

Progressive Corp.

Mar. '22 Earnings: Lifting the Mirage

We think headline pricing approvals in select states and a less severe CPI indicator (used car sales) can only go so far to turn around results. AYLR deterioration is disappointing. Bottom line, auto pricing remains inadequate relative to loss trend, we anticipate a long journey ahead for auto insurers.

PGR's underlying loss ratio of 74.2% in March deteriorated from 74.1% in February. We were anticipating deterioration m/m, yet PGR came in slightly better than our estimated 74.5%. Over the last 17 years, only Feb 2015 had worse AYLR results than Feb-March 2022. Moreover, agency business tends to perform better than direct, we saw a reversal of trend this month (agency LR of 77.5% > direct LR of 77.2%). We think the preceding months saw a boost from Omicron. We also started to see a large influx of return to office starting in March, increasing frequency.

PIF growth slowdown: PGR's total personal auto PIF y/y growth slowed (+0.6%, slightly better than our estimate of -1.0%) driven by a slowdown in auto direct (+2.2% vs. our +0.3%) and auto agency (-1.3% vs. our -2.5%). We were probably a month too early estimating negative PIF auto growth, but we have high conviction that is imminent. PGR is taking multiple bites of the apple in its rate request journey. **We include in this note our analysis of PGR's approved and pending rate filings.** PGR is making progress in its rate filings journey, yet we have not seen nationwide momentum. We think some state regulators question if miles driven will ever return to pre-pandemic levels. Other states (particularly catastrophe prone) may want to put a lid on overall consumer costs when considering higher homeowners' premiums and utility costs, in our view.

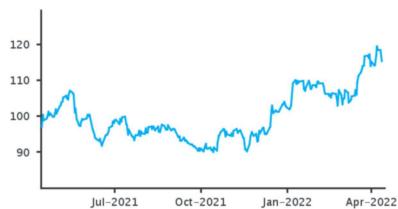
March operating EPS of \$0.23 missed our \$0.33 estimate primarily on worse catastrophe losses than our expectations. We were already modeling a worse underlying loss ratio.

| CORE

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 88.00
	Unchanged
Price (13-Apr-22)	USD 113.91
Potential Upside/Downside	-22.7%
Market Cap (USD mn)	66624
Shares Outstanding (mn)	584.88
Free Float (%)	99.70
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.35
Return on Equity TTM (%)	19.39
Current BVPS (USD)	30.35

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 120.17-88.05



Source: IDC

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

U.S. Insurance/Non-Life

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PGR: Quarterly and Annual EPS (USD)

FY Dec	2021	2022			2023			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2022	2023
Q1	1.72A	1.23E	1.12E	1.23E	1.37E	1.36E	1.55E	-35%	21%
Q2	0.71A	0.94E	0.90E	0.98E	1.20E	1.21E	1.30E	27%	34%
Q3	0.15A	1.07E	1.08E	1.11E	1.17E	1.17E	1.33E	620%	8%
Q4	1.06A	1.25E	1.26E	1.43E	1.30E	1.31E	1.68E	19%	4%
Year	3.64A	4.49E	4.36E	4.69E	5.04E	5.04E	6.05E	20%	16%
P/E	31.3		26.1			22.6			

Consensus numbers are from Bloomberg received on 14-Apr-2022; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)						UNDERWEIGHT	
Income statement	2021A	2022E	2023E	2024E	CAGR	Price (13-Apr-2022)	USD 113.91
Net premiums earned (\$mn)	44,369	47,429	50,210	N/A	N/A	Price Target	USD 88.00
Net investment income (NII) (\$mn)	861	939	990	N/A	N/A	Why UNDERWEIGHT?	
Underwriting income (\$mn)	1,374	1,879	2,332	N/A	N/A	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 (\$mn)	2,132	2,560	2,960	N/A	N/A		
Net income (\$mn)	3,324	2,208	2,960	N/A	N/A		
Effective tax rate (%)	20.4	20.8	21.0	N/A	N/A		
Combined ratio (%)	95.3	94.5	93.9	N/A	N/A		
Combined ratio (ex cats & py development) (%)	92.4	92.6	92.3	N/A	N/A		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	Upside case USD 125.00	
EPS (adj)	3.64	4.36	5.04	N/A	N/A	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	3.76	5.04	N/A	N/A		
DPS	1.90	2.40	2.65	N/A	N/A		
BVPS	30.35	28.05	30.22	N/A	N/A		
BVPS (ex AOCI)	30.28	30.42	32.59	N/A	N/A		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR	Downside case USD 75.00	
Total investments	51,514	55,962	60,251	N/A	N/A	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	17,795	19,061	N/A	N/A		
Share buybacks	223	99	144	N/A	N/A		
Dividends paid	1,109	1,404	1,550	N/A	N/A		
Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average	Upside/Downside scenarios	
Debt leverage (%)	21.2	25.9	24.6	N/A	23.9		
Financial leverage (%)	23.4	27.9	26.5	N/A	25.9		
Total capital return as a % of op. earnings	62.5	58.7	57.2	N/A	59.5		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	3.76	3.74	3.50	N/A	3.67		
P/E (adj) (x)	31.3	26.1	22.6	N/A	26.7		
Dividend yield (%)	1.7	2.1	2.3	N/A	2.0		
ROE (%)	18.5	12.1	15.1	N/A	15.2		



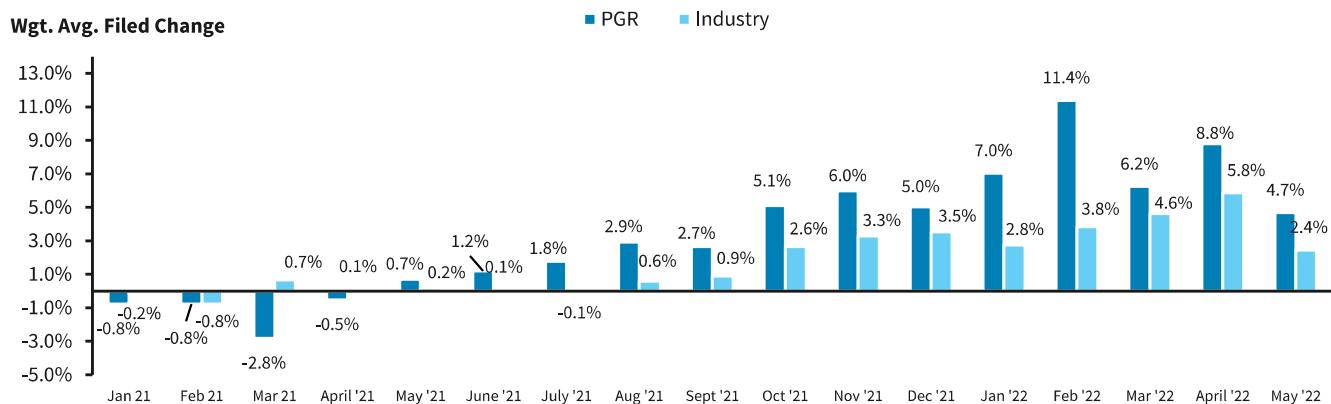
Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

What Rate Filings Tell Us:

Rate Approvals So Far ... Limited States

FIGURE 1. PGR received 6.2% weighted avg rate approvals in Mar. '22, in 11 states: AK, CT, IA, KY, LA, NM, OR, PA, RI, VA and WI.



Personal auto only

Source: S&P Global Market Intelligence, Barclays Research

Looking at March renewal effective dates, PGR received 35 rate approvals in 11 states: AK, CT, IA, KY, LA, NM, OR, PA, RI, VA, and WI, ranging from 0% to ~16%. PGR's rate approvals show a weighted average of +6.2% approvals on ~\$3.2bn of subject premiums, or ~\$199mn in additional premiums, which in our view does not move the needle that much.

Last year, PGR swiftly graduated from rebates to rate decreases well ahead of the industry. This implies that PGR has to catch up more than other industry participants on the rate side to get to a better baseline pricing spot.

Rate Approvals April - June '22 (based on renewal effective dates):

So far the total ask is +5.3% on subject premiums across just 19 states, not nationwide: AL, AR, AZ, DE, GA, ID, IL, KS, LA, MN, MS, NC, ND, NE, NH, NJ, NM, NV, SC. PGR's upcoming rate increases show a weighted average of 5.3% approvals on ~\$9.2bn of subject premiums, or ~\$492mn in additional premiums.

Pending Rate Requests: So far the total ask is +10.5% (weighted average) on subject premiums

PGR has submitted 72 pending rate changes for renewal effective dates: April '21 (meaning still in limbo for 12 months) through April '22 in just 10 states, not nationwide: DC, FL, GA, HI, MD, NJ, OR, RI, TN, TX. PGR's pending rate increases show a weighted average of 10.5% rate requests on ~\$6.4bn of subject premiums, or ~\$673mn in additional premiums. We do not think pending filings is enough to make a significant impact considering the scope of PGR's total personal auto written premiums. To put that in context, PGR reported ~\$36.2bn of personal auto premiums in 2021, therefore pending rate requests represent about 2% of its total premiums.

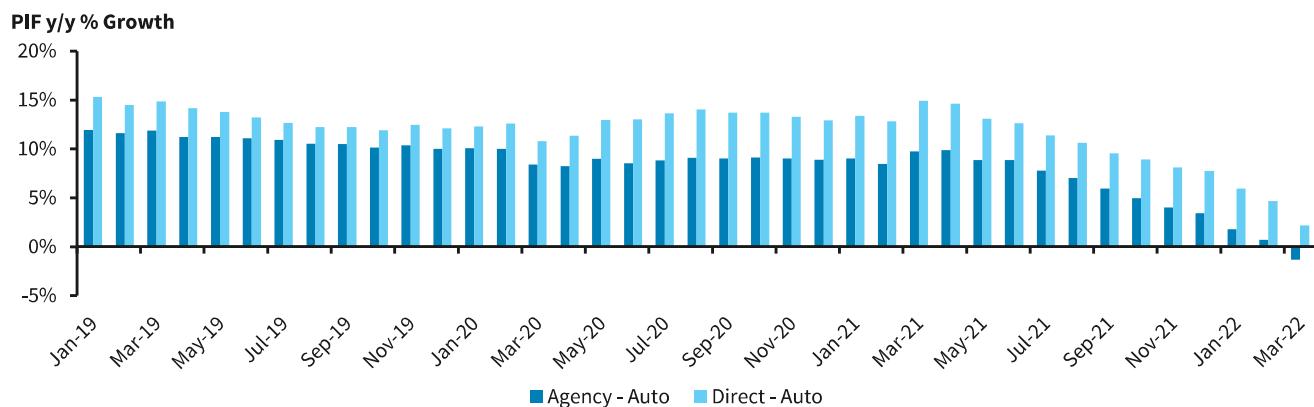
PIF Growth Spotlight

PIF growth y/y trend continued to moderate in March

PGR's total personal auto PIF y/y growth slowed (+0.6%, slightly better than our estimate of -1.0%) driven by a slowdown in auto direct (+2.2% vs. our +0.3%) and auto agency (-1.3% vs. our

-2.5%). We were probably a month too early estimating negative PIF auto growth, but we have high conviction that is imminent.

FIGURE 2. PIF growth y/y trend continued to moderate in March across agent (-1.3%) and direct (+2.2%).



Source: Barclays Research, Company Data.

Underlying Combined Ratio Deteriorating Sequentially

PGR's underlying loss ratio of 74.2% in March deteriorated from 74.1% in February. We were anticipating deterioration m/m, yet PGR came in slightly better than our estimated 74.5%. Over the last 17 years, only Feb 2015 had worse AYLR results than Feb-March 2022. We think the preceding months saw a boost from Omicron. We also started to see a large influx of return to office starting in March. We saw PGR's expense ratio increase sequentially to 19.9% from 19.0% (we estimated 19.2%).

FIGURE 3. March '22 underlying loss ratio of 74.2% (vs. 74.5% Barclays) and expense ratio of 19.9% (vs. 19.2% Barclays)



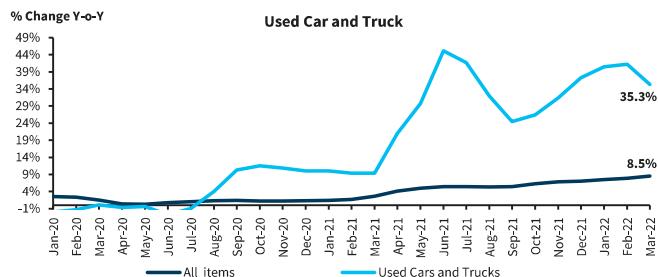
Source: Barclays Research, Company Data.

Inflation: Used Car Sales Convergence, Manheim vs. CPI

The Consumer Price Index (CPI) for All Urban Consumers rose 8.5% over the 12 months from March 2020 to March 2021, though used car and truck prices fell 3.8% sequentially. We are encouraged to see a reverse in used car pricing trend and in hindsight Manheim data may have

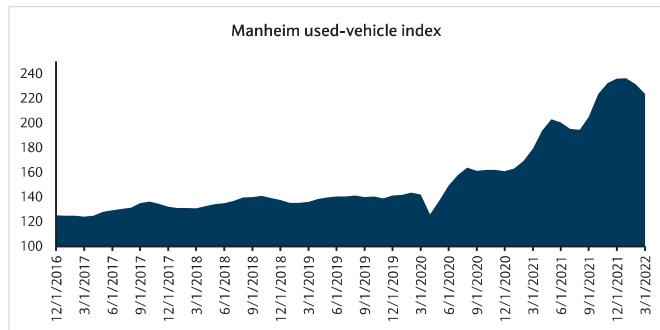
been an early read. According to ALL, used car prices have a floor, they cannot surpass new car prices. Still, we think used car sales remains elevated.

FIGURE 4. CPI (y/y %): Used Car and Truck decreasing (Mar '22)



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

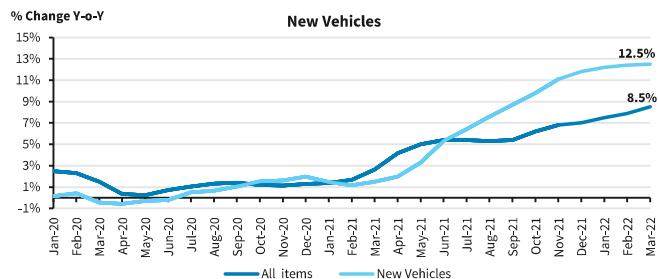
FIGURE 5. Yet Manheim used car prices are Moderating (Mar '22)



Source: Barclays Research, Bloomberg, Manheim

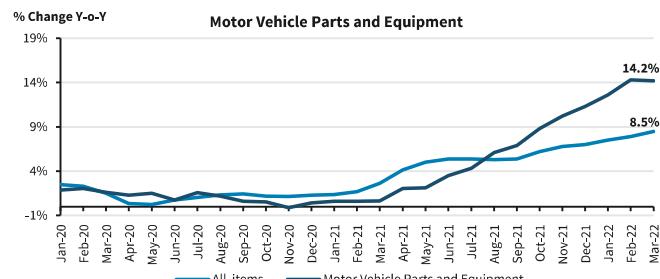
The new vehicle CPI index rose 12.5% y/y (vs. 12.4% in Feb.) and Motor Vehicle Parts and Equipment CPI index rose 14.2% y/y (vs. 14.3% in Feb.)

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 \$88 price target is base on a 16x our \$5.06 EPS and 2.9x BVPS (ex AOCI).

Model Updates:

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

Updated '22E EPS to \$4.36 from \$4.49. '23E EPS of \$5.04 is unchanged.

Variance Tables – Mar. '22

FIGURE 8. Variance Analysis - Mar. '22

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	March '22	Feb '22	% Change	March '21	% Change	March '22	% Var.
Net premiums written	\$3,970	\$4,626	-14%	\$3,773	5%	\$4,053	-2%
Net investment income	\$94	\$76	25%	\$86	10%	\$73	30%
Combined Ratio	97.2%	93.7%	354 bps	90.7%	653 bps	94.7%	250 bps
Combined Ratio ex cats and PYD	94.1%	93.2%	89 bps	88.7%	543 bps	93.7%	41 bps
Operating EPS	\$0.23	\$0.38	-40%	\$0.49	-53%	\$0.33	-31%
Book value per share (ex. AOCI)	\$29.6	\$29.8	-0.6%	\$29.0	2%	\$30.0	-1%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	March '22	Feb '22	% Change	March '21	% Change	March '22	% Var.
Personal lines-agent	\$1,404	\$1,482	-5%	\$1,422	-1%	\$1,444	-2.7%
Personal lines-direct	\$1,582	\$1,699	-7%	\$1,572	1%	\$1,635	-3.3%
Total Personal Lines	\$2,986	\$3,181	-6%	\$2,994	-0.3%	\$3,079	-3.0%
Commercial Business & Other	\$772	\$1,277	-40%	\$590	31%	\$768	1%
Property	\$212	\$168	26%	\$188	13%	\$207	3%
Total Written Premiums	\$3,970	\$4,626	-14%	\$3,773	5%	\$4,053	-2%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	March '22	Feb '22	% Change	March '21	% Change	March '22	% Var.
Total Personal Lines	96.4%	94.2%	220 bps	90.0%	640 bps	95.3%	112 bps
Personal lines-agent	96.3%	92.7%	360 bps	87.1%	920 bps	93.0%	330 bps
Personal lines-direct	96.5%	95.5%	100 bps	92.7%	380 bps	96.0%	50 bps
Commercial Business & Other	89.9%	94.7%	(480 bps)	82.4%	750 bps	91.4%	(145 bps)
Property	134.7%	81.6%	5310 bps	123.6%	1110 bps	99.0%	3570 bps

Source: Barclays Research, Company Data.

Variance Tables – 1Q22

FIGURE 9. Variance Analysis - 1Q22

Summary Details (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	1Q22	4Q21	% Change	1Q21	% Change	1Q22	% Var.
Net premiums written	\$13,181	\$10,749	23%	\$11,729	12%	\$13,264	-1%
Net investment income	\$242	\$221	10%	\$220	10.0%	\$221	9.7%
Combined Ratio	94.5%	94.7%	(24 bps)	89.3%	525 bps	93.7%	78 bps
Combined Ratio ex cats and PYD	91.6%	95.9%	(425 bps)	86.0%	561 bps	91.5%	12 bps
Operating EPS	\$1.12	\$1.06	6%	\$1.72	-35%	\$1.23	-8%
Book value per share (ex. AOCI)	\$29.6	\$30.3	-2%	\$29.0	2%	\$30.0	-1%

NPW by Segment (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	1Q22	4Q21	% Change	1Q21	% Change	1Q22	% Var.

Personal lines-agent	\$4,516	\$4,001	13%	\$4,459	1%	\$4,556	-1%
Personal lines-direct	\$5,203	\$4,339	20%	\$5,003	4%	\$5,256	-1%
Total Personal Lines	\$9,719	\$8,340	17%	\$9,461	3%	\$9,812	-1%
Commercial Business & Other	\$2,926	\$1,861	57%	\$1,794	63%	\$2,921	0.1%
Property	\$536	\$548	-2%	\$474	13%	\$531	1%
Total Written Premiums	\$13,181	\$10,749	23%	\$11,729	12%	\$13,264	-1%

CR by Segment (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	1Q22	4Q21	% Change	1Q21	% Change	1Q22	% Var.
Total Personal Lines	95.2%	96.3%	(110 bps)	88.7%	650 bps	94.8%	35 bps
Personal lines-agent	93.4%	95.4%	(207 bps)	86.6%	675 bps	92.3%	102 bps
Personal lines-direct	96.8%	97.1%	(22 bps)	90.6%	623 bps	96.7%	16 bps
Commercial Business & Other	90.5%	89.6%	94 bps	83.9%	659 bps	91.0%	(47 bps)
Property	98.5%	88.1%	1039 bps	115.0%	(1653 bps)	85.9%	1266 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	49,456	53,910	59,465
Revenues:						
Net premiums earned	36,192	39,262	44,369	47,429	50,210	53,701
Investment income	1,042	937	861	939	990	1,068
Total net realized gains (losses) on securities	1,029	1,630	1,509	(445)	-	-
Fees and other revenues	564	604	692	712	753	806
Service revenues	195	226	271	257	266	285
Total revenues	39,022	42,658	47,702	48,891	52,219	55,860
Expenses:						
Losses and loss adjustment expenses	25,471	25,122	33,628	35,532	37,017	39,471
Total underwriting expenses	7,998	8,843	9,368	10,018	10,861	11,905
Policyholder credit expense	-	1,077	-	-	-	-
Investment expenses	25	20	26	28	32	35
Service expenses	179	206	253	259	276	295
Interest expense	190	217	219	232	251	251
Total expenses	33,862	35,485	43,492	46,069	48,437	51,958
Underwriting Income	2,724	5,297	1,374	1,879	2,332	2,325
Income before income taxes	5,160	7,173	4,210	2,822	3,781	3,902
Provision for income taxes	1,180	1,469	859	587	794	819
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-
Net income	3,970	5,705	3,351	2,235	2,987	3,083
Less: Preferred stock dividends	27	27	27	27	27	26
Net income to common shareholders	3,943	5,678	3,324	2,208	2,960	3,056
ATX total net realized gains (losses) on sec	813	1,288	1,192	(352)	-	-
Other	-	-	-	-	-	-
Operating income to common shareholders	3,130	4,390	2,132	2,560	2,960	3,056
Operating EPS	\$5.33	\$7.47	\$3.64	\$4.36	\$5.04	\$5.21
Net EPS	\$6.72	\$9.66	\$5.66	\$3.76	\$5.04	\$5.21
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	6.6%	9.0%	10.3%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	6.9%	5.9%	7.0%

Source: Barclays Research, Company Data.

FIGURE 11. 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%	74.9%	73.7%	73.5%
Expense ratio	20.5%	21.0%	19.6%	19.6%	20.1%	20.7%
Combined ratio	90.9%	85.0%	95.3%	94.5%	93.9%	94.2%
Catastrophes pretax	552	880	1,310	744	757	578
Cat pts	1.5%	2.2%	3.0%	1.6%	1.5%	1.1%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(191)	-	-
PYD pts	-0.6%	-0.5%	0.0%	-0.4%	0.0%	0.0%
Underlying loss ratio	68.2%	61.2%	72.8%	72.9%	72.2%	72.4%
Underlying combined ratio	88.8%	82.2%	92.4%	92.6%	92.3%	93.1%
<u>Share information</u>						
Shares beginning period	583.2	584.6	585.2	584.4	584.9	584.9
Shares issued	3	2	2	2	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	584.8	584.9	584.9
Dilution	3.1	2.5	2.3	2.6	2.6	2.6
Weighted average shares - diluted	586.9	587.4	587.0	587.4	587.5	587.5
<u>Capital deployment</u>						
Assumed Share price for repurchases	\$73	\$86	\$92	\$89	\$85	\$85
# of shares repurchased (in mn)	1.2	1.3	2.4	1.1	1.7	(0.1)
\$ Repurchased	86	112	223	99	144	(8)
Dividends per share	\$2.65	\$4.90	\$1.90	\$2.40	\$2.65	\$28.20
\$ amt common dividend	1,548	2,866	1,109	1,404	1,550	16,494
Total capital returned	1,634	2,978	1,332	1,503	1,694	16,487
Total capital returned, % normalized earnings	52%	68%	63%	59%	57%	539%
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	12,612	15,613	17,697	17,795	19,061	5,631
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,746	18,428	12,346
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.42	\$32.59	\$9.63
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	14.4%	16.1%	24.8%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	12.1%	15.1%	26.1%

Source: Barclays Research, Company Data.

Analyst(s) Certification(s):

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Primary Stocks (Ticker, Date, Price)

Progressive Corp. (PGR, 13-Apr-2022, USD 113.91), Underweight/Positive, CD/CE/J/K/M

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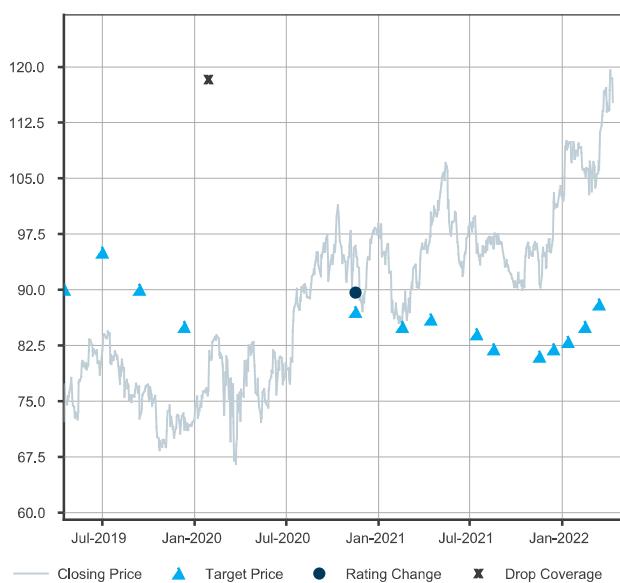
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 113.91 (13-Apr-2022)

Rating and Price Target Chart - USD (as of 13-Apr-2022)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
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
01-Jul-2019	81.75		95.00
16-Apr-2019	77.26		90.00

On 14-Apr-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 86.00.

Source: Bloomberg, Barclays Research

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