

Progressive Corp.

## June '22 Earnings: Property Reality Check

| CORE

PGR's \$225mn ARX goodwill impairment underscores deteriorating homeowners' profitability prospects. We think PGR has likely undercharged property policies to propel preferred auto PIF.

**Key Highlights:** Deteriorating m/m underlying loss ratio performance (74.3% June vs. 73% May), worsening personal auto PIF growth (-2.4% y/y) and ARX goodwill impairment.

When looking at CPI data, our focus is more on absolute levels that are significantly elevated. While we are seeing deceleration in CPI used car sales and new vehicle sales, we are not yet seeing a reversion to more normalized levels. As such, we are cautious regarding how swiftly underlying loss ratios can turn around. Especially considering PGR's stance that additional pricing actions (except a few key states) are behind them. Nonetheless, PGR is showing traction in earning in auto pricing increases; its average monthly NWP per policy (6 months rolling) is up 8% on a sequential basis.

PGR reported personal auto PIF growth of (2.4)% in June (in line with our estimate of -2.4%), mostly seen in auto agency (-4.1% vs. our -4.8%) and a slowdown in auto direct (+0.0% vs. our -0.4%). On a monthly basis, PGR has reported auto PIF declines since Nov '21.

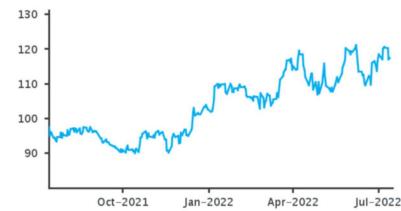
**\$225mn Goodwill Impairment:** ARX Holdings Corp acquisition (property business). To recap, PGR took a majority stake in ARX in 2015 (and purchased the remaining stake in April 2020). The premise was to increase access to the preferred auto customers, or what PGR terms the "Robinsons". **Judging by the inferior loss ratio performance of the homeowners line —** on a June '22 TTM basis, PGR's property combined ratio was 114% — we think PGR could be offering cross-line subsidies between auto and homeowners insurance, meaning that it may be undercharging for homeowners. This may also explain why Progressive does not always underwrite homeowners insurance on its own paper, which we view as prudent. PGR's targeted actions to reduce property writings (assumed) in key catastrophe states like FL may have contributed to auto agency PIF declines in our view.

June operating EPS of \$0.40 beat our \$0.30 estimate. PGR's investment income of \$110mn, net of expenses, and effective tax rate of 13% were better than expected. We are excluding PGR's \$225mn goodwill impairment from operating earnings.

PGR	<b>UNDERWEIGHT</b>
	Unchanged
U.S. Insurance/Non-Life	<b>POSITIVE</b>
	Unchanged
Price Target	<b>USD 90.00</b>
	Unchanged
Price (14-Jul-22)	<b>USD 112.33</b>
Potential Upside/Downside	<b>-19.9%</b>
Market Cap (USD mn)	<b>65702</b>
Shares Outstanding (mn)	<b>584.90</b>
Free Float (%)	<b>99.70</b>
52 Wk Avg Daily Volume (mn)	<b>2.7</b>
Dividend Yield (%)	<b>0.36</b>
Return on Equity TTM (%)	<b>12.73</b>
Current BVPS (USD)	<b>28.31</b>

Source: Bloomberg

Price Performance      Exchange-NYSE  
 52 Week range      USD 122.24-88.05



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

**U.S. Insurance/Non-Life**

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Completed: 15-Jul-22, 20:19 GMT   Released: 15-Jul-22, 20:24 GMT   Restricted - External

**PGR: Quarterly and Annual EPS (USD)**

<b>FY Dec</b>	<b>2021</b>	<b>2022</b>			<b>2023</b>			<b>Change y/y</b>	
	<b>Actual</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>2022</b>	<b>2023</b>
Q1	1.72A	1.12A	1.12A	0.52A	1.39E	1.22E	1.65E	-35%	9%
Q2	0.71A	0.94E	1.03E	0.85E	1.24E	1.23E	1.39E	45%	19%
Q3	0.14A	1.12E	0.82E	1.12E	1.24E	1.26E	1.40E	486%	54%
Q4	1.06A	1.33E	1.15E	1.47E	1.36E	1.39E	1.76E	8%	21%
Year	3.63A	4.51E	4.13E	4.55E	5.23E	5.10E	6.22E	14%	23%
P/E	30.9		27.2			22.0			

Consensus numbers are from Bloomberg received on 15-Jul-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 (14-Jul-2022)	USD 112.33
Net premiums earned	44,369	48,804	52,308	56,251	8.2%	Price Target	USD 90.00
Net investment income (NII)	861	991	953	1,028	6.1%	<b>Why UNDERWEIGHT?</b>	
Underwriting income	1,374	1,621	2,338	2,498	22.1%	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	2,426	2,991	3,223	14.8%		
Net income	3,324	918	2,991	3,223	-1.0%		
Effective tax rate (%)	20.4	23.8	21.0	21.0	1.0%		
Combined ratio (%)	95.3	95.2	94.0	94.1	-0.5%		
Combined ratio (ex cats & py development) (%)	92.4	92.6	92.6	93.0	0.2%		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	<b>Upside case</b> USD 125.00	
EPS (adj)	3.63	4.13	5.10	5.49	14.8%	If PGR is able to achieve personal auto rate adequacy and return to historical PIF growth rates. If PGR leverages its multivariate pricing model across newer business lines. Upside case reflects ~25x '23E EPS.	
EPS (reported)	5.66	1.56	5.10	5.49	-1.0%		
DPS	1.90	2.40	2.65	28.20	145.8%		
BVPS	30.35	25.48	27.69	5.02	-45.1%		
BVPS (ex AOCI)	30.28	29.25	31.47	8.79	-33.8%		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR	<b>Downside case</b> USD 75.00	
Total investments	51,514	53,868	57,966	62,652	6.7%	PGR's baseline pricing may be low, brought on by a pandemic with greater rate catch up. Downside case reflects ~15x '23E EPS.	
Common shareholders' equity (ex AOCI)	17,697	17,110	18,406	5,143	-33.8%		
Share buybacks	223	88	144	-8	N/A		
Dividends paid	1,109	1,404	1,550	16,494	145.9%		
Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average	<b>Upside/Downside scenarios</b>	
Debt leverage (%)	21.2	26.6	25.3	53.1	31.6		
Financial leverage (%)	23.4	28.7	27.2	57.2	34.1		
Total capital return as a % of op. earnings	62.5	61.5	56.7	511.5	173.0		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	3.71	3.84	3.57	12.78	5.97		
P/E (adj) (x)	30.9	27.2	22.0	20.5	25.1		
Dividend yield (%)	1.7	2.1	2.4	25.1	7.8		
ROE (%)	18.5	5.1	15.9	28.9	17.1		



Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

## PIF Growth Spotlight

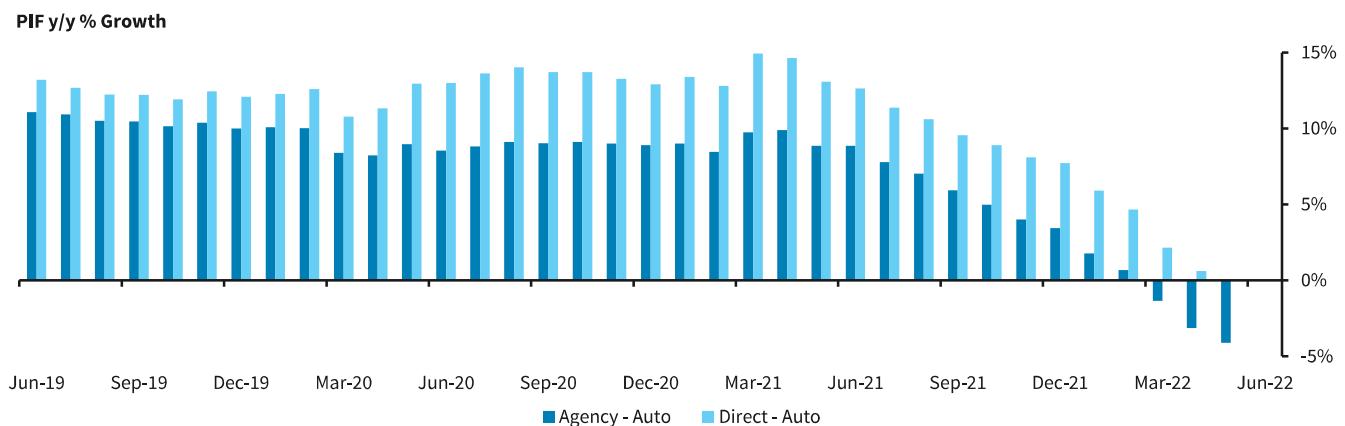
With monthly PIF declines since Nov. '21, personal auto PIF compression could persist at least through YE22. If we don't see PIF growth inflection in '23, we would question PGR's superior franchise value, especially given its first-mover status in curtailing rate increase actions (except in certain key states).

### PIF growth y/y trend once again negative in June

PGR reported personal auto PIF growth of (2.4)% in June (in line with our estimate of -2.4%), mostly seen in auto agency (-4.9% vs. our -4.8%) followed by auto direct (-0.3% vs. our -0.4%). Personal auto PIF growth on a m/m basis has been negative for 8 consecutive quarters: -0.4% Nov. '21, -0.4% Dec. '21, -0.3% Jan. '22, -0.1% Feb. '22, -0.4% March '22, -0.3% April, -0.2% May, -0.1% June.

As PIF declines remain more evident in agency vs. direct, we expect PGR's customer mix to continue to shift toward direct over time. To recap, direct represents 56% of personal auto PIF in June '22. We are cautious about PGR's stance that the majority of personal auto rate increases are behind them (with the exception of a few key states).

**FIGURE 1. PIF growth y/y trend moderating in June across agent (-4.9%) and direct (-0.3%).**

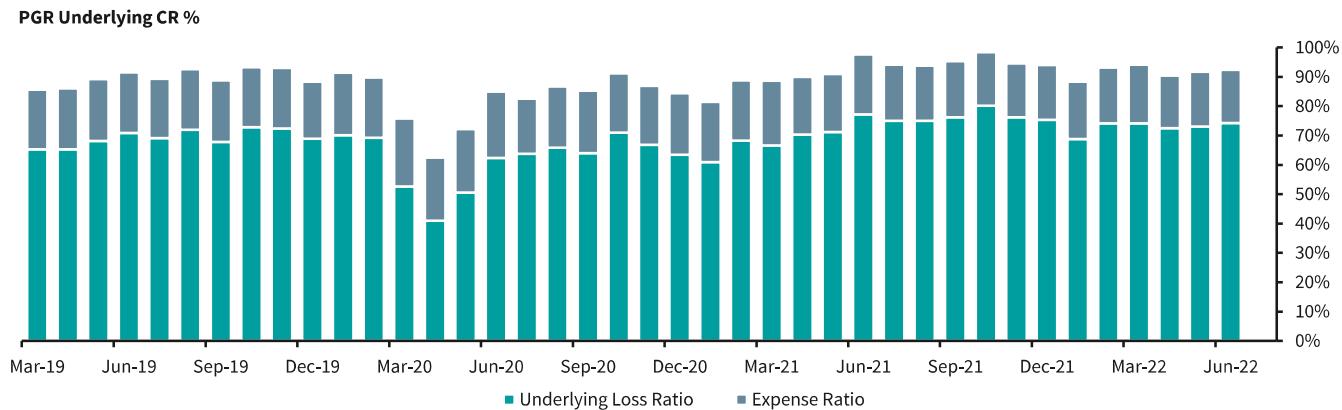


Source: Barclays Research, Company Data.

## Underlying Combined Ratio Deteriorating Sequentially

PGR's underlying loss ratio of 74.3% in June marked a deterioration from 73.0% in May. PGR's expense ratio was 18.1%. PGR's underlying combined ratio deteriorated sequentially to 92.4% in June from 91.8% in May.

**FIGURE 2. June '22 underlying loss ratio of 74.3% (vs. 73.4% Barclays) and expense ratio of 18.8% (vs. 19.2% Barclays)**

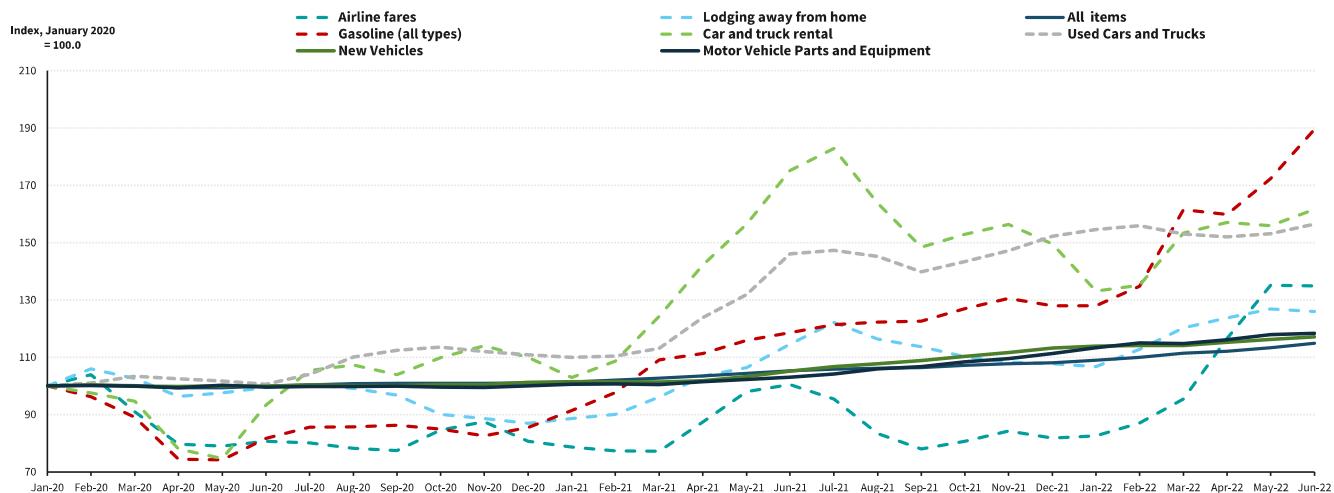


Source: Barclays Research, Company Data.

## Inflation: Focus on Absolute Levels

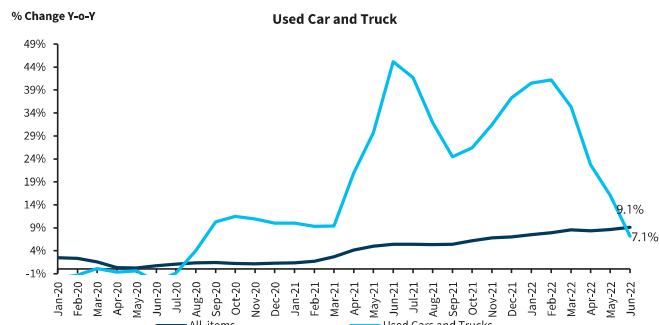
The Consumer Price Index (CPI) for All Urban Consumers rose 9.1% over the 12 months from June 2021 to June 2022. Used car and truck CPI incline has been decelerating since March '22, yet on an absolute basis used car pricing remains significantly elevated. We think CPI is a better indicator of used car prices than Manheim, as the latter focuses on wholesale prices.

**FIGURE 3. CPI Indexed to Jan. '20**



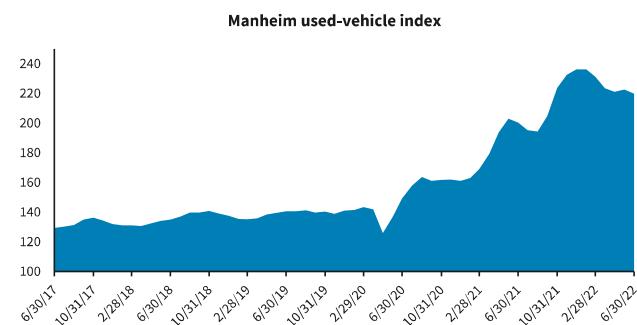
Source: Barclays Research, U.S. Bureau of Labor Statistics

**FIGURE 4. CPI: Used Car and Truck (y/y +7.1% in June '22)**



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

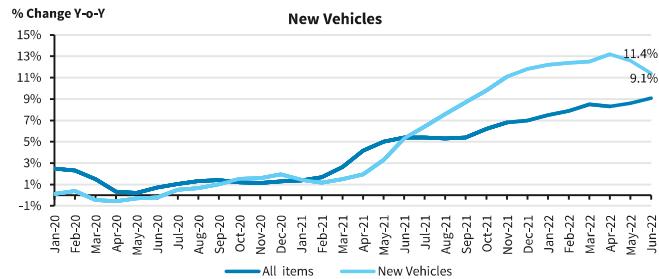
**FIGURE 5. Manheim used car prices (y/y 9.7 in June '22)**



Source: Barclays Research, Bloomberg, Manheim

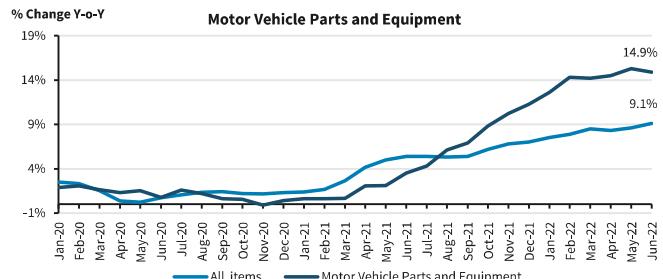
The new vehicle CPI index rose 11.4% y/y (vs. 12.6% in May) and Motor Vehicle Parts and Equipment CPI index rose 14.9% y/y (vs. 15.3% in May).

**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 \$90 price target (unchanged) is based on 17.5x (up from 16x) our '23E EPS of \$5.10 and 2.9x '23E BVPS (ex AOCI) of \$31.47.

### Model Updates:

We typically base our loss ratio expectations on a rolling 3 month average.

Updated EPS: '22E from \$4.51 to \$4.13. '23E from \$5.23 to \$5.10.

## Variance Tables – June '22

FIGURE 8. Variance Analysis - June '22

Summary Details		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		June '22	May '22	% Change	Jun '21	% Change	June '22	% Var.
Net premiums written	\$3,877	\$3,724	4%	\$3,627	7%	\$3,885	0%	
Net investment income	\$112	\$94	19%	\$76	47%	\$84	34%	
Combined Ratio	94.7%	96.5%	(180 bps)	100.5%	(580 bps)	95.8%	(107 bps)	
Combined Ratio ex cats and PYD	92.4%	91.8%	56 bps	97.7%	(530 bps)	92.6%	(20 bps)	
Operating EPS	\$0.40	\$0.27	45%	\$0.06	616%	\$0.30	33%	
Book value per share (ex. AOCI)	\$29.6	\$30.4	-2.8%	\$30.2	-2%	\$30.6	-3%	

NPW by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		June '22	May '22	% Change	Jun '21	% Change	June '22	% Var.
Personal lines-agent	\$1,381	\$1,338	3%	\$1,318	5%	\$1,285	7.5%	
Personal lines-direct	\$1,544	\$1,482	4%	\$1,403	10%	\$1,463	5.5%	
Total Personal Lines	\$2,925	\$2,820	4%	\$2,720	7.5%	\$2,748	6.4%	
Commercial Business & Other	\$736	\$688	7%	\$695	6%	\$903	-18%	
Property	\$216	\$217	0%	\$213	2%	\$234	-8%	
Total Written Premiums	\$3,877	\$3,724	4%	\$3,627	7%	\$3,885	0%	

CR by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		June '22	May '22	% Change	Jun '21	% Change	June '22	% Var.
Total Personal Lines	95.3%	96.1%	(80 bps)	100.8%	(550 bps)	95.3%	0 bps	
Personal lines-agent	93.7%	94.7%	(100 bps)	98.7%	(500 bps)	93.4%	30 bps	
Personal lines-direct	96.7%	97.3%	(60 bps)	102.8%	(610 bps)	93.4%	330 bps	
Commercial Business & Other	87.8%	88.2%	(40 bps)	96.7%	(890 bps)	92.7%	(485 bps)	
Property	112.0%	132.0%	(2000 bps)	107.6%	440 bps	116.0%	(400 bps)	

Source: Barclays Research, Company Data.

## Variance Tables - Quarterly

FIGURE 9. Variance Analysis - 2Q22

Summary Details (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	2Q22A	1Q22	% Change	2Q21	% Change	2Q22E	% Var.
Net premiums written	\$12,422	\$13,181	-6%	\$11,480	8%	\$12,430	0%
Net investment income	\$292	\$242	21%	\$211	38.8%	\$264	10.6%
Combined Ratio	95.6%	94.5%	106 bps	96.5%	(95 bps)	95.9%	(34 bps)
Combined Ratio ex cats and PYD	91.4%	91.6%	(20 bps)	92.7%	(129 bps)	91.5%	(8 bps)
Operating EPS	\$1.03	\$1.12	-8%	\$0.71	45%	\$0.94	10%
Book value per share (ex. AOCI)	\$29.6	\$30.7	-4%	\$30.2	-2%	\$30.6	-3%

NPW by Segment (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	2Q22A	1Q22	% Change	2Q21	% Change	2Q22E	% Var.
Personal lines-agent	\$4,494	\$4,516	-1%	\$4,326	4%	\$4,398	2%
Personal lines-direct	\$4,979	\$5,203	-4%	\$4,574	9%	\$4,898	2%
Total Personal Lines	\$9,473	\$9,719	-3%	\$8,900	6%	\$9,296	2%
Commercial Business & Other	\$2,309	\$2,926	-21%	\$1,989	16%	\$2,476	-6.7%
Property	\$640	\$536	19%	\$591	8%	\$657	-3%
Total Written Premiums	\$12,421	\$13,181	-6%	\$11,480	8%	\$12,429	0%

CR by Segment (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	2Q22A	1Q22	% Change	2Q21	% Change	2Q22E	% Var.
Total Personal Lines	95.1%	95.2%	(12 bps)	96.2%	(113 bps)	95.1%	(0 bps)
Personal lines-agent	94.0%	93.4%	69 bps	95.1%	(102 bps)	94.0%	9 bps
Personal lines-direct	96.0%	96.8%	(87 bps)	97.2%	(126 bps)	94.9%	103 bps
Commercial Business & Other	89.4%	90.5%	(106 bps)	92.0%	(255 bps)	91.0%	(155 bps)
Property	127.5%	98.5%	2901 bps	116.6%	1092 bps	128.6%	(112 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	50,741	55,677	61,619
Revenues:						
Net premiums earned	36,192	39,262	44,369	48,804	52,308	56,251
Investment income	1,042	937	861	991	953	1,028
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,623)	-	-
Fees and other revenues	564	604	692	723	785	844
Service revenues	195	226	271	297	314	338
<b>Total revenues</b>	<b>39,022</b>	<b>42,658</b>	<b>47,702</b>	<b>49,192</b>	<b>54,359</b>	<b>58,460</b>
Expenses:						
Losses and loss adjustment expenses	25,471	25,122	33,628	37,131	38,749	41,348
Total underwriting expenses	7,998	8,843	9,368	10,051	11,220	12,405
Policyholder credit expense	-	1,077	-	-	-	-
Investment expenses	25	20	26	26	31	33
Service expenses	179	206	253	275	288	309
Interest expense	190	217	219	243	251	251
<b>Total expenses</b>	<b>33,862</b>	<b>35,485</b>	<b>43,492</b>	<b>47,952</b>	<b>50,539</b>	<b>54,346</b>
Underwriting Income	2,724	5,297	1,374	1,621	2,338	2,498
Income before income taxes	5,160	7,173	4,210	1,240	3,820	4,114
Provision for income taxes	1,180	1,469	859	295	802	864
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-
Net income	3,970	5,705	3,351	945	3,018	3,250
Less: Preferred stock dividends	27	27	27	27	27	26
<b>Net income to common shareholders</b>	<b>3,943</b>	<b>5,678</b>	<b>3,324</b>	<b>918</b>	<b>2,991</b>	<b>3,223</b>
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,283)	-	-
Other	-	-	-	(225)	-	-
<b>Operating income to common shareholders</b>	<b>3,130</b>	<b>4,390</b>	<b>2,132</b>	<b>2,426</b>	<b>2,991</b>	<b>3,223</b>
<b>Operating EPS</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$3.63</b>	<b>\$4.13</b>	<b>\$5.10</b>	<b>\$5.49</b>
<b>Net EPS</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$5.66</b>	<b>\$1.56</b>	<b>\$5.10</b>	<b>\$5.49</b>
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	9.3%	9.7%	10.7%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	10.0%	7.2%	7.5%

Source: Barclays Research, Company Data.

**FIGURE 11. Model Summary (pg. 2)**

<b>(\$ in mn, except per share data)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>
<b><u>Underwriting Margins</u></b>						
Loss and LAE ratio	70.4%	64.0%	75.8%	76.1%	74.1%	73.5%
Expense ratio	20.5%	21.0%	19.6%	19.1%	20.0%	20.6%
<b>Combined ratio</b>	<b>90.9%</b>	<b>85.0%</b>	<b>95.3%</b>	<b>95.2%</b>	<b>94.0%</b>	<b>94.1%</b>
Catastrophes pretax	552	880	1,310	1,108	772	597
Cat pts	1.5%	2.2%	3.0%	2.3%	1.5%	1.1%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(145)	-	-
PYD pts	-0.6%	-0.5%	0.0%	-0.3%	0.0%	0.0%
<b>Underlying loss ratio</b>	<b>68.2%</b>	<b>61.2%</b>	<b>72.8%</b>	<b>73.5%</b>	<b>72.6%</b>	<b>72.4%</b>
<b>Underlying combined ratio</b>	<b>88.8%</b>	<b>82.2%</b>	<b>92.4%</b>	<b>92.6%</b>	<b>92.6%</b>	<b>93.0%</b>
<b><u>Share information</u></b>						
Shares beginning period	583.2	584.6	585.2	584.4	584.9	584.9
Shares issued	3	2	2	1	2	(0)
Shares Repurchased	1	1	2	1	2	(0)
Common Shares Outstanding, end of period	584.6	585.2	584.4	584.9	584.9	584.9
Weighted average shares - basic	583.8	584.9	584.7	584.7	584.9	584.9
Dilution	3.1	2.5	2.3	2.0	2.1	2.1
Weighted average shares - diluted	586.9	587.4	587.0	586.7	587.0	587.0
<b><u>Shareholders' equity and returns</u></b>						
Common shareholders' equity ex AOCI	12,612	15,613	17,697	17,110	18,406	5,143
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,403	17,758	11,775
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$29.25	\$31.47	\$8.79
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	13.9%	16.8%	27.4%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	5.1%	15.9%	28.9%

Source: Barclays Research, Company Data.

**Analyst(s) Certification(s):**

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

**Progressive Corp.** (PGR, 14-Jul-2022, USD 112.33), Underweight/Positive, CD/CE/J/K/M

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## Progressive Corp. (PGR / PGR)

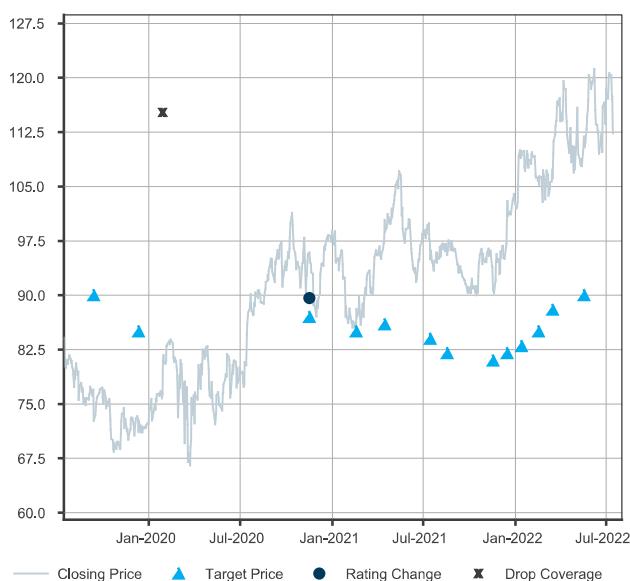
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

**USD 112.33** (14-Jul-2022)

### Rating and Price Target Chart - USD (as of 14-Jul-2022)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
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
13-Sep-2019	72.68		90.00

On 15-Jul-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 95.00.

Source: Bloomberg, Barclays Research

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