

Progressive Corp.

Aug '22 Earnings: Winding Road

PGR's AYLR and AYCR (ex cats) is bouncing around by month. Variability goes back to our point that one month does not point to a discernible trend. Bottom line, we remain cautious about auto loss cost trends.

Key Highlights: PGR's underlying loss ratio is bouncing around by month: 73.4% in August was worse than 72.4% in July, yet better than 74.3% in June and worse than 73.0% in May. The three month simple average of 73.5% is a way to go to return to pre-pandemic levels (~68%). PGR's expense ratio rose to 19.5% in August from 17.6% in July (the latter we view as an anomaly) and remains below pre-pandemic levels (north of 20%).

We expect PGR's proportion of direct business to continue to increase over time. PGR reported personal auto PIF y/y growth of (1.8)% in August (better than our estimate of -2.1%), mostly seen in auto agency (-5.1% vs. our -5.4%) followed by auto direct (+1.0% vs. our -0.5%). Still, agency PIF increased a modest +0.1% m/m after declining sequentially over the prior 12 months.

When looking at CPI data, our focus is more on absolute levels that are significantly elevated. 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.

July operating EPS of \$0.44 beat our \$0.34 estimate. PGR's investment income, catastrophe losses, and underlying loss ratio were all better than expected.

PGR: Quarterly and Annual EPS (USD)

FY Dec	Actual	2022			2023			Change y/y	
		Old	New	Cons	Old	New	Cons	2022	2023
Q1	1.72A	1.12A	1.12A	0.52A	1.41E	1.41E	1.65E	-35%	26%
Q2	0.71A	1.03A	1.03A	-0.94A	1.43E	1.45E	1.47E	45%	41%
Q3	0.14A	1.42E	1.56E	1.48E	1.44E	1.45E	1.45E	1014%	-7%
Q4	1.06A	1.33E	1.32E	1.52E	1.60E	1.59E	1.77E	25%	20%
Year	3.63A	4.91E	5.04E	5.01E	5.88E	5.91E	6.35E	39%	17%
P/E	35.0	25.2			21.5				

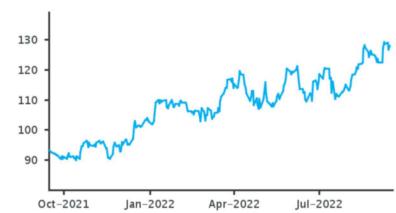
Consensus numbers are from Bloomberg received on 15-Sep-2022; 12:50 GMT

Source: Barclays Research

| CORE

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 106.00
	Unchanged
Price (15-Sep-22)	USD 127.09
Potential Upside/Downside	-16.6%
Market Cap (USD mn)	74360
Shares Outstanding (mn)	585.10
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.31
Return on Equity TTM (%)	4.95
Current BVPS (USD)	25.92
Source: Bloomberg	

Price Performance Exchange-NYSE
52 Week range USD 129.77-88.05



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

U.S. Insurance/Non-Life

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U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)							UNDERWEIGHT
Income statement (\$mn)	2021A	2022E	2023E	2024E	CAGR	Price (15-Sep-2022)	USD 127.09
Net premiums earned	44,369	49,042	54,622	60,200	10.7%	Price Target	USD 106.00
Net investment income (NII)	861	1,141	1,278	1,378	17.0%	Why UNDERWEIGHT?	
Underwriting income	1,374	2,140	2,591	2,947	29.0%	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	2,958	3,475	3,902	22.3%		
Net income	3,324	1,556	3,475	3,902	5.5%		
Effective tax rate (%)	20.4	22.3	21.0	21.0	1.0%		
Combined ratio (%)	95.3	94.2	93.8	93.6	-0.6%		
Combined ratio (ex cats & py development) (%)	92.4	92.0	92.4	92.6	0.1%		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR		
EPS (adj)	3.63	5.04	5.91	6.64	22.3%		
EPS (reported)	5.66	2.64	5.91	6.64	5.5%		
DPS	1.90	2.40	2.65	28.20	145.8%		
BVPS	30.35	26.39	29.30	7.79	-36.4%		
BVPS (ex AOCI)	30.28	30.37	33.28	11.77	-27.0%		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR		
Total investments	51,514	55,059	59,221	63,982	7.5%		
Common shareholders' equity (ex AOCI)	17,697	17,770	19,473	6,887	-27.0%		
Share buybacks	223	66	221	-12	N/A	Upside case reflects ~22x '23E EPS.	
Dividends paid	1,109	1,404	1,551	16,500	145.9%		
Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average		
Debt leverage (%)	21.2	25.9	24.2	46.4	29.4		
Financial leverage (%)	23.4	27.9	26.1	50.0	31.8		
Total capital return as a % of op. earnings	62.5	49.7	51.0	422.5	146.4		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	4.20	4.18	3.82	10.80	5.75		
P/E (adj) (x)	35.0	25.2	21.5	19.1	25.2		
Dividend yield (%)	1.5	1.9	2.1	22.2	6.9		
ROE (%)	18.5	8.5	17.6	31.0	18.9		

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

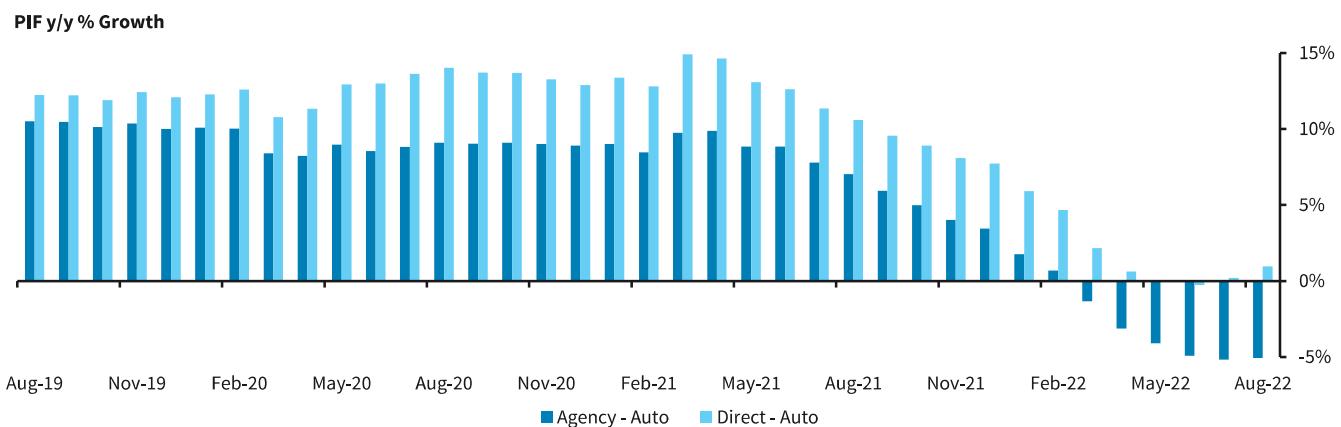


PIF Growth Spotlight

PGR reported personal auto PIF y/y growth of (1.8)% in August (better than our estimate of -2.1%), mostly seen in auto agency (-5.1% vs. our -5.4%) followed by auto direct (+1.0% vs. our -0.5%).

As PIF declines remain more evident in agency, we expect PGR's customer mix to continue to shift toward direct over time. Though, agency PIF increased a modest +0.1% m/m after declining sequentially over the prior 12 months. To recap, direct represents 56% of personal auto PIF in August '22.

FIGURE 1. PIF growth y/y in August with agent (-5.1%) and direct (+1.0%).

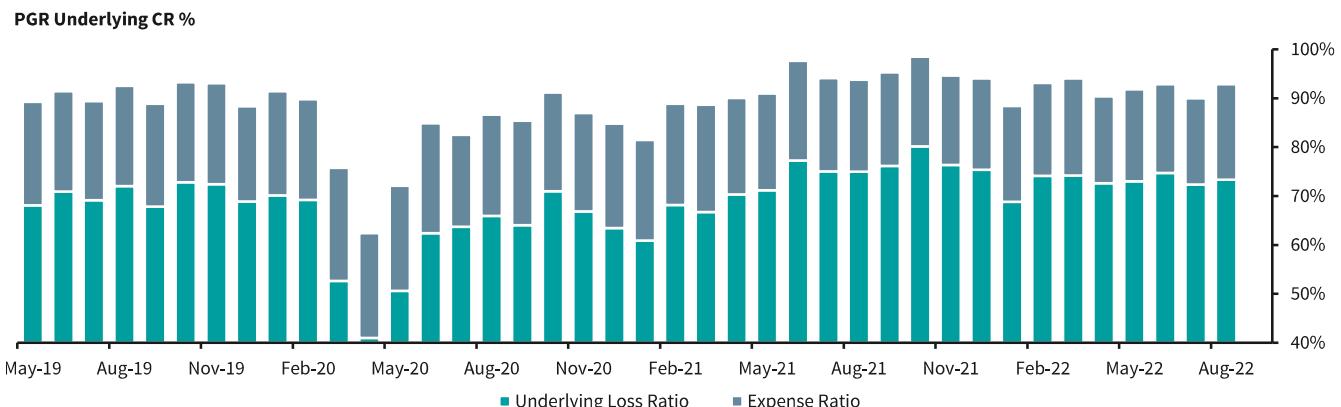


Source: Barclays Research, Company Data.

Underlying loss ratio on a monthly basis obscures underlying trend

PGR's underlying loss ratio is bouncing around by month: 73.4% in August was worse than 72.4% in July, yet better than 74.2% in June and worse than 73.0% in May. The three-month simple average of 73.5% is a way to return to pre-pandemic levels (~68%). PGR's expense ratio of 19.5% in August is elevated relative to recent months especially 17.6% in July. Collectively, PGR's underlying combined ratio of 92.9% is elevated from 90.0% in July, 92.4% in June and 91.8% in May.

FIGURE 2. August '22 underlying loss ratio of 73.4% (vs. 74.2% Barclays) and expense ratio of 19.5% (vs. 18.8% Barclays)

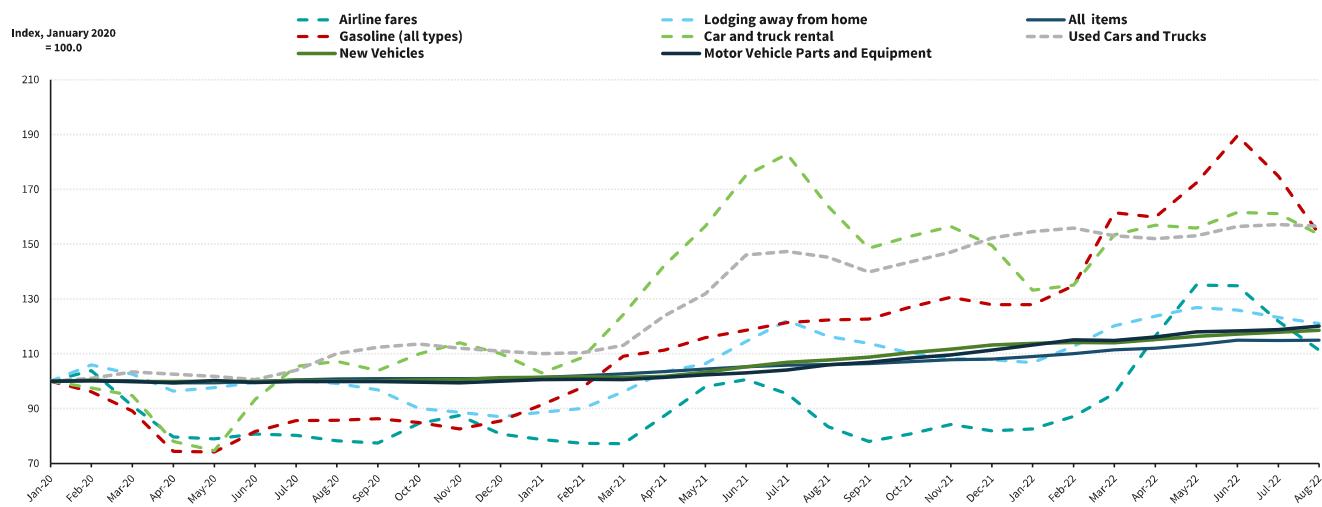


Source: Barclays Research, Company Data.

Inflation: Focus on Absolute Levels

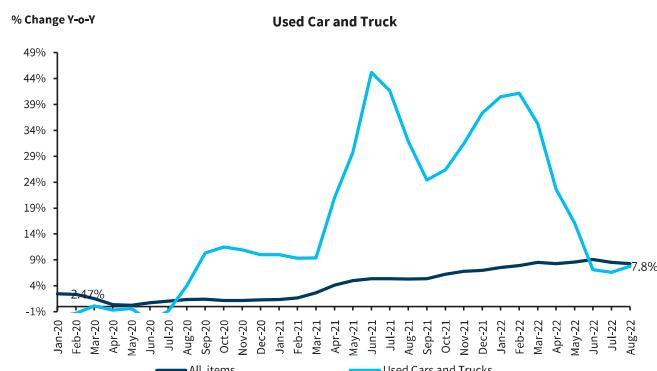
The Consumer Price Index (CPI) for All Urban Consumers rose 8.3% over the 12 months from August 2021 to August 2022. Used car and truck CPI incline picked up again in August at +7.8% vs. 6.6% in July. Our focus is on an absolute basis where used car pricing remains significantly elevated.

FIGURE 3. CPI Indexed to Jan. '20



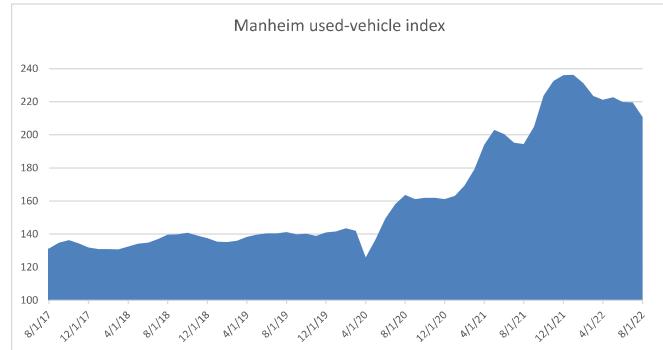
Source: Barclays Research, U.S. Bureau of Labor Statistics

FIGURE 4. CPI: Used Car and Truck (y/y +7.8% in Aug '22)



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

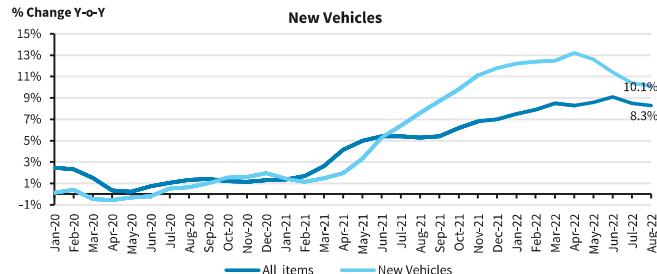
FIGURE 5. Manheim used car prices (y/y 8.4% in Aug '22)



Source: Barclays Research, Bloomberg, Manheim

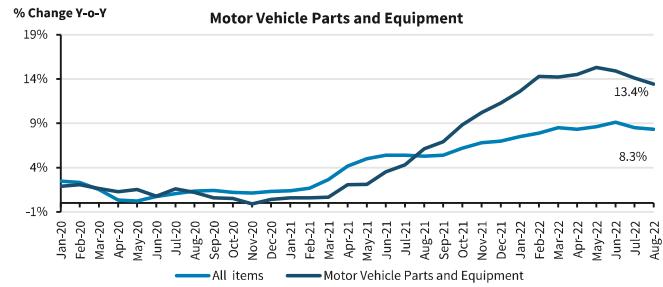
The new vehicle CPI index rose 10.1% y/y (vs. 10.4% in July) and Motor Vehicle Parts and Equipment CPI index rose 13.4% y/y (vs. 14.1% in July).

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 PT of \$106 is based on 18x our '23E EPS and 3.2x '23E BVPS (ex AOCI).

Model Updates:

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

Updated EPS: '22E from \$4.91 to \$5.04. '23E from \$5.88 to \$5.91.

Variance Tables – Aug '22

FIGURE 8. Variance Analysis - Aug '22

Summary Details		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		Aug '22	July '22	% Change	Aug '21	% Change	Aug '22	% Var.
Net premiums written	\$4,081	\$4,929	-17%	\$3,891	5%	\$4,229	-4%	
Net investment income	\$103	\$98	5%	\$68	52%	\$97	5%	
Combined Ratio	93.6%	89.8%	380 bps	105.3%	(1170 bps)	95.3%	(175 bps)	
Combined Ratio ex cats and PYD	92.9%	90.0%	291 bps	93.8%	(91 bps)	93.0%	(11 bps)	
Operating EPS	\$0.44	\$0.75	-42%	-\$0.19	-327%	\$0.34	29%	
Book value per share (ex. AOCI)	\$30.9	\$30.8	0.4%	\$30.5	1%	\$31.1	-1%	

NPW by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		Aug '22	July '22	% Change	Aug '21	% Change	Aug '22	% Var.
Personal lines-agent	\$1,474	\$1,815	-19%	\$1,374	7%	\$1,442	2.2%	
Personal lines-direct	\$1,717	\$2,152	-20%	\$1,522	13%	\$1,677	2.4%	
Total Personal Lines	\$3,191	\$3,967	-20%	\$2,896	10.2%	\$3,119	2.3%	
Commercial Business & Other	\$670	\$755	-11%	\$782	-14%	\$876	-23%	
Property	\$220	\$206	6%	\$213	3%	\$234	-6%	
Total Written Premiums	\$4,081	\$4,929	-17%	\$3,891	5%	\$4,229	-4%	

CR by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		Aug '22	July '22	% Change	Aug '21	% Change	Aug '22	% Var.
Total Personal Lines	93.5%	91.6%	190 bps	100.4%	(690 bps)	95.4%	(187 bps)	
Personal lines-agent	94.6%	90.8%	380 bps	100.4%	(580 bps)	93.8%	80 bps	
Personal lines-direct	93.5%	92.4%	110 bps	100.4%	(690 bps)	94.5%	(100 bps)	
Commercial Business & Other	92.4%	81.3%	1110 bps	92.1%	30 bps	90.8%	160 bps	
Property	91.3%	94.1%	(280 bps)	225.7%	(13440 bps)	112.0%	(2070 bps)	

Source: Barclays Research, Company Data.

Model Summary

FIGURE 9. 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	50,724	57,333	64,396
Revenues:						
Net premiums earned	36,192	39,262	44,369	49,042	54,622	60,200
Investment income	1,042	937	861	1,141	1,278	1,378
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,488)	-	-
Fees and other revenues	564	604	692	721	819	903
Service revenues	195	226	271	308	328	361
Total revenues	39,022	42,658	47,702	49,723	57,047	62,843
Expenses:						
Losses and loss adjustment expenses	25,471	25,122	33,628	36,944	40,438	44,036
Total underwriting expenses	7,998	8,843	9,368	9,958	11,593	13,218
Policyholder credit expense	-	1,077	-	-	-	-
Investment expenses	25	20	26	26	32	34
Service expenses	179	206	253	291	300	331
Interest expense	190	217	219	243	251	251
Total expenses	33,862	35,485	43,492	47,686	52,614	57,870
Underwriting Income	2,724	5,297	1,374	2,140	2,591	2,947
Income before income taxes	5,160	7,173	4,210	2,037	4,433	4,973
Provision for income taxes	1,180	1,469	859	454	931	1,044
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-
Net income	3,970	5,705	3,351	1,583	3,502	3,928
Less: Preferred stock dividends	27	27	27	27	27	26
Net income to common shareholders	3,943	5,678	3,324	1,556	3,475	3,902
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,177)	-	-
Other	-	-	-	(225)	-	-
Operating income to common shareholders	3,130	4,390	2,132	2,958	3,475	3,902
Operating EPS	\$5.33	\$7.47	\$3.63	\$5.04	\$5.91	\$6.64
Net EPS	\$6.72	\$9.66	\$5.66	\$2.64	\$5.91	\$6.64
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	9.3%	13.0%	12.3%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	10.5%	11.4%	10.2%

Source: Barclays Research, Company Data.

FIGURE 10. Model Summary (pg. 2)

(\$ in mn, except per share data)	2019	2020	2021	2022E	2023E	2024E
<u>Underwriting Margins</u>						
Loss and LAE ratio	70.4%	64.0%	75.8%	75.3%	74.0%	73.1%
Expense ratio	20.5%	21.0%	19.6%	18.8%	19.7%	20.5%
Combined ratio	90.9%	85.0%	95.3%	94.2%	93.8%	93.6%
Catastrophes pretax	552	880	1,310	973	766	613
Cat pts	1.5%	2.2%	3.0%	2.0%	1.4%	1.0%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(66)	-	-
PYD pts	-0.6%	-0.5%	0.0%	-0.1%	0.0%	0.0%
Underlying loss ratio	68.2%	61.2%	72.8%	73.2%	72.6%	72.1%
Underlying combined ratio	88.8%	82.2%	92.4%	92.0%	92.4%	92.6%
<u>Share information</u>						
Shares beginning period	583.2	584.6	585.2	584.4	585.1	585.1
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	585.1	585.1	585.1
Weighted average shares - basic	583.8	584.9	584.7	584.8	585.1	585.1
Dilution	3.1	2.5	2.3	2.0	2.1	2.1
Weighted average shares - diluted	586.9	587.4	587.0	586.8	587.2	587.2
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	12,612	15,613	17,697	17,770	19,473	6,887
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,733	18,622	13,180
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.37	\$33.28	\$11.77
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	16.7%	18.7%	29.6%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	8.5%	17.6%	31.0%

Source: Barclays Research, Company Data.

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Progressive Corp. (PGR, 15-Sep-2022, USD 127.09), 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.

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

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Barclays Equity Research has 1718 companies under coverage.

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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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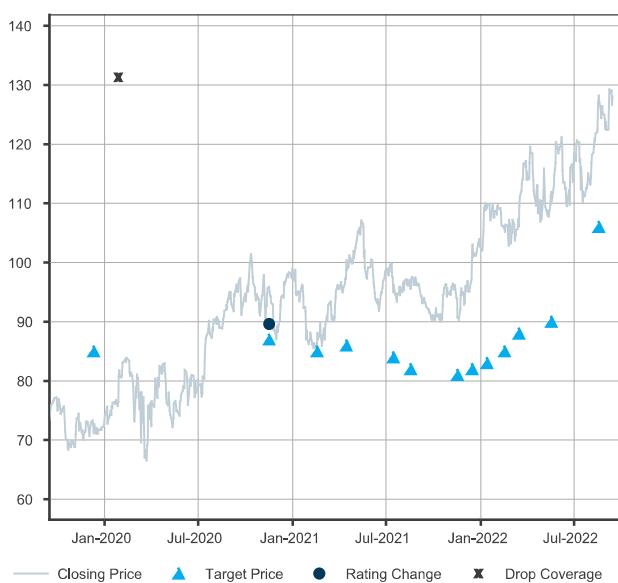
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 127.09 (15-Sep-2022)

Rating and Price Target Chart - USD (as of 15-Sep-2022)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
18-Aug-2022	122.49		106.00
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

On 15-Sep-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 90.00.

Source: Bloomberg, Barclays Research

*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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Valuation Methodology: Our \$106 PT is based on 18x EPS and 3.2x BVPS (ex AOCI) on 2023E.

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