

## Progressive

## Feb. 2024: Underwriting margins notably higher than expected

Reiterate Rating: BUY | PO: 259.00 USD | Price: 202.05 USD

## February 2024 operating EPS of \$1.13

Progressive's February numbers well-exceeded our forecast of \$0.66/sh, beating us in nearly all relevant operating measures, even adjusting out our materially over-cautious view of catastrophe losses. We had estimated \$200mn in catastrophe losses with the prior month's LA flooding in mind, but the actual loss was a below-average \$56mn (+\$0.20/sh variance with our forecast). The accident-year ex-cat loss ratio of 66.0% ran ahead of our 70.4% forecast, while the expense ratio was 18.6%, compared with our 19.5% expectation. Offsetting this was \$57.5mn in adverse prior-year reserve development compared with our forecast of none.

## Jan/Feb results tracking for about \$12/sh in 2024

Historically (2015-2019), the Jan/Feb underlying loss ratio has been about 300bps better than the final 10 months. If one were to take the \$2.29/sh of operating income and the 67.6% accident-year loss ratio in Jan/Feb 2024, assume the next 10 months—on average—are 300bps worse in underwriting margin and nothing else, it implies that the company is tracking toward almost \$12/sh of EPS in 2024. There is reason to expect it should run higher than mere annualization: 1) the company will be earning more investment income as low-yielding bonds mature and are replaced with higher-yielding securities and 2) a lot of additional pricing already approved and written in 2023 will be earning into the P&L. The consensus 2024 EPS forecast of \$9.20 should rise materially.

## Policycount growth slower than in 2023

Net Personal Auto policycount growth of 260k was slightly ahead of our forecast of 254k. However, it was nowhere near the best-ever (by a notable margin) growth of 444k in February 2023. That said, net growth of 36k homeowners' policies (despite the headwind of about 10k policies shed to Loggerhead in Florida) suggests that high long-term value Robinsons/bundlers are making up an increasing proportion of new business.

## Price objective to \$259; remains Buy

Our PO drops to \$259 from \$261 previously. While our forecast for PGR's 2025 EPS is unchanged at \$14.20, our estimate of 93% normalized earnings dropped slightly to \$11.04 from \$11.11 previously (on slightly lower net investment income). Our 12-month ahead PO is based on a 10% premium to the S&P 500 current-year P/E multiple (21.4x) applied one year ahead. With 22% upside potential for what we believe a relatively low-risk, economic cycle-uncorrelated business, we continue to rate shares as Buy.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.14	6.11	11.55	14.20	16.30
GAAP EPS	1.18	6.58	11.68	14.20	16.30
EPS Change (YoY)	14.0%	47.6%	89.0%	22.9%	14.8%
Consensus EPS (Bloomberg)			9.12	10.66	11.39
DPS	0.40	0.40	4.65	8.40	8.90
Valuation (Dec)					
P/E	48.8x	33.1x	17.5x	14.2x	12.4x
GAAP P/E	171.2x	30.7x	17.3x	14.2x	12.4x
Dividend Yield	0.2%	0.2%	2.3%	4.2%	4.4%

15 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	261.00	259.00
2024E EPS	11.20	11.55
2026E EPS	16.40	16.30

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## Stock Data

Price	202.05 USD
Price Objective	259.00 USD
Date Established	15-Mar-2024
Investment Opinion	B-1-7
52-Week Range	110.92 USD -202.70 USD
Mrkt Val / Shares Out (mn)	118,336 USD / 585.7
Free Float	99.7%
Average Daily Value	494.56 USD
BofA Ticker / Exchange	PGR / NYS
Bloomberg / Reuters	PGR US / PGR.N
ROE (2024E)	30.6%
ESGMeter™	High

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# iQprofile<sup>SM</sup> Progressive

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	49,241	58,664	68,572	77,384	85,211
Net Investment Income	1,260	1,892	2,755	3,458	3,953
<b>Total Revenue</b>	<b>48,889</b>	<b>61,219</b>	<b>71,725</b>	<b>81,142</b>	<b>89,464</b>
Total Cost of Benefits and Claims	(38,123)	(45,650)	(50,149)	(56,239)	(61,883)
S,G & A (Including Commissions)	(9,055)	(10,018)	(12,245)	(13,683)	(14,721)
<b>Total Operating Expenses</b>	<b>(47,967)</b>	<b>(56,311)</b>	<b>(63,028)</b>	<b>(70,598)</b>	<b>(77,342)</b>
<b>Pre-Tax Operating Earnings</b>	<b>922</b>	<b>4,909</b>	<b>8,696</b>	<b>10,544</b>	<b>12,122</b>
Income Tax Expense	(201)	(1,001)	(1,780)	(2,156)	(2,489)
<b>Operating Earnings After Tax</b>	<b>2,430</b>	<b>3,591</b>	<b>6,789</b>	<b>8,348</b>	<b>9,593</b>
<b>Net Income (Reported)</b>	<b>2,457</b>	<b>3,628</b>	<b>6,839</b>	<b>8,388</b>	<b>9,633</b>
Diluted Shares	587	587	587	588	588
Operating Earnings Per Share	4.14	6.11	11.55	14.20	16.30
Net Income (Reported) Per Share	1.18	6.58	11.68	14.20	16.30

## 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	80,371	92,511	103,055
<b>Total Assets</b>	<b>75,465</b>	<b>88,691</b>	<b>99,656</b>	<b>110,107</b>	<b>121,758</b>
Reserves	30,359	34,389	38,363	43,232	48,589
LT Debt	6,388	6,889	7,389	8,389	9,389
<b>Total Liabilities</b>	<b>59,574</b>	<b>68,414</b>	<b>75,728</b>	<b>82,944</b>	<b>90,427</b>
<b>Total Equity</b>	<b>15,891</b>	<b>20,277</b>	<b>23,929</b>	<b>27,163</b>	<b>31,331</b>
<b>Total Equity (Ex FAS 115)</b>	<b>19,429</b>	<b>22,312</b>	<b>24,420</b>	<b>27,163</b>	<b>31,331</b>
Book Value per Share (Reported)	26.32	33.80	40.01	45.49	52.56
Book Value per Share (Ex FAS 115)	32.37	37.28	40.85	45.49	52.56

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	18.4%	17.1%	17.9%	17.7%	17.3%
Loss Ratio	77.4%	77.8%	73.1%	72.7%	72.6%
<b>Combined Ratio</b>	<b>95.8%</b>	<b>94.9%</b>	<b>91.0%</b>	<b>90.4%</b>	<b>89.9%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.9x	3.9x	4.0x	4.1x	4.0x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	11.0%	19.1%	16.9%	12.9%	10.1%
Net Investment Income	46.4%	50.1%	45.6%	25.5%	14.3%
Total Revenue	4.0%	25.2%	17.2%	13.1%	10.3%
Operating Earnings per Share	14.0%	47.6%	89.0%	22.9%	14.8%
Asset	6.9%	17.5%	12.4%	10.5%	10.6%
Reported Book Value per Share	-13.3%	28.4%	18.4%	13.7%	15.5%

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	15.5%	21.4%	30.6%	31.2%	31.3%
Operating ROE (Ex FAS 115)	13.4%	18.0%	28.6%	31.1%	31.3%
Operating Return on Average Assets	3.3%	4.4%	7.2%	8.0%	8.3%
Operating Margin	5.0%	5.9%	9.5%	10.3%	10.7%
Long Term Debt to Cap Ratio (Ex FAS 115)	24.7%	23.6%	23.2%	23.6%	23.1%
Net Income % Operating Income	28.6%	107.8%	101.1%	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

2,447,720

## Quarterly Earnings Estimates

	2023	2024
Q1	0.65A	3.22E
Q2	0.40A	2.65E
Q3	2.09A	2.71E
Q4	2.96A	2.98E

## Price objective basis & risk

### Progressive (PGR)

Our \$12-month ahead price objective of \$259 is based on a 10% premium to the current-year S&P 500 P/E multiple (currently 21.4x) applied to our 2025 estimate of "normalized" EPS one year from now. "Normalized" implies a 93% combined ratio on most of Progressive's business. Our forecasts suggest the company is over-earning, and our \$14.20 EPS forecast for 2025 would be just \$11.04 on a "normalized" basis. 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. A 10% premium on "normalized" earnings represents the relative multiple premium that historically would have delivered market-equivalent performance.

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
<b>BUY</b>				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL 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
<b>NEUTRAL</b>				
	American International Group	AIG	AIG US	Joshua Shanker
	Aon	AON	AON 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
<b>UNDERPERFORM</b>				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA



## US - Insurance Coverage Cluster

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

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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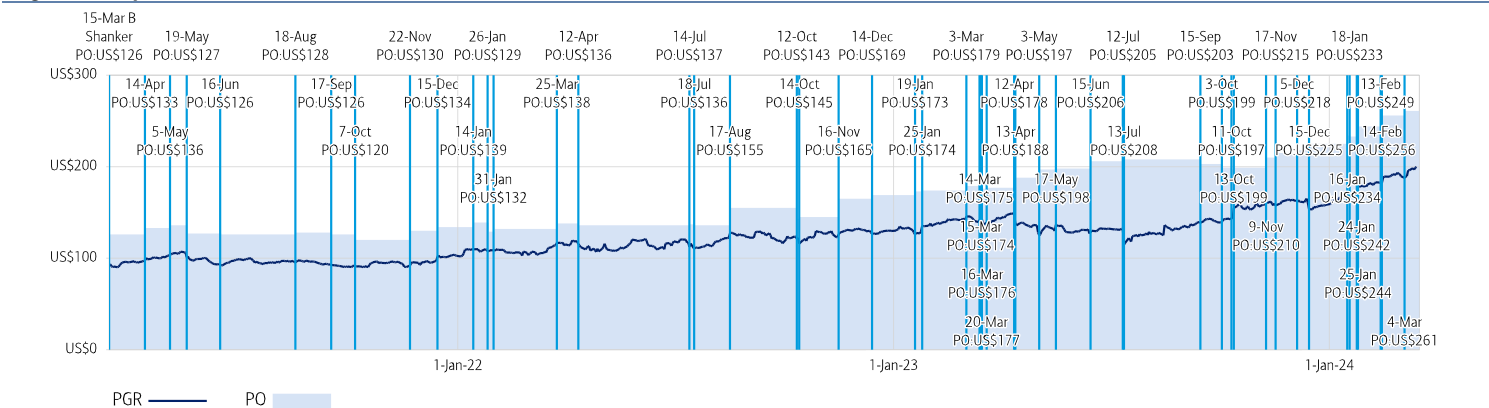
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Progressive Corp (PGR) Price Chart



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 <sup>R1</sup>	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 <sup>R1</sup>	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%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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