Progressive

Be prepared for soft premium volume for January ’24 (and probably for February too)

Reiterate Rating: BUY | PO: 244.00 USD | Price: 176.45 USD

25 January 2024

Equity

Expecting single-digit written premium growth in January

After reporting 36% net written premium growth (handily beating consensus of 20%) for December ’23, we expect thin 4% growth for January ’24. The significant month-over-month variance does not reflect fundamentals but relates to a) January encompassing just 31 “calendar days” in 2024 (-11%) as opposed to 35 “accounting days” in 2023 and b) difficult year-over-year comparables related to revenue recognition of unit volumes, something we have called “premium-months” about which we published a large note yesterday (1/24). Progressive will report January’ 24 results before the market-open on February 14, but will next speak publicly to shareholders’ only on February 27.

High MoM volatility in reported premium/revenue in 9M24

This month-over-month volatility will persist until October ’24 when Progressive laps its October ’23 adoption of a Gregorian calendarization in how it accounts for monthly revenue totals. As a comparison, March ’23 revenues are poised to see a tailwind from 28 “accounting days” in 2023 to 31 “calendar days” in 2024 (+11%). Additionally, in February ’23, Progressive saw a one-time $530-540mn net written premium boost from its transportation network company (ridesharing) business. We are modeling February ’24 as if a material portion of this lump sum does not renew in a single month.

Too cautious? Policycount growth is accelerating

We forecast 8% growth in Progressive Personal Auto policycount through May ’24 vs December ’23, down from arguably a best-ever 10% in Jan-May 2023. (Progressive experiences most of its policycount growth in the first 5 months of the year.) While we are forecasting deceleration (in our nonetheless much-higher-than-consensus numbers), policycount growth is currently accelerating with December ’23 being the second-best December for customer acquisition in 21 years of monthly reporting history. Progressive could very well match its outstanding Jan-May 2023 customer acquisition pace, in which case our Jan/Feb revenue forecast will prove too pessimistic. We believe policycount a better measure of growth than volatile monthly premium volume.

Our price objective to $244; remains Buy

While the Jan/Feb revenue volatility may create short-term noise in the PGR trading, we remain positive on 2024 policycount, revenue and earnings growth with material upside to the consensus view. Our PO rises $2/sh on a cosmetic nickel increase to our ’25 EPS outlook and the parity-with-market multiple expanding to 18.2x from 18.1x previously.

Estimates (Dec) (US$)	2022A	2023A	2024E	2025E	2026E
EPS	4.14	6.11	10.55	13.40	15.35
GAAP EPS	1.18	6.58	10.55	13.40	15.35
EPS Change (YoY)	14.0%	47.6%	72.7%	27.0%	14.6%
Consensus EPS (Bloomberg)			8.36	10.21	11.36
DPS	0.40	0.40	4.65	8.40	8.90
Valuation (Dec)					
P/E	42.6x	28.9x	16.7x	13.2x	11.5x
GAAP P/E	149.5x	26.8x	16.7x	13.2x	11.5x
Dividend Yield	0.2%	0.2%	2.6%	4.8%	5.0%

Key Changes

(US$)	Previous	Current
Price Obj.	242.00	244.00
2025E EPS	13.35	13.40
2026E EPS	15.30	15.35

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Stock Data

Price	176.45 USD
Price Objective	244.00 USD
Date Established	25-Jan-2024
Investment Opinion	B-1-7
52-Week Range	110.92 USD -182.35 USD
Mrkt Val / Shares Out (mn)	103,276 USD / 585.3
Free Float	99.7%
Average Daily Value	414.19 USD
BofA Ticker / Exchange	PGR / NYS
Bloomberg / Reuters	PGR US / PGR.N
ROE (2024E)	27.9%
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 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.
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Timestamp: 25 January 2024 12:34PM EST

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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	2,820	3,586	4,171
Total Revenue	**48,889**	**61,219**	**72,298**	**82,875**	**91,532**
Total Cost of Benefits and Claims	(38,123)	(45,650)	(51,169)	(58,218)	(64,115)
S,G & A (Including Commissions)	(9,055)	(10,018)	(12,718)	(14,066)	(15,316)
Total Operating Expenses	**(47,967)**	**(56,311)**	**(64,514)**	**(72,960)**	**(80,169)**
Pre-Tax Operating Earnings	**922**	**4,909**	**7,783**	**9,916**	**11,363**
Income Tax Expense	(201)	(1,001)	(1,566)	(1,990)	(2,283)
Operating Earnings After Tax	**2,430**	**3,591**	**6,209**	**7,886**	**9,040**
Net Income (Reported)	**2,457**	**3,628**	**6,218**	**7,926**	**9,080**
Diluted Shares	587	587	588	588	589
Operating Earnings Per Share	4.14	6.11	10.55	13.40	15.35
Net Income (Reported) Per Share	1.18	6.58	10.55	13.40	15.35

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	80,729	93,138	104,389
Total Assets	**75,465**	**88,691**	**100,584**	**112,039**	**124,664**
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**	**23,601**	**26,398**	**30,040**
Total Equity (Ex FAS 115)	**19,429**	**22,312**	**23,601**	**26,398**	**30,040**
Book Value per Share (Reported)	26.32	33.80	39.45	44.19	50.36
Book Value per Share (Ex FAS 115)	32.37	37.28	39.45	44.19	50.36

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%	74.0%	73.7%	73.6%
Combined Ratio	**95.8%**	**94.9%**	**92.4%**	**91.5%**	**91.2%**
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%	49.0%	27.2%	16.3%
Total Revenue	4.0%	25.2%	18.1%	14.6%	10.4%
Operating Earnings per Share	14.0%	47.6%	72.7%	27.0%	14.6%
Asset	6.9%	17.5%	13.4%	11.4%	11.3%
Reported Book Value per Share	-13.3%	28.4%	16.7%	12.0%	14.0%

Performance Metrics (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	15.5%	21.4%	27.9%	30.2%	30.7%
Operating ROE (Ex FAS 115)	13.4%	18.0%	26.8%	30.2%	30.7%
Operating Return on Average Assets	3.3%	4.4%	6.6%	7.4%	7.6%
Operating Margin	5.0%	5.9%	8.6%	9.5%	9.9%
Long Term Debt to Cap Ratio (Ex FAS 115)	24.7%	23.6%	23.8%	24.1%	23.8%
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	2,347,366

Quarterly Earnings Estimates

	2023	2024
Q1	0.65A	2.35E
Q2	0.40A	2.64E
Q3	2.09A	2.63E
Q4	2.96A	2.94E

Investors should be prepared for high revenue growth volatility from Progressive in the coming months. This is essentially due to three factors ([outlined at length in a note published yesterday, 1/24]() … this note serves as a shorter, more direct version of the same argument). The three reasons are:

1. The adoption of a Gregorian calendarization for counting the days of the month as opposed to a former 5-4-4 week pattern for the months of the quarter previously. This will cause high revenue volatility through September 2024 as the new accounting rule was adopted in October 2023.

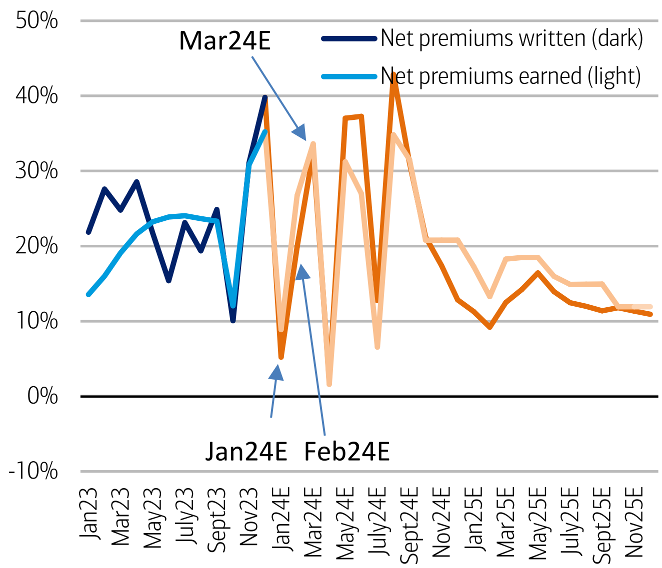
2. Very difficult year-over-year comparables when comparing January-May 2024 policycount growth against the arguable best-ever policycount growth seen in January-May 2023. When policycount accelerates/decelerates, the change gets significantly magnified in net premium written due to a cash receipt timing issue we are calling "premium-months."

3. The company's transportation networking company (ridesharing) business saw a concentrated $530-540 million boost in February 2023. We are not confident that all this revenue renews singularly in the month of February and expect that to represent a headwind to cash revenue (net premium written) growth in February 2024, though it should have little impact on GAAP revenue (net premium earned).

We believe a perceived revenue disappointment could cause weakness in PGR shares, though we believe it entirely non-fundamental. Progressive will report January 2024 results before the market-open on February 14, but will next speak publicly to shareholders' only on February 27.

Exhibit 1: Progressive Personal Lines premium revenue growth forecast

We expect there to be significant year-over-year revenue growth volatility to be reported in the next few months.



Source: Company filings and BofA Global Research estimates

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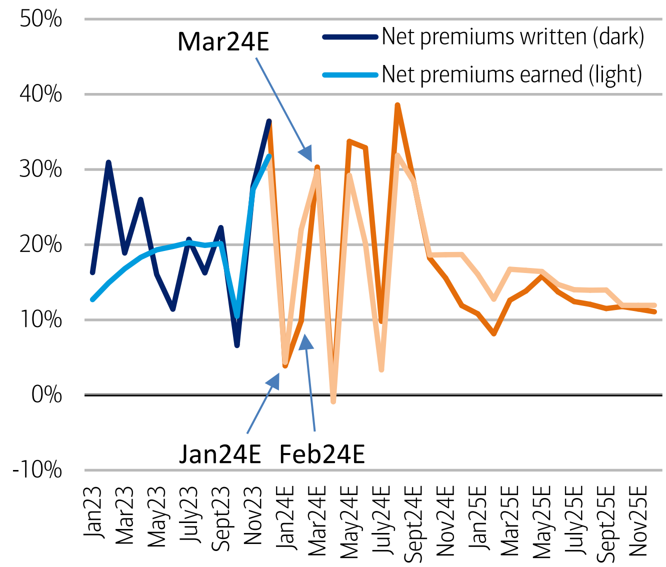
Exhibit 2: Progressive overall premium revenue growth forecast

We expect there to be significant year-over-year revenue growth volatility to be reported in the next few months.



Source: Company filings and BofA Global Research estimates

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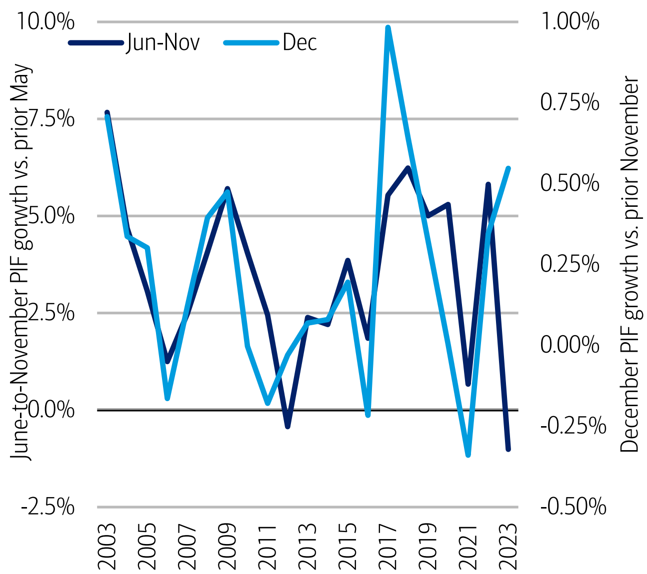
While we are confident about the choppiness presented by the Gregorian calendar adoption, we may be too pessimistic about the impact of difficult year-over-year comparables. In the period spanning June through November 2023, Progressive posted what is likely its worst June-to-November span of customer acquisition in its history (or at least in its 21-year history of reporting monthly results) with its Personal Auto policycount falling 1.14% or by a net 225k policies. The back seven months of the year are typically materially slower for growth than the first five months of the year, but negative June-to-November growth is infrequent, particularly in the Direct Auto segment.

Exhibit 3: Comparing annual June-to-November policycount growth to December growth for Progressive Direct Auto

Progressive went from experiencing its worst-ever June-to-November policycount growth in 2023 to posting its arguably second-best ever December policycount growth in the same year.



Source: Company filings

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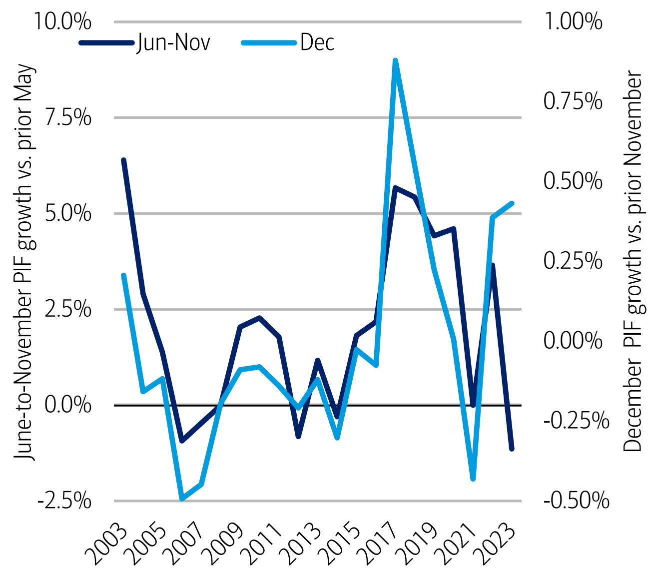
Exhibit 4: Comparing annual June-to-November policycount growth to December growth for Progressive Personal Auto (Direct and Agency)

Progressive went from experiencing its worst-ever June-to-November policycount growth in 2023 to posting its arguably second-best ever December policycount growth in the same year.



Source: Company filings

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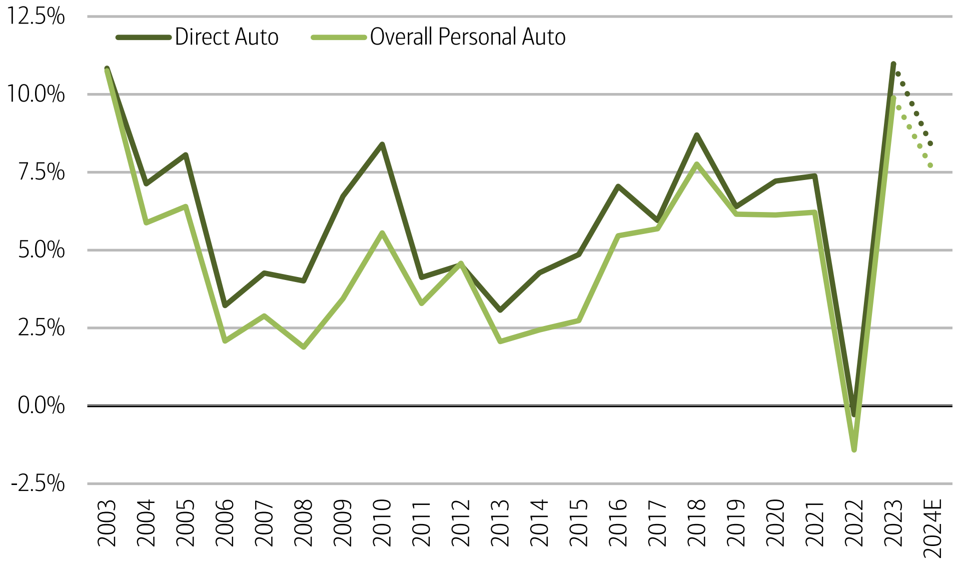
Historically, December (along with August) is Progressive's worst month for adding new customers. Typically, the company's Personal Auto policycount declines in December, even in otherwise growthy years. Further, while the measurement is on two different scales (six months of growth vs. one month of growth), the June-to-November growth trend tends to be a correlating indicator of the same year's December growth trend. However, in 2023, Progressive's policycount growth broke that pattern. Not only did Progressive atypically grow Personal Auto policies in December 2023 (the company net grew its Personal Auto policycount by over 40bps compared with November 2023, net adding 84k policies), but the trend went from being the worst-ever June-to-November stretch for policycount growth to the arguably second-best December in company history (outdone only by December 2017). We believe this signals a very real appetite for new business as the company enters 2024.

We believe the material and atypical inflecting in growth seen in December 2023 signals a very real appetite for new business as the company enters 2024.

Progressive shows its best growth in the first five months of the year due to consumer habits, and we are modeling January-to-May 2024 at an estimated 8% vs. January-to-May 2023 at an actual 10%. This is to say, despite a higher policycount growth rate in December 2023 vs. December 2022, our current forecast assumes a lower January-to-May 2024 growth rate compared with January-to-May 2023. Because of how policycount additions and accelerations get magnified and skewed in "premium-months," this translates to a material net premiums written headwind in our forecast. However, if Progressive is able to add customers in January-to-May 2024 at approximately the same pace as it did in January-to-May 2023, we would be materially overestimating the impact of that headwind.

Exhibit 5: Annual January-to-May policycount Progressive Direct Auto and overall Personal Auto (year-over-year percent change)

Our forecast assumes policycount additions in January-to-May 2024 decelerate from the same period in 2023 despite December 2023 having accelerated from December 2022. This may lead to our much-high-than-consensus revenue/EPS forecast still being too conservative.



Source: Company filings and BofA Global Research estimates

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For these same reasons, we are very confident about significant upside to 2H24 growth and expect net written premiums in 2H24 to be materially higher than in 2H23. Because the company net lost policycount in 2H23, its "premium-months" were particularly depressed during that period of time. Our forecast assumes a return to positive net policycount growth in 2H24, which means a lot of incremental "premium-months." 2H23 net premiums written are materially depressed, and we expect 2H24 policycount to be better than average. At once, investors will see higher-than-typical net premium written in 2H24 being evaluated against unusually depressed net premium written in 2H23, making for very easy comparables.

Price objective basis & risk

Progressive (PGR)

Our $244 price objective is based on the current S&P 500 P/E multiple for 2025 of 18.2x 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
	CNA Financial	CNA	CNA US	Joshua Shanker
	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
	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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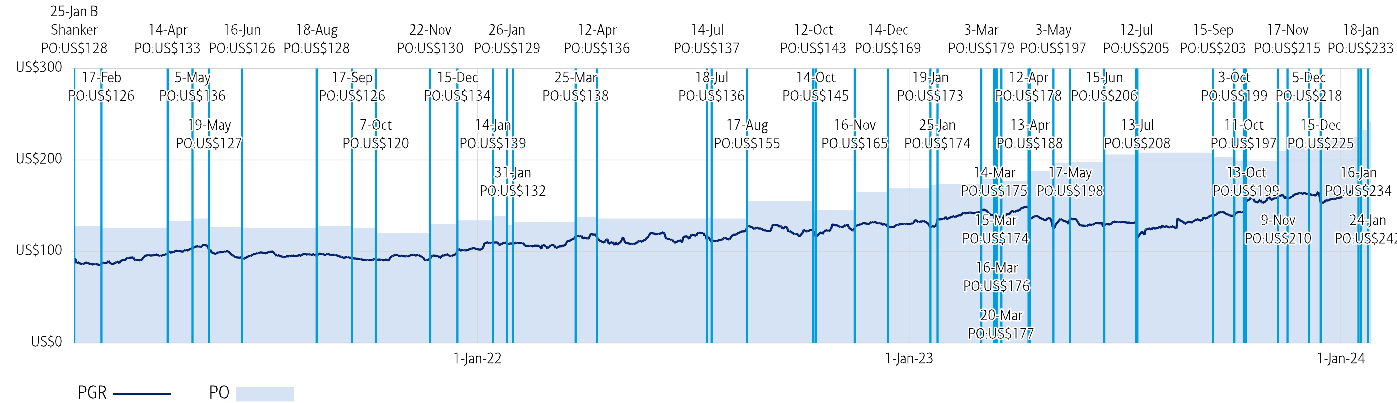
iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

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]
Buy	≥ 10%	≤ 70%
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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