



Progressive Corp.

January '21 Monthly Results

Personal auto underlying margins expand sequentially (81.5% underlying combined ratio vs. 84.4% in December) **but PYD was unfavorable:** Still, personal auto results are below its April/May margin peak, and we do not expect results will return to the trough. To some extent, we expect COVID-19 case resurgence helped frequency trends. As the economy reopens we see personal auto loss trend reverting to the mean and frequency tailwinds cooling. PGR experienced 4.2 pts of unfavourable PYD which was primarily the result of lagged December claims being reported in January. Catastrophe losses contributed 0.6 points to the combined ratio.

PIF growth – Personal Auto: Personal auto PIF growth y/y beat our January estimates with Agent of 9.0% (vs. 8.5% Barclays estimate) and Direct of 13.4% (vs. 13% Barclays estimate). See Figure 1 for our monthly variance analysis. PGR continued making efforts to file rate decreases (Figure 4) during the back half of 2020 and into 2021, notably relative to the rest of the industry. PGR is also instituting COVID-19 relief telematics pricing as discussed (*PGR: Developments Ahead of January Results; Feb 16, 2021*).

Protective Insurance acquisition highlights PGR's commercial lines ambitions. What surprised us on this announcement was that Protective underwrites workers' compensation, a business line that we did not think was within PGR's risk appetite. Also, Protective's focus is on insuring riskier vehicles which may pressure results see (*PGR: Developments Ahead of January Results; Feb 16, 2021*). PGR grew commercial premiums by 26% y/y (see Figure 5 for Commercial NPW y/y growth).

Estimates and valuation update. We believe PGR's stock performance reflects greater skepticism on the trajectory of PIF growth and winding down benefits from frequency trends. As such we are lowering our price target to \$85 from \$87 and reiterating our underweight rating on PGR. We are slightly updating our '21 EPS estimates from \$5.35 to \$5.44 to reflect January results which beat our expectations, however we added 50 bps of adverse PYD on a monthly basis, previously we assumed no reserve development. Our valuation represents a weighted average of 15.5x 2021E EPS and 2.9x 2021E BV ex AOCI of \$29.39. Previously, our price target reflected a weighted average of 16.5x 2021 EPS and 3.0x 2021 BV ex AOCI of \$29.54.

PGR will host a 4Q Investor Call on March 2 at 1:00 PM ET. Live conference call: (844)-643-8923 (domestic) or (825)-312-2244 (international). Conference ID: 8444858.

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	1.49E	1.69E	1.67E	1.46E	1.41E	1.60E	-12%	-17%
Q2	1.85A	1.30E	1.25E	1.38E	1.26E	1.23E	1.41E	-32%	-2%
Q3	1.88A	1.22E	1.18E	1.27E	1.29E	1.27E	1.34E	-37%	8%
Q4	1.83A	1.35E	1.31E	1.40E	1.43E	1.41E	1.49E	-28%	8%
Year	7.47A	5.35E	5.44E	5.71E	5.45E	5.33E	5.86E	-27%	-2%
P/E	11.4		15.7			16.0			

Source: Barclays Research.

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

Stock Rating **UNDERWEIGHT**

Unchanged

Industry View **POSITIVE**

Unchanged

Price Target **USD 85.00**

lowered -2% from USD 87.00

Price (16-Feb-2021) **USD 85.13**

Potential Upside/Downside **-0.2%**

Tickers **PGR**

Market Cap (USD mn) **49818**

Shares Outstanding (mn) **585.20**

Free Float (%) **99.67**

52 Wk Avg Daily Volume (mn) **3.0**

Dividend Yield (%) **0.47**

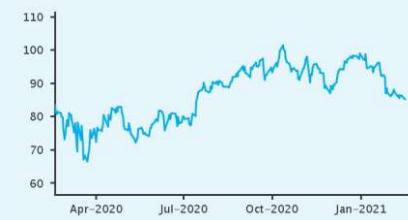
Return on Equity TTM (%) **37.54**

Current BVPS (USD) **29.12**

Source: Bloomberg

Price Performance **Exchange-NYSE**

52 Week range **USD 97.40-59.34**



Source: IDC; [Link to Barclays Live for interactive charting](#)

U.S. Insurance/Non-Life

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 8.

U.S. Insurance/Non-Life						Industry View: POSITIVE	
Progressive Corp. (PGR)						Stock Rating: UNDERWEIGHT	
Income statement	2020A	2021E	2022E	2023E	CAGR	Price (16-Feb-2021)	USD 85.13
Net premiums earned (\$mn)	39,262	43,160	47,456	N/A	N/A	Price Target	USD 85.00
Net investment income (NII) (\$mn)	937	858	909	N/A	N/A	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 (\$mn)	5,297	2,807	2,618	N/A	N/A		
Operating income (\$mn)	4,390	3,197	3,136	N/A	N/A		
Net income (\$mn)	5,678	3,282	3,136	N/A	N/A		
Effective tax rate (%)	20.5	20.8	21.0	N/A	N/A		
Combined ratio (%)	85.0	92.0	93.0	N/A	N/A		
Combined ratio (ex cats & py development) (%)	82.6	90.1	91.5	N/A	N/A		
Per share data (\$)					CAGR	Upside case	USD 92.00
EPS (adj)	7.47	5.44	5.33	N/A	N/A	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 \$92 assumes a 17x P/E multiple on our '21 EPS estimate.	
EPS (reported)	9.66	5.58	5.33	N/A	N/A		
DPS	4.90	2.40	2.40	N/A	N/A		
BVPS	28.27	31.01	33.67	N/A	N/A		
BVPS (ex AOCI)	26.65	29.39	32.04	N/A	N/A		
Balance sheet and capital return (\$mn)					CAGR	Downside case	USD 75.00
Total investments	43,392	48,040	50,404	N/A	N/A	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 14x P/E multiple on our '21 EPS estimate.	
Common shareholders' equity (ex AOCI)	15,594	17,196	18,741	N/A	N/A		
Share buybacks	83	170	187	N/A	N/A		
Dividends paid	2,866	1,404	1,404	N/A	N/A		
Balance sheet and capital return metrics					Average	Upside/Downside scenarios	
Debt leverage (%)	25.1	21.7	20.3	N/A	22.4	Price History	
Financial leverage (%)	27.4	23.9	22.3	N/A	24.5	Prior 12 months	
Total capital return as a % of op. earnings	67.2	49.2	50.7	N/A	55.7	High	
Valuation metrics					Average	Price Target	
P/BV (ex AOCI) (x)	3.19	2.90	2.66	N/A	2.92	Next 12 months	
P/E (reported) (x)	8.8	15.3	16.0	N/A	13.4	Upside	
Dividend yield (%)	5.8	2.8	2.8	N/A	3.8		
ROE (%)	35.6	18.6	16.4	N/A	23.6		

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

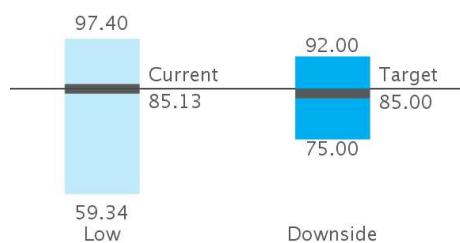


FIGURE 1
January Monthly Variance Analysis

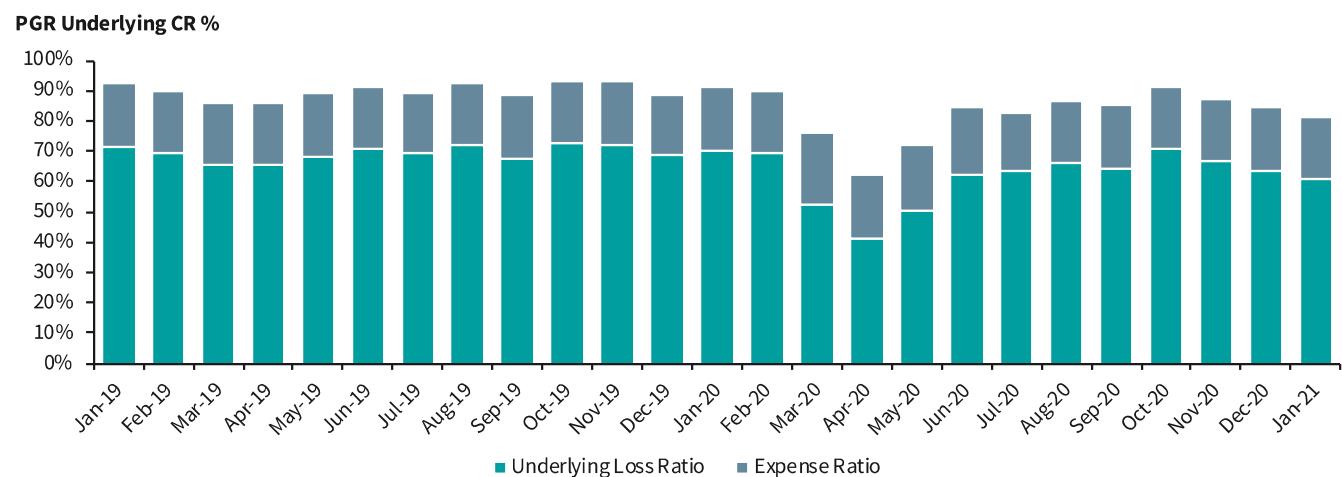
Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Jan '21A	Dec '20	% Change	Jan '20	% Change	Jan '21	% Var.
Net premiums written	\$4,104	\$2,789	47%	\$3,606	14%	\$3,978	3%
Net investment income	\$67	\$73	-8%	\$84	-21%	\$77	-13%
Combined Ratio	86.3%	84.8%	147 bps	92.1%	(579 bps)	90.4%	(411 bps)
Combined Ratio ex cats and PYD	81.5%	84.4%	(288 bps)	91.4%	(990 bps)	89.6%	(806 bps)
Operating EPS	\$0.80	\$0.74	8%	\$0.48	67%	\$0.56	42%
Book value per share (ex. AOCI)	\$27.3	\$26.6	3%	\$22.4	22%	\$27.1	1%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Jan '21A	Dec '20	% Change	Jan '20	% Change	Jan '21	% Var.
Personal lines-agent	\$1,588	\$1,080	47%	\$1,466	8%	\$1,583	0%
Personal lines-direct	\$1,804	\$1,165	55%	\$1,566	15%	\$1,753	3%
Total Personal Lines	\$3,392	\$2,245	51%	\$3,031	12%	\$3,336	2%
Commercial Business & Other	\$577	\$384	50%	\$458	26%	\$513	12%
Property	\$136	\$160	-15%	\$117	16%	\$129	5%
Total Written Premiums	\$4,104	\$2,789	47%	\$3,606	14%	\$3,978	3%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Jan '21A	Dec '20	% Change	Jan '20	% Change	Jan '21	% Var.
Total Personal Lines	87.3%	86.6%	70 bps	92.8%	(550 bps)	91.1%	(375 bps)
Personal lines-agent	85.4%	85.1%	30 bps	90.2%	(480 bps)	89.9%	(445 bps)
Personal lines-direct	89.0%	87.9%	110 bps	95.3%	(630 bps)	92.3%	(325 bps)
Commercial Business & Other	82.3%	84.0%	(170 bps)	89.4%	(710 bps)	92.3%	(1000 bps)
Property	80.0%	64.7%	1530 bps	86.2%	(620 bps)	103.0%	(2300 bps)

Source: Barclays Research, Company Data.

FIGURE 2
PGR Underlying CR % - as the economy reopens we see personal auto loss trends reverting to the mean and frequency tailwinds cooling

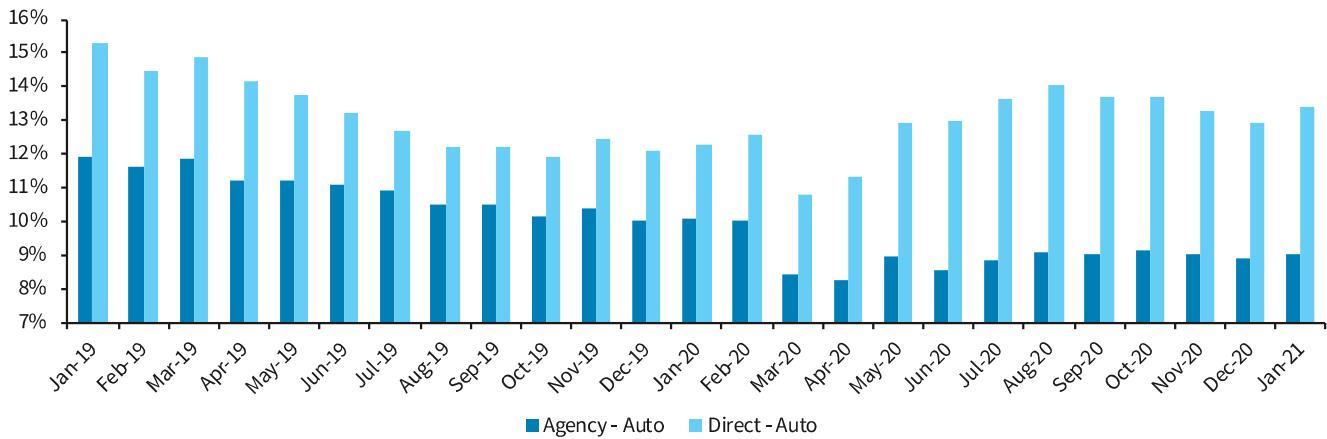


Source: Barclays Research, Company Data.

FIGURE 3

PIF y/y% Growth – PGR's personal auto PIF growth strategy has relied on filing rate decreases and will now begin leveraging COVID-19 relief 'telematics' pricing across 20 states

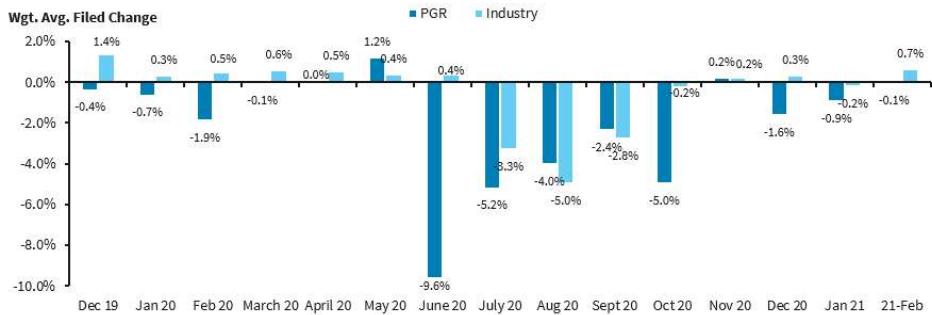
PIF y/y % Growth



Source: Barclays Research, Company Data.

FIGURE 4

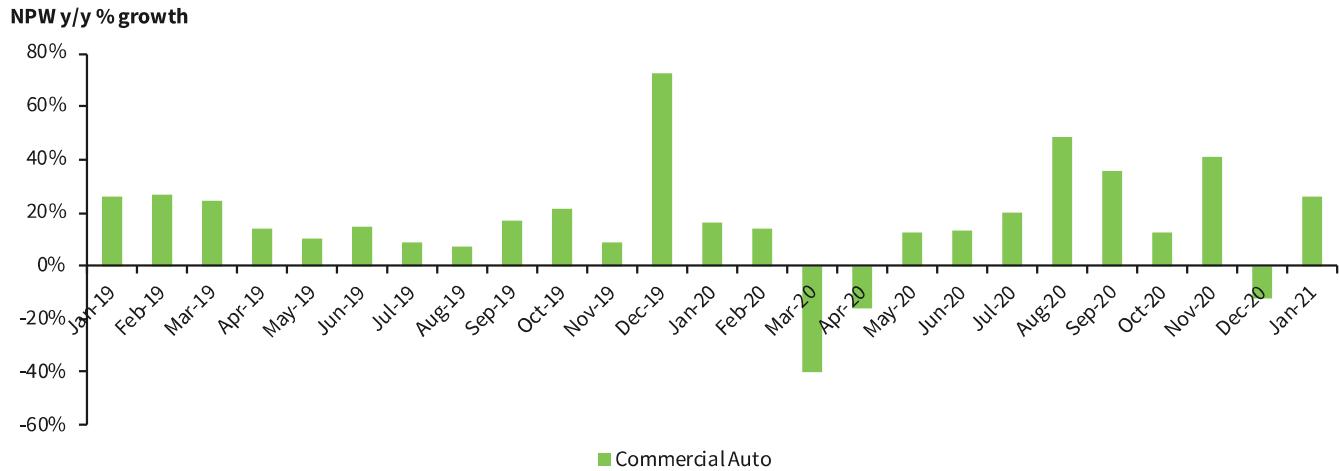
PGR continues to file for personal auto rate decreases in excess of the rest of the industry



Source: Barclays Research, Company Data.

FIGURE 5

NPW y/y % growth – PGR continues to emphasize growth of commercial auto written premiums which were +26% y/y in January



Source: Barclays Research, Company Data.

FIGURE 6
Model Summary (pg. 1)

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E
Net premiums written	32,610	37,578	40,569	44,846	49,018
Revenues:					
Net premiums earned	30,933	36,192	39,262	43,160	47,456
Investment income	821	1,042	937	858	909
Total net realized gains (losses) on securities	(406)	1,029	1,630	108	-
Fees and other revenues	472	564	604	647	712
Service revenues	159	195	226	231	252
Total revenues	31,979	39,022	42,658	45,005	49,328
Expenses:					
Losses and loss adjustment expenses	21,721	25,471	25,122	30,989	34,525
Total underwriting expenses	6,770	7,998	8,843	9,364	10,313
Policyholder credit expense	-	-	1,077	-	-
Investment expenses	24	25	20	24	25
Service expenses	134	179	206	228	256
Interest expense	167	190	217	220	206
Total expenses	28,815	33,862	35,485	40,825	45,325
Underwriting Income	2,443	2,724	5,297	2,807	2,618
Income before income taxes	3,164	5,160	7,173	4,180	4,003
Provision for income taxes	543	1,180	1,469	871	841
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-
Net income	2,615	3,970	5,705	3,309	3,163
Less: Preferred stock dividends	21	27	27	27	27
Net income to common shareholders	2,594	3,943	5,678	3,282	3,136
ATX total net realized gains (losses) on sec	(320)	813	1,288	85	-
Other	(1)	-	-	-	-
Operating income to common shareholders	2,915	3,130	4,390	3,197	3,136
Operating EPS	\$4.97	\$5.33	\$7.47	\$5.44	\$5.33
Net EPS	\$4.43	\$6.72	\$9.66	\$5.58	\$5.33
Net Written Premiums (y/y %)		15.2%	8.0%	10.5%	9.3%
Net Earned Premiums (y/y %)		17.0%	8.5%	9.9%	10.0%

Source: Barclays Research, Company Data.

FIGURE 7
Model Summary (pg. 2)

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E
<u>Underwriting Margins</u>					
Loss and LAE ratio	70.2%	70.4%	64.0%	71.8%	72.8%
Expense ratio	20.4%	20.5%	21.0%	20.2%	20.2%
Combined ratio	90.6%	90.9%	85.0%	92.0%	93.0%
Catastrophes pretax	567	552	880	663	708
Cat pts	1.8%	1.5%	2.2%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(38)	(232)	(50)	(166)	-
PYD pts	-0.1%	-0.6%	-0.1%	-0.4%	0.0%
Underlying loss ratio	68.3%	68.2%	61.6%	69.9%	71.3%
Underlying combined ratio	88.6%	88.8%	82.6%	90.1%	91.5%
<u>Share information</u>					
Shares beginning period	581.7	583.2	584.6	585.2	585.1
Shares issued	3	3	2	2	2
Shares Repurchased	1	1	1	2	2
Common Shares Outstanding, end of period	583.2	584.6	585.2	585.1	584.9
Weighted average shares - basic	582.4	583.8	584.9	585.3	585.1
Dilution	3.8	3.1	2.5	2.7	2.7
Weighted average shares - diluted	586.2	586.9	587.4	588.0	587.8
<u>Capital deployment</u>					
Assumed Share price for repurchases	\$58	\$73	\$68	\$88	\$85
# of shares repurchased (in mn)	1.3	1.2	1.2	1.9	2.2
\$ Repurchased	76	86	83	170	187
Dividends per share	\$2.51	\$2.65	\$4.90	\$2.40	\$2.40
\$ amt common dividend	1,465	1,548	2,866	1,404	1,404
Total capital returned	1,541	1,634	2,949	1,574	1,591
Total capital returned, % normalized earnings	53%	52%	67%	49%	51%
<u>Shareholders' equity and returns</u>					
Common shareholders' equity ex AOCI	10,234	12,612	15,594	17,196	18,741
Average common shareholders' equity ex AOCI	10,234	11,423	14,103	16,395	17,968
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.65	\$29.39	\$32.04
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	19.5%	17.5%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	18.6%	16.4%

Source: Barclays Research, Company Data.

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Primary Stocks (Ticker, Date, Price)

Progressive Corp. (PGR, 16-Feb-2021, USD 85.13), Underweight/Positive, CD/CE/J/K/M

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Chubb Limited (CB)

Palomar Holdings, Inc. (PLMR)

Progressive Corp. (PGR)

ProSight Global, Inc. (PROS)

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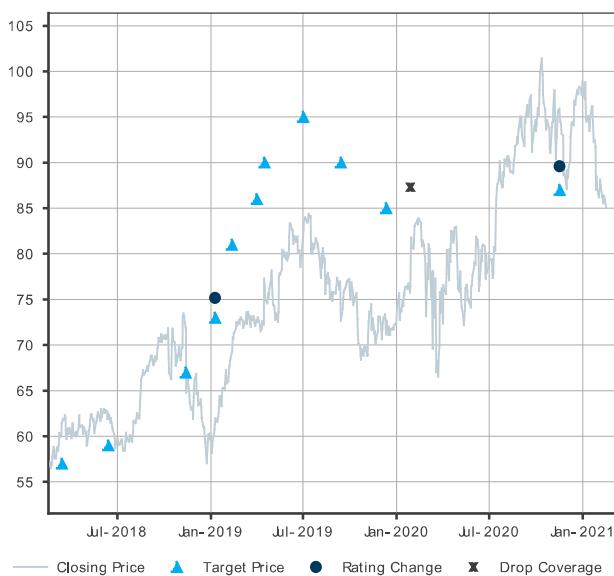
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IMPORTANT DISCLOSURES**Progressive Corp. (PGR / PGR)**

USD 85.13 (16-Feb-2021)

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

Stock Rating

UNDERWEIGHT

Industry View

POSITIVE

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
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
13-Jun-2018	62.52		59.00
14-Mar-2018	61.40		57.00

On 17-Feb-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 53.00.

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 \$85 price target is based on a 50/50 weighted 15.5x P/E multiple on our '21 EPS estimate of \$5.44 and 2.9x P/BV excluding AOCI on our '21 BVPS ex. AOCI of \$29.39.

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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