



Equity Research

Financial Services | U.S. Insurance/Non-Life
17 November 2021

Progressive Corp.

Oct '21: More Pain Before Gain

We anticipate more pain before gain. Clearly PGR is in repair mode with a reported underlying loss ratio of 80.2% and combined ratio of 97.2% once again north of its 96% target. During 3Q21, PGR increased rates by about 6% for half of the country, and recognized 3% in that period. PGR is filing for more rate increases. Looking at October effective dates, PGR received 13 approvals amongst 10 states ranging from -1% to 7.1% (Figure). PGR currently has 32 pending requests for rate changes across 12 states. States we are watching closely are TX (10 pending rate increases ranging from 0%-8.4%) and FL (4 pending rate increases; magnitude not disclosed). We think it could take 12-18 months for auto insurance pricing to be rational, even though most policies are 6 months. The longer it takes regulators to get on board with rate filing requests, the more time insurers will see accumulation of lost trend that they are not appropriately pricing. We see severity as transitory “for longer”, with used car sale prices not rebasing to pre-pandemic levels.

Oct operating EPS of \$0.23 beat our \$0.20 estimate primarily on pre-tax cats (0 pts, \$0mn), which was ~1.3 pts better than expected, favorable reserve development (\$57mn, 1.3 pts vs. our estimate of 0.5 pts of adverse development) and an expense ratio beat (~110 bps lower than our estimate). These areas offset PGR’s underlying loss ratio of 80.2% (Figure 1), which was worse than our 76.6% estimate.

PIF growth headwinds stiffening: PGR’s total personal auto PIF y/y growth (+7.1% vs. our estimate of +8.3%) again fell short of our estimate across both auto direct (+8.9% vs. our +9.5%) and auto agency (+5.0% vs. +7.0%). See Figure 2 for monthly detail. Management actions are needed for PGR to meet its long-term target CR of 96%.

We reduce our price target to \$81 (from \$82) and reiterate our Underweight rating. Our \$81 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022/2023. ‘22E and ‘23E EPS is \$4.09 (vs. \$4.24 prior) and \$5.45 (vs. \$5.49 prior), respectively. ‘22E and ‘23E BVPS (ex AOCI) is \$30.38 (vs. \$30.36 prior) and \$32.96 (vs. \$32.98 prior), respectively.

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	0.77E	0.45E	1.16E	-10%	-74%
Q2	1.85A	0.71A	0.71A	1.34A	0.92E	0.89E	1.02E	-62%	25%
Q3	1.88A	0.15A	0.15A	0.19A	1.17E	1.25E	1.15E	-92%	733%
Q4	1.83A	0.57E	0.39E	0.96E	1.39E	1.50E	1.47E	-79%	285%
Year	7.47A	3.16E	2.98E	3.67E	4.24E	4.09E	4.82E	-60%	37%
P/E	12.6		31.5			23.0			

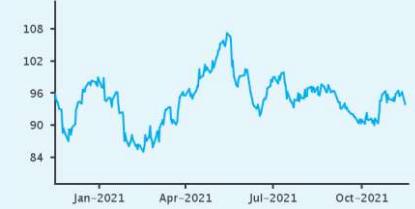
Source: Barclays Research.

Consensus numbers are from Bloomberg received on 17-Nov-2021; 13:50 GMT

Stock Rating	UNDERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 81.00
	lowered -1% from USD 82.00
Price (16-Nov-2021)	USD 93.88
Potential Upside/Downside	-13.7%
Tickers	PGR
Market Cap (USD mn)	54926
Shares Outstanding (mn)	585.06
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.44
Return on Equity TTM (%)	22.69
Current BVPS (USD)	30.88

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 107.59-82.29



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 (16-Nov-2021)	USD 93.88	
Net premiums earned	39,262	44,340	49,220	54,566	11.6%	Price Target	USD 81.00	
Net investment income (NII)	937	857	945	1,015	2.7%	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	896	1,624	2,496	-22.2%			
Operating income	4,390	1,742	2,399	3,197	-10.0%			
Net income	5,678	2,837	2,399	3,197	-17.4%			
Effective tax rate (%)	20.5	20.6	21.0	21.0	0.9%			
Combined ratio (%)	85.0	96.4	95.2	93.9	3.4%			
Combined ratio (ex cats & py development) (%)	82.2	93.1	93.7	92.5	4.0%			
Per share data (\$)					CAGR	Upside case	USD 102.00	
EPS (adj)	7.47	2.98	4.09	5.45	-10.0%	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. Upside case reflects ~25x '22E EPS and ~19x '23E EPS.		
EPS (reported)	9.66	4.84	4.09	5.45	-17.4%			
DPS	4.90	2.40	2.40	2.65	-18.5%			
BVPS	28.27	29.19	30.65	33.22	5.5%			
BVPS (ex AOCI)	26.68	28.93	30.38	32.96	7.3%			
Balance sheet and capital return (\$mn)					CAGR	Downside case	USD 75.00	
Total investments	47,530	53,430	57,525	61,804	9.1%	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. Downside case reflects ~18x '22E EPS and ~14x '23E EPS.		
Common shareholders' equity (ex AOCI)	15,613	16,904	17,756	19,260	7.2%			
Share buybacks	112	226	144	144	8.7%			
Dividends paid	2,866	1,403	1,403	1,549	-18.5%			
Balance sheet and capital return metrics					Average	Upside/Downside scenarios		
Debt leverage (%)	25.1	22.0	21.2	19.9	22.0	Price History		
Financial leverage (%)	27.4	24.2	23.3	21.9	24.2	Prior 12 months		
Total capital return as a % of op. earnings	67.8	93.5	64.5	53.0	69.7	High		
Valuation metrics					Average	Price Target		
P/BV (ex AOCI) (x)	3.52	3.25	3.09	2.85	3.18	Next 12 months		
P/E (adj) (x)	12.6	31.5	23.0	17.2	21.1	Upside		
Dividend yield (%)	5.2	2.6	2.6	2.8	3.3			
ROE (%)	35.6	15.9	13.3	16.3	20.3			

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

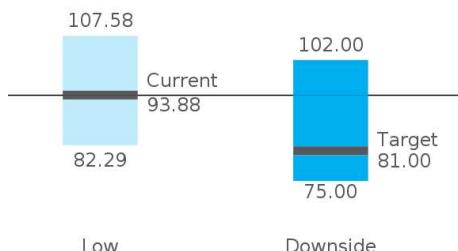


FIGURE 1

Oct '21 underlying loss ratio of 80.2% (vs. 76.6% Barclays) and expense ratio of 18.3% (vs. 19.4% Barclays)

PGR Underlying CR %

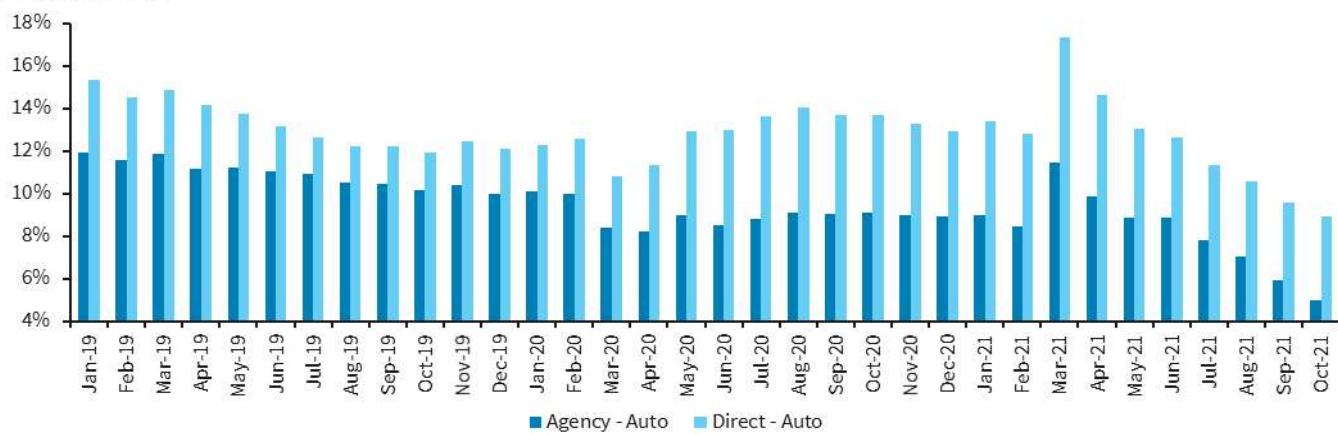


Source: Barclays Research, Company Data.

FIGURE 2

y/y PIF growth trend continued to fall in Oct across agent (+5.0%) and direct (+8.9%)

PIF y/y % Growth



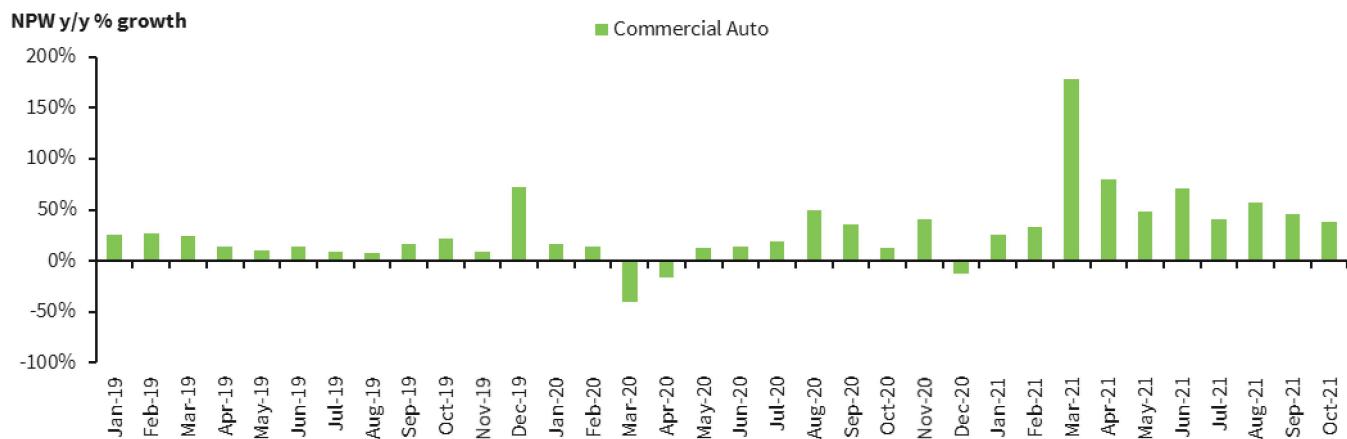
Source: Barclays Research, Company Data.

FIGURE 3
Rate Approvals by States: October Effective Dates

State	Effective Date	Rate Change
WI	10/29/2021	5.4%
SD	10/29/2021	2.2%
SC	10/29/2021	0.0%
MN	10/15/2021	7.1%
NE	10/15/2021	4.1%
KY	10/15/2021	1.0%
AL	10/8/2021	4.5%
CT	10/5/2021	0.0%
NJ	10/1/2021	-1.0%
NC	10/1/2021	NA
NC	10/1/2021	NA
NC	10/1/2021	NA
NJ	10/1/2021	0.0%

Source: S&P Global Market Intelligence, Barclays Research. Personal auto only.

FIGURE 4
Commercial: Capital intensive growth spot still strong - Oct NPW growth ~+38% y/y – but slowest y/y growth rate since Feb '21 (~+32%)



Source: Barclays Research, Company Data.

Variance Tables – Oct '21

FIGURE 5
Variance Analysis

Summary Details			M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Oct '21A	Sept '21	% Change	Oct '20	% Change	Oct '21	% Var.	
Net premiums written	\$4,347	\$4,004	9%	\$3,795	15%	\$4,176	4%	
Net investment income	\$66	\$74	-10%	\$73	-10%	\$74	-11%	
Combined Ratio	97.2%	100.1%	(289 bps)	92.5%	466 bps	97.8%	(58 bps)	
Combined Ratio ex cats and PYD	98.5%	95.3%	323 bps	88.5%	997 bps	96.0%	250 bps	
Operating EPS	\$0.23	\$0.08	195%	\$0.46	-50%	\$0.20	11%	
Book value per share (ex. AOCI)	\$30.9	\$30.3	2%	\$28.6	8%	\$30.5	1%	

NPW by Segment			M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Oct '21A	Sept '21	% Change	Oct '20	% Change	Oct '21	% Var.	
Personal lines-agent	\$1,633	\$1,394	17%	\$1,507	8%	\$1,582	3%	
Personal lines-direct	\$1,744	\$1,556	12%	\$1,549	13%	\$1,658	5%	
Total Personal Lines	\$3,376	\$2,950	14%	\$3,056	10%	\$3,240	4%	
Commercial Business & Other	\$789	\$862	-8%	\$572	38%	\$743	6%	
Property	\$182	\$192	-6%	\$167	9%	\$192	-5%	
Total Written Premiums	\$4,347	\$4,004	9%	\$3,795	15%	\$4,176	4%	

CR by Segment			M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Oct '21A	Sept '21	% Change	Oct '20	% Change	Oct '21	% Var.	
Total Personal Lines	98.9%	103.2%	(430 bps)	91.4%	750 bps	99.0%	(2 bps)	
Personal lines-agent	97.7%	100.0%	(230 bps)	90.5%	720 bps	97.4%	30 bps	
Personal lines-direct	99.9%	106.0%	(610 bps)	92.3%	760 bps	98.5%	140 bps	
Commercial Business & Other	93.5%	89.5%	400 bps	87.9%	560 bps	91.4%	215 bps	
Property	79.6%	87.6%	(800 bps)	132.3%	(5270 bps)	100.0%	(2040 bps)	

Source: Barclays Research, Company Data.

Model Summary

FIGURE 6
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	46,932	51,392	56,160
Revenues:						
Net premiums earned	30,933	36,192	39,262	44,340	49,220	54,566
Investment income	821	1,042	937	857	945	1,015
Total net realized gains (losses) on securities	(406)	1,029	1,630	1,386	-	-
Fees and other revenues	472	564	604	696	748	818
Service revenues	159	195	226	272	261	289
Total revenues	31,979	39,022	42,658	47,550	51,174	56,689
Expenses:						
Losses and loss adjustment expenses	21,721	25,471	25,122	34,049	37,166	40,065
Total underwriting expenses	6,770	7,998	8,843	9,394	10,429	12,005
Policyholder credit expense	-	-	1,077	-	-	-
Investment expenses	24	25	20	26	31	33
Service expenses	134	179	206	253	271	300
Interest expense	167	190	217	219	206	206
Total expenses	28,815	33,862	35,485	43,941	48,103	52,608
Underwriting Income	2,443	2,724	5,297	896	1,624	2,496
Income before income taxes	3,164	5,160	7,173	3,609	3,071	4,081
Provision for income taxes	543	1,180	1,469	745	645	857
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-	-
Net income	2,615	3,970	5,705	2,864	2,426	3,224
Less: Preferred stock dividends	21	27	27	27	27	27
Net income to common shareholders	2,594	3,943	5,678	2,837	2,399	3,197
ATX total net realized gains (losses) on sec	(320)	813	1,288	1,095	-	-
Other	(1)	-	-	-	-	-
Operating income to common shareholders	2,915	3,130	4,390	1,742	2,399	3,197
Operating EPS	\$5.00	\$5.33	\$7.47	\$2.98	\$4.09	\$5.45
Net EPS	\$4.43	\$6.72	\$9.66	\$4.84	\$4.09	\$5.45
Net Written Premiums (y/y %)		15.2%	8.0%	15.7%	9.5%	9.3%
Net Earned Premiums (y/y %)		17.0%	8.5%	12.9%	11.0%	10.9%

Source: Barclays Research, Company Data.

FIGURE 7
Model Summary (pg. 2)

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
<u>Underwriting Margins</u>						
Loss and LAE ratio	70.2%	70.4%	64.0%	76.8%	75.5%	73.4%
Expense ratio	20.4%	20.5%	21.0%	19.6%	19.7%	20.5%
Combined ratio	90.6%	90.9%	85.0%	96.4%	95.2%	93.9%
Catastrophes pretax	567	552	880	1,370	727	801
Cat pts	1.8%	1.5%	2.2%	3.1%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	(100)	-	-
PYD pts	-0.3%	-0.6%	-0.5%	-0.2%	0.0%	0.0%
Underlying loss ratio	68.1%	68.2%	61.2%	73.5%	74.0%	72.0%
Underlying combined ratio	88.5%	88.8%	82.2%	93.1%	93.7%	92.5%
<u>Share information</u>						
Shares beginning period	581.7	583.2	584.6	585.2	584.4	584.4
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	584.4	584.4	584.4
Weighted average shares - basic	582.4	583.8	584.9	584.9	584.4	584.4
Dilution	3.8	3.1	2.5	2.1	2.1	2.1
Weighted average shares - diluted	586.2	586.9	587.4	586.9	586.5	586.5
<u>Capital deployment</u>						
Assumed Share price for repurchases	\$58	\$73	\$86	\$91	\$85	\$85
# of shares repurchased (in mn)	1.3	1.2	1.3	2.5	1.7	1.7
\$ Repurchased	76	86	112	226	144	144
Dividends per share	\$2.51	\$2.65	\$4.90	\$2.40	\$2.40	\$2.65
\$ amt common dividend	1,465	1,548	2,866	1,403	1,403	1,549
Total capital returned	1,541	1,634	2,978	1,628	1,547	1,693
Total capital returned, % normalized earnings	53%	52%	68%	93%	64%	53%
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	10,234	12,612	15,613	16,904	17,756	19,260
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,258	17,330	18,508
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$28.93	\$30.38	\$32.96
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	10.7%	13.8%	17.3%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	15.9%	13.3%	16.3%

Source: Barclays Research, Company Data.

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Progressive Corp. (PGR, 16-Nov-2021, USD 93.88), Underweight/Positive, CD/CE/J/K/M

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Chubb Limited (CB)	James River Group Holdings (JVRV)	Lemonade Inc (LMND)
Palomar Holdings, Inc. (PLMR)	Progressive Corp. (PGR)	Root Inc. (ROOT)
Ryan Specialty Group Holdings (RYAN)	The Hartford Financial Services Group, Inc. (HIG)	The Travelers Companies, Inc. (TRV)

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

USD 93.88 (16-Nov-2021)

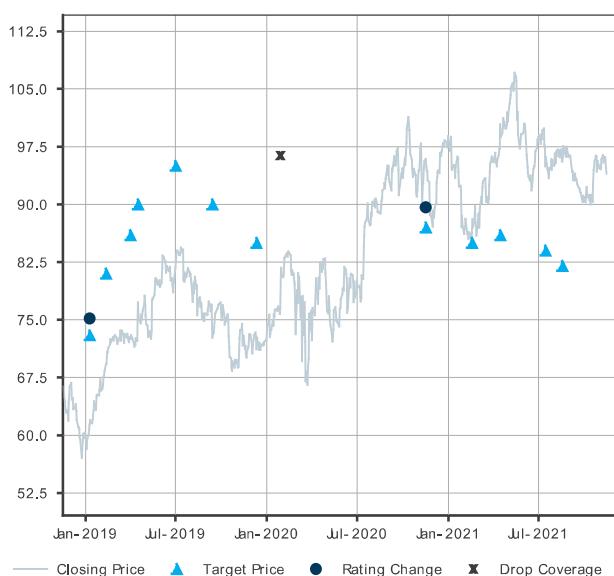
Stock Rating

UNDERWEIGHT

Industry View

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

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
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
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

On 17-Nov-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 67.00.

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 \$81 PT is based on 16x EPS and 2.7x BVPS (ex AOC) on 2022/2023.

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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