

Progressive

Loggerhead, Florida and the pursuit of Robinsons

Maintain Rating: BUY | PO: 261.00 USD | Price: 196.01 USD

Evolution of Progressive's homeowners' business

In 2015, Progressive (PGR) purchased ASI and formally entered the homeowners' market. Given ASI's disproportionately Gulf of Mexico footprint, Progressive's homeowners' underwriting margins have been comparatively weak in the face of recurring adverse weather, promoting Progressive to write down the goodwill from the acquisition in 2022. The company has been raising prices and diversifying via growth away from the Gulf, but the company believes its Florida homeowners' business remains underpriced.

Progressive to shed policies to Loggerhead

Progressive seemed unable to improve Florida quickly enough for its satisfaction. In 2022, Loggerhead, a Florida homeowners' business was formed that will offer coverage to about 115k current Florida-based Progressive policyholders (3.7% of year-end Property segment policycount) that the company intends to shed over the course of 2024. Presuming these policies renew uniformly, Progressive faces a headwind of about 10k lost homeowners' policies each month. It might also lose some of the related bundled auto policies to other carriers as well.

Yet January 2024 policycount growth was quite strong

Despite the headwind, Progressive net added 31.4k Property policies in January, its best single month for net new policy growth since August 2021. While the lost Loggerhead policies could weigh on our target for 11% (+340k net) Property policycount growth in 2024 (vs. 8.6% in 2023), January policy growth numbers suggest that Robinson-type policy acquisition in the 47 non-Gulf states is accelerating. We would assume that Florida policies have a higher cat-load but a lower attritional ratio than non-coastal business, though this may be too small a transition to make a noticeable difference in run-rate operating margins.

12-month PO of \$261 unchanged; remains Buy

While PGR shares closed at an absolute and relative all-time high in Wednesday's trading session (up 21% YTD vs. the S&P 500 up 8%), our conviction that the stock is likely to appreciate further is undiminished. Our \$261 price objective is based on parity with the S&P 500's 2025 consensus P/E multiple of 18.9x applied to our much higher-than-consensus EPS forecast of \$13.85/sh in 2025 for Progressive's earnings. Despite our high EPS forecast, we believe once-in-a-generation price increases in personal auto insurance could cause earnings results to exceed even our elevated forecast. Maintain Buy.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.14	6.11	11.05	13.85	15.85
GAAP EPS	1.18	6.58	11.08	13.85	15.85
EPS Change (YoY)	14.0%	47.6%	80.9%	25.3%	14.4%
Consensus EPS (Bloomberg)			9.05	10.42	11.52
DPS	0.40	0.40	4.65	8.40	8.90
Valuation (Dec)					
P/E	47.3x	32.1x	17.7x	14.2x	12.4x
GAAP P/E	166.1x	29.8x	17.7x	14.2x	12.4x
Dividend Yield	0.2%	0.2%	2.4%	4.3%	4.5%

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Stock Data

Price	196.01 USD
Price Objective	261.00 USD
Date Established	4-Mar-2024
Investment Opinion	B-1-7
52-Week Range	110.92 USD -196.30 USD
Mrkt Val / Shares Out (mn)	114,799 USD / 585.7
Free Float	99.7%
Average Daily Value	479.92 USD
BofA Ticker / Exchange	PGR / NYS
Bloomberg / Reuters	PGR US / PGR.N
ROE (2024E)	28.1%
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".

iQprofileSM Progressive

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	49,241	58,664	69,257	78,825	86,803
Net Investment Income	1,260	1,892	2,833	3,595	4,170
Total Revenue	48,889	61,219	72,408	82,720	91,273
Total Cost of Benefits and Claims	(38,123)	(45,650)	(51,168)	(58,018)	(63,846)
S,G & A (Including Commissions)	(9,055)	(10,018)	(12,445)	(13,797)	(14,983)
Total Operating Expenses	(47,967)	(56,311)	(64,245)	(72,491)	(79,567)
Pre-Tax Operating Earnings	922	4,909	8,163	10,229	11,706
Income Tax Expense	(201)	(1,001)	(1,638)	(2,045)	(2,340)
Operating Earnings After Tax	2,430	3,591	6,499	8,144	9,326
Net Income (Reported)	2,457	3,628	6,512	8,184	9,366
Diluted Shares	587	587	587	588	588
Operating Earnings Per Share	4.14	6.11	11.05	13.85	15.85
Net Income (Reported) Per Share	1.18	6.58	11.08	13.85	15.85

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	81,203	93,401	104,434
Total Assets	75,465	88,691	101,142	112,247	124,533
Reserves	30,359	34,389	38,726	43,750	49,277
LT Debt	6,388	6,889	7,389	8,389	9,389
Total Liabilities	59,574	68,414	76,609	84,674	93,047
Total Equity	15,891	20,277	24,532	27,573	31,486
Total Equity (Ex FAS 115)	19,429	22,312	24,532	27,573	31,486
Book Value per Share (Reported)	26.32	33.80	41.04	46.19	52.82
Book Value per Share (Ex FAS 115)	32.37	37.28	41.04	46.19	52.82

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	18.4%	17.1%	18.0%	17.5%	17.3%
Loss Ratio	77.4%	77.8%	73.9%	73.6%	73.6%
Combined Ratio	95.8%	94.9%	91.9%	91.1%	90.8%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.9x	3.9x	4.1x	4.1x	4.0x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	11.0%	19.1%	18.1%	13.8%	10.1%
Net Investment Income	46.4%	50.1%	49.8%	26.9%	16.0%
Total Revenue	4.0%	25.2%	18.3%	14.2%	10.3%
Operating Earnings per Share	14.0%	47.6%	80.9%	25.3%	14.4%
Asset	6.9%	17.5%	14.0%	11.0%	10.9%
Reported Book Value per Share	-13.3%	28.4%	21.4%	12.6%	14.4%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	15.5%	21.4%	28.1%	29.9%	30.2%
Operating ROE (Ex FAS 115)	13.4%	18.0%	27.1%	29.9%	30.2%
Operating Return on Average Assets	3.3%	4.4%	6.8%	7.6%	7.9%
Operating Margin	5.0%	5.9%	9.0%	9.8%	10.2%
Long Term Debt to Cap Ratio (Ex FAS 115)	24.7%	23.6%	23.1%	23.3%	23.0%
Net Income % Operating Income	28.6%	107.8%	100.2%	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

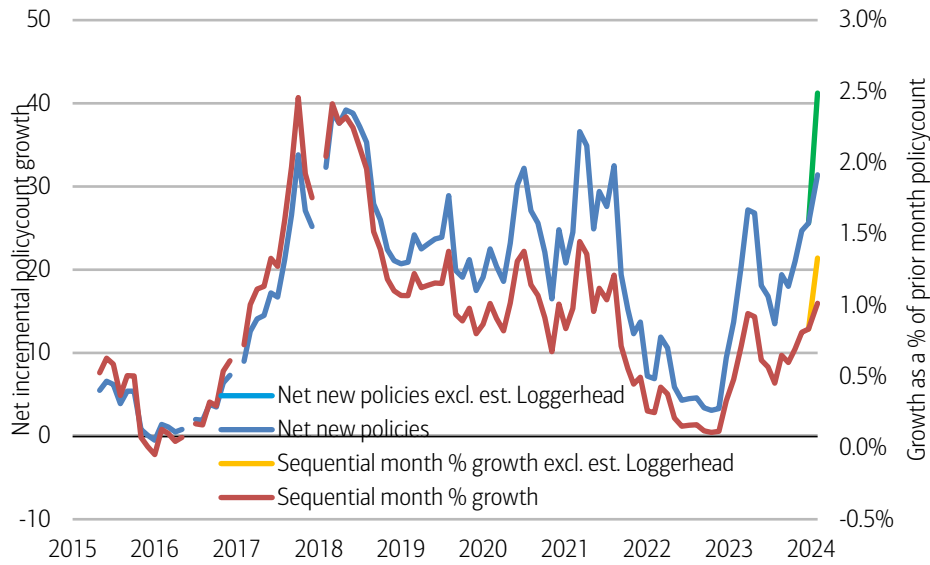
2,448,449

Quarterly Earnings Estimates

	2023	2024
Q1	0.65A	2.81E
Q2	0.40A	2.70E
Q3	2.09A	2.63E
Q4	2.96A	2.92E

Exhibit 1: Sequential month change in Progressive Property (homeowners') policycount

Month-over-month policycount growth for Property surged in January 2024 to a level not seen since August 2021. Excluding the estimated policies shed to Loggerhead, January 2024 may have been among the biggest months of policycount growth since Progressive entered the homeowners' market. High growth in Property tends to indicate successful execution on Progressive's "Robinsons" strategy: the acquisition of high long-term-value customers who bundle multiple products together and re-shop their policies more infrequently.



Source: Company filings

BofA GLOBAL RESEARCH

Price objective basis & risk

Progressive (PGR)

Our \$261 price objective is based on the current S&P 500 P/E multiple for 2025 of 18.9x 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
	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				
	American International Group	AIG	AIG US	Joshua Shanker
	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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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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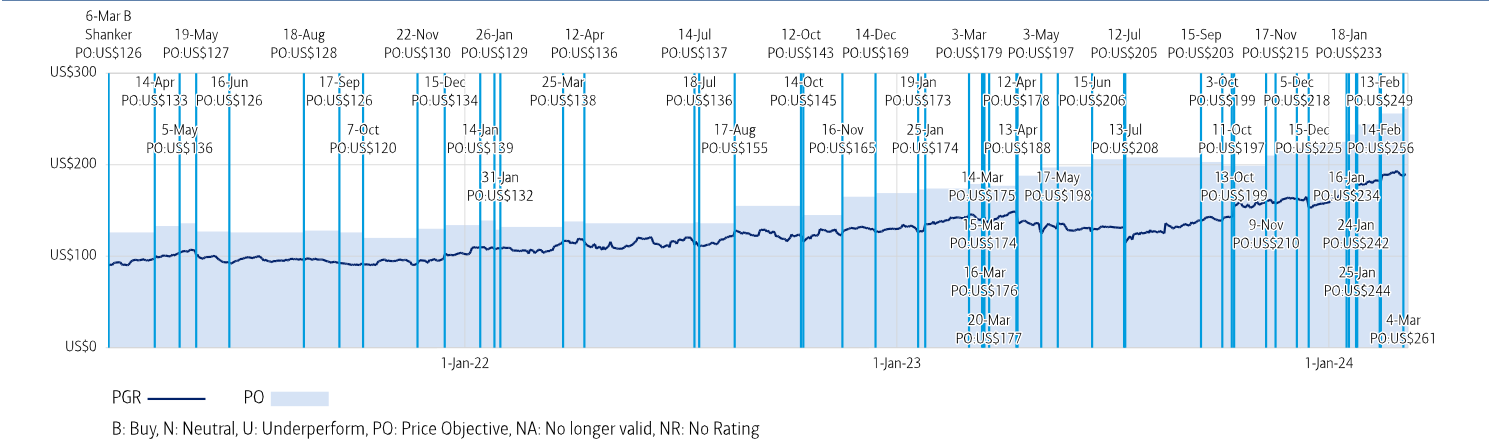
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Progressive Corp (PGR) Price Chart



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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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