



## Progressive Corp.

# February '21 Underwriting Margin Compression

**Steep underlying margins compression sequentially.** PGR's reported an 88.9% underlying combined ratio vs. 81.5% in January. PGR's underlying results are approaching pre-pandemic levels as Feb '20 had an underlying combined ratio of 90.1%. As the economy reopens and lockdown measures continue to be rolled back we see personal auto loss trend reverting to the mean and frequency tailwinds continuing to cool (see Figure 4 and Figure 5).

**February's cat losses were \$86 contributing 2.7 points to the combined ratio,** below our catastrophe loss estimate for February (\$100mn) that had included a normalized cat load in addition to Winter Storm Uri piercing PGR's \$80mn retention threshold on its reinsurance occurrence XOL program.

**PIF growth – Personal Auto:** Personal auto PIF growth y/y missed our February estimates with Agent of 8.5% (vs. 8.5% Barclays estimate) and Direct of 12.8% (vs. 13% Barclays estimate). PGR continued making efforts to file rate decreases (Figure 6) during the back half of 2020 and into 2021, notably relative to the rest of the industry. We think the market is too focused on auto PIF growth. Our concerns remain more foundational in nature as excessive growth in riskier auto classes like commercial (y/y growth NPW in Feb was 32%) could dilute PGR's ROE profile.

**Estimates and valuation update.** We believe PGR's stock performance reflects greater skepticism on the trajectory of PIF growth and winding down benefits from frequency trends. As such we are maintaining our price target of \$85 and reiterating our Underweight rating on PGR. We had taken a more conservative view than the Street regarding PGR's loss trend reverting back to more normalized frequency loss trends considering a reopening of the economy. We are maintaining that stance but dialing down the degree of reversion a bit from our original assumptions. As such, we are updating our '21 EPS estimates from \$5.34 to \$5.68. Our valuation represents a weighted average of 15.0x 2021 EPS and 2.9x 2021 BV ex AOCI of \$29.40. Previously, our price target reflected a weighted average of 15.5x 2021 EPS and 2.9x 2021 BV ex AOCI of \$29.29.

### PGR: Quarterly and Annual EPS (USD)

	2020		2021		2022		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	1.91A	1.59E	1.71E	1.81E	1.41E	1.39E	1.62E	-10%	-19%
Q2	1.85A	1.25E	1.35E	1.36E	1.23E	1.27E	1.35E	-27%	-6%
Q3	1.88A	1.18E	1.32E	1.27E	1.27E	1.32E	1.33E	-30%	0%
Q4	1.83A	1.31E	1.30E	1.40E	1.41E	1.41E	1.49E	-29%	8%
Year	7.47A	5.34E	5.68E	5.78E	5.33E	5.40E	5.77E	-24%	-5%
P/E	12.2		16.0			16.9			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 17-Mar-2021; 12:50 GMT

Stock Rating

UNDERWEIGHT

Unchanged

Industry View

POSITIVE

Unchanged

Price Target

USD 85.00

Unchanged

Price (17-Mar-2021)

USD 91.10

Potential Upside/Downside

-6.7%

Tickers

PGR

Market Cap (USD mn)

53362

Shares Outstanding (mn)

585.75

Free Float (%)

99.67

52 Wk Avg Daily Volume (mn)

2.9

Dividend Yield (%)

0.44

Return on Equity TTM (%)

38.16

Current BVPS (USD)

28.27

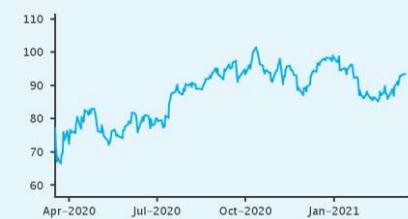
Source: Bloomberg

Price Performance

Exchange-NYSE

52 Week range

USD 97.40-59.34



Source: IDC; [Link to Barclays Live for interactive charting](#)

### U.S. Insurance/Non-Life

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U.S. Insurance/Non-Life						Industry View: POSITIVE	
Progressive Corp. (PGR)						Stock Rating: UNDERWEIGHT	
<b>Income statement</b>	2020A	2021E	2022E	2023E	CAGR	<b>Price (17-Mar-2021)</b>	USD 91.10
Net premiums earned (\$mn)	39,262	42,715	46,882	N/A	N/A	<b>Price Target</b>	USD 85.00
Net investment income (NII) (\$mn)	937	795	866	N/A	N/A	<b>Why Underweight?</b> Our call on PGR takes a longer term view. PGR may need to hold more capital to support an evolving business mix, which could lower ROEs. We see PGR's business expansion beyond core personal auto focus to be more defensive vs. offensive. PGR's excess growth in commercial auto runs against the industry grain and expands risk appetite to riskier auto classes.	
Underwriting income (\$mn)	5,297	3,016	2,704	N/A	N/A		
Operating income (\$mn)	4,390	3,338	3,171	N/A	N/A		
Net income (\$mn)	5,678	3,525	3,171	N/A	N/A		
Effective tax rate (%)	20.5	20.9	21.0	N/A	N/A		
Combined ratio (%)	85.0	91.3	92.7	N/A	N/A		
Combined ratio (ex cats & py development) (%)	82.2	88.8	90.7	N/A	N/A		
<b>Per share data (\$)</b>					CAGR	<b>Upside case</b>	USD 92.00
EPS (adj)	7.47	5.68	5.40	N/A	N/A	If PGR is able to leverage its multivariate pricing model across newer business lines, it could achieve the same measurable success as its core personal auto book. Our upside case of \$92 assumes a 16x P/E multiple on our '21 EPS estimate.	
EPS (reported)	9.66	6.00	5.40	N/A	N/A		
DPS	4.90	2.40	2.40	N/A	N/A		
BVPS	28.27	30.99	33.71	N/A	N/A		
BVPS (ex AOCI)	26.68	29.40	32.11	N/A	N/A		
<b>Balance sheet and capital return (\$mn)</b>					CAGR	<b>Downside case</b>	USD 75.00
Total investments	43,392	48,259	50,838	N/A	N/A	We think margins peak in 2020 and are not reflective of longer term trends. Auto pricing reflects artificially low frequency trends brought on by a pandemic. Our downside case of \$75 assumes a 13x P/E multiple on our '21 EPS estimate.	
Common shareholders' equity (ex AOCI)	15,613	17,185	18,766	N/A	N/A		
Share buybacks	83	215	187	N/A	N/A		
Dividends paid	2,866	1,403	1,403	N/A	N/A		
<b>Balance sheet and capital return metrics</b>					Average	<b>Upside/Downside scenarios</b>	
Debt leverage (%)	25.1	21.7	20.3	N/A	22.4	Price History	
Financial leverage (%)	27.4	23.9	22.3	N/A	24.5	Prior 12 months	
Total capital return as a % of op. earnings	67.2	48.5	50.1	N/A	55.3	High	
<b>Valuation metrics</b>					Average	Price Target	
P/BV (ex AOCI) (x)	3.41	3.10	2.84	N/A	3.12	Next 12 months	
P/E (adj) (x)	12.2	16.0	16.9	N/A	15.0	Upside	
Dividend yield (%)	5.4	2.6	2.6	N/A	3.5		
ROE (%)	35.6	20.1	16.6	N/A	24.1		

Source: Company data, Bloomberg, Barclays Research  
Note: FY End Dec

**FIGURE 1**  
**February Monthly Variance Analysis**

<b>Summary Details</b> (in \$mn, except per share)	<b>M/M</b>			<b>Y/Y</b>		<b>Barclays Est.</b>	
	<b>Feb '21A</b>	<b>Jan '21</b>	<b>% Change</b>	<b>Feb '20</b>	<b>% Change</b>	<b>Feb '21</b>	<b>% Var.</b>
Net premiums written	\$3,852	\$4,104	-6%	\$3,404	13%	\$3,728	3%
Net investment income	\$67	\$67	0%	\$78	-14%	\$71	-6%
Combined Ratio	91.4%	86.3%	511 bps	90.3%	110 bps	93.3%	(192 bps)
Combined Ratio ex cats and PYD	88.9%	81.5%	736 bps	90.1%	(121 bps)	90.3%	(141 bps)
Operating EPS	\$0.43	\$0.80	-47%	\$0.46	-7%	\$0.36	20%
Book value per share (ex. AOCI)	\$27.5	\$27.4	1%	\$22.8	21%	\$27.7	-1%

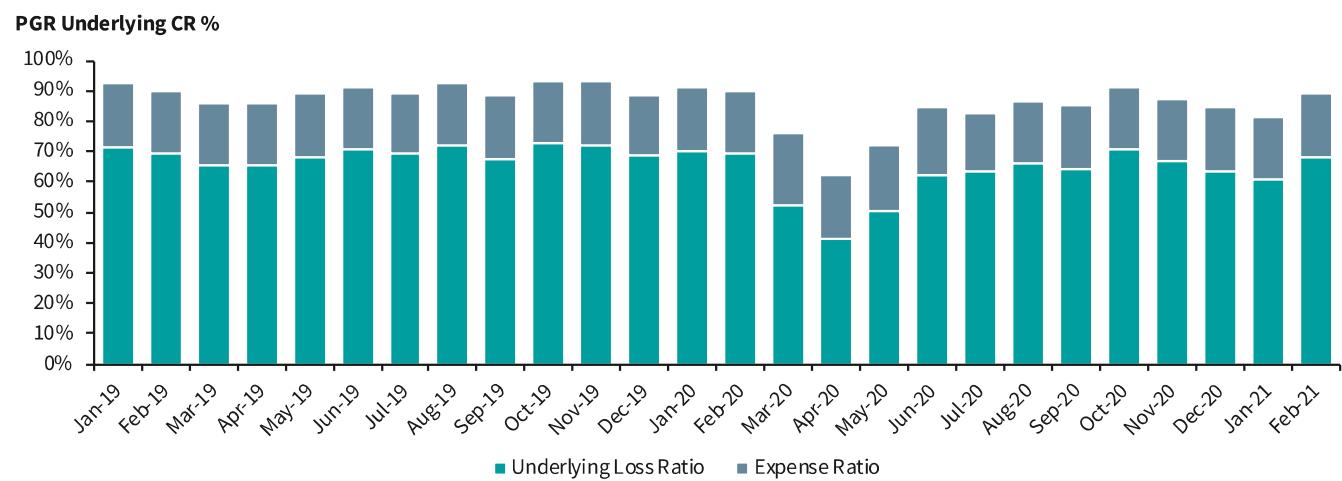
<b>NPW by Segment</b> (in \$mn, except per share)	<b>M/M</b>			<b>Y/Y</b>		<b>Barclays Est.</b>	
	<b>Feb '21A</b>	<b>Jan '21</b>	<b>% Change</b>	<b>Feb '20</b>	<b>% Change</b>	<b>Feb '21</b>	<b>% Var.</b>
Personal lines-agent	\$1,449	\$1,588	-9%	\$1,340	8%	\$1,447	0%
Personal lines-direct	\$1,626	\$1,804	-10%	\$1,462	11%	\$1,637	-1%
Total Personal Lines	\$3,075	\$3,392	-9%	\$2,801	10%	\$3,084	0%
Commercial Business & Other	\$627	\$577	9%	\$474	32%	\$502	25%
Property	\$150	\$136	10%	\$129	16%	\$142	6%
Total Written Premiums	\$3,852	\$4,104	-6%	\$3,404	13%	\$3,728	3%

<b>CR by Segment</b> (in \$mn, except per share)	<b>M/M</b>			<b>Y/Y</b>		<b>Barclays Est.</b>	
	<b>Feb '21A</b>	<b>Jan '21</b>	<b>% Change</b>	<b>Feb '20</b>	<b>% Change</b>	<b>Feb '21</b>	<b>% Var.</b>
Total Personal Lines	89.1%	87.3%	180 bps	89.9%	(80 bps)	91.1%	(199 bps)
Personal lines-agent	87.6%	85.4%	220 bps	87.1%	50 bps	89.9%	(225 bps)
Personal lines-direct	90.5%	89.0%	150 bps	92.5%	(200 bps)	92.3%	(175 bps)
Commercial Business & Other	87.5%	82.3%	520 bps	95.9%	(840 bps)	92.3%	(480 bps)
Property	143.7%	80.0%	6370 bps	83.2%	6050 bps	152.4%	(868 bps)

Source: Barclays Research, Company Data.

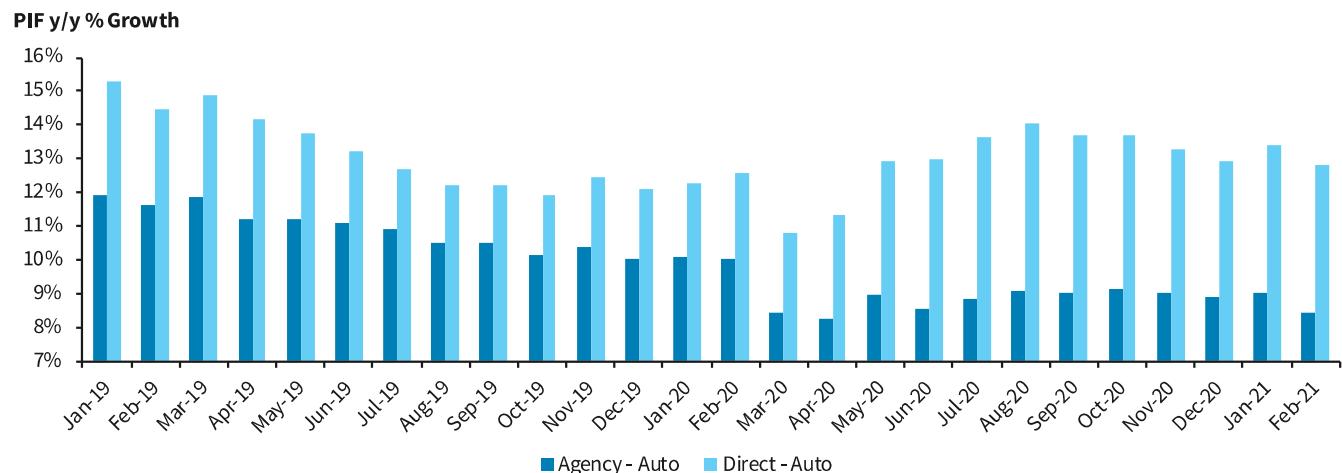
**FIGURE 2**  
**PGR Underlying CR % - as the economy reopens we see personal auto loss trends reverting to the mean and frequency tailwinds cooling**



Source: Barclays Research, Company Data.

FIGURE 3

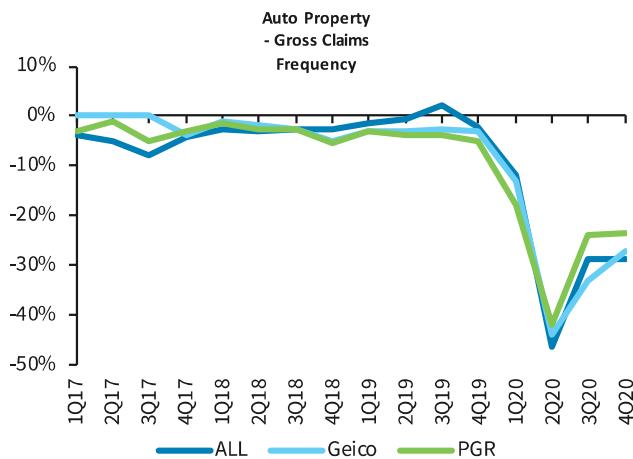
**PIF y/y % Growth – PGR's personal auto PIF growth strategy has relied on filing rate decreases**



Source: Barclays Research, Company Data.

FIGURE 4

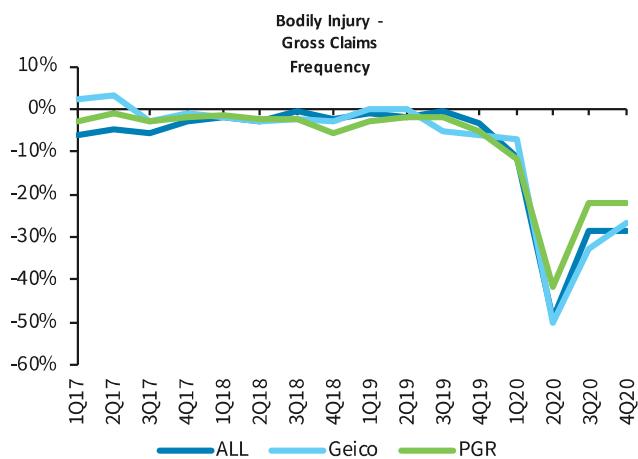
Frequency benefits started to moderate from 2Q lows during 3Q. We think the rate of frequency moderation in 4Q...



Source: Barclays Research, Company Data.

FIGURE 5

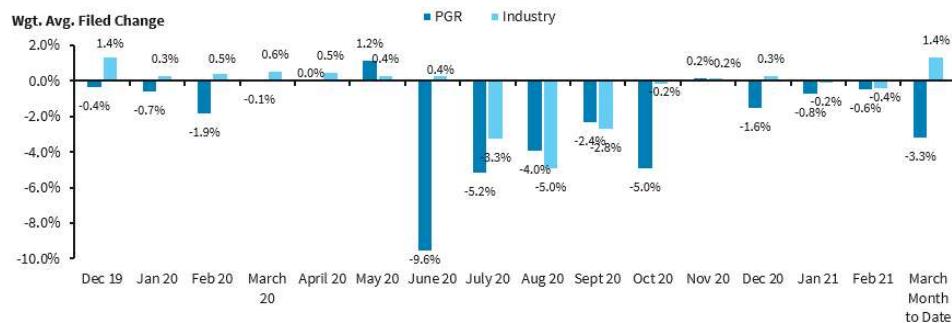
...was due largely to a resurgence of COVID cases and that frequency benefits will continue to normalize in 2021



Source: Barclays Research, Company Data.

FIGURE 6

PGR continues to file for personal auto rate decreases in excess of the rest of the industry

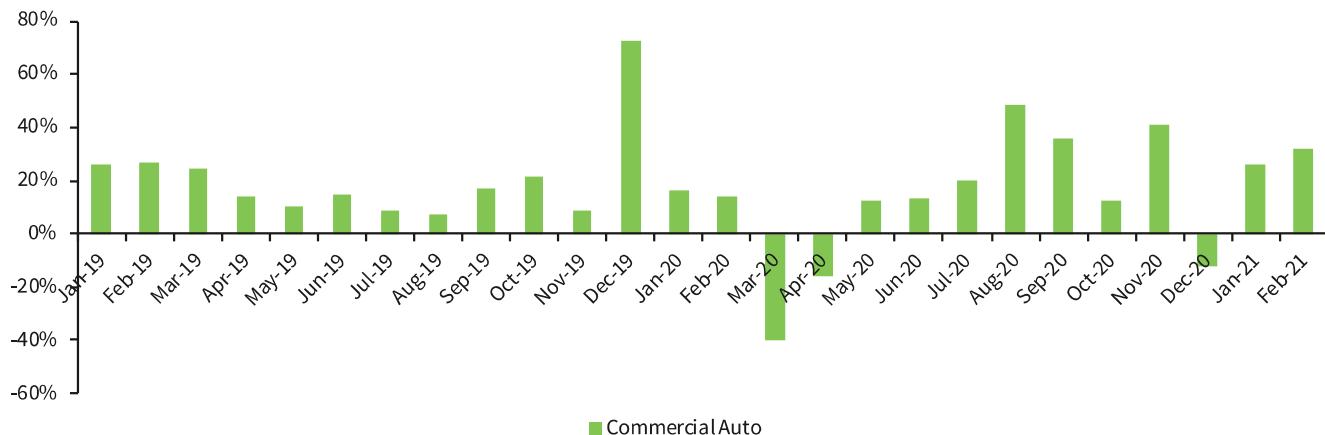


Source: Barclays Research, Company Data. March month to date as of 3/15/21.

FIGURE 7

NPW y/y % growth – PGR continues to emphasize growth of commercial auto written premiums which were +32% y/y in February

NPW y/y % growth



Source: Barclays Research, Company Data.

**FIGURE 8**  
**Model Summary (pg. 1)**

<b>(\$ in mn, except per share data)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
Net premiums written	32,610	37,578	40,569	44,940	49,015
Revenues:					
Net premiums earned	30,933	36,192	39,262	42,715	46,882
Investment income	821	1,042	937	795	866
Total net realized gains (losses) on securities	(406)	1,029	1,630	237	-
Fees and other revenues	472	564	604	683	713
Service revenues	159	195	226	229	248
<b>Total revenues</b>	<b>31,979</b>	<b>39,022</b>	<b>42,658</b>	<b>44,658</b>	<b>48,709</b>
Expenses:					
Losses and loss adjustment expenses	21,721	25,471	25,122	30,104	33,681
Total underwriting expenses	6,770	7,998	8,843	9,595	10,496
Policyholder credit expense	-	-	1,077	-	-
Investment expenses	24	25	20	24	25
Service expenses	134	179	206	227	253
Interest expense	167	190	217	220	206
<b>Total expenses</b>	<b>28,815</b>	<b>33,862</b>	<b>35,485</b>	<b>40,169</b>	<b>44,662</b>
Underwriting Income	2,443	2,724	5,297	3,016	2,704
Income before income taxes	3,164	5,160	7,173	4,489	4,047
Provision for income taxes	543	1,180	1,469	937	850
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-
Net income	2,615	3,970	5,705	3,552	3,197
Less: Preferred stock dividends	21	27	27	27	27
<b>Net income to common shareholders</b>	<b>2,594</b>	<b>3,943</b>	<b>5,678</b>	<b>3,525</b>	<b>3,171</b>
ATX total net realized gains (losses) on sec	(320)	813	1,288	187	-
Other	(1)	-	-	-	-
<b>Operating income to common shareholders</b>	<b>2,915</b>	<b>3,130</b>	<b>4,390</b>	<b>3,338</b>	<b>3,171</b>
<b>Operating EPS</b>	<b>\$5.00</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$5.68</b>	<b>\$5.40</b>
<b>Net EPS</b>	<b>\$4.43</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$6.00</b>	<b>\$5.40</b>
Net Written Premiums (y/y %)		15.2%	8.0%	10.8%	9.1%
Net Earned Premiums (y/y %)		17.0%	8.5%	8.8%	9.8%

Source: Barclays Research, Company Data.

**FIGURE 9**  
**Model Summary (pg. 2)**

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E
<b><u>Underwriting Margins</u></b>					
Loss and LAE ratio	70.2%	70.4%	64.0%	70.5%	71.8%
Expense ratio	20.4%	20.5%	21.0%	20.9%	20.9%
<b>Combined ratio</b>	<b>90.6%</b>	<b>90.9%</b>	<b>85.0%</b>	<b>91.3%</b>	<b>92.7%</b>
Catastrophes pretax	567	552	880	738	720
Cat pts	1.8%	1.5%	2.2%	1.7%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	(336)	(234)
PYD pts	-0.3%	-0.6%	-0.5%	-0.8%	-0.5%
<b>Underlying loss ratio</b>	<b>68.1%</b>	<b>68.2%</b>	<b>61.2%</b>	<b>68.0%</b>	<b>69.8%</b>
<b>Underlying combined ratio</b>	<b>88.5%</b>	<b>88.8%</b>	<b>82.2%</b>	<b>88.8%</b>	<b>90.7%</b>
<b><u>Share information</u></b>					
Shares beginning period	581.7	583.2	584.6	585.2	584.6
Shares issued	3	3	2	2	2
Shares Repurchased	1	1	1	2	2
Common Shares Outstanding, end of period	583.2	584.6	585.2	584.6	584.4
Weighted average shares - basic	582.4	583.8	584.9	584.9	584.6
Dilution	3.8	3.1	2.5	2.7	2.7
Weighted average shares - diluted	586.2	586.9	587.4	587.6	587.3
<b><u>Capital deployment</u></b>					
Assumed Share price for repurchases	\$58	\$73	\$68	\$88	\$85
# of shares repurchased (in mn)	1.3	1.2	1.2	2.4	2.2
\$ Repurchased	76	86	83	215	187
Dividends per share	\$2.51	\$2.65	\$4.90	\$2.40	\$2.40
\$ amt common dividend	1,465	1,548	2,866	1,403	1,403
Total capital returned	1,541	1,634	2,949	1,618	1,590
Total capital returned, % normalized earnings	53%	52%	67%	48%	50%
<b><u>Shareholders' equity and returns</u></b>					
Common shareholders' equity ex AOCI	10,234	12,612	15,613	17,185	18,766
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,399	17,976
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$29.40	\$32.11
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	20.4%	17.6%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	20.1%	16.6%

Source: Barclays Research, Company Data.

**ANALYST(S) CERTIFICATION(S):**

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**Primary Stocks (Ticker, Date, Price)**

**Progressive Corp.** (PGR, 17-Mar-2021, USD 91.10), Underweight/Positive, CD/CE/J/K/M

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In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

#### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Equal Weight** - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Underweight** - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

#### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

**Neutral** - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

#### U.S. Insurance/Non-Life

AIG, Inc. (AIG)

Allstate Corp. (ALL)

Chubb Limited (CB)

Palomar Holdings, Inc. (PLMR)

Progressive Corp. (PGR)

ProSight Global, Inc. (PROS)

The Hartford Financial Services Group, Inc.  
(HIG)

The Travelers Companies, Inc. (TRV)

## IMPORTANT DISCLOSURES

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Barclays Equity Research has 1654 companies under coverage.

48% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 50% of companies with this rating are investment banking clients of the Firm; 73% of the issuers with this rating have received financial services from the Firm.

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14% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 35% of companies with this rating are investment banking clients of the Firm; 61% of the issuers with this rating have received financial services from the Firm.

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To see a list of companies that comprise a particular industry coverage universe, please go to <https://publicresearch.barclays.com>.

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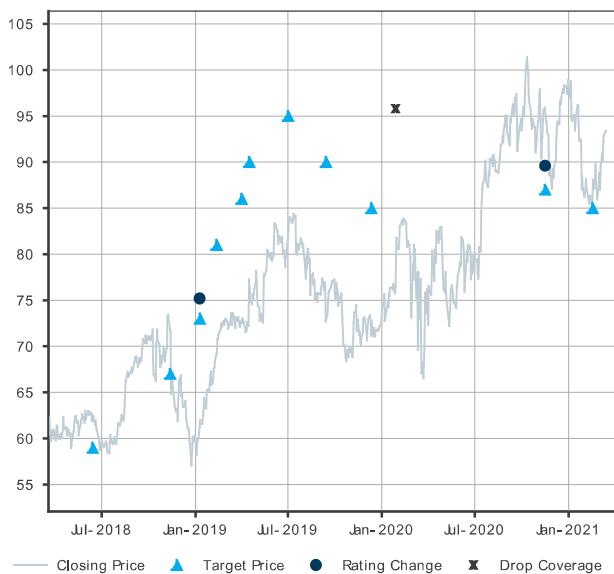
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**IMPORTANT DISCLOSURES****Progressive Corp. (PGR / PGR)**

USD 91.10 (17-Mar-2021)

**Rating and Price Target Chart - USD (as of 17-Mar-2021)**

Stock Rating

**UNDERWEIGHT**

Industry View

**POSITIVE**

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
17-Feb-2021	86.25		85.00
16-Nov-2020	95.90	Underweight	87.00
22-Jan-2020	76.16	Coverage Dropped	
11-Dec-2019	72.85		85.00
13-Sep-2019	72.68		90.00
01-Jul-2019	81.75		95.00
16-Apr-2019	77.26		90.00
01-Apr-2019	72.76		86.00
11-Feb-2019	69.16		81.00
09-Jan-2019	61.30	Overweight	73.00
12-Nov-2018	71.90		67.00
13-Jun-2018	62.52		59.00

On 17-Mar-2018, prior to any intra-day change that may have been published, the rating for this security was Underweight, and the adjusted price target was 57.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

*[Link to Barclays Live for interactive charting](#)*

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**Valuation Methodology:** Our \$85 price target is based on a 50/50 weighted 15.0x P/E multiple on our '21 EPS estimate of \$5.68 and 2.9x P/BV excluding AOCI on our '21 BVPS ex. AOCI of \$29.40.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** The primary risks to our thesis are if PGR were to meet its 96% combined ratio objective in newer business lines driving the recent expansion of its core business profile by leveraging its multivariate pricing model. In addition, we think margins are peaking in 2020 due to environmental factors and not reflective of longer-term trends but if PGR is able to avoid margin pressure over the long term it could maintain a stronger earnings growth profile than anticipated. While auto pricing currently reflects artificially low frequency trends brought on by a pandemic, a reversion to more normal pricing points should prove difficult to achieve. However, normalization of pricing could drive better performance in personal auto.

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