

Progressive Corp.

Sept. '22 Earnings: Cats take a back seat to underlying loss trend

PGR's underlying loss ratio worsened to 77.2% in Sept. and has been bouncing around in the preceding months. The path to PGR's pre-pandemic levels (~68%) could take some time. We think auto insurers will approach rate adequacy in 2024. To be sure not a return to 2019 levels.

Key Highlights: PGR's underlying loss ratio spiked to 77.2% in Sept. from 73.4% in August and 72.4% in July. The three-month simple average of 74.3% is a way to go to return to pre-pandemic levels (~68%). PGR's expense ratio fell to 19.0% in Sept. from 19.5% in August and remains below pre-pandemic levels (north of 20%). We are cautious regarding how swiftly underlying loss ratios can turn around, particularly given PGR's stance that taking rating actions is behind it.

We do not think reinsurance reinstatement premiums (second event) meaningfully compress the denominator of its underlying loss ratio. PGR's occurrence tower includes some coverage for reinstatement premiums. Likewise, 95% of PGR's premium comes from lines other than homeowners for which little reinsurance exists.

PGR's Hurricane Ian net losses (\$760mn, of which \$585mn related to auto) reflected 95% IBNR which can be subject to variability. Especially since Hurricane Ian took place at the end of September and early October. We had modeled about \$600mn of catastrophe losses. PGR's 2020 market share in FL for auto physical damage was 20%.

PGR reported personal auto PIF y/y growth of (0.9)% in Sept. (better than our estimate of -1%), mostly seen in auto agency (-4.7% vs. our -4.5%) followed by auto direct (+2.2% vs. our 1.9%).

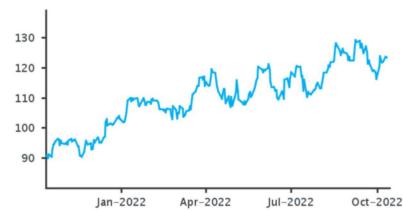
Sept. operating EPS of (\$0.70) missed our (\$0.39) estimate as catastrophe losses were worse than expected.

| CORE

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 104.00
	lowered -2% from USD 106.00
Price (12-Oct-22)	USD 121.40
Potential Upside/Downside	-14.3%
Market Cap (USD mn)	71031
Shares Outstanding (mn)	585.10
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.33
Return on Equity TTM (%)	4.95
Current BVPS (USD)	25.92

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 129.77-88.05



Source: IDC

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

U.S. Insurance/Non-Life

Tracy Benguigui

+1 212 526 1561

tracy.benguigui@barclays.com

BCI, US

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PGR: Quarterly and Annual EPS (USD)

FY Dec	2021	2022			2023			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2022	2023
Q1	1.72A	1.12A	1.12A	0.52A	1.41E	1.39E	1.66E	-35%	24%
Q2	0.71A	1.03A	1.03A	-0.94A	1.45E	1.45E	1.48E	45%	41%
Q3	0.14A	0.80E	0.49A	0.93E	1.45E	1.46E	1.45E	250%	198%
Q4	1.06A	1.32E	1.13E	1.51E	1.59E	1.59E	1.78E	7%	41%
Year	3.63A	4.28E	3.78E	4.42E	5.91E	5.89E	6.39E	4%	56%
P/E	33.4		32.1			20.6			

Consensus numbers are from Bloomberg received on 13-Oct-2022; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)							UNDERWEIGHT
Income statement (\$mn)	2021A	2022E	2023E	2024E	CAGR	Price (12-Oct-2022)	USD 121.40
Net premiums earned	44,369	49,041	55,206	61,189	11.3%	Price Target	USD 104.00
Net investment income (NII)	861	1,163	1,238	1,339	15.9%	Why UNDERWEIGHT?	
Underwriting income	1,374	1,176	2,601	2,975	29.4%	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	2,132	2,217	3,459	3,906	22.4%		
Net income	3,324	538	3,459	3,906	5.5%		
Effective tax rate (%)	20.4	24.1	21.0	21.0	1.0%		
Combined ratio (%)	95.3	96.1	93.8	93.6	-0.6%		
Combined ratio (ex cats & py development) (%)	92.4	92.4	92.4	92.6	0.1%		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR		
EPS (adj)	3.63	3.78	5.89	6.65	22.3%		
EPS (reported)	5.66	0.91	5.89	6.65	5.5%		
DPS	1.90	2.30	2.65	28.20	145.8%		
BVPS	30.35	23.39	26.26	4.74	-46.1%		
BVPS (ex AOCI)	30.28	28.74	31.61	10.09	-30.7%		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR		
Total investments	51,514	53,237	57,451	62,261	6.5%		
Common shareholders' equity (ex AOCI)	17,697	16,815	18,496	5,903	-30.6%		
Share buybacks	223	61	227	0	-100.0%	Upside case reflects ~22x '23E EPS.	
Dividends paid	1,109	1,346	1,551	16,500	145.9%		
Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average		
Debt leverage (%)	21.2	27.0	25.2	50.0	30.8		
Financial leverage (%)	23.4	29.0	27.1	53.8	33.3		
Total capital return as a % of op. earnings	62.5	63.5	51.4	422.4	149.9		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	4.01	4.22	3.84	12.03	6.03		
P/E (adj) (x)	33.4	32.1	20.6	18.3	26.1		
Dividend yield (%)	1.6	1.9	2.2	23.2	7.2		
ROE (%)	18.5	3.0	18.4	33.6	18.4		

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

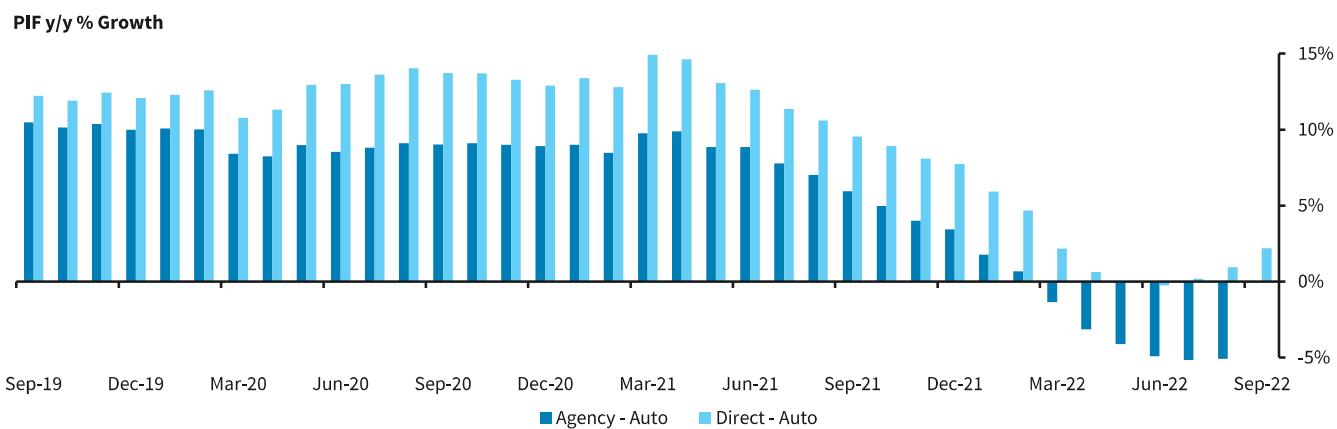


PIF Growth Spotlight

PGR reported personal auto PIF y/y growth of (0.9)% in Sept. (better than our estimate of -1%), mostly seen in auto agency (-4.7% vs. our -4.5%) followed by auto direct (+2.2% vs. our 1.9%).

As PIF declines remain more evident in agency, we expect PGR's customer mix to continue to shift toward direct over time. To recap, direct represents 56% of personal auto PIF in Sept. '22.

FIGURE 1. PIF growth y/y in Sept. with agent (-4.7%) and direct (+2.2%).



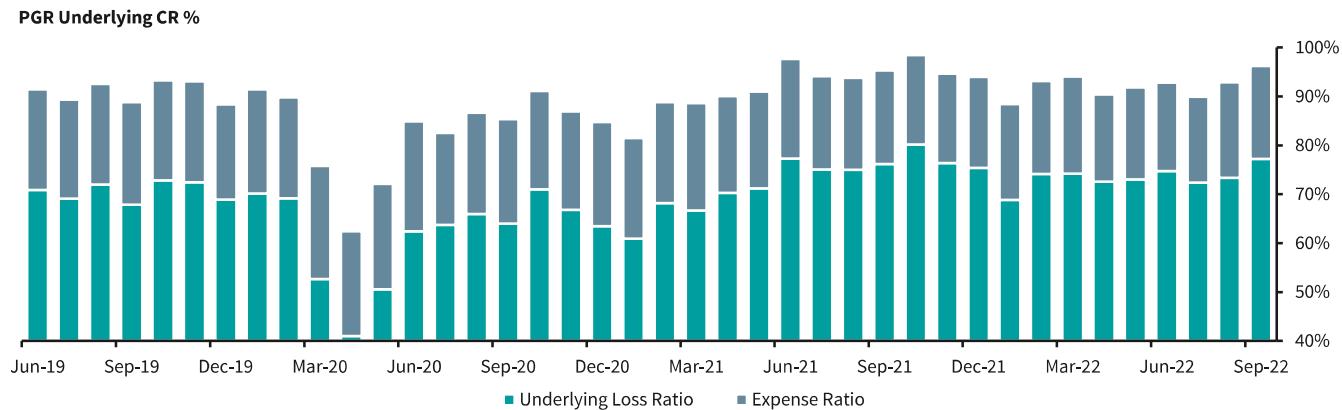
Source: Barclays Research, Company Data.

Underlying loss ratio on a monthly basis obscures underlying trend

PGR's underlying loss ratio is bouncing around by month: 73.4% in August was worse than 72.4% in July, yet better than 74.3% in June and worse than 73.0% in May. The three-month simple average of 73.5% is a way to go to return to pre-pandemic levels (~68%). PGR's expense ratio of 19.5% in August is elevated relative to recent months especially 17.6% in July. Collectively, PGR's underlying combined ratio of 92.9% is elevated from 90.0% in July, 92.4% in June and 91.8% in May.

Variability goes back to our point that one month does not point to a discernible trend. Bottom line, we remain cautious about auto loss cost trends.

FIGURE 2. Sept. '22 underlying loss ratio of 77.2% (vs. 74.0% Barclays) and expense ratio of 19.0% (vs. 19.4% Barclays)

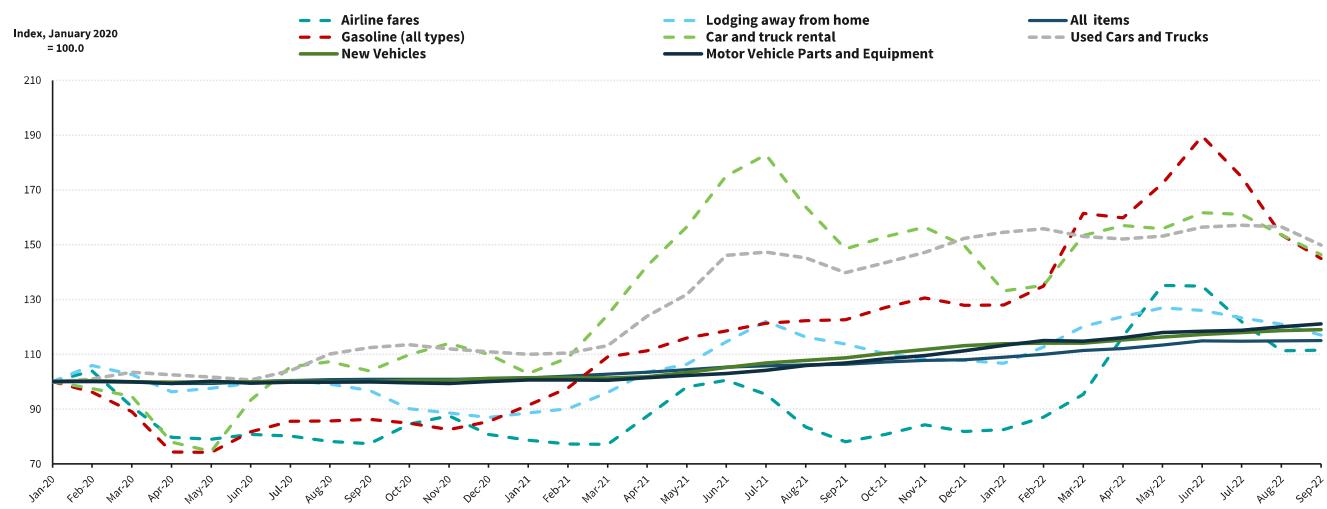


Source: Barclays Research, Company Data.

Inflation: Focus on Absolute Levels

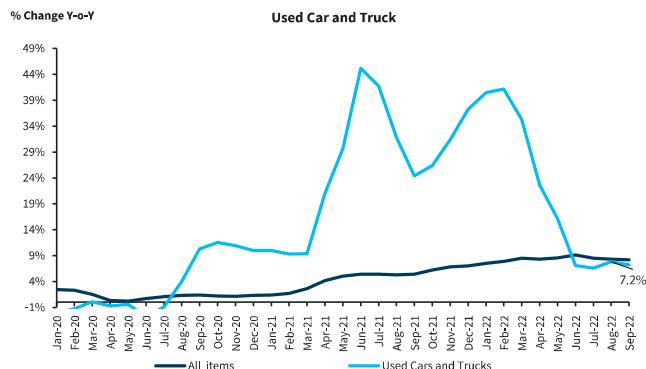
The Consumer Price Index (CPI) for All Urban Consumers rose 8.2% over the 12 months from Sept. 2021 to Sept. 2022. Used car and truck CPI trails all items at +7.2% vs. 7.8% in Aug.. Our focus is on an absolute basis where used car pricing remains significantly elevated.

FIGURE 3. CPI Indexed to Jan. '20



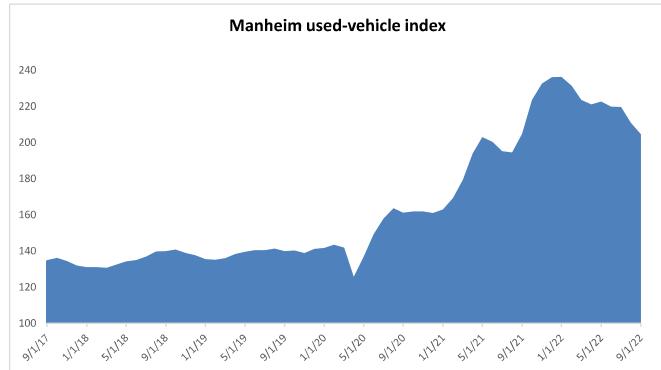
Source: Barclays Research, U.S. Bureau of Labor Statistics

FIGURE 4. CPI: Used Car and Truck (y/y +7.2% in Sept '22)



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

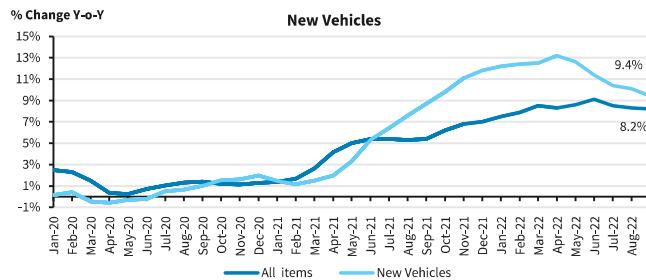
FIGURE 5. Manheim used car prices (y/y -0.1% in Sept. '22)



Source: Barclays Research, Bloomberg, Manheim

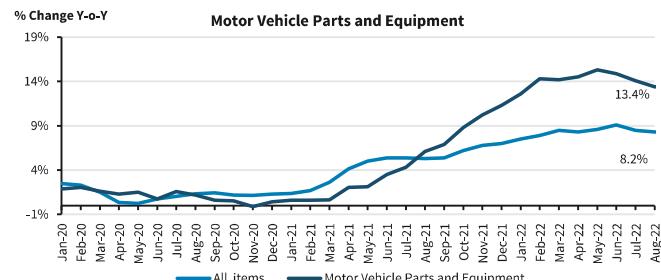
The new vehicle CPI index rose 9.4% y/y (vs. 10.1% in Aug) and Motor Vehicle Parts and Equipment CPI index rose 13.4% y/y (vs. 13.4% in Aug.).

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

Valuation

Our PT of \$104 (from \$106) is based on 18x our '23E EPS and 3.2x '23E BVPS (ex AOCI).

Model Updates:

We typically base our loss ratio expectations on a rolling 3-month average. We also are anticipating a catch-up in commercial premiums (TNC) in October '22 upon renewal of a 12-month contract (that was inception in Sept. '21). With respect to personal auto, Oct 1st is a higher than usual volume day.

We raised our auto catastrophe loss estimate for October in light of potential loss creep.

Updated EPS: '22E from \$4.28 to \$3.78. '23E from \$5.91 to \$5.89.

Variance Tables – Sept. '22

FIGURE 8. Variance Analysis - Sept. '22

Summary Details		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Sept '22	Aug '22	% Change	Sept '21	% Change	Sept '22	% Var.
Net premiums written	\$4,007	\$4,081	-2%	\$4,004	0%	\$4,219	-5%
Net investment income	\$133	\$103	29%	\$74	81%	\$101	32%
Combined Ratio	116.2%	93.6%	2260 bps	100.1%	1610 bps	108.8%	737 bps
Combined Ratio ex cats and PYD	96.2%	92.9%	336 bps	95.3%	95 bps	93.4%	282 bps
Operating EPS	-\$0.70	\$0.44	-261%	\$0.08	-1011%	-\$0.39	81%
Book value per share (ex. AOCI)	\$29.7	\$30.9	-3.8%	\$30.3	-2%	\$30.4	-2%

NPW by Segment		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Sept '22	Aug '22	% Change	Sept '21	% Change	Sept '22	% Var.
Personal lines-agent	\$1,456	\$1,474	-1%	\$1,394	4%	\$1,485	-2.0%
Personal lines-direct	\$1,715	\$1,717	0%	\$1,556	10%	\$1,746	-1.8%
Total Personal Lines	\$3,171	\$3,191	-1%	\$2,950	7.5%	\$3,231	-1.9%
Commercial Business & Other	\$638	\$670	-5%	\$862	-26%	\$801	-20%
Property	\$198	\$220	-10%	\$192	3%	\$186	6%
Total Written Premiums	\$4,007	\$4,081	-2%	\$4,004	0%	\$4,219	-5%

CR by Segment		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Sept '22	Aug '22	% Change	Sept '21	% Change	Sept '22	% Var.
Total Personal Lines	116.1%	93.5%	2260 bps	103.2%	1290 bps	105.9%	1017 bps
Personal lines-agent	119.7%	94.6%	2510 bps	100.0%	1970 bps	105.2%	1454 bps
Personal lines-direct	113.0%	93.5%	1950 bps	106.0%	700 bps	106.5%	647 bps
Commercial Business & Other	97.4%	92.4%	500 bps	89.5%	790 bps	93.8%	360 bps
Property	193.0%	91.3%	10170 bps	87.6%	10540 bps	215.0%	(2200 bps)

Source: Barclays Research, Company Data.

Variance Tables – 3Q22

FIGURE 9. Variance Analysis - 3Q22

Summary Details (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	3Q22A	2Q22	% Change	3Q21	% Change	3Q22E	% Var.
Net premiums written	\$13,018	\$12,422	5%	\$12,447	5%	\$13,229	-2%
Net investment income	\$334	\$292	14%	\$209	59.7%	\$301	10.6%
Combined Ratio	99.2%	95.6%	367 bps	100.4%	(117 bps)	97.1%	214 bps
Combined Ratio ex cats and PYD	92.8%	91.6%	126 bps	94.4%	(154 bps)	92.1%	75 bps
Operating EPS	\$0.49	\$1.03	-52%	\$0.14	249%	\$0.80	-39%
Book value per share (ex. AOCI)	\$29.7	\$29.6	0%	\$30.3	-2%	\$30.4	-2%

NPW by Segment (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	3Q22A	2Q22	% Change	3Q21	% Change	3Q22E	% Var.
Personal lines-agent	\$4,745	\$4,494	6%	\$4,472	6%	\$4,774	-1%
Personal lines-direct	\$5,584	\$4,979	12%	\$4,574	22%	\$5,615	-1%
Total Personal Lines	\$10,329	\$9,473	9%	\$8,900	16%	\$10,389	-1%
Commercial Business & Other	\$2,064	\$2,309	-11%	\$1,989	4%	\$2,227	-7.3%
Property	\$625	\$640	-2%	\$591	6%	\$613	2%
Total Written Premiums	\$13,017	\$12,421	5%	\$11,480	13%	\$13,229	-2%

CR by Segment (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	3Q22A	2Q22	% Change	3Q21	% Change	3Q22E	% Var.
Total Personal Lines	100.0%	95.1%	494 bps	100.2%	(23 bps)	96.8%	318 bps
Personal lines-agent	100.9%	94.0%	690 bps	99.0%	190 bps	96.4%	451 bps
Personal lines-direct	99.2%	96.0%	322 bps	101.3%	(213 bps)	97.2%	203 bps
Commercial Business & Other	89.7%	89.4%	29 bps	89.5%	24 bps	88.7%	105 bps
Property	125.1%	127.5%	(237 bps)	142.3%	(1718 bps)	133.1%	(797 bps)

Source: Barclays Research, Company Data.

Model Summary

FIGURE 10. Model Summary (pg. 1)

(\$ in mn, except per share data)	2019	2020	2021	2022E	2023E	2024E
Net premiums written	37,578	40,569	46,405	50,920	57,971	65,392
Revenues:						
Net premiums earned	36,192	39,262	44,369	49,041	55,206	61,189
Investment income	1,042	937	861	1,163	1,238	1,339
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,839)	-	-
Fees and other revenues	564	604	692	722	828	918
Service revenues	195	226	271	308	331	367
Total revenues	39,022	42,658	47,702	49,395	57,603	63,814
Expenses:						
Losses and loss adjustment expenses	25,471	25,122	33,628	37,923	40,885	44,776
Total underwriting expenses	7,998	8,843	9,368	9,942	11,720	13,438
Policyholder credit expense	-	1,077	-	-	-	-
Investment expenses	25	20	26	25	31	33
Service expenses	179	206	253	291	304	337
Interest expense	190	217	219	243	251	251
Total expenses	33,862	35,485	43,492	48,649	53,190	58,835
Underwriting Income	2,724	5,297	1,374	1,176	2,601	2,975
Income before income taxes	5,160	7,173	4,210	745	4,413	4,978
Provision for income taxes	1,180	1,469	859	180	927	1,045
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-
Net income	3,970	5,705	3,351	565	3,486	3,933
Less: Preferred stock dividends	27	27	27	27	27	26
Net income to common shareholders	3,943	5,678	3,324	538	3,459	3,906
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,454)	-	-
Other	-	-	-	(225)	-	-
Operating income to common shareholders	3,130	4,390	2,132	2,217	3,459	3,906
Operating EPS	\$5.33	\$7.47	\$3.63	\$3.78	\$5.89	\$6.65
Net EPS	\$6.72	\$9.66	\$5.66	\$0.91	\$5.89	\$6.65
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	9.7%	13.8%	12.8%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	10.5%	12.6%	10.8%

Source: Barclays Research, Company Data.

FIGURE 11. Model Summary (pg. 2)

(\$ in mn, except per share data)	2019	2020	2021	2022E	2023E	2024E
<u>Underwriting Margins</u>						
Loss and LAE ratio	70.4%	64.0%	75.8%	77.3%	74.1%	73.2%
Expense ratio	20.5%	21.0%	19.6%	18.8%	19.7%	20.5%
Combined ratio	90.9%	85.0%	95.3%	96.1%	93.8%	93.6%
Catastrophes pretax	552	880	1,310	1,771	770	621
Cat pts	1.5%	2.2%	3.0%	3.6%	1.4%	1.0%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(53)	-	-
PYD pts	-0.6%	-0.5%	0.0%	-0.1%	0.0%	0.0%
Underlying loss ratio	68.2%	61.2%	72.8%	73.6%	72.7%	72.2%
Underlying combined ratio	88.8%	82.2%	92.4%	92.4%	92.4%	92.6%
<u>Share information</u>						
Shares beginning period	583.2	584.6	585.2	584.4	585.1	585.1
Shares issued	3	2	2	1	2	-
Shares Repurchased	1	1	2	1	2	-
Common Shares Outstanding, end of period	584.6	585.2	584.4	585.1	585.1	585.1
Weighted average shares - basic	583.8	584.9	584.7	584.6	585.1	585.1
Dilution	3.1	2.5	2.3	2.3	2.7	2.7
Weighted average shares - diluted	586.9	587.4	587.0	586.9	587.8	587.8
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	12,612	15,613	17,697	16,815	18,496	5,903
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,256	17,656	12,200
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$28.74	\$31.61	\$10.09
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	12.8%	19.6%	32.0%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	3.0%	18.4%	33.6%

Source: Barclays Research, Company Data.

Analyst(s) Certification(s):

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Progressive Corp. (PGR, 12-Oct-2022, USD 121.40), Underweight/Positive, CD/CE/J/K/M

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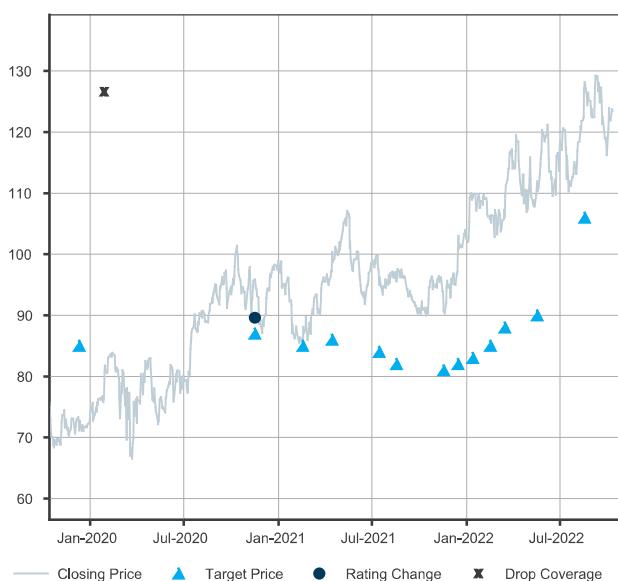
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 121.40 (12-Oct-2022)

Rating and Price Target Chart - USD (as of 12-Oct-2022)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
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
22-Jan-2020	76.16	Coverage Dropped	
11-Dec-2019	72.85		85.00

On 13-Oct-2019, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 90.00.

Source: Bloomberg, Barclays Research

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