



Progressive Corp.

July '21: Driving Towards a Yield Sign

It is clear that PGR and others took rate decreases too soon in a fluid pandemic environment. While we all expected miles driven to normalize, the severity angle has been the bigger surprise. What is becoming less clear now is the speed and path getting back to rate adequacy. Even though auto policies are 6 months, we find that it takes much longer to reprice this business. It does not help that some regulators are delaying or may even push back from approving indicated rate needs. We approach the rate increase conversation cautiously.

Operating EPS Miss on elevated underlying losses: July operating EPS of \$0.27 missed our \$0.34 estimate reflecting steeper elevation in underlying losses (75.0% vs. our estimate of 72.5%) pushing the company's combined ratio to 96.7%, above PGR's long-term target of 96%. PGR's reported monthly underlying combined ratios (Figure 1) marched upward in 2021 through June improving m/m in July (81.5% Jan, 88.9% Feb, 88.7% March, 90.0% April, and 91.0% May, 97.7% June, 94.1% July). PGR's July expense ratio of 19.1% beat our 20.2% estimate.

PIF growth deceleration consequential to remediation actions: PGR's total personal auto PIF y/y growth (+9.7% vs. our +10.9%) missed our estimate driven by slower growth in both auto direct (+11.4% vs. our +12.8%) and auto agency (+7.8% vs. our +8.8%). In 2Q, management discussed steps being taken to achieve the long-term target of 96% including 5% average rate increase filings and harder pricing on the horizon (Figure 3). Hard rates may slow PIF growth when the bottom line is a greater focal point.

We lower our price target to \$82 (down \$2) and reiterate our Underweight rating. Our \$82 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022/2023 (vs. 2022 prior). Our '22E and '23E EPS are \$4.23 (vs. \$4.93 prior) and \$5.49 (vs. \$5.42 prior), respectively. Our '22E and '23E BVPS (ex AOCI) are \$30.83 (vs. \$32.31 prior) and \$33.44 (vs. \$34.85 prior), respectively. Our updated estimates reflect continued elevated losses and lower premium growth in personal auto through 2022E.

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	1.22E	0.77E	1.32E	-10%	-55%
Q2	1.85A	0.71A	0.71A	1.34A	1.14E	0.92E	1.21E	-62%	30%
Q3	1.88A	0.94E	0.47E	0.80E	1.21E	1.16E	1.18E	-75%	147%
Q4	1.83A	1.13E	0.58E	1.08E	1.36E	1.38E	1.44E	-68%	138%
Year	7.47A	4.50E	3.49E	4.43E	4.93E	4.23E	5.19E	-53%	21%
P/E	12.8		27.4			22.6			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 18-Aug-2021; 12:50 GMT

Equity Research

Financial Services | U.S. Insurance/Non-Life
18 August 2021

Stock Rating	UNDERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 82.00
	lowered -2% from USD 84.00
Price (17-Aug-2021)	USD 95.67
Potential Upside/Downside	-14.3%
Tickers	PGR
Market Cap (USD mn)	55983
Shares Outstanding (mn)	585.16
Free Float (%)	99.67
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.42
Return on Equity TTM (%)	31.77
Current BVPS (USD)	31.07

Source: Bloomberg



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 (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (17-Aug-2021) USD 95.67
Net premiums earned	39,262	44,106	48,938	54,236	11.4%	Price Target USD 82.00
Net investment income (NII)	937	871	940	1,009	2.5%	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	1,263	1,746	2,545	-21.7%	
Operating income	4,390	2,048	2,488	3,227	-9.8%	
Net income	5,678	2,972	2,488	3,227	-17.2%	
Effective tax rate (%)	20.5	20.7	21.0	21.0	0.9%	
Combined ratio (%)	85.0	95.5	94.9	93.8	3.4%	
Combined ratio (ex cats & py development) (%)	82.2	92.8	92.9	91.8	3.7%	
Per share data (\$)					CAGR	USD 102.00
EPS (adj)	7.47	3.49	4.23	5.49	-9.8%	
EPS (reported)	9.66	5.07	4.23	5.49	-17.2%	
DPS	4.90	2.20	2.40	2.65	-18.5%	
BVPS	28.27	30.28	31.88	34.50	6.9%	
BVPS (ex AOCI)	26.68	29.22	30.83	33.44	7.8%	
Balance sheet and capital return (\$mn)					CAGR	USD 75.00
Total investments	47,530	53,201	57,157	61,348	8.9%	
Common shareholders' equity (ex AOCI)	15,613	17,104	18,043	19,575	7.8%	
Share buybacks	112	139	144	144	8.7%	
Dividends paid	2,866	1,288	1,405	1,551	-18.5%	
Balance sheet and capital return metrics					Average	Upside/Downside scenarios
Debt leverage (%)	25.1	21.8	20.9	19.6	21.8	Price History Prior 12 months High
Financial leverage (%)	27.4	24.0	23.0	21.6	24.0	Price Target Next 12 months Upside
Total capital return as a % of op. earnings	67.8	69.7	62.3	52.5	63.1	
Valuation metrics					Average	
P/BV (ex AOCI) (x)	3.59	3.27	3.10	2.86	3.21	
P/E (adj) (x)	12.8	27.4	22.6	17.4	20.1	
Dividend yield (%)	5.1	2.3	2.5	2.8	3.2	
ROE (%)	35.6	16.6	13.5	16.2	20.5	

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

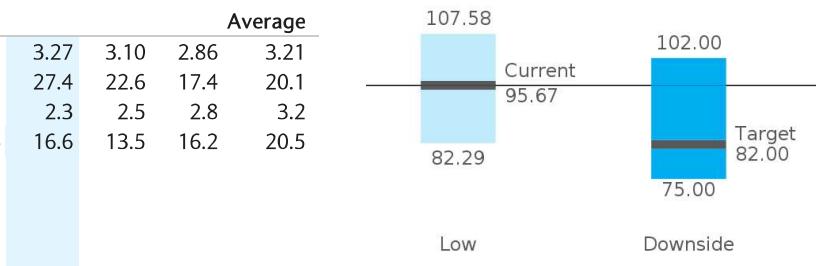
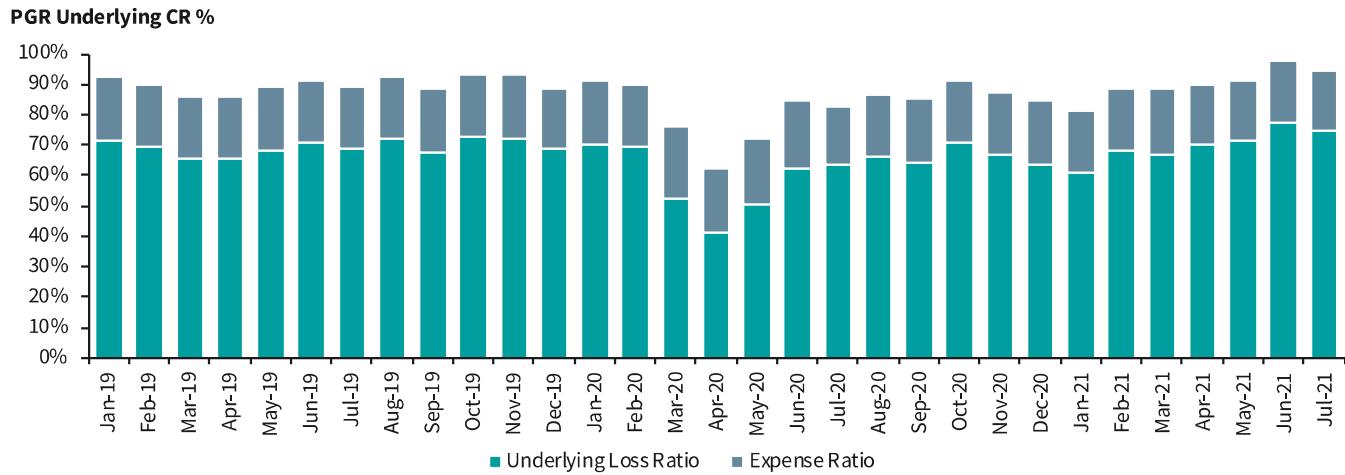


FIGURE 1

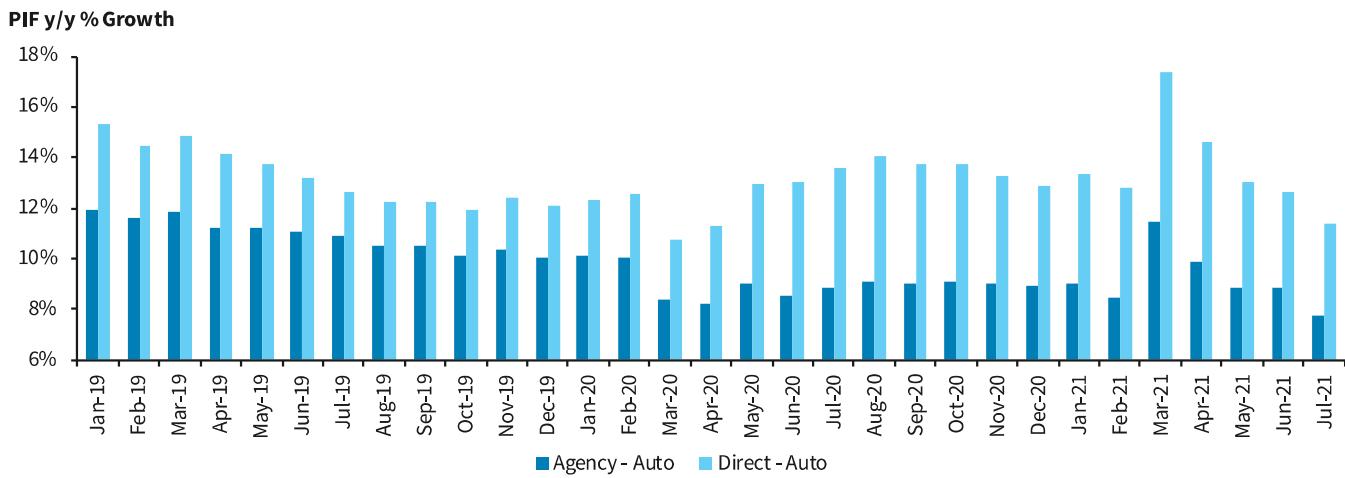
July '21 underlying LR improved sequentially but remains above pre-pandemic levels



Source: Barclays Research, Company Data.

FIGURE 2

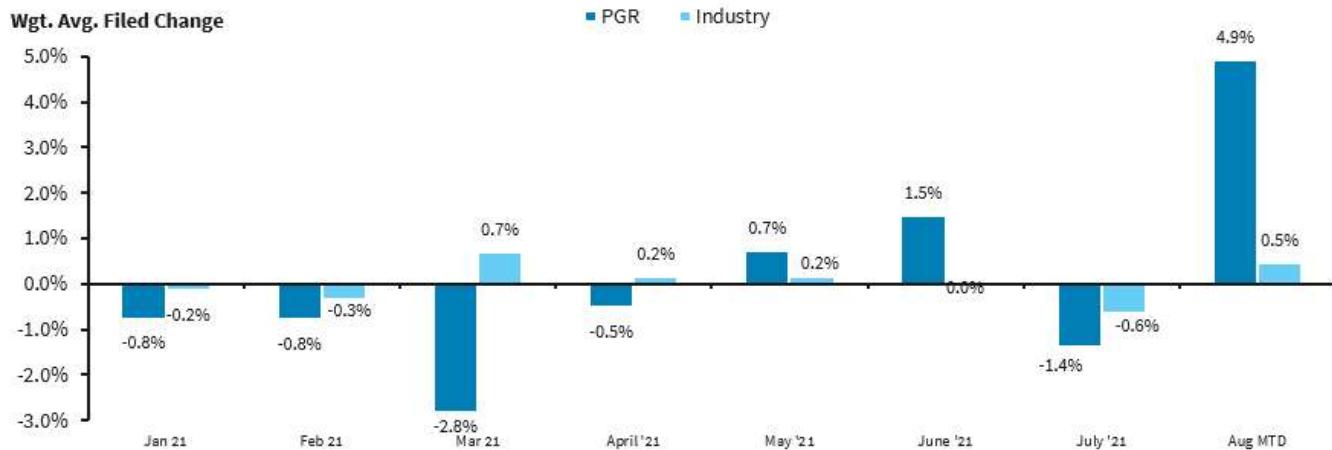
Personal Auto PIF growth in July '21 (+9.7% y/y) decelerated across both direct and agent and we haven't even seen the full effect of rate increases



Source: Barclays Research, Company Data.

FIGURE 3

PGR has filed for rate increases in 3 of the last 4 months which is likely to result in continued PIF growth drag

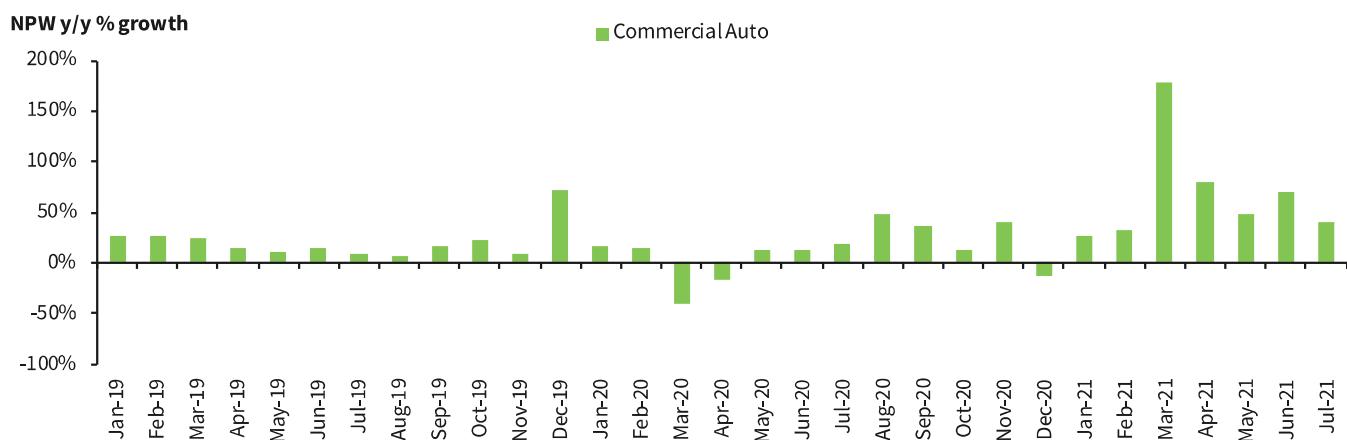


Source: S&P Global Market Intelligence, Barclays Research.

Note: August month to date as of August 18, 2021.

FIGURE 4

Commercial growth spot - July NPW growth +40.5% y/y. Downside – more capital intensive business



Source: Barclays Research, Company Data.

Variance Table

FIGURE 5
PGR July 2021 Variance Analysis

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	July '21A	June '21	% Change	July '20	% Change	July '21	% Var.
Net premiums written	\$4,552	\$3,627	25%	\$4,109	11%	\$4,497	1%
Net investment income	\$68	\$76	-11%	\$75	-9%	\$72	-6%
Combined Ratio	96.7%	100.5%	(379 bps)	83.1%	1358 bps	95.1%	162 bps
Combined Ratio ex cats and PYD	94.1%	97.7%	(352 bps)	82.7%	1141 bps	92.6%	150 bps
Operating EPS	\$0.27	\$0.06	380%	\$0.93	-71%	\$0.34	-22%
Book value per share (ex. AOCI)	\$30.6	\$30.2	1%	\$27.6	11%	\$30.5	1%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	July '21A	June '21	% Change	July '20	% Change	July '21	% Var.
Personal lines-agent	\$1,704	\$1,318	29%	\$1,627	5%	\$1,740	-2%
Personal lines-direct	\$1,917	\$1,403	37%	\$1,787	7%	\$1,930	-1%
Total Personal Lines	\$3,621	\$2,720	33%	\$3,413	6%	\$3,670	-1%
Commercial Business & Other	\$732	\$695	5%	\$521	41%	\$625	17%
Property	\$199	\$213	-7%	\$175	13%	\$202	-1%
Total Written Premiums	\$4,552	\$3,627	25%	\$4,109	11%	\$4,497	1%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	July '21A	June '21	% Change	July '20	% Change	July '21	% Var.
Total Personal Lines	97.8%	100.8%	(300 bps)	83.4%	1440 bps	95.0%	284 bps
Personal lines-agent	97.2%	98.7%	(150 bps)	82.3%	1490 bps	93.7%	350 bps
Personal lines-direct	98.3%	102.8%	(450 bps)	84.4%	1390 bps	94.0%	430 bps
Commercial Business & Other	87.3%	96.7%	(940 bps)	85.1%	220 bps	90.8%	(350 bps)
Property	112.8%	107.6%	520 bps	80.4%	3240 bps	111.0%	180 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	46,330	50,722	55,413
Revenues:						
Net premiums earned	30,933	36,192	39,262	44,106	48,938	54,236
Investment income	821	1,042	937	871	940	1,009
Total net realized gains (losses) on securities	(406)	1,029	1,630	1,170	-	-
Fees and other revenues	472	564	604	701	744	814
Service revenues	159	195	226	266	259	287
Total revenues	31,979	39,022	42,658	47,113	50,882	56,346
Expenses:						
Losses and loss adjustment expenses	21,721	25,471	25,122	33,193	36,476	39,818
Total underwriting expenses	6,770	7,998	8,843	9,649	10,716	11,873
Policyholder credit expense	-	-	1,077	-	-	-
Investment expenses	24	25	20	27	30	33
Service expenses	134	179	206	244	269	298
Interest expense	167	190	217	219	206	206
Total expenses	28,815	33,862	35,485	43,332	47,698	52,227
Underwriting Income	2,443	2,724	5,297	1,263	1,746	2,545
Income before income taxes	3,164	5,160	7,173	3,781	3,184	4,119
Provision for income taxes	543	1,180	1,469	782	669	865
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-	-
Net income	2,615	3,970	5,705	2,999	2,515	3,254
Less: Preferred stock dividends	21	27	27	27	27	27
Net income to common shareholders	2,594	3,943	5,678	2,972	2,488	3,227
ATX total net realized gains (losses) on sec	(320)	813	1,288	924	-	-
Other	(1)	-	-	-	-	-
Operating income to common shareholders	2,915	3,130	4,390	2,048	2,488	3,227
Operating EPS	\$5.00	\$5.33	\$7.47	\$3.49	\$4.23	\$5.49
Net EPS	\$4.43	\$6.72	\$9.66	\$5.07	\$4.23	\$5.49
Net Written Premiums (y/y %)		15.2%	8.0%	14.2%	9.5%	9.2%
Net Earned Premiums (y/y %)		17.0%	8.5%	12.3%	11.0%	10.8%

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%	75.3%	74.5%	73.4%
Expense ratio	20.4%	20.5%	21.0%	20.3%	20.4%	20.4%
Combined ratio	90.6%	90.9%	85.0%	95.5%	94.9%	93.8%
Catastrophes pretax	567	552	880	919	726	799
Cat pts	1.8%	1.5%	2.2%	2.1%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	(300)	(245)	(271)
PYD pts	-0.3%	-0.6%	-0.5%	-0.7%	-0.5%	-0.5%
Underlying loss ratio	68.1%	68.2%	61.2%	72.5%	72.6%	71.4%
Underlying combined ratio	88.5%	88.8%	82.2%	92.8%	92.9%	91.8%
<u>Share information</u>						
Shares beginning period	581.7	583.2	584.6	585.2	585.3	585.3
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	585.3	585.3	585.3
Weighted average shares - basic	582.4	583.8	584.9	585.0	585.3	585.3
Dilution	3.8	3.1	2.5	2.1	2.1	2.1
Weighted average shares - diluted	586.2	586.9	587.4	587.1	587.4	587.4
<u>Capital deployment</u>						
Assumed Share price for repurchases	\$58	\$73	\$86	\$92	\$85	\$85
# of shares repurchased (in mn)	1.3	1.2	1.3	1.5	1.7	1.7
\$ Repurchased	76	86	112	139	144	144
Dividends per share	\$2.51	\$2.65	\$4.90	\$2.20	\$2.40	\$2.65
\$ amt common dividend	1,465	1,548	2,866	1,288	1,405	1,551
Total capital returned	1,541	1,634	2,978	1,427	1,549	1,695
Total capital returned, % normalized earnings	53%	52%	68%	70%	62%	53%
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	10,234	12,612	15,613	17,104	18,043	19,575
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,359	17,574	18,809
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$29.22	\$30.83	\$33.44
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	12.5%	14.2%	17.2%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	16.6%	13.5%	16.2%

Source: Barclays Research, Company Data.

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Primary Stocks (Ticker, Date, Price)

Progressive Corp. (PGR, 17-Aug-2021, USD 95.67), Underweight/Positive, CD/CE/J/K/M

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IMPORTANT DISCLOSURES**Progressive Corp. (PGR / PGR)****USD 95.67 (17-Aug-2021)**

Stock Rating

UNDERWEIGHT

Industry View

POSITIVE**Rating and Price Target Chart - USD (as of 17-Aug-2021)**

Currency=USD



Publication Date	Closing Price	Rating	Adjusted Price Target
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
12-Nov-2018	71.90		67.00

On 18-Aug-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 59.00.

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 \$82 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022/2023. '22E and '23E EPS is \$4.23 and \$5.49, respectively. '22E and '23E BVPS (ex AOCI) is \$30.83 and \$33.44, respectively.

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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