax Expense	(201)	(1,001)	(1,550)	(1,956)	(2,260)
Operating Earnings After Tax	**2,430**	**3,591**	**6,147**	**7,824**	**8,949**
Net Income (Reported)	**2,457**	**3,628**	**6,156**	**7,864**	**8,989**
Diluted Shares	587	587	588	588	589
Operating Earnings Per Share	4.14	6.11	10.45	13.30	15.20
Net Income (Reported) Per Share	1.18	6.58	10.45	13.30	15.20

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	NA	NA	NA	NA	NA
Total Cash and Investments	53,548	65,999	80,667	93,024	104,186
Total Assets	**75,465**	**88,691**	**100,523**	**111,916**	**124,451**
Reserves	30,359	34,389	38,816	43,851	49,396
LT Debt	6,388	6,889	7,389	8,389	9,389
Total Liabilities	**59,574**	**68,414**	**76,983**	**85,641**	**94,624**
Total Equity	**15,891**	**20,277**	**23,539**	**26,275**	**29,827**
Total Equity (Ex FAS 115)	**19,429**	**22,312**	**23,539**	**26,275**	**29,827**
Book Value per Share (Reported)	26.32	33.80	39.34	43.98	49.99
Book Value per Share (Ex FAS 115)	32.37	37.28	39.34	43.98	49.99

Ratios (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	18.4%	17.1%	18.4%	17.8%	17.6%
Loss Ratio	77.4%	77.8%	74.1%	73.8%	73.8%
Combined Ratio	**95.8%**	**94.9%**	**92.5%**	**91.6%**	**91.4%**
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.9x	3.9x	4.1x	4.3x	4.2x

Growth Rates (YoY) (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	11.0%	19.1%	17.9%	14.2%	10.2%
Net Investment Income	46.4%	50.1%	48.9%	27.1%	16.2%
Total Revenue	4.0%	25.2%	18.1%	14.6%	10.4%
Operating Earnings per Share	14.0%	47.6%	71.0%	27.3%	14.3%
Asset	6.9%	17.5%	13.3%	11.3%	11.2%
Reported Book Value per Share	-13.3%	28.4%	16.4%	11.8%	13.7%

Performance Metrics (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	15.5%	21.4%	27.7%	30.1%	30.6%
Operating ROE (Ex FAS 115)	13.4%	18.0%	26.6%	30.1%	30.6%
Operating Return on Average Assets	3.3%	4.4%	6.5%	7.4%	7.6%
Operating Margin	5.0%	5.9%	8.5%	9.4%	9.8%
Long Term Debt to Cap Ratio (Ex FAS 115)	24.7%	23.6%	23.9%	24.2%	23.9%
Net Income % Operating Income	28.6%	107.8%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

Progressive derives most of its business from personal auto insurance policies. PGR operates in standard and preferred auto and is expanding distribution channels, which includes direct distribution and internet.

Investment Rationale

We believe that a combination of superior execution and a more rational competitive environment will allow Progressive to deliver on both premium growth and margins, a challenging balance to manage. In our view, the Street does not fully appreciate the earnings power or sustainability of Progressive's earnings, which is reflected in our above-consensus estimates.

Stock Data

Average Daily Volume	2,138,943

Quarterly Earnings Estimates

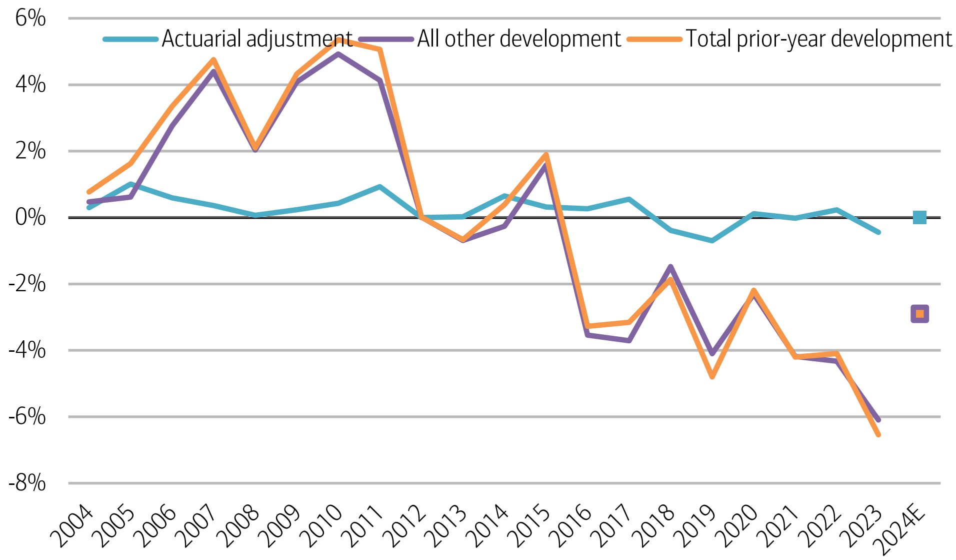
	2023	2024
Q1	0.65A	2.25E
Q2	0.40A	2.63E
Q3	2.09A	2.63E
Q4	2.96A	2.94E

Progressive's January Prior-Year Development "Flu"

One of the quirks of Progressive's unique monthly reporting is that development from the prior December's loss activity becomes favorable/unfavorable PRIOR-YEAR losses in the January that follows. When it happens in another other month, the increase/decrease in losses/claims get rolled into the current year and aren't usually particularly impactful to investor impressions. When it happens in January, given the way loss reporting is done for most insurers—where prior-year development represents a failure in actuarial math—there is an inclination to view it as poor execution. For the past eight Januarys (2016-2013), this prior-year development has been persistently negative, weighing on the company's firmwide loss combined ratio by at least 1.9% (in 2018) and as much as 6.5% (in 2023). Eagle-eyed Progressive investors have come to expect adverse previous-month/prior-December development that shows up as "prior-year."

Exhibit 1: History of January favorable/adverse development as a % of net premium earned

Adverse prior-period reserve development—significantly a result of December losses bleeding into the subsequent January—has been a persistent headwind on Progressive's January underwriting margins for the past 8 Januarys (2016-2013). Interestingly, it was as a persistent tailwind to results for 7 consecutive Januarys in the past (2005-2011).



Source: Company filings and BofA Global Research estimates for January 2024

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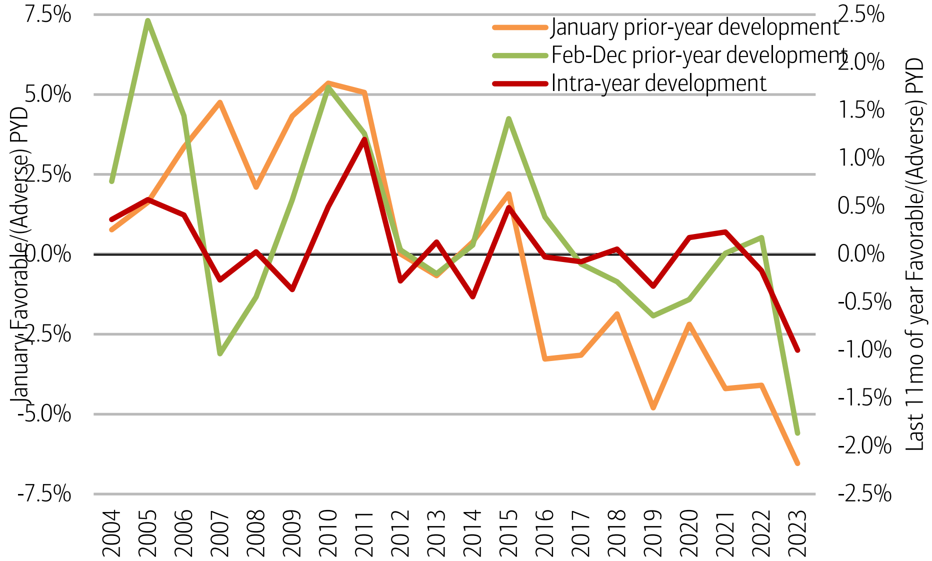
While we can't know what proportion of "Progressive investors" (long or short) are aware of this issue, we do believe there is a wide awareness of it. Bullish investors are hoping to immunize the markets against the risk of a perceived "miss" by reminding less-focused investors about this quirk, as inbound calls indicate to us. Even if this headwind is a regular occurrence, when it happened in January 2023 with that 6.5% impact on underwriting margins, it was rightfully considered something more than the usual seasonal January "surprise." And, indeed, it was "something more." During the last 11 months of 2023, adverse prior-year reserve development cumulatively shaved 1.9% off underwriting margins (most all of which seemed to occur in the first half of the year), but, also, Progressive seemed to be playing a game of "catch-up" through the year with a 100bps of loss ratio being reported in months subsequent to when they were supposed to be incurred.

Exhibit 2: Relationship between January prior-year loss reserve development and loss reserve development later in the year

The correlation between the January experience of prior-year reserve development (orange line) and the prior-year development in the remaining months of the year (green line) is unclear as is the relationship to intra-year reserve development as the year rolls on (red line). However, clearly the development in January 2023 presaged a broader problem for the remainder of 2023, particularly in the first half.



Source: Company filings

BofA GLOBAL RESEARCH

After 8 consecutive years of adverse prior-year development in January, we're expecting this issue will recur in January 2024. We have earmarked $150 million (2.9% of January net premiums earned) for prior-year adverse loss reserve development ($0.20/sh of January EPS) as a placeholder for this recurring loss, but it seems to us premature to call it a *fait accompli*. Of course, there is the fact that this measure proved favorable from 2005-2011 and (in 2015 as well, while development was negligible in 2012-2014). Still eight years in a row and the eight most recent years set a pretty good precedent, in our view.

Historically, the days spanning Christmas to New Year's seems to also contain the longest nights on the U.S calendar and an outsized number of traffic accidents, sometimes fatal, potentially due to overzealousness and intoxication during the holiday period. These events can create larger personal insurance losses and have sometimes been reported late; however, that doesn't seem to be what has happened in 2022 and 2023. The late reported large claims associated with darkness and alcohol might be part of how the company described adverse development occurring in 2016, 2017, 2019 and 2021, but the 2022 and 2023 elevated losses were not due to elevated frequency of late reported personal auto claims. Below we transcribe, where available, Progressive's annual explanations for January prior-year development over the past 20 years.

- 2007: In January, we recognized $58.7 million of FAVORABLE prior accident year "all other" development. Development (either favorable or unfavorable) often occurs in the month after reserves are recorded. January is the only month in which this development is shown as development from the prior accident year. Similar effects in other months are intra-accident year and, therefore, not recorded as prior accident year development.

- 2008: The FAVORABLE "all other development" experienced in the month is largely the result of CLAIMS THAT SETTLE in the first month following the accident FOR AMOUNTS LESS THAN THE ORIGINAL [our emphasis]. As is typical, in January, these settlements are reflected as prior accident years development.

- 2009: The FAVORABLE "all other development" experienced in the month is largely the result of CLAIMS THAT SETTLE in the first month following the accident FOR AMOUNTS LESS THAN THE ORIGINAL [our emphasis]. As is typical, in January, these settlements are reflected as prior accident years development.

- 2010: The FAVORABLE prior accident year reserve development of 5.4 points in the month is largely the result of CLAIMS THAT SETTLED in the first month following the accident FOR AMOUNTS LESS THAN THE ORIGINAL [our emphasis]. As is typical, in January, these settlements are reflected in prior year development, rather than development in the current accident year as is the case in all subsequent months.

- 2011: In January, we experienced FAVORABLE prior accident year reserve development of 5.1 points. About one-third of the favorable development is the result of DECEMBER CLAIMS THAT SETTLED IN JANUARY FOR AMOUNTS LESS THAN THE ORIGINAL RESERVE. In January, settlements of prior month claims are reflected in prior year development, rather than development in the current accident year as is the case for the remaining eleven months of the year. The remainder of the favorable development in January reflects the continuation of trends we experienced throughout 2010, including FAVORBALE SETTLEMENT OF LARGER LOSSES AND LOWER THAN EXPECTED DEFENSE AND COST CONTAINMENT COSTS [our emphasis].

- 2016: In January, we experienced UNFAVORABLE prior accident year reserve development of 3.3 points. The unfavorable development was the result of MORE DECEMBER CLAIMS BEING REPORTED IN JANUARY THAN WERE ANTICIPATED [our emphasis] in our year-end reserves. In January, incurred but not reported on December 2015 accidents are reflected in prior year development, rather than development in the current accident year as is the case for the remaining eleven months of the year.

- 2017: In January, we experienced UNFAVORABLE prior accident year reserve development of 3.2 points. The unfavorable development was primarily the result of MORE NOVEMBER AND DECEMBER CLAIMS BEING REPORTED IN JANUARY THAN WERE ANTICIPATED [our emphasis] in our yearend reserves. In January, incurred but not reported on November and December 2016 accidents are reflected in prior year development, rather than development in the current accident year as is the case for the remaining 11 months of the year.

- 2019: In January, we experienced UNFAVORABLE prior accident year reserve development of 4.8 points. The unfavorable development was primarily the result of MORE LATE REPORTED CLAIMS, as well as a higher amount of reopened claims, THAN ANTICIPATED [our emphasis]. In January, incurred but not reported on December 2018 accidents are reflected in prior year development, rather than development in the current accident year as is the case for the remaining 11 months of the year.

- 2021: In January, we experienced UNFAVORABLE prior accident year reserve development of 4.2 points. The unfavorable development was primarily the result of MORE DECEMBER CLAIMS BEING REPORTED IN JANUARY THAN WERE ANTICIPATED [our emphasis] in our year-end reserves. For January, incurred but not reported on December 2020 accidents are reflected in prior year development. For the remainder of the year, this situation (e.g., unfavorable development on January claims being reported in February) would be reported as current year development.

- 2022: In January, we experienced UNFAVORABLE prior accident year development of 4.1 points. Our personal auto products incurred about 80% of the development, primarily REFLECTING THE CONTINUED INCREASE IN THE COST TO REPAIR VEHICLES AND HIGHER SEVERITY [our emphasis] in our physical damage, collision, and comprehensive coverages.

- 2023: In January, we experienced UNFAVORABLE prior accident years reserve development of 6.5 points. About 75% of the development in our personal auto products and primarily related to our property damage, collision, and comprehensive coverages, in part due to December 2022 ACCIDENTS SETTLING FOR MORE THAN RESERVES AND CHANGES IN RESERVE ESTIMATES [our emphasis] (e.g., aging of the reserves, changes to estimates by adjusters, and inflation factors). In January, case reserve development on accidents that occurred in the previous month are reflected in prior accident years development, rather than development in the current accident year, as is the case for the remaining 11 months of the year. The development in our commercial auto products represented about 20% of the development and was mainly due to late reported claims from prior accident periods. The remaining unfavorable development was primarily in our Property business.

Had Progressive not underestimated loss severity in 2021 and 2022, the respective January prior-year development numbers might not have reflected the trend seen in the prior six years. We are not predicting that Progressive's annual January "flu" is poised to end when the company reports results tomorrow (Wednesday) morning, but, if the prior-year development issue declines/dissipates, investors might find that to be a pleasant surprise.

Premium growth vs. policycount growth

In a couple of notes (see reports) we wrote about Progressive last month, we hoped to explain two issues that we expect will arise in Progressive's reporting of premium volume numbers when the company reports January numbers tomorrow.

Gregorian calendarization

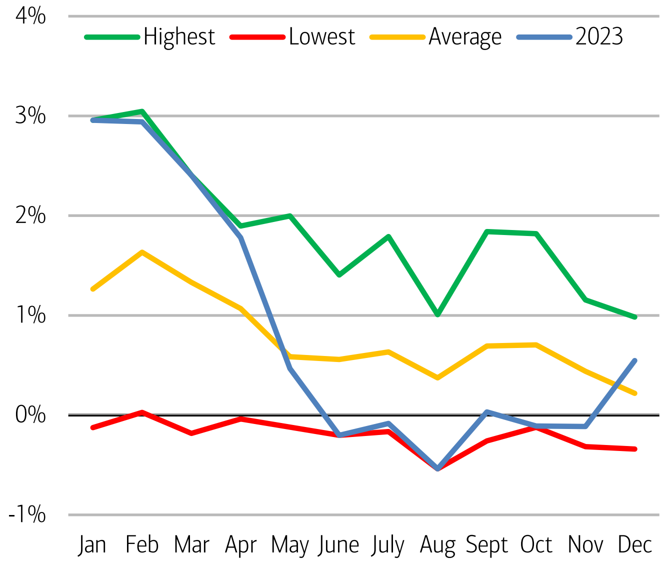
First, and the easier of the two to understand, is that Progressive adjusted its calendarization/accounting last October (2023). Formerly, the timeframe that premium revenue (and incurred losses) was subject to was measured in weeks with the first "month" of the quarter being 5 weeks in lengths and the second and third "months" being 4 weeks in length (except for December which could be 4 weeks or 5 weeks depending on the year). Going forward, Progressive has adopted a Gregorian calendarization whereby a "month" will have the same number of days as in the actual month: January, 31; February, 28 (except in the event of a leap year when it will be 29 as is the case in 2024); March, 31; etc. As such, January 2023 had 35 days (20 "work" weekdays, 9 weekend days and 2 national work holidays), but January 2024 will have 31 days (21 "work" weekdays, 8 weekend days and 2 national work holidays) or about 10.7% fewer. Progressive has said that more "shopping" occurs on the weekends, so the incremental weekend day in January 2023 might add to the tough year-over-year comparable. If everything else were the same, except for the number of days, investors should expect a 10.7% growth headwind when comparing January 2024 to January 2023 in terms of premium growth (both written and earned). This is the less complicated of the two quirks surrounding premium growth forecasting in January 2024.

"Premium-months"

We have called the second item the "premium-months" issue. What we call "premium-months" are the number of months of premium collected across the entire book of policies, new and renewed. We're not going to revisit the math in its entirety here, but welcome investors to read our note on the topic dated January 25, 2024. Because most drivers pay up front for their personal insurance policies, there is a huge surge in incoming cash flows (capture in premiums written) during times of strong premium growth. In January 2023, in a single month, Progressive grew its net Direct Auto policycount by 3.0% (300k policies) and its net Agency Auto policycount by 1.7% (136k policies) as compared with the policycount at year-end 2022 (436k net new Personal Auto policies in total). This was Progressive's best January for policycount growth in the 21 years that it has been reporting monthly policycount numbers. It net added the most policies numerically, but also, as a proportion of its year-end policycount base, it grew more quickly than in all previously reported Januarys. This caused a surge in the amount of cash flow and net premium written in January 2023.

Exhibit 3: Progressive Direct Auto sequential month-over month policycount growth

It will likely be difficult (though not impossible) for Progressive to match its January-to-April 2023 policycount growth rate in 2024 as it was the best in 21 years of month policycount reporting. That said, December 2023 seemed to imply a trend change that could be magnified in January-May 2024 as December is typical Progressive's slowest month for net new policycount growth.



Source: Company filings

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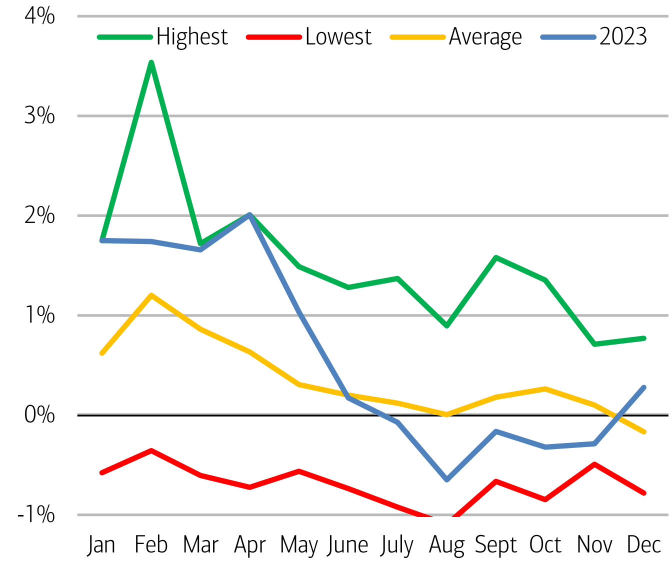
Exhibit 4: Progressive Agency Auto sequential month-over month policycount growth

It will likely be difficult (though not impossible) for Progressive to match its January-to-April 2023 policycount growth rate in 2024 as it was the best in 21 years of month policycount reporting. That said, December 2023 seemed to imply a trend change that could be magnified in January-May 2024 as December is typical Progressive's slowest month for net new policycount growth.



Source: Company filings

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In order for the growth in "premium-months" to be as many in January 2023, Progressive would need to add net new policies to the year-end 2023 policycount base at the same proportion it did in January 2023. 3.0% net sequential month growth in year-end 2023 Direct Auto policy count is 331k, and 1.7% growth in Agency Auto in 146k. And, while Progressive's policycount at January-end 2023 and 2024 both represent the 31st of the month, the net written premium and "premium-months" in the January 2023 financials represented 5 weeks of new policy acquisition while the net written premium and "premium-months" in the January 2024 financials will span just 31 days.

Needless to say, it is a very difficult comparable. That said, it might not be impossible to span. First, Progressive's net written premium per policy is probably around 500-600bps higher in January 2024 vs. January 2023 as compared with January 2023 vs. January 2022. Second, December 2023 policycount growth was better than December 2022 policycount growth. Perhaps this augurs for a trend. For all the reasons cited above, we are forecasting a very low 4% premium growth in January 2024 numbers compared with 36% and 32% for written premium and earned premium, respectively, in December 2023 (which has 31 days vs just 28 in December 2022). Some investors have said that they ignore premium growth entirely and look exclusively at policycount growth. We think this may be wise for gauging January 2024 results. We are forecasting 279k net new personal auto policies in January 2024 (196k Direct and 83k Agency).

Price objective basis & risk

Progressive (PGR)

Our $249 price objective is based on the current S&P 500 P/E multiple for 2025 of 18.7x on our 2025E EPS forecast. Due to quickly accelerating EPS ahead of the market growth rate, as seen in 2016-2019, we believe Progressive shares should trade at a premium to market as its earnings accelerate. However, given a multiple valuation two years out, we only assume parity due to the necessarily decreased certainty in an out-year forecast.

Downside risks to our PO are 1) presented by the pressure from lower interest rates, causing a decline in earnings power and potentially leading the company to miss our EPS expectations, 2) the volatility associated with catastrophes, which also creates the risk of missing and exceeding our EPS outlook, 3) the impact of material pricing changes by major competitors, 4) the long-term impact of emergent technologies, such as ride-sharing applications and autonomously driven automobiles.

Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

*iQ*method SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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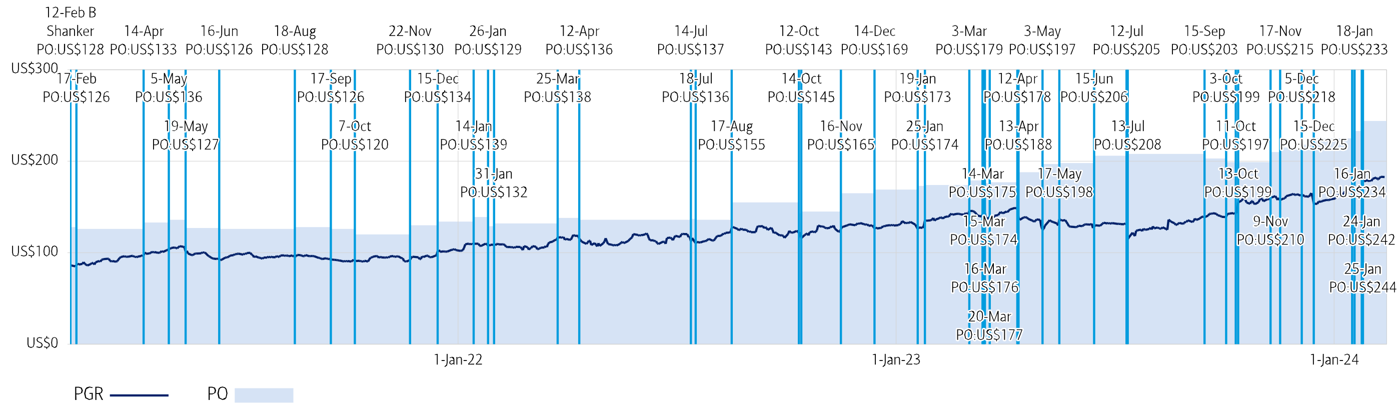
Progressive Corp (PGR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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