



Progressive Corp.

June '21: Harder Pricing in Sight?

Large underlying loss ratio spike in June drives 2Q21 EPS miss: June operating EPS of \$0.06 missed our \$0.37 estimate reflecting underlying loss ratio deterioration (77.3% vs. our estimate of 70.6%), pushing the company combined ratio to 100.5%, above PGR's long-term target of 96%. Frequency trends have been worsening since 1H20, PGR reported elevated personal auto frequency (+47% y/y in 2Q21) (Figure 2). Personal auto severity spiked +8% y/y in 2Q21 following a more benign trend (Figure 3). PGR's reported monthly underlying combined ratios (Figure 1) had been steadily progressing upward but June marks a large jump up which is out of step with prior months (81.5% Jan, 88.9% Feb, 88.7% March, 90.0% April, and 91.0% May, 97.7% June). PGR's June expense ratio of 20.4% was modestly higher than our 20.3% forecast.

Hardening auto rate cycle? Management noted actions are being taken to achieve the long-term target of 96%, which we translate to mean harder pricing on the horizon. In hindsight, it appears PGR may have taken rate cuts taken too soon in a fluid loss trend environment (see figure 5). Hard rates may slow down PIF growth when the bottom line is a greater focal point. The last time personal auto writers hardened rates (back in 2015) it took a while to get back to a good spot. Auto insurance is an extremely commoditized product; we rather see auto insurers get the pricing right rather than resort to pricing correction measures.

June auto PIF growth dips slightly below our expectations, still strong: PGR's total personal auto policies in force (PIF) y/y growth (+10.9% vs. our estimate of 11.1%) was slightly below our estimate across auto direct (+12.6% vs. our 13.0%) and auto agency (+8.9% vs. 9.0%).

We lower our price target from \$86 to \$84 and reiterate our Underweight rating. Our PT is based on a 50/50 weighting of 16.5x '22E \$4.93 EPS (vs. \$5.08 prior) and ~2.7x '22E book value ex AOCI per share of \$32.31 (vs. \$32.8 prior). We are re-basing our EPS estimates to include a higher underlying loss ratio on higher frequency/severity trends, resulting in 2021E of \$4.50 (vs. \$5.15 prior) and 2022E of \$4.93 (vs. \$5.08 prior).

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	1.72A	1.72A	2.51A	1.31E	1.22E	1.56E	-10%	-29%
Q2	1.85A	1.03E	0.71A	1.10E	1.21E	1.14E	1.33E	-62%	61%
Q3	1.88A	1.14E	0.94E	1.19E	1.22E	1.21E	1.32E	-50%	29%
Q4	1.83A	1.25E	1.13E	1.36E	1.34E	1.36E	1.51E	-38%	20%
Year	7.47A	5.15E	4.50E	5.32E	5.08E	4.93E	5.73E	-40%	10%
P/E	12.7		21.1			19.3			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 15-Jul-2021; 12:50 GMT

Stock Rating	UNDERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 84.00
	lowered -2% from USD 86.00
Price (15-Jul-2021)	USD 94.95
Potential Upside/Downside	-11.5%
Tickers	PGR
Market Cap (USD mn)	55565
Shares Outstanding (mn)	585.20
Free Float (%)	99.69
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.42
Return on Equity TTM (%)	31.32
Current BVPS (USD)	31.91

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 107.59-80.50

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		
Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (15-Jul-2021)	USD 94.95	
Net premiums earned	39,262	43,735	48,280	53,422	10.8%	Price Target	USD 84.00	
Net investment income (NII)	937	872	929	994	2.0%	Why Underweight? 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	5,297	2,027	2,278	2,499	-22.1%			
Operating income	4,390	2,644	2,895	3,181	-10.2%			
Net income	5,678	3,472	2,895	3,181	-17.6%			
Effective tax rate (%)	20.5	20.9	21.0	21.0	0.9%			
Combined ratio (%)	85.0	93.8	93.8	93.8	3.4%			
Combined ratio (ex cats & py development) (%)	82.2	91.0	91.8	91.8	3.7%			
Per share data (\$)					CAGR	Upside case	USD 102.00	
EPS (adj)	7.47	4.50	4.93	5.42	-10.2%	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 \$102 assumes ~21x P/E multiple on our '22 EPS estimate.		
EPS (reported)	9.66	5.92	4.93	5.42	-17.5%			
DPS	4.90	2.20	2.40	2.65	-18.5%			
BVPS	28.27	30.83	33.13	35.67	8.1%			
BVPS (ex AOCI)	26.68	30.01	32.31	34.85	9.3%			
Balance sheet and capital return (\$mn)					CAGR	Downside case	USD 75.00	
Total investments	47,530	52,673	56,411	60,319	8.3%	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 ~15x P/E multiple on our '22 EPS estimate.		
Common shareholders' equity (ex AOCI)	15,613	17,560	18,906	20,393	9.3%			
Share buybacks	112	160	144	144	8.7%			
Dividends paid	2,866	1,287	1,404	1,551	-18.5%			
Balance sheet and capital return metrics					Average	Upside/Downside scenarios		
Debt leverage (%)	25.1	21.3	20.2	19.0	21.4	Price History		
Financial leverage (%)	27.4	23.5	22.2	20.9	23.5	Prior 12 months		
Total capital return as a % of op. earnings	67.8	54.7	53.5	53.3	57.3	High		
Valuation metrics					Average	Price Target		
P/BV (ex AOCI) (x)	3.56	3.16	2.94	2.72	3.10	Next 12 months		
P/E (adj) (x)	12.7	21.1	19.3	17.5	17.6	Upside		
Dividend yield (%)	5.2	2.3	2.5	2.8	3.2			
ROE (%)	35.6	19.2	15.0	15.3	21.3			

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

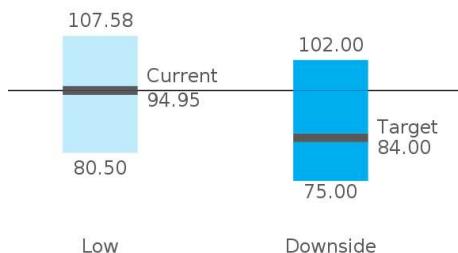
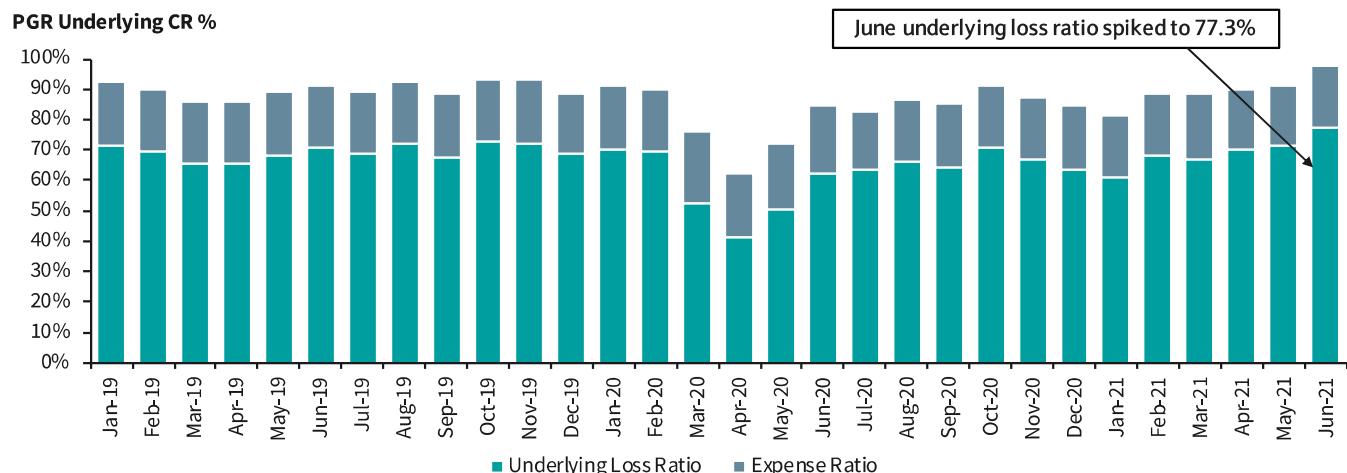


FIGURE 1

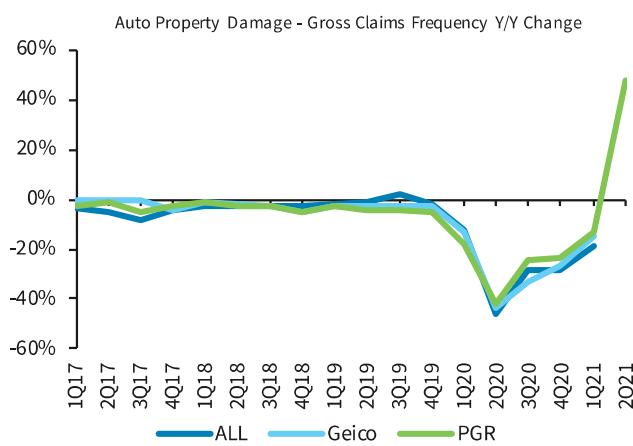
June '21 underlying LR of 77.3% - significant deterioration owed to rising loss cost trends



Source: Barclays Research, Company Data.

FIGURE 2

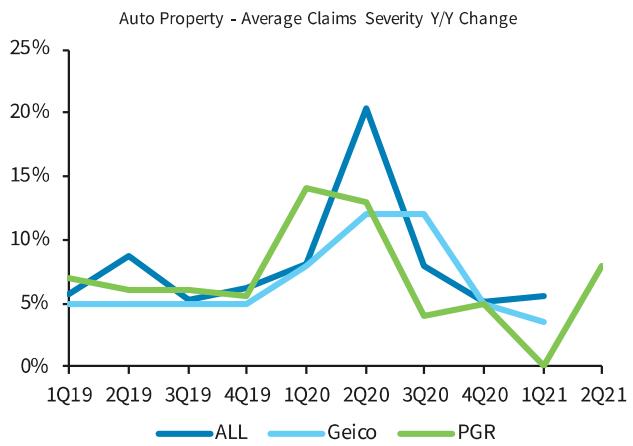
Auto property frequency claims jumped +47% y/y in 2Q21



Source: Barclays Research, Company Data.

FIGURE 3

Auto property claims severity +8% y/y in 2Q21



Source: Barclays Research, Company Data.

FIGURE 4

Personal Auto PIF growth in June '21 (+10.9% y/y) was slightly below our expectations, with growth in direct auto +12.6% (+13% our estimate) primarily causing the modest miss

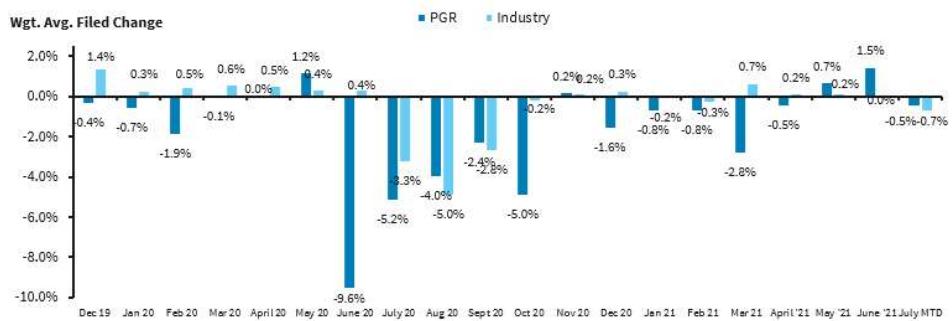
PIF y/y % Growth



Source: Barclays Research, Company Data.

FIGURE 5

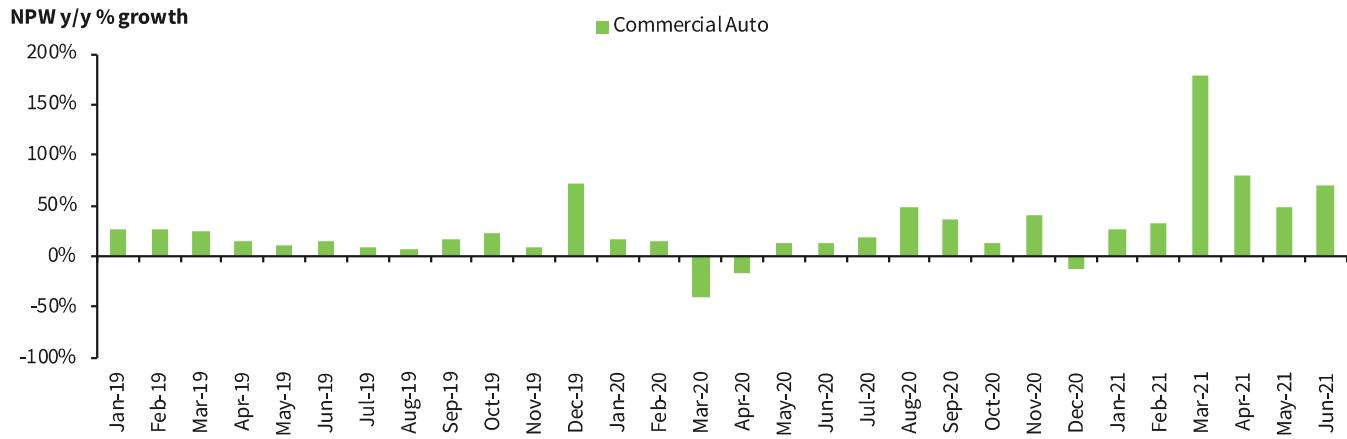
PGR filed for rate declines in July (MTD) after two months of filing for rate increases



Source: Barclays Research, S&P Global Market Intelligence. Data as of July 14, 2021.

FIGURE 6

June growth (+70% y/y, +59% ex. Protective) of NPW for commercial auto ahead of our estimate for +30% y/y



Source: Barclays Research, Company Data.

Variance Table

FIGURE 7

PGR June 2021 Variance Analysis

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	June '21A	May '21	% Change	June '20	% Change	June '21	% Var.
Net premiums written	\$3,627	\$3,402	7%	\$3,202	13%	\$3,603	1%
Net investment income	\$76	\$70	8%	\$77	-1%	\$69	10%
Combined Ratio	100.5%	93.1%	736 bps	86.3%	1417 bps	93.0%	745 bps
Combined Ratio ex cats and PYD	97.7%	91.0%	667 bps	83.8%	1390 bps	91.0%	670 bps
Operating EPS	\$0.06	\$0.38	-85%	\$0.61	-91%	\$0.37	-85%
Book value per share (ex. AOCI)	\$30.2	\$30.0	1%	\$26.0	16%	\$30.3	0%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	June '21A	May '21	% Change	June '20	% Change	June '21	% Var.
Personal lines-agent	\$1,318	\$1,286	2%	\$1,262	4%	\$1,363	-3%
Personal lines-direct	\$1,403	\$1,357	3%	\$1,349	4%	\$1,500	-6%
Total Personal Lines	\$2,720	\$2,644	3%	\$2,611	4%	\$2,863	-5%
Commercial Business & Other	\$695	\$563	23%	\$407	71%	\$529	31%
Property	\$213	\$196	9%	\$184	16%	\$211	1%
Total Written Premiums	\$3,627	\$3,402	7%	\$3,202	13%	\$3,603	1%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	June '21A	May '21	% Change	June '20	% Change	June '21	% Var.
Total Personal Lines	100.8%	93.6%	720 bps	84.0%	1680 bps	93.0%	780 bps
Personal lines-agent	98.7%	93.1%	560 bps	85.1%	1360 bps	90.9%	780 bps
Personal lines-direct	102.8%	93.9%	890 bps	83.0%	1980 bps	92.8%	1000 bps
Commercial Business & Other	96.7%	90.3%	640 bps	98.0%	(130 bps)	90.9%	585 bps
Property	107.6%	94.3%	1330 bps	110.1%	(250 bps)	100.0%	760 bps

Source: Barclays Research, Company Data.

FIGURE 8
PGR 2Q21 Variance Analysis

Summary Details (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	2Q21A	1Q21	% Change	2Q20	% Change	2Q21E	% Var.
Net premiums written	\$11,480	\$11,729	-2%	\$10,140	13%	\$11,456	0%
Net investment income	\$211	\$220	-4%	\$244	-14%	\$204	4%
Combined Ratio	96.5%	89.3%	726 bps	77.0%	1955 bps	94.2%	233 bps
Combined Ratio ex cats and PYD	92.7%	86.0%	669 bps	73.0%	1967 bps	90.6%	211 bps
Operating EPS	\$0.71	\$1.72	-59%	\$1.85	-61%	\$1.03	-31%
Book value per share (ex. AOCI)	\$30.2	\$29.0	4%	\$26.0	16%	\$30.3	0%

NPW by Segment (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	2Q21A	1Q21	% Change	2Q20	% Change	2Q21E	% Var.
Personal lines-agent	\$4,326	\$4,459	-3%	\$4,105	5%	\$4,371	-1%
Personal lines-direct	\$4,574	\$5,003	-9%	\$4,327	6%	\$4,672	-2%
Total Personal Lines	\$8,900	\$9,461	-6%	\$8,432	6%	\$9,043	-2%
Commercial Business & Other	\$1,989	\$1,794	11%	\$1,195	66%	\$1,824	9%
Property	\$591	\$474	25%	\$513	15%	\$590	0%
Total Written Premiums	\$11,480	\$11,729	-2%	\$10,140	13%	\$11,456	0%

CR by Segment (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	2Q21A	1Q21	% Change	2Q20	% Change	2Q21E	% Var.
Total Personal Lines	96.2%	88.7%	751 bps	85.2%	1102 bps	93.8%	243 bps
Personal lines-agent	95.1%	86.6%	846 bps	85.9%	913 bps	92.6%	241 bps
Personal lines-direct	97.2%	90.6%	661 bps	84.5%	1276 bps	94.1%	310 bps
Commercial Business & Other	92.0%	83.9%	807 bps	84.1%	792 bps	90.0%	203 bps
Property	116.6%	115.0%	155 bps	143.6%	(2701 bps)	114.5%	213 bps

Source: Barclays Research, Company Data.

Model Summary

FIGURE 9

Model Summary (pg. 1)

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
Net premiums written	32,610	37,578	40,569	45,943	49,399	53,132
Revenues:						
Net premiums earned	30,933	36,192	39,262	43,735	48,280	53,422
Investment income	821	1,042	937	872	929	994
Total net realized gains (losses) on securities	(406)	1,029	1,630	1,047	-	-
Fees and other revenues	472	564	604	697	734	801
Service revenues	159	195	226	262	256	283
Total revenues	31,979	39,022	42,658	46,614	50,199	55,500
Expenses:						
Losses and loss adjustment expenses	21,721	25,471	25,122	32,096	35,437	39,237
Total underwriting expenses	6,770	7,998	8,843	9,612	10,564	11,686
Policyholder credit expense	-	-	1,077	-	-	-
Investment expenses	24	25	20	25	27	29
Service expenses	134	179	206	240	266	294
Interest expense	167	190	217	220	206	206
Total expenses	28,815	33,862	35,485	42,192	46,500	51,451
Underwriting Income	2,443	2,724	5,297	2,027	2,278	2,499
Income before income taxes	3,164	5,160	7,173	4,422	3,699	4,049
Provision for income taxes	543	1,180	1,469	923	777	850
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-	-
Net income	2,615	3,970	5,705	3,498	2,922	3,199
Less: Preferred stock dividends	21	27	27	27	27	17
Net income to common shareholders	2,594	3,943	5,678	3,472	2,895	3,181
ATX total net realized gains (losses) on sec	(320)	813	1,288	827	-	-
Other	(1)	-	-	-	-	-
Operating income to common shareholders	2,915	3,130	4,390	2,644	2,895	3,181
Operating EPS	\$5.00	\$5.33	\$7.47	\$4.50	\$4.93	\$5.42
Net EPS	\$4.43	\$6.72	\$9.66	\$5.92	\$4.93	\$5.42
Net Written Premiums (y/y %)		15.2%	8.0%	13.2%	7.5%	7.6%
Net Earned Premiums (y/y %)		17.0%	8.5%	11.4%	10.4%	10.7%

Source: Barclays Research, Company Data.

FIGURE 10
Model Summary (pg. 2)

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
Underwriting Margins						
Loss and LAE ratio	70.2%	70.4%	64.0%	73.4%	73.4%	73.4%
Expense ratio	20.4%	20.5%	21.0%	20.4%	20.4%	20.4%
Combined ratio	90.6%	90.9%	85.0%	93.8%	93.8%	93.8%
Catastrophes pretax	567	552	880	899	726	799
Cat pts	1.8%	1.5%	2.2%	2.1%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	(309)	(241)	(267)
PYD pts	-0.3%	-0.6%	-0.5%	-0.7%	-0.5%	-0.5%
Underlying loss ratio	68.1%	68.2%	61.2%	70.6%	71.4%	71.5%
Underlying combined ratio	88.5%	88.8%	82.2%	91.0%	91.8%	91.8%
Share information						
Shares beginning period	581.7	583.2	584.6	585.2	585.2	585.2
Shares issued	3	3	2	2	2	2
Shares Repurchased	1	1	1	2	2	2
Common Shares Outstanding, end of period	583.2	584.6	585.2	585.2	585.2	585.2
Weighted average shares - basic	582.4	583.8	584.9	585.0	585.2	585.2
Dilution	3.8	3.1	2.5	2.1	2.1	2.1
Weighted average shares - diluted	586.2	586.9	587.4	587.1	587.3	587.3
Capital deployment						
Assumed Share price for repurchases	\$58	\$73	\$86	\$91	\$85	\$85
# of shares repurchased (in mn)	1.3	1.2	1.3	1.8	1.7	1.7
\$ Repurchased	76	86	112	160	144	144
Dividends per share	\$2.51	\$2.65	\$4.90	\$2.20	\$2.40	\$2.65
\$ amt common dividend	1,465	1,548	2,866	1,287	1,404	1,551
Total capital returned	1,541	1,634	2,978	1,448	1,549	1,695
Total capital returned, % normalized earnings	53%	52%	68%	55%	53%	53%
Shareholders' equity and returns						
Common shareholders' equity ex AOCI	10,234	12,612	15,613	17,560	18,906	20,393
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,586	18,233	19,649
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$30.01	\$32.31	\$34.85
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	15.9%	15.9%	16.2%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	19.2%	15.0%	15.3%

Source: Barclays Research, Company Data.

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Primary Stocks (Ticker, Date, Price)

Progressive Corp. (PGR, 15-Jul-2021, USD 94.95), 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.

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

USD 94.95 (15-Jul-2021)

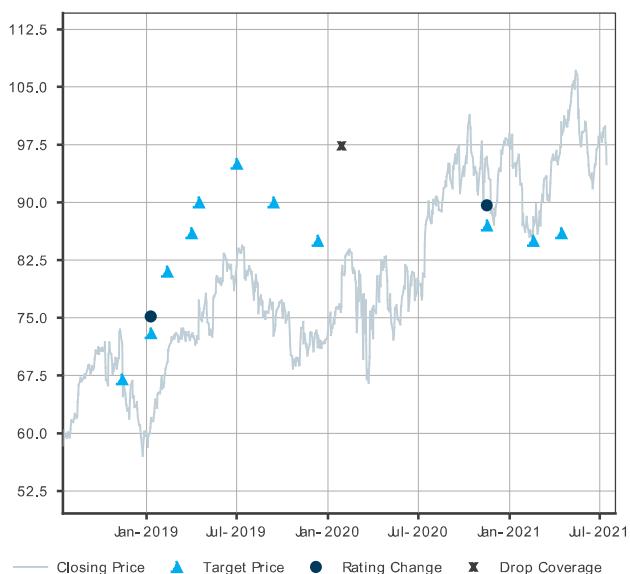
Stock Rating

UNDERWEIGHT

Industry View

POSITIVE**Rating and Price Target Chart - USD (as of 15-Jul-2021)**

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
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
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

On 15-Jul-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 59.00.

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 \$84 price target is based on a 50/50 weighted 16.5x P/E multiple on our '22 EPS estimate of \$4.93 and 2.7x P/BV excluding AOCI on our '22 BVPS ex. AOCI of \$32.31.

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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