

Progressive Corp.

## July '23: When will PGR invest in itself?

Modest reserve releases in July marked the end of PGR's prior 6-month streak of adverse PYD. It is encouraging to see underlying loss ratio improvement q/q. Hitting a new record low expense ratio tells us that new business is still rate-inadequate. Otherwise, PGR would invest in itself.

**When will PGR invest in itself?** At face value, PGR is pulling out all the stops with 4.1 pts underlying loss ratio improvements q/q and modest favorable PYD (of \$28.5mn), ending its adverse PYD streak seen in the first six months of the year. With a July combined ratio of 90.6%, well below its 96% combined ratio target, PGR could have afforded to allow its expense ratio-wise. Instead we saw a new record low at 15.4%, following 16.0% (a record low at the time) in June '23 and 16.3% in May '23. This means PGR is not investing in itself just yet. We anticipate seeing PGR return to its pre-pandemic expense ratio of nearly 20% only when pricing is adequate and it can organically grow statutory surplus. Cutting its expense ratio once again we interpret as PGR not wanting to add new business when pricing is inadequate.

PGR is shrinking PIF (down 15k q/q and that shrinking momentum should amplify) which should improve its premiums-to-surplus ratio. We consider PGR's lower advertising spend and pricing increases as deliberate attempts to reduce PIF and in turn improve capital adequacy. Especially coming out of elevated catastrophe losses and adverse PYD during 1H23.

PGR's pre-tax net investment income (ex expenses) this month was \$162.3mn vs. our \$152mn estimate, reflecting a 3.21% pre-tax annualized book yield.

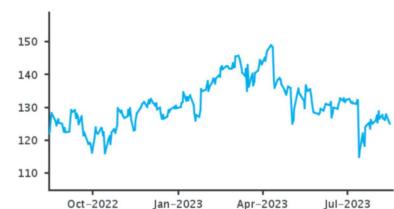
July operating EPS of \$0.90 beat our \$0.35 estimate, reflecting a lower combined ratio due to better-than-expected underlying loss ratio and a record low expense ratio.

| CORE

PGR	<b>UNDERWEIGHT</b>
	Unchanged
U.S. Insurance/Non-Life	<b>POSITIVE</b>
	Unchanged
Price Target	<b>USD 109.00</b>
	raised 2% from USD 107.00
Price (15-Aug-23)	<b>USD 125.05</b>
Potential Upside/Downside	<b>-12.8%</b>
Market Cap (USD mn)	<b>73195</b>
Shares Outstanding (mn)	<b>585.33</b>
Free Float (%)	<b>99.70</b>
52 Wk Avg Daily Volume (mn)	<b>2.6</b>
Dividend Yield (%)	<b>0.32</b>
Return on Equity TTM (%)	<b>10.92</b>
Current BVPS (USD)	<b>27.71</b>

Source: Bloomberg

Price Performance      **Exchange-NYSE**  
52 Week range      **USD 149.87-110.04**



Source: IDC

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

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

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

<b>FY Dec</b>	<b>2022</b>	<b>2023</b>			<b>2024</b>			<b>Change y/y</b>	
	<b>Actual</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>2023</b>	<b>2024</b>
Q1	1.12A	0.65A	0.65A	0.75A	1.88E	1.62E	1.93E	-42%	149%
Q2	1.03A	0.40A	0.32A	0.57A	1.21E	1.43E	1.71E	-69%	347%
Q3	0.49A	1.12E	1.82E	1.24E	1.20E	1.36E	1.58E	271%	-25%
Q4	1.25A	1.72E	1.61E	1.96E	1.37E	1.37E	2.20E	29%	-15%
Year	3.90A	3.90E	4.41E	4.26E	5.66E	5.78E	7.42E	13%	31%
P/E	32.1		28.4			21.6			

Consensus numbers are from Bloomberg received on 16-Aug-2023; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)							UNDERWEIGHT
Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (15-Aug-2023)	USD 125.05
Net premiums earned	49,241	56,760	60,893	65,935	10.2%	Price Target	USD 109.00
Net investment income (NII)	1,260	1,888	2,230	2,501	25.7%	<b>Why UNDERWEIGHT?</b>	
Underwriting income	1,342	852	1,472	2,484	22.8%	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. Likewise, we struggle to see how PGR could return to its historical PIF growth rate, as the company cut rates early during the pandemic and is now playing catch up, which is proving tough to gain approval from regulators.	
Operating income	2,287	2,587	3,392	4,466	25.0%		
Net income	566	2,774	3,392	4,466	99.0%		
Effective tax rate (%)	35.6	20.4	21.0	21.0	-16.2%		
Combined ratio (%)	95.8	97.0	96.1	94.7	-0.4%		
Combined ratio (ex cats & py development) (%)	91.9	91.9	94.4	93.0	0.4%		
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR		
EPS (adj)	3.90	4.41	5.78	7.63	25.1%		
EPS (reported)	0.97	4.74	5.80	7.65	99.3%		
DPS	0.40	0.30	2.65	2.65	87.8%		
BVPS	26.32	30.69	33.62	34.06	9.0%		
BVPS (ex AOCI)	30.79	35.17	38.11	38.55	7.8%		
Diluted shares (mn)	587	587	587	586	0.0%		
Balance sheet and capital return (\$mn)	2022A	2023E	2024E	2025E	CAGR		
Total investments	53,548	62,225	66,985	67,558	8.1%		
Common shareholders' equity (ex AOCI)	18,012	20,580	22,253	22,492	7.7%		
Share buybacks	63	30	171	171	39.3%		
Dividends paid	234	176	1,548	1,544	87.6%		
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average		
Debt leverage (%)	25.7	24.6	23.2	23.1	24.1		
Financial leverage (%)	27.6	26.4	24.9	24.7	25.9		
Total capital return as a % of op. earnings	13.0	7.9	50.7	38.4	27.5		
Valuation metrics	2022A	2023E	2024E	2025E	Average		
P/BV (ex AOCI) (x)	4.06	3.56	3.28	3.24	3.54		
P/E (adj) (x)	32.1	28.4	21.6	16.4	24.6		
Dividend yield (%)	0.3	0.2	2.1	2.1	1.2		
ROE (%)	3.1	13.9	15.0	15.6	11.9		

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

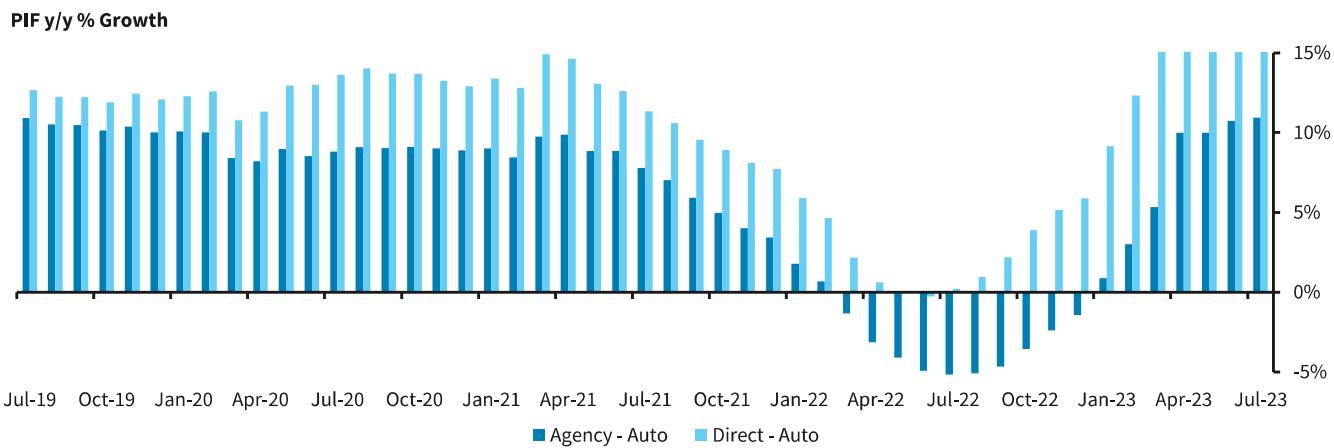


## PIF Growth Spotlight

### Personal Auto PIF Declined by 15k M/M

Personal auto PIF was down 15k (July '23 vs. June '23), slightly worse than the previous decline of 8k sequential print (June '23 vs. May '23). On a y/y basis, PGR reported personal auto PIF growth of +14.0% in July (above our estimate of +13.9% y/y), as auto agency PIF (+10.9% vs. our +11.2%) and auto direct (+16.4% vs. our 16.1%).

**FIGURE 1. PIF growth y/y in July with agent (+10.9%) and direct (+16.4%)**



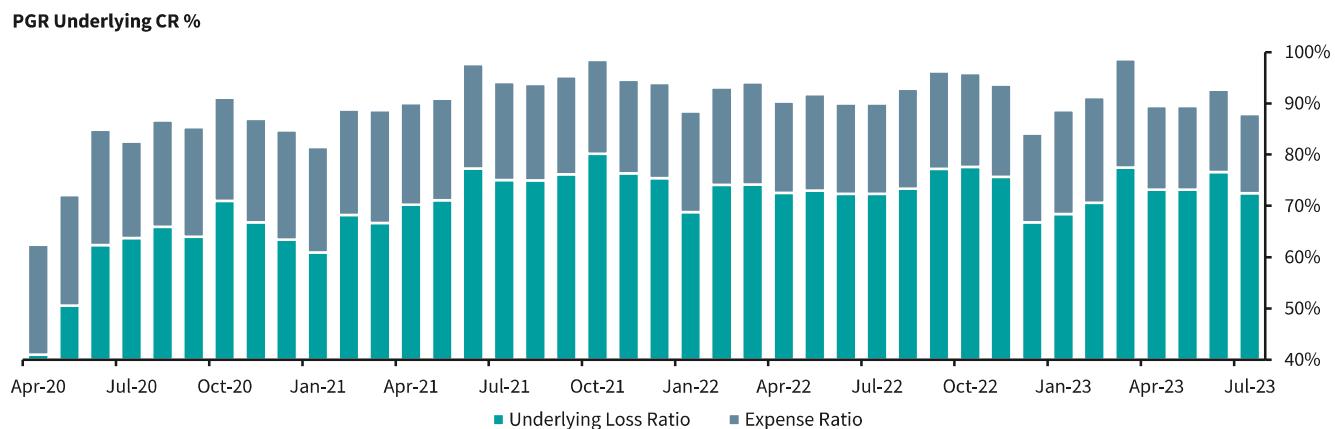
Source: Barclays Research, Company Data

### Underlying combined ratio - Lower expense ratio is less sustainable over the long term

PGR's underlying combined ratio of 87.9% in July improved from 92.6% in June and 89.5% in May driven by a better underlying loss ratio of 72.5% (vs. 76.6% in June) and a lower expense ratio (15.4% in July vs 16.0% in June and 16.3% in May). We do not think one month points to a definitive trend and we remain cautious about underlying loss ratio improvements from here. While we were expecting a lower-than-typical expense ratio, PGR's 15.4% expense ratio in July hit a new record low.

The construction of PGR's underlying combined ratio is different than pre-pandemic. To recap, PGR's pre-pandemic underlying loss ratio stood at ~68% and expense ratio ran just north of 20%. We think a reversion to this pre-pandemic composition would be positive for the stock.

**FIGURE 2. July '23 underlying loss ratio of 72.5% (vs. 77.5% Barclays) and expense ratio of 15.4% (vs. 16.2% Barclays)**

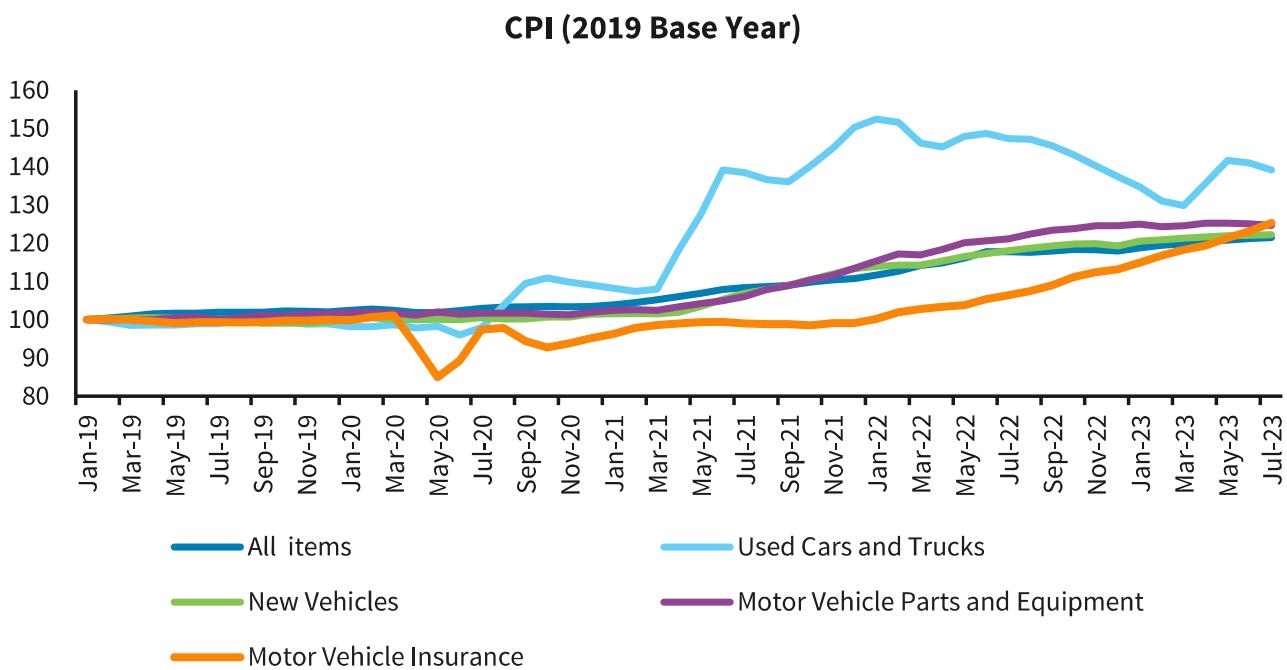


Source: Barclays Research, Company Data

## Inflation: Focus on Absolute Levels

Our focus is on an absolute basis, where motor insurance pricing remains elevated relative to used car pricing using a 2019 base year (see Figure 4). Specifically, used car & truck pricing is up 39.1% vs. motor insurance pricing at 25.3% since Jan. '19. We pay lesser attention to the Consumer Price Index (CPI) for All Urban Consumers, which rose 3.2% over the 12 months from July 2022 to July 2023. Used car and truck CPI trails all items at -5.6% in July vs. -5.2% in June yet used car sales price remains elevated and above motor vehicle pricing indexed to 2019.

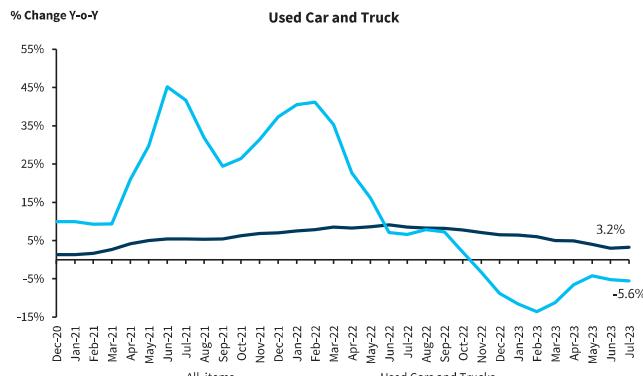
**FIGURE 3. CPI Indexed to January '19**



Source: Barclays Research, U.S. Bureau of Labor Statistics

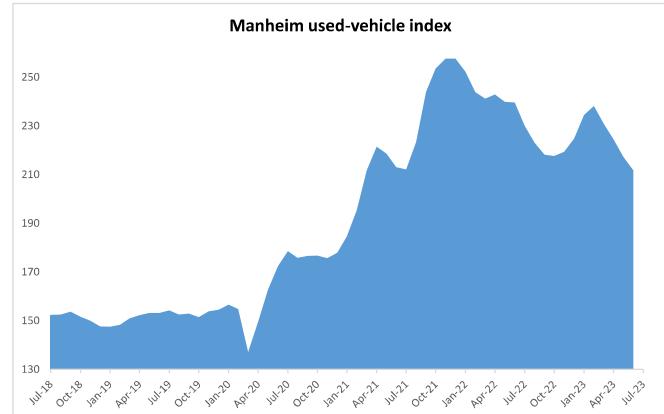
Manheim pricing was -2.6% m/m and -11.6% y/y. More importantly, if we compare July '23 to July '19, Manheim pricing is still up 38.2%. Compounded auto pricing during that period has not caught up – not anywhere close. There is still significant rate catch-up needed to see that inflection point. It will be like an “x”; loss costs go down, then pricing goes up – where the two intersect in our view can take a bit longer, especially given how long it is taking auto pricing to actually “earn” in.

**FIGURE 4. CPI: Used Car and Truck (y/y -5.6% in July '23)**



Source: Barclays Research, U.S. Bureau of Labor Statistics

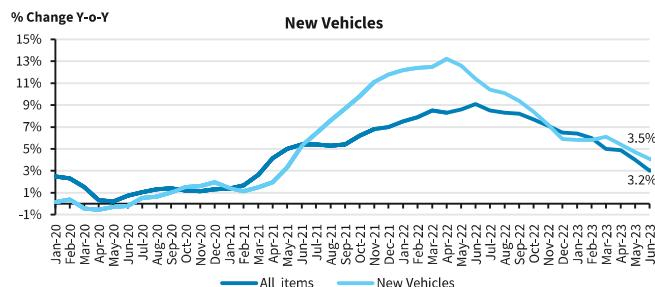
**FIGURE 5. Manheim Used Car Prices (-11.6% y/y in July '23)**



Source: Barclays Research, Bloomberg, Manheim

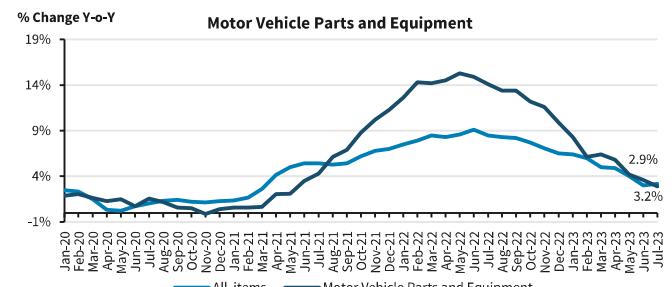
The new vehicle CPI index rose 3.5% y/y in July (down compared to the 4.1% increase in June) and Motor Vehicle Parts and Equipment CPI index rose 2.9% y/y (vs. 3.6% in June). However, comparing July '23 vs. Jan '19, new vehicles and car parts rose 22.2% and 24.6%, respectively.

**FIGURE 6. CPI % Change (Y-o-Y): New Vehicles**



Source: Barclays Research, U.S. Bureau of Labor Statistics

**FIGURE 7. CPI % Change (Y-o-Y): Motor Vehicle Parts and Equipment**

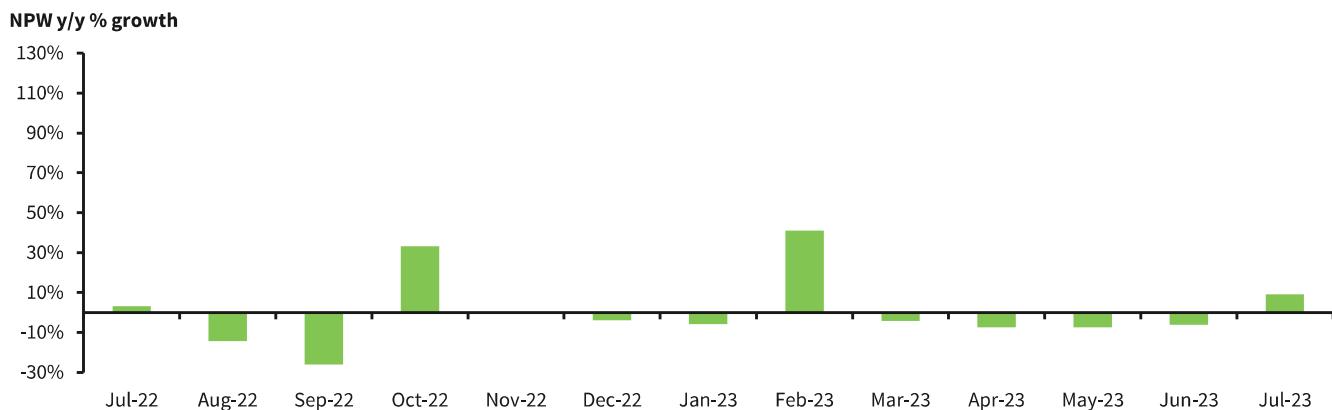


Source: Barclays Research, U.S. Bureau of Labor Statistics

## Commercial NPW Increased 9% (y/y)

TNC once again obscures Commercial NPW growth: Reported commercial premium growth was up 9% in July '23. PGR did not provide an adjustment for their TNC business this month from adjusting for projected mileage.

**FIGURE 8. Commercial NPW growth (monthly)**



Source: Barclays Research, Company Data

## Valuation

Valuation: Our PT of \$109 (up from \$107) is based on 16.5x (unchanged) our '24E EPS of \$5.78 (up from \$5.66) and 3.2x (unchanged) '24E BVPS (ex AOCI) of \$38.11 (up from \$37.64).

### Model Updates:

We lower our expense ratio and PIF assumptions.

Updated Operating EPS: We revise '23E from \$3.90 to \$4.41 and '24E from \$5.66 to \$5.78.

## Variance Tables – July '23

FIGURE 9. Variance Analysis - July '23

Summary Details		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	July '23A	June '23	% Change	July '22	% Change	July '23	% Var.
Net premiums written	\$5,951	\$4,320	38%	\$4,929	21%	\$5,723	4%
Net investment income	\$160	\$153	5%	\$96	66%	\$152	5%
Combined Ratio	90.6%	104.9%	(1430 bps)	89.8%	80 bps	97.6%	(700 bps)
Combined Ratio ex cats and PYD	87.9%	92.6%	(474 bps)	90.0%	(205 bps)	93.5%	(562 bps)
Operating EPS	\$0.90	-\$0.13	-796%	\$0.75	20%	\$0.35	159%
Book value per share (ex. AOCI)	\$32.8	\$31.80	3.3%	\$30.9	6%	\$32.1	2%

NPW by Segment		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	July '23A	June '23	% Change	July '22	% Change	July '23	% Var.
Personal lines-agent	\$2,184	\$1,616	35%	\$1,815	20%	\$2,159	1.1%
Personal lines-direct	\$2,701	\$1,758	54%	\$2,152	26%	\$2,604	3.8%
Total Personal Lines	\$4,885	\$3,375	45%	\$3,967	23.1%	\$4,763	2.6%
Commercial Business & Other	\$825	\$691	19%	\$755	9%	\$733	13%
Property	\$241	\$255	-5%	\$206	17%	\$227	6%
Total Written Premiums	\$5,951	\$4,320	38%	\$4,929	21%	\$5,723	4%

CR by Segment		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	July '23A	June '23	% Change	July '22	% Change	July '23	% Var.
Total Personal Lines	90.5%	103.2%	(1270 bps)	91.6%	(110 bps)	96.8%	(630 bps)
Commercial Business & Other	92.3%	99.4%	(710 bps)	81.3%	1100 bps	98.8%	(650 bps)
Property	84.9%	157.3%	(7240 bps)	94.1%	(920 bps)	109.0%	(2410 bps)

Source: Barclays Research estimates, Company Data

## Model Summary

FIGURE 10. Model Summary (pg. 1)

(\$ in mn, except per share data)	2019	2020	2021	2022	2023E	2024E	2025E
Net premiums written	37,578	40,569	46,405	51,081	58,995	63,264	69,143
Revenues:							
Net premiums earned	36,192	39,262	44,369	49,241	56,760	60,893	65,935
Investment income	1,042	937	861	1,260	1,888	2,230	2,501
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,912)	236	-	-
Fees and other revenues	564	604	692	722	860	913	989
Service revenues	195	226	271	299	323	365	396
<b>Total revenues</b>	<b>39,022</b>	<b>42,658</b>	<b>47,702</b>	<b>49,611</b>	<b>60,067</b>	<b>64,401</b>	<b>69,820</b>
Expenses:							
Losses and loss adjustment expenses	25,471	25,122	33,628	38,123	45,364	47,187	48,922
Total underwriting expenses	7,998	8,843	9,368	9,777	10,544	12,235	14,529
Policyholder credit expense	-	1,077	-	-	-	-	-
Investment expenses	25	20	26	24	26	32	35
Service expenses	179	206	253	297	335	335	363
Interest expense	190	217	219	244	268	276	276
<b>Total expenses</b>	<b>33,862</b>	<b>35,485</b>	<b>43,492</b>	<b>48,689</b>	<b>56,537</b>	<b>60,064</b>	<b>64,124</b>
Underwriting Income	2,724	5,297	1,374	1,342	852	1,472	2,484
Income before income taxes	5,160	7,173	4,210	922	3,529	4,337	5,696
Provision for income taxes	1,180	1,469	859	329	721	911	1,196
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-	-
Net income	3,970	5,705	3,351	593	2,808	3,426	4,500
Less: Preferred stock dividends	27	27	27	27	34	34	34
<b>Net income to common shareholders</b>	<b>3,943</b>	<b>5,678</b>	<b>3,324</b>	<b>566</b>	<b>2,774</b>	<b>3,392</b>	<b>4,466</b>
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,496)	186	-	-
Other	-	-	-	(225)	-	-	-
<b>Operating income to common shareholders</b>	<b>3,130</b>	<b>4,390</b>	<b>2,132</b>	<b>2,287</b>	<b>2,587</b>	<b>3,392</b>	<b>4,466</b>
<b>Operating EPS</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$3.63</b>	<b>\$3.90</b>	<b>\$4.41</b>	<b>\$5.78</b>	<b>\$7.63</b>
<b>Net EPS</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$5.66</b>	<b>\$0.97</b>	<b>\$4.74</b>	<b>\$5.80</b>	<b>\$7.65</b>
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	10.1%	15.5%	7.2%	9.3%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	11.0%	15.3%	7.3%	8.3%

Source: Barclays Research estimates, Company Data

**FIGURE 11. Model Summary (pg. 2)**

<b>(\$ in mn, except per share data)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b><u>Underwriting Margins</u></b>							
Loss and LAE ratio	70.4%	64.0%	75.8%	77.4%	79.9%	77.5%	74.2%
Expense ratio	20.5%	21.0%	19.6%	18.4%	17.1%	18.6%	20.5%
<b>Combined ratio</b>	<b>90.9%</b>	<b>85.0%</b>	<b>95.3%</b>	<b>95.8%</b>	<b>97.0%</b>	<b>96.1%</b>	<b>94.7%</b>
Catastrophes pretax	552	880	1,310	1,643	1,484	864	944
Cat pts	1.5%	2.2%	3.0%	3.3%	2.6%	1.4%	1.4%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(282)	(1,379)	(178)	(188)
PYD pts (negative is unfavorable)	-0.6%	-0.5%	0.0%	-0.6%	-2.4%	-0.3%	-0.3%
<b>Underlying loss ratio</b>	<b>68.2%</b>	<b>61.2%</b>	<b>72.8%</b>	<b>73.5%</b>	<b>74.9%</b>	<b>75.8%</b>	<b>72.5%</b>
<b>Underlying combined ratio</b>	<b>88.8%</b>	<b>82.2%</b>	<b>92.4%</b>	<b>91.9%</b>	<b>91.9%</b>	<b>94.4%</b>	<b>93.0%</b>
<b><u>Share information</u></b>							
Shares beginning period	583.2	584.6	585.2	584.4	584.9	585.1	583.9
Shares issued	3	2	2	1	1	-	-
Shares Repurchased	1	1	2	1	0	1	1
Common Shares Outstanding, end of period	584.6	585.2	584.4	584.9	585.1	583.9	583.5
Weighted average shares - basic	583.8	584.9	584.7	584.6	585.1	584.4	584.1
Dilution	3.1	2.5	2.3	2.3	2.1	2.1	2.1
Weighted average shares - diluted	586.9	587.4	587.0	586.9	587.2	586.5	586.2
<b><u>Shareholders' equity and returns</u></b>							
Common shareholders' equity ex AOCI	12,612	15,613	17,697	18,012	20,580	22,253	22,492
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,854	19,296	21,417	22,373
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.79	\$35.17	\$38.11	\$38.55
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	12.8%	13.4%	15.8%	20.0%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	3.1%	13.9%	15.0%	15.6%

Source: Barclays Research estimates, Company Data

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

**Progressive Corp.** (PGR, 15-Aug-2023, USD 125.05), Underweight/Positive, CD/CE/J/K/M

**Materially Mentioned Stocks (Ticker, Date, Price)**

**Allstate Corp.** (ALL, 15-Aug-2023, USD 105.07), Equal Weight/Positive, CD/CE/E/J/K/L/M

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## Allstate Corp. (ALL / ALL)

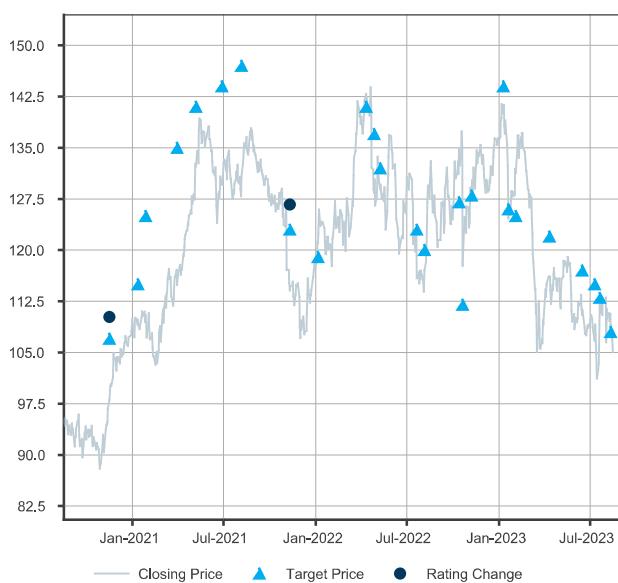
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

Closing Price: **USD 105.07** (15-Aug-2023)

### Rating and Price Target Chart - USD (as of 15-Aug-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
11-Aug-2023	109.04		108.00
20-Jul-2023	105.79		113.00
10-Jul-2023	108.27		115.00
15-Jun-2023	111.40		117.00
11-Apr-2023	116.11		122.00
03-Feb-2023	131.89		125.00
19-Jan-2023	132.43		126.00
09-Jan-2023	141.37		144.00
07-Nov-2022	128.82		128.00
20-Oct-2022	135.15		112.00
13-Oct-2022	131.13		127.00
05-Aug-2022	113.92		120.00
21-Jul-2022	122.34		123.00
09-May-2022	130.56		132.00
27-Apr-2022	128.98		137.00
11-Apr-2022	141.93		141.00
05-Jan-2022	121.13		119.00
10-Nov-2021	114.11	Equal Weight	123.00
06-Aug-2021	130.82		147.00
28-Jun-2021	129.75		144.00
07-May-2021	132.26		141.00

31-Mar-2021	114.90	135.00
27-Jan-2021	110.51	125.00
12-Jan-2021	109.78	115.00
16-Nov-2020	98.06	Overweight
		107.00

Source: Bloomberg, Barclays Research

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**Valuation Methodology:** Our \$108 price target is based on a 50/50 weighted average of our blended 10.5x our 2024 EPS and 1.78x our 2024 book value per share ex AOCI.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Steeper acceleration of loss cost trends, particularly on the severity side, which would pressure the company's margins. A prolonged period of low interest rates will likely pressure net investment income. Allstate has substantial exposure to natural catastrophe losses, stemming from its large homeowners insurance business. Despite the acquisition being relatively small, integration of National General could be challenging and lead to execution risk in combining business units under one operational model.

## Progressive Corp. (PGR / PGR)

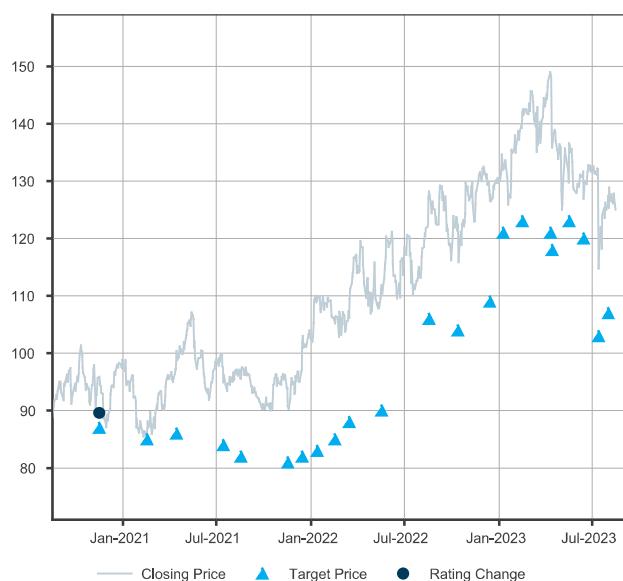
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

Closing Price: **USD 125.05** (15-Aug-2023)

### Rating and Price Target Chart - USD (as of 15-Aug-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
01-Aug-2023	125.98		107.00
13-Jul-2023	132.11		103.00
14-Jun-2023	131.68		120.00
17-May-2023	129.76		123.00
14-Apr-2023	138.21		118.00
11-Apr-2023	149.00		121.00
15-Feb-2023	139.27		123.00
09-Jan-2023	134.61		121.00
14-Dec-2022	126.58		109.00
13-Oct-2022	121.40		104.00
18-Aug-2022	122.49		106.00
18-May-2022	111.19		90.00
16-Mar-2022	107.31		88.00
16-Feb-2022	105.78		85.00
13-Jan-2022	109.85		83.00
15-Dec-2021	97.14		82.00
17-Nov-2021	90.73		81.00
18-Aug-2021	95.57		82.00
15-Jul-2021	94.95		84.00
15-Apr-2021	100.40		86.00
17-Feb-2021	86.25		85.00

16-Nov-2020 95.90 Underweight 87.00

Source: Bloomberg, Barclays Research

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**Valuation Methodology:** Our \$109 PT is based on 16.5x EPS and 3.2x BVPS (ex AOCI) on 2024E.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** The primary risks to our thesis are if PGR can improve PIF growth back to double-digit levels while producing underlying loss ratios <70% on a sustainable basis. This would require loss cost trends abating, that is outside our base case. Next, PGR may be uniquely positioned to make a digital breakthrough within the small commercial lines market (\$120bn premiums/TAM) if it can successfully leverage its multivariate pricing model it is known for on the personal auto side.

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