



# Progressive Corp.

## May '21: Summer Glimpse

**Frequency normalizing and summer road trips should worsen trends:** PGR's reported monthly underlying combined ratios (Figure 1) continue on an upward trend (81.5% Jan, 88.9% Feb, 88.7% March, 90.0% April, and 91.2% May). We think summer months will increase miles driven contributing to worsening frequency trends. This is on the back of potentially higher auto physical damage in light of higher used car sales/rentals.

**NWP growth comparison to last year is a noisy benchmark:** Net written premium was meaningfully lower for both auto direct (1.1% versus our 11.2% estimate) and auto agency (0.7% vs. our 8.0% estimate) than historical levels. PGR mentioned that NPW growth in personal lines would have been 5-7 points higher in light of last year's countrywide moratoriums and benign policy cancellations. PGR's policies in force (PIF) growth was in line with our expectations on both auto direct (+13%) and auto agency (+9%) see figure 6. We were surprised that PGR filed rate cuts in June (based on weighted average filing change - see figure 7). We think there is a possibility that auto insurers may have to raise rates in response to worsening loss trend. In hindsight, it appears PGR and others may have taken rate cuts taken too soon in a fluid loss trend environment.

**EPS in line with our expectations:** Operating EPS of \$0.38 was in line with our \$0.38. Cats were better than our expectation (1.8 pts vs. our 2.9 pts estimate). The underlying loss ratio was 71.3%, which was worse than our 68.4% estimate, though PGR's expense ratio of 19.8% was better than our 21% forecast.

We maintain our price target at \$86 and Underweight rating. Our PT is based on a 50/50 weighting of 16.5x '22E \$5.08 EPS and ~2.7x '22E book value ex AOCI per share of \$32.81. We reduced our EPS estimates for 2021, from \$5.53 to \$5.11, to reflect worsening underlying loss ratio for the personal auto business. We expect underwriting to normalize to pre-COVID-19 levels quicker than we had originally anticipated. We are modestly lowering our operating EPS for 2022 from \$5.11 to \$5.08 for 2022.

### 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	1.35E	1.31E	1.60E	-10%	-24%
Q2	1.85A	1.07E	1.00E	1.14E	1.21E	1.21E	1.34E	-46%	21%
Q3	1.88A	1.35E	1.14E	1.27E	1.22E	1.22E	1.31E	-39%	7%
Q4	1.83A	1.39E	1.25E	1.41E	1.33E	1.34E	1.49E	-32%	7%
Year	7.47A	5.53E	5.11E	5.44E	5.11E	5.08E	5.83E	-32%	-0.59%
P/E	12.4		18.2			18.3			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 16-Jun-2021; 12:50 GMT

Stock Rating	UNDERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 86.00
	Unchanged
Price (16-Jun-2021)	USD 92.92
Potential Upside/Downside	-7.4%
Tickers	PGR
Market Cap (USD mn)	54372
Shares Outstanding (mn)	585.15
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.6
Dividend Yield (%)	0.43
Return on Equity TTM (%)	41.40
Current BVPS (USD)	29.64

Source: Bloomberg



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 (\$mn)</b>	2020A	2021E	2022E	2023E	CAGR	<b>Price (16-Jun-2021)</b>	USD 92.92	
Net premiums earned	39,262	43,193	47,669	52,738	10.3%	Price Target	USD 86.00	
Net investment income (NII)	937	845	889	956	0.7%	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	2,538	2,443	2,557	-21.6%			
Operating income	4,390	3,005	2,988	3,190	-10.1%			
Net income	5,678	3,734	2,988	3,190	-17.5%			
Effective tax rate (%)	20.5	21.0	21.0	21.0	0.9%			
Combined ratio (%)	85.0	92.5	93.4	93.7	3.3%			
Combined ratio (ex cats & py development) (%)	82.2	89.7	91.3	91.6	3.7%			
<b>Per share data (\$)</b>					CAGR	<b>Upside case</b>	USD 102.00	
EPS (adj)	7.47	5.11	5.08	5.42	-10.1%	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 ~20x P/E multiple on our '22 EPS estimate.		
EPS (reported)	9.66	6.36	5.08	5.42	-17.5%			
DPS	4.90	2.30	2.40	2.40	-21.2%			
BVPS	28.27	31.24	33.70	36.50	8.9%			
BVPS (ex AOCI)	26.68	30.35	32.81	35.61	10.1%			
<b>Balance sheet and capital return (\$mn)</b>					CAGR	<b>Downside case</b>	USD 75.00	
Total investments	47,530	50,298	54,093	58,196	7.0%	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	17,764	19,203	20,844	10.1%			
Share buybacks	112	148	144	144	8.7%			
Dividends paid	2,866	1,346	1,405	1,405	-21.2%			
<b>Balance sheet and capital return metrics</b>					Average	<b>Upside/Downside scenarios</b>		
Debt leverage (%)	25.1	21.1	19.9	18.7	21.2	Price History		
Financial leverage (%)	27.4	23.3	21.9	20.5	23.3	Prior 12 months		
Total capital return as a % of op. earnings	67.8	49.7	51.8	48.6	54.5	High		
<b>Valuation metrics</b>					Average	Price Target		
P/BV (ex AOCI) (x)	3.48	3.06	2.83	2.61	3.00	Next 12 months		
P/E (adj) (x)	12.4	18.2	18.3	17.1	16.5	Upside		
Dividend yield (%)	5.3	2.5	2.6	2.6	3.2			
ROE (%)	35.6	20.6	15.3	15.1	21.6			

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

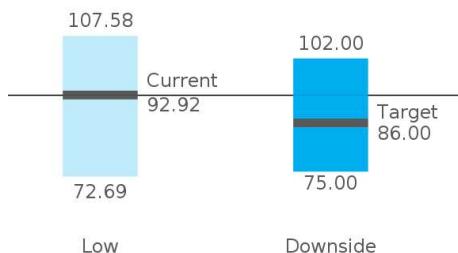


FIGURE 1

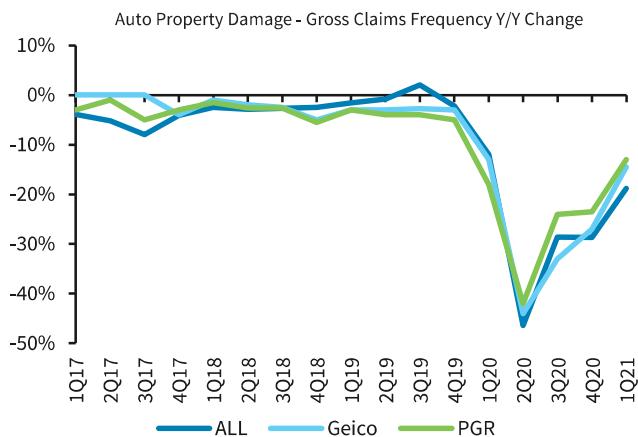
May '21 underlying LR of 71.4% - sequential deterioration continues owed to rising loss cost trends



Source: Barclays Research, Company Data.

FIGURE 2

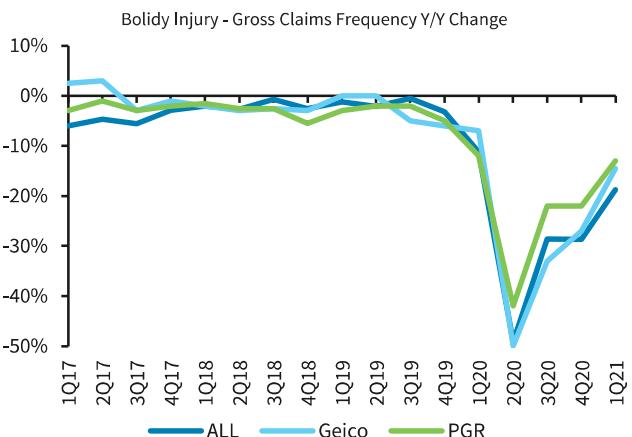
Frequency claims trending up ...



Source: Barclays Research, Company Data.

FIGURE 3

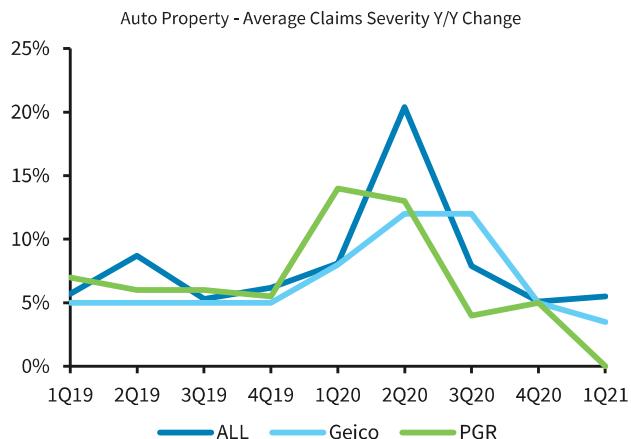
...from pandemic lows as vehicle miles traveled normalize



Source: Barclays Research, Company Data.

FIGURE 4

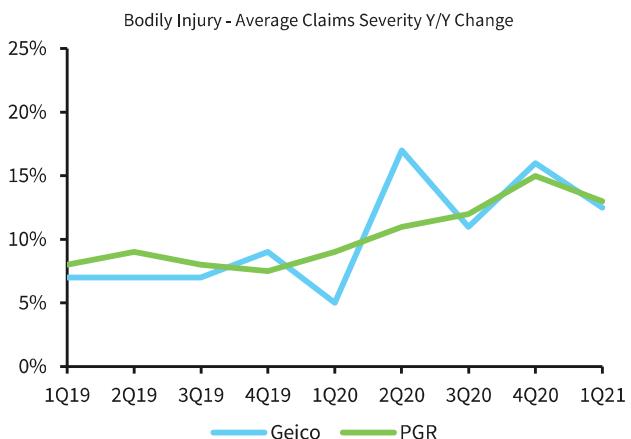
**Auto property claims severity has steadily declined after peaking in 1H20... but all macro indicators pointing to an uptick in 2Q21**



Source: Barclays Research, Company Data.

FIGURE 5

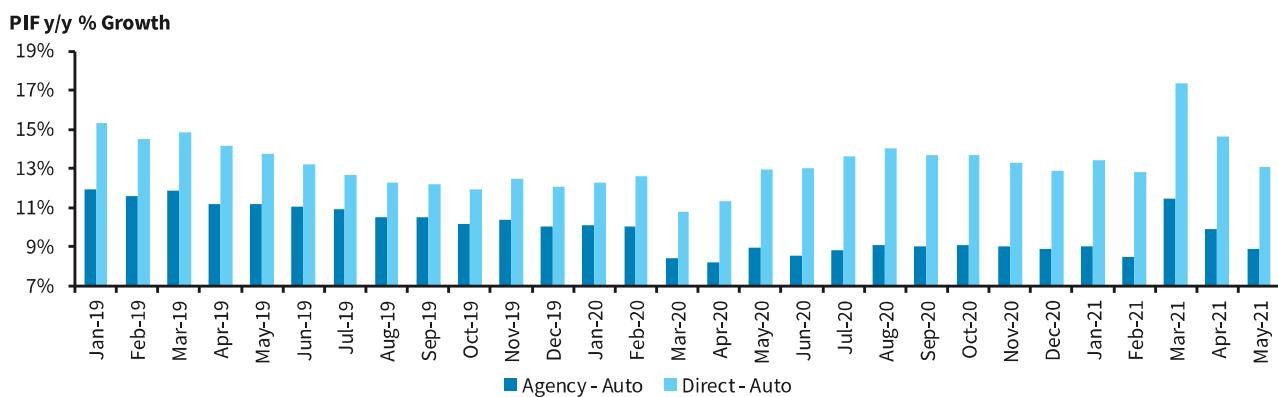
**... bodily injury claims severity persist at heightened levels**



Source: Barclays Research, Company Data.

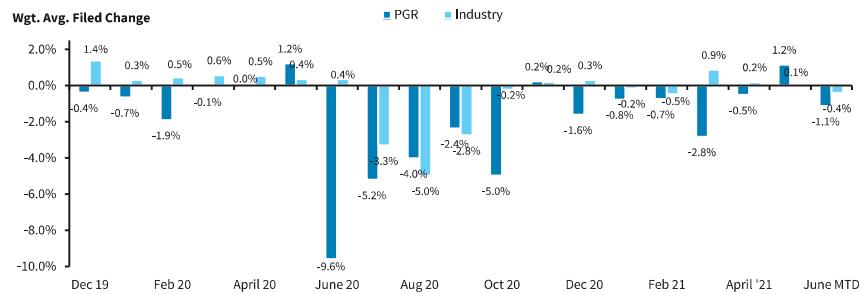
FIGURE 6

**Personal Auto PIF growth in May '21 (+11% y-o-y)**



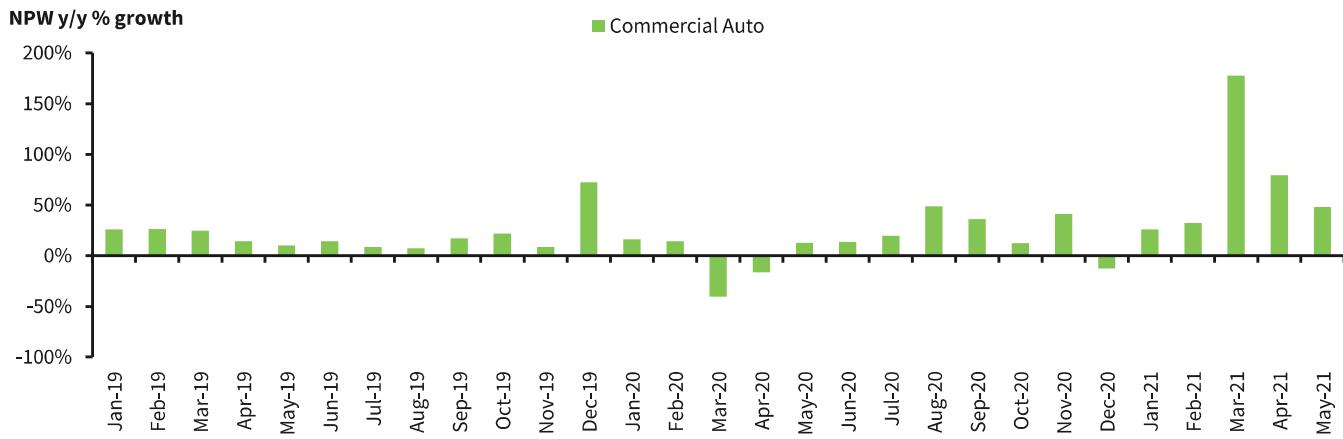
Source: Barclays Research, Company Data.

**FIGURE 7**  
**PGR filed for another rate decline**



Source: Barclays Research, S&P Global Market Intelligence. Data as of June 11, 2021.

**FIGURE 8**  
**Y/Y growth (+48% y/y) of NPW for commercial auto ahead of our estimate for +40% y/y**



Source: Barclays Research, Company Data.

## Variance Table

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FIGURE 9

PGR May '21 Variance Analysis

Summary Details (in \$mn, except per share)	M/M			Y/Y			Barclays Est.	
	May '21A	April '21	% Change	May '20	% Change	May '21	% Var.	
Net premiums written	\$3,402	\$4,451	-24%	\$3,174	7%	\$3,605	-6%	
Net investment income	\$70	\$65	8%	\$84	-17%	\$68	3%	
Combined Ratio	93.1%	96.0%	(284 bps)	76.7%	1645 bps	92.7%	38 bps	
Combined Ratio ex cats and PYD	91.0%	90.0%	93 bps	73.4%	1757 bps	89.3%	164 bps	
Operating EPS	\$0.38	\$0.28	37%	\$0.34	13%	\$0.38	-1%	
Book value per share (ex. AOCI)	\$30.0	\$29.5	2%	\$24.9	20%	\$29.9	0%	

NPW by Segment (in \$mn, except per share)	M/M			Y/Y			Barclays Est.	
	May '21A	April '21	% Change	May '20	% Change	May '21	% Var.	
Personal lines-agent	\$1,286	\$1,722	-25%	\$1,272	1%	\$1,374	-6%	
Personal lines-direct	\$1,357	\$1,814	-25%	\$1,347	1%	\$1,498	-9%	
Total Personal Lines	\$2,644	\$3,537	-25%	\$2,620	1%	\$2,872	-8%	
Commercial Business & Other	\$563	\$732	-23%	\$380	48%	\$533	6%	
Property	\$196	\$182	7%	\$174	12%	\$200	-2%	
Total Written Premiums	\$3,402	\$4,451	-24%	\$3,174	7%	\$3,605	-6%	

CR by Segment (in \$mn, except per share)	M/M			Y/Y			Barclays Est.	
	May '21A	April '21	% Change	May '20	% Change	May '21	% Var.	
Total Personal Lines	93.6%	94.6%	(100 bps)	93.5%	10 bps	91.4%	220 bps	
Personal lines-agent	93.1%	93.7%	(60 bps)	93.6%	(50 bps)	87.9%	520 bps	
Personal lines-direct	93.9%	95.4%	(150 bps)	93.5%	40 bps	91.7%	220 bps	
Commercial Business & Other	90.3%	89.0%	130 bps	80.9%	940 bps	91.5%	(115 bps)	
Property	94.3%	149.9%	(5560 bps)	127.0%	(3270 bps)	119.0%	(2470 bps)	

Source: Barclays Research, Company Data.

## Model Summary

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FIGURE 10

Model Summary (pg. 1)

(\$ in mn, except per share data)	2019	2020	2021E	2022E	2023E
Net premiums written	37,578	40,569	45,510	49,625	54,145
Revenues:					
Net premiums earned	36,192	39,262	43,193	47,669	52,738
Investment income	1,042	937	845	889	956
Total net realized gains (losses) on securities	1,029	1,630	923	-	-
Fees and other revenues	564	604	691	725	791
Service revenues	195	226	238	253	280
<b>Total revenues</b>	<b>39,022</b>	<b>42,658</b>	<b>45,890</b>	<b>49,536</b>	<b>54,765</b>
Expenses:					
Losses and loss adjustment expenses	25,471	25,122	31,159	34,797	38,647
Total underwriting expenses	7,998	8,843	9,497	10,430	11,535
Policyholder credit expense	-	1,077	-	-	-
Investment expenses	25	20	24	26	28
Service expenses	179	206	233	262	290
Interest expense	190	217	220	206	206
<b>Total expenses</b>	<b>33,862</b>	<b>35,485</b>	<b>41,132</b>	<b>45,720</b>	<b>50,705</b>
Underwriting Income	2,724	5,297	2,538	2,443	2,557
Income before income taxes	5,160	7,173	4,757	3,816	4,060
Provision for income taxes	1,180	1,469	997	801	853
Other comp (income) loss att. to NCI	(10)	-	-	-	-
Net income	3,970	5,705	3,760	3,015	3,207
Less: Preferred stock dividends	27	27	27	27	17
<b>Net income to common shareholders</b>	<b>3,943</b>	<b>5,678</b>	<b>3,734</b>	<b>2,988</b>	<b>3,190</b>
ATX total net realized gains (losses) on sec	813	1,288	729	-	-
Other	-	-	-	-	-
<b>Operating income to common shareholders</b>	<b>3,130</b>	<b>4,390</b>	<b>3,005</b>	<b>2,988</b>	<b>3,190</b>
<b>Operating EPS</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$5.11</b>	<b>\$5.08</b>	<b>\$5.42</b>
<b>Net EPS</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$6.36</b>	<b>\$5.08</b>	<b>\$5.42</b>
Net Written Premiums (y/y %)	15.2%	8.0%	12.2%	9.0%	9.1%
Net Earned Premiums (y/y %)	17.0%	8.5%	10.0%	10.4%	10.6%

Source: Barclays Research, Company Data.

FIGURE 11

Model Summary (pg. 2)

(\$ in mn, except per share data)	2019	2020	2021E	2022E	2023E
<b><u>Underwriting Margins</u></b>					
Loss and LAE ratio	70.4%	64.0%	72.1%	73.0%	73.3%
Expense ratio	20.5%	21.0%	20.4%	20.4%	20.4%
<b>Combined ratio</b>	<b>90.9%</b>	<b>85.0%</b>	<b>92.5%</b>	<b>93.4%</b>	<b>93.7%</b>
Catastrophes pretax	552	880	927	723	797
Cat pts	1.5%	2.2%	2.1%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	(281)	(238)	(264)
PYD pts	-0.6%	-0.5%	-0.6%	-0.5%	-0.5%
<b>Underlying loss ratio</b>	<b>68.2%</b>	<b>61.2%</b>	<b>69.3%</b>	<b>71.0%</b>	<b>71.3%</b>
<b>Underlying combined ratio</b>	<b>88.8%</b>	<b>82.2%</b>	<b>89.7%</b>	<b>91.3%</b>	<b>91.6%</b>
<b><u>Share information</u></b>					
Shares beginning period	583.2	584.6	585.2	585.3	585.3
Shares issued	3	2	2	2	2
Shares Repurchased	1	1	2	2	2
Common Shares Outstanding, end of period	584.6	585.2	585.3	585.3	585.3
Weighted average shares - basic	583.8	584.9	585.2	585.3	585.3
Dilution	3.1	2.5	2.0	2.0	2.0
Weighted average shares - diluted	586.9	587.4	587.2	587.3	587.3
<b><u>Capital deployment</u></b>					
Assumed Share price for repurchases	\$73	\$86	\$89	\$85	\$85
# of shares repurchased (in mn)	1.2	1.3	1.7	1.7	1.7
\$ Repurchased	86	112	148	144	144
Dividends per share	\$2.65	\$4.90	\$2.30	\$2.40	\$2.40
\$ amt common dividend	1,548	2,866	1,346	1,405	1,405
Total capital returned	1,634	2,978	1,495	1,549	1,549
Total capital returned, % normalized earnings	52%	68%	50%	52%	49%
<b><u>Shareholders' equity and returns</u></b>					
Common shareholders' equity ex AOCI	12,612	15,613	17,764	19,203	20,844
Average common shareholders' equity ex AOCI	11,423	14,113	16,688	18,483	20,023
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.35	\$32.81	\$35.61
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	18.0%	16.2%	15.9%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	20.6%	15.3%	15.1%

Source: Barclays Research, Company Data.

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

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

**Progressive Corp.** (PGR, 16-Jun-2021, USD 92.92), Underweight/Positive, CD/CE/J/K/M

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**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)

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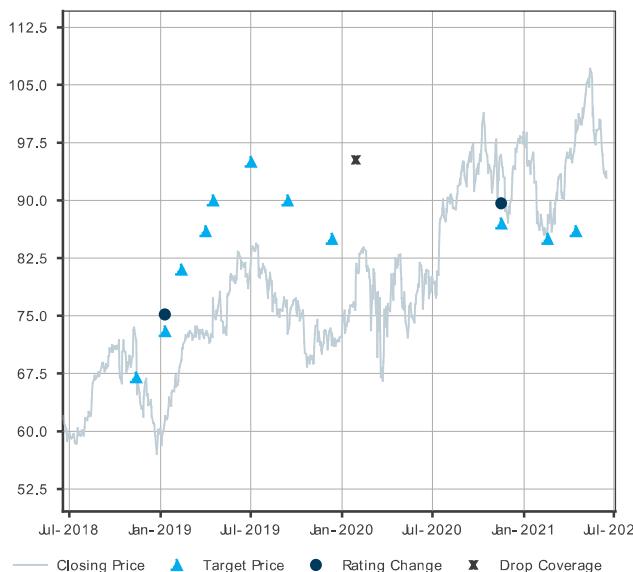
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**IMPORTANT DISCLOSURES****Progressive Corp. (PGR / PGR)**

USD 92.92 (16-Jun-2021)

**Rating and Price Target Chart - USD (as of 16-Jun-2021)**

Stock Rating

**UNDERWEIGHT**

Industry View

**POSITIVE**

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 16-Jun-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 \$86 price target is based on a 50/50 weighted 16.5x P/E multiple on our '22 EPS estimate of \$5.08 and 2.7x P/BV excluding AOCI on our '22 BVPS ex. AOCI of \$32.81.

**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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