

Progressive Corp.

April '22 Earnings: PIF growth y/y turns negative as expected

While PGR is making sequential progress improving its AY loss ratio, we question the integrity of PGR's loss picks. Ongoing adverse PYD (3 out of the last 4 months). Personal auto PIF decline (1%) y/y is playing out as predicted given sequential declines since Nov. '21. PGR's 17.8% expense ratio appears to be an anomaly.

PGR's underlying loss ratio of 72.6% in April improved from 74.2% in March. We are seeing ongoing adverse PYD (3 out of the last 4 months). Unfavorable PYD catch up makes us pause on concluding an indicative trend based on monthly prints. It may be prudent to take a step back and assess progression on underlying performance over a multi-month period.

Personal auto PIF growth y/y turns negative (-1.1%, worse than our estimate of -0.7%) driven by a slowdown in auto direct (+0.6% vs. our +0.9%) and auto agency (-3.1% vs. our -2.6%). We are cautious about PGR's stance that major personal auto rate increases are behind them (with the exception of a few key states). With PIF pressures, potentially PGR hit the apple core so it cannot chomp further on rate increases. We foresee a prolonged timeframe for PGR to return to double-digit rate increases and think its loss ratio may be put to the side in favor of PIF growth.

April operating EPS of \$0.36 beat our \$0.34 estimate primarily on better underwriting and higher net investment income, somewhat offset by worse catastrophe losses than our expectations.

PGR: Quarterly and Annual EPS (USD)

FY Dec	Actual	2021			2022			2023		Change y/y	
		Old	New	Cons	Old	New	Cons	2022	2023		
Q1	1.72A	1.12E	1.12A	0.52A	1.36E	1.40E	1.65E	-35%	25%		
Q2	0.71A	0.90E	0.96E	0.97E	1.21E	1.26E	1.36E	35%	31%		
Q3	0.15A	1.08E	1.11E	1.10E	1.17E	1.23E	1.38E	640%	11%		
Q4	1.06A	1.26E	1.31E	1.46E	1.31E	1.36E	1.74E	24%	4%		
Year	3.64A	4.36E	4.50E	4.64E	5.04E	5.25E	6.16E	24%	17%		
P/E	30.5		24.7			21.2					

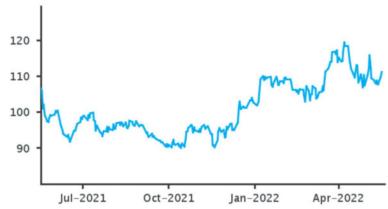
Consensus numbers are from Bloomberg received on 18-May-2022; 12:50 GMT

Source: Barclays Research

| CORE

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 90.00
	raised 2% from USD 88.00
Price (17-May-22)	USD 111.19
Potential Upside/Downside	-19.1%
Market Cap (USD mn)	65033
Shares Outstanding (mn)	584.88
Free Float (%)	99.70
52 Wk Avg Daily Volume (mn)	2.8
Dividend Yield (%)	0.36
Return on Equity TTM (%)	12.73
Current BVPS (USD)	28.31
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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U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)						UNDERWEIGHT	
Income statement	2021A	2022E	2023E	2024E	CAGR	Price (17-May-2022)	USD 111.19
Net premiums earned (\$mn)	44,369	47,908	51,381	N/A	N/A	Price Target	USD 90.00
Net investment income (NII) (\$mn)	861	945	961	N/A	N/A	Why UNDERWEIGHT?	
Underwriting income (\$mn)	1,374	1,960	2,464	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	2,642	3,084	N/A	N/A		
Net income (\$mn)	3,324	1,876	3,084	N/A	N/A		
Effective tax rate (%)	20.4	20.8	21.0	N/A	N/A		
Combined ratio (%)	95.3	94.4	93.7	N/A	N/A		
Combined ratio (ex cats & py development) (%)	92.4	91.9	92.2	N/A	N/A		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	Upside case USD 125.00	
EPS (adj)	3.64	4.50	5.25	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	3.20	5.25	N/A	N/A		
DPS	1.90	2.40	2.65	N/A	N/A		
BVPS	30.35	27.63	30.00	N/A	N/A		
BVPS (ex AOCI)	30.28	30.95	33.33	N/A	N/A		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR	Downside case USD 75.00	
Total investments	51,514	54,202	58,563	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	18,104	19,494	N/A	N/A		
Share buybacks	223	N/A	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	25.6	24.2	N/A	23.7		
Financial leverage (%)	23.4	27.5	26.1	N/A	25.7		
Total capital return as a % of op. earnings	62.5	N/A	54.9	N/A	58.7		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	3.67	3.59	3.34	N/A	3.53		
P/E (adj) (x)	30.5	24.7	21.2	N/A	25.5		
Dividend yield (%)	1.7	2.2	2.4	N/A	2.1		
ROE (%)	18.5	10.1	15.5	N/A	14.7		



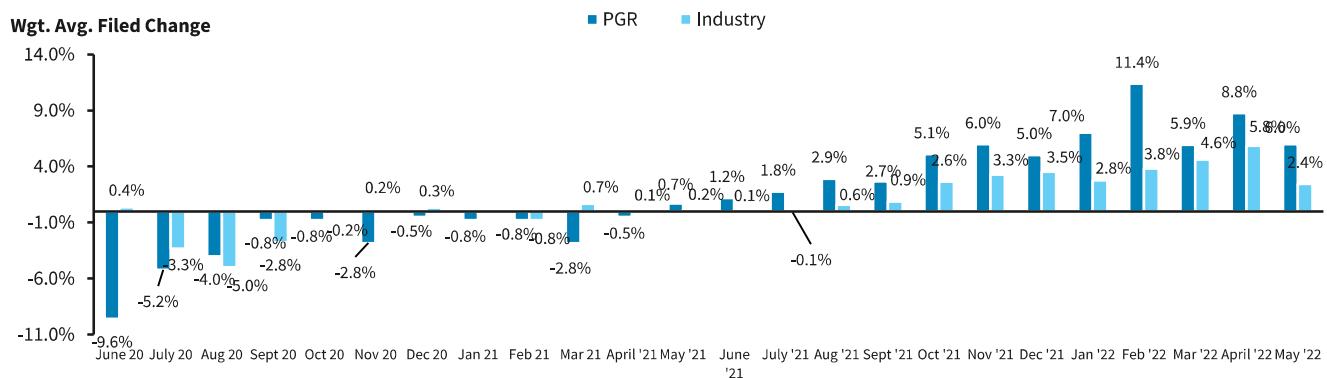
Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

What Rate Filings Tell Us:

Rate Approvals So Far ... Limited States

FIGURE 1. PGR received 6.7% weighted avg rate approvals in April '22, in 12 states: AL, AZ, DE, GA, IL, KS, MN, NC, ND, NE, NM, and SC.



Personal auto only

Source: S&P Global Market Intelligence, Barclays Research

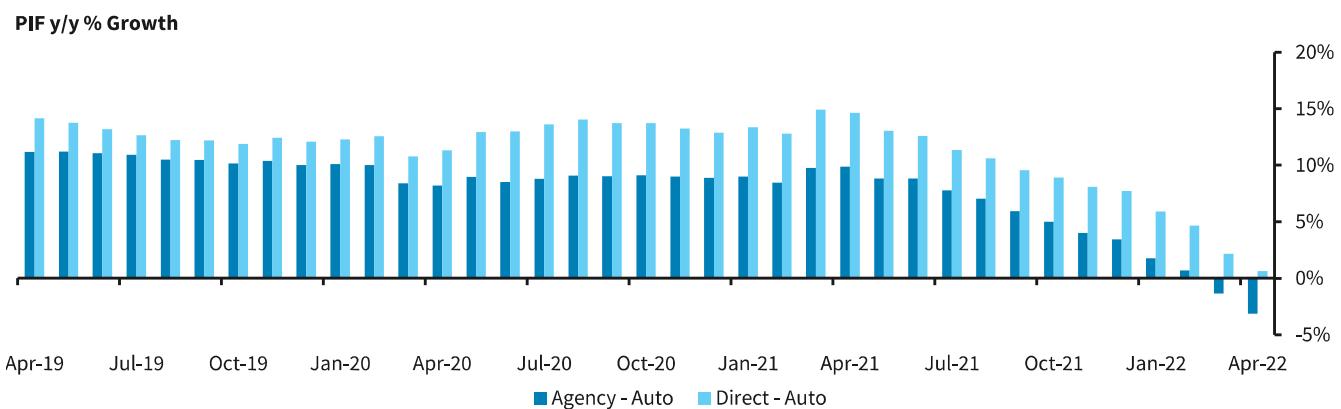
Looking at April renewal effective dates, PGR received 51 rate approvals in 12 states: AL, AZ, DE, GA, IL, KS, MN, NC, ND, NE, NM, and SC, ranging from -1.8% to ~21%. PGR's rate approvals show a weighted average of +6.7% approvals on ~\$6bn of subject premiums, or ~\$400mn in additional premiums.

PIF Growth Spotlight

PIF growth y/y trend turned negative in April

PGR reported personal auto PIF growth of (1.1)% in April (worse than our estimate of -0.7%), mostly seen in auto agency (-3.1% vs. our -2.6%) and a slowdown in auto direct (+0.6% vs. our +0.9%). Personal auto PIF growth on a m/m basis has been negative for 6 consecutive quarters: -0.4% Nov. '21, -0.4% Dec. '21, -0.3% Jan. '22, -0.1% Feb. '22, -0.4% March '22 and -0.3% April. We look at sequential PIF declines as a precursor.

FIGURE 2. PIF growth y/y trend moderating in April across agent (-3.1%) and direct (+0.6%).

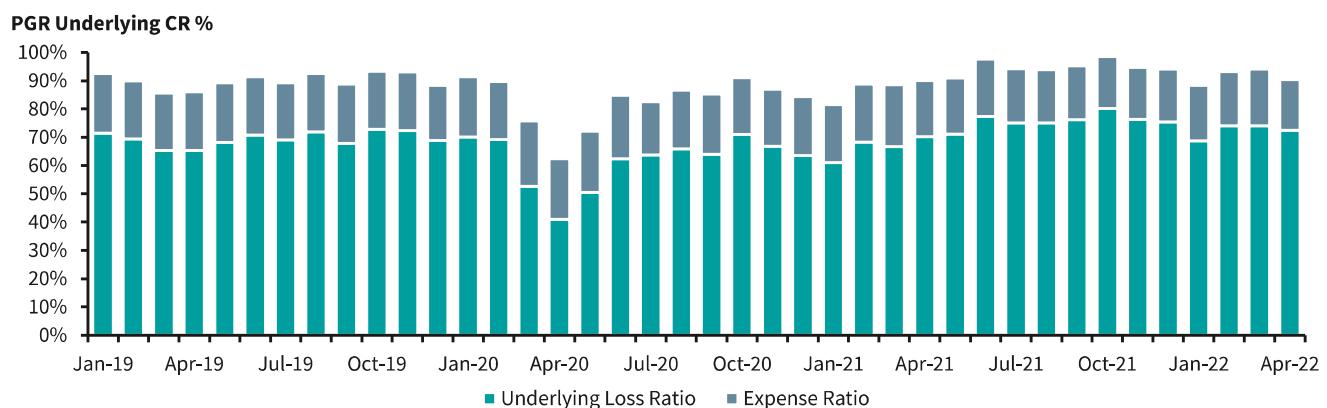


Source: Barclays Research, Company Data.

Underlying Combined Ratio Improving Sequentially

PGR's underlying loss ratio of 72.6% in April improved from 74.2% in March. PGR's 17.8% expense ratio feels low; may be tough to repeat. We expect PGR to start to normalize marketing spend over time.

FIGURE 3. April '22 underlying loss ratio of 72.6% (vs. 74.6% Barclays) and expense ratio of 17.8% (vs. 19.2% Barclays)

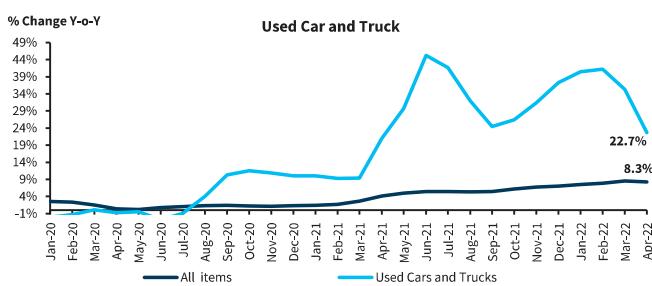


Source: Barclays Research, Company Data.

Inflation: Used Car Sales Convergence, Manheim vs. CPI

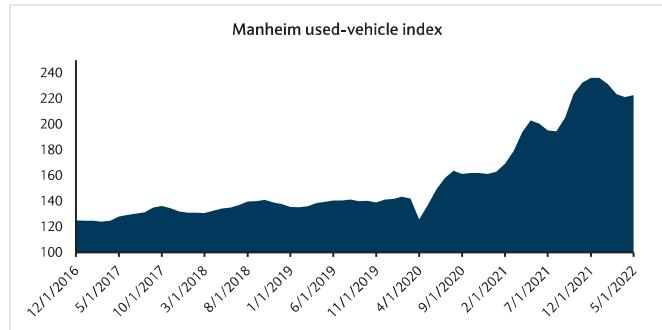
The Consumer Price Index (CPI) for All Urban Consumers rose 8.3% over the 12 months from April 2020 to April 2021. New car and motor vehicle parts/equipment prices rose 1.1% and 1.2%, respectively on a sequential basis.

FIGURE 4. CPI (y/y 22.7%): Used Car and Truck decreasing (April '22)



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

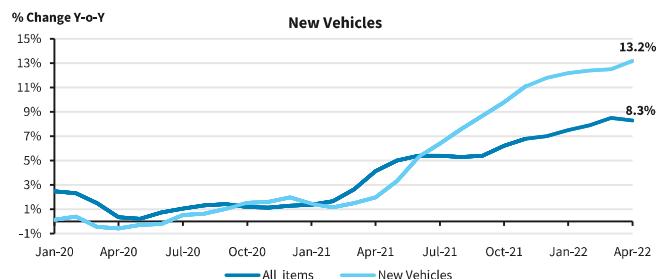
FIGURE 5. Yet Manheim used car prices modestly up m/m (May '22 vs. April '22)



Source: Barclays Research, Bloomberg, Manheim

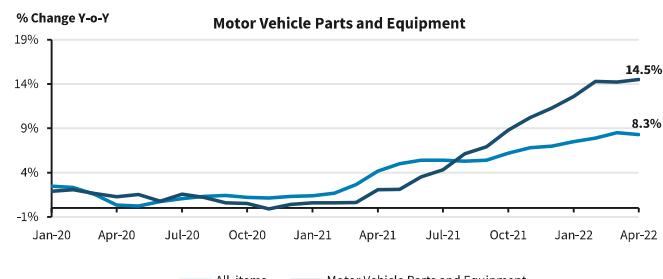
The new vehicle CPI index rose 13.2% y/y (vs. 12.5% in March) and Motor Vehicle Parts and Equipment CPI index rose 14.5% y/y (vs. 14.2% in March)

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 (up from \$88) is based on 16x our '23 EPS (unchanged) and 2.9x '23 BVPS (ex AOCI) (unchanged).

Model Updates:

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

Updated EPS: '22 from \$4.36 to \$4.50. '23E from \$5.04 to \$5.25.

Variance Tables – April '22

FIGURE 8. Variance Analysis - April '22

Summary Details		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		April '22	March '22	% Change	April '21	% Change	April '22	% Var.
Net premiums written	\$4,821	\$3,970	21%	\$4,451	8%	\$4,683	3%	
Net investment income	\$87	\$94	-7%	\$65	35%	\$76	15%	
Combined Ratio	95.5%	97.2%	(168 bps)	96.0%	(44 bps)	95.5%	7 bps	
Combined Ratio ex cats and PYD	90.4%	94.1%	(369 bps)	90.0%	34 bps	93.9%	(346 bps)	
Operating EPS	\$0.36	\$0.23	57%	\$0.28	31%	\$0.34	8%	
Book value per share (ex. AOCI)	\$30.4	\$30.7	-1.1%	\$29.5	3%	\$29.9	1%	

NPW by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		April '22	March '22	% Change	April '21	% Change	April '22	% Var.
Personal lines-agent	\$1,775	\$1,404	26%	\$1,722	3%	\$1,705	4.1%	
Personal lines-direct	\$1,952	\$1,582	23%	\$1,814	8%	\$1,827	6.9%	
Total Personal Lines	\$3,728	\$2,986	25%	\$3,537	5.4%	\$3,531	5.6%	
Commercial Business & Other	\$885	\$772	15%	\$732	21%	\$951	-7%	
Property	\$207	\$212	-3%	\$182	13%	\$201	3%	
Total Written Premiums	\$4,821	\$3,970	21%	\$4,451	8%	\$4,683	3%	

CR by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		April '22	March '22	% Change	April '21	% Change	April '22	% Var.
Total Personal Lines	94.1%	96.4%	(230 bps)	94.6%	(50 bps)	95.3%	(123 bps)	
Personal lines-agent	93.8%	96.3%	(250 bps)	93.7%	10 bps	94.0%	(23 bps)	
Personal lines-direct	94.3%	96.5%	(220 bps)	95.4%	(110 bps)	95.0%	(67 bps)	
Commercial Business & Other	91.8%	89.9%	190 bps	89.0%	280 bps	92.4%	(55 bps)	
Property	137.4%	134.7%	270 bps	149.9%	(1250 bps)	111.0%	2640 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
Net premiums written	37,578	40,569	46,405	37,064	54,963
Revenues:					
Net premiums earned	36,192	39,262	44,369	47,908	51,381
Investment income	1,042	937	861	945	961
Total net realized gains (losses) on securities	1,029	1,630	1,509	(970)	-
Fees and other revenues	564	604	692	713	771
Service revenues	195	226	271	285	308
Total revenues	39,022	42,658	47,702	48,881	53,420
Expenses:					
Losses and loss adjustment expenses	25,471	25,122	33,628	36,057	37,899
Total underwriting expenses	7,998	8,843	9,368	9,891	11,017
Policyholder credit expense	-	1,077	-	-	-
Investment expenses	25	20	26	28	31
Service expenses	179	206	253	262	283
Interest expense	190	217	219	243	251
Total expenses	33,862	35,485	43,492	46,479	49,482
Underwriting Income	2,724	5,297	1,374	1,960	2,464
Income before income taxes	5,160	7,173	4,210	2,401	3,938
Provision for income taxes	1,180	1,469	859	498	827
Other comp (income) loss att. to NCI	(10)	-	-	-	-
Net income	3,970	5,705	3,351	1,903	3,111
Less: Preferred stock dividends	27	27	27	27	27
Net income to common shareholders	3,943	5,678	3,324	1,876	3,084
ATX total net realized gains (losses) on sec	813	1,288	1,192	(766)	-
Other	-	-	-	-	-
Operating income to common shareholders	3,130	4,390	2,132	2,642	3,084
Operating EPS	\$5.33	\$7.47	\$3.64	\$4.50	\$5.25
Net EPS	\$6.72	\$9.66	\$5.66	\$3.20	\$5.25
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	-20.1%	48.3%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	8.0%	7.2%

Source: Barclays Research, Company Data.

FIGURE 10. Model Summary (pg. 2)

(\$ in mn, except per share data)	2019	2020	2021	2022E	2023E
<u>Underwriting Margins</u>					
Loss and LAE ratio	70.4%	64.0%	75.8%	75.3%	73.8%
Expense ratio	20.5%	21.0%	19.6%	19.2%	19.9%
Combined ratio	90.9%	85.0%	95.3%	94.4%	93.7%
Catastrophes pretax	552	880	1,310	970	767
Cat pts	1.5%	2.2%	3.0%	2.0%	1.5%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(229)	-
PYD pts	-0.6%	-0.5%	0.0%	-0.5%	0.0%
Underlying loss ratio	68.2%	61.2%	72.8%	72.8%	72.3%
Underlying combined ratio	88.8%	82.2%	92.4%	91.9%	92.2%
<u>Share information</u>					
Shares beginning period	583.2	584.6	585.2	584.4	584.9
Shares issued	3	2	2	2	2
Shares Repurchased	1	1	2	1	2
Common Shares Outstanding, end of period	584.6	585.2	584.4	584.9	584.9
Weighted average shares - basic	583.8	584.9	584.7	584.8	584.9
Dilution	3.1	2.5	2.3	2.6	2.6
Weighted average shares - diluted	586.9	587.4	587.0	587.4	587.5
<u>Shareholders' equity and returns</u>					
Common shareholders' equity ex AOCI	12,612	15,613	17,697	18,104	19,494
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,900	18,799
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.95	\$33.33
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	14.8%	16.4%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	10.1%	15.5%

Source: Barclays Research, Company Data.

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Progressive Corp. (PGR, 17-May-2022, USD 111.19), 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 Group Holdings (RYAN)	The Hartford Financial Services Group, Inc. (HIG)	The Travelers Companies, Inc. (TRV)

Distribution of Ratings:

Barclays Equity Research has 1735 companies under coverage.

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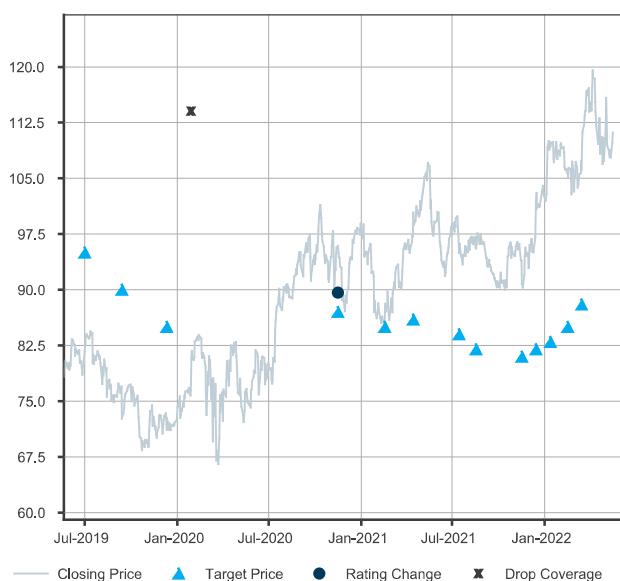
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 111.19 (17-May-2022)

Rating and Price Target Chart - USD (as of 17-May-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

On 18-May-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 \$90 PT is based on 16x EPS and 2.9x BVPS (ex AOCI) on 2023E.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The primary risks to our thesis are if PGR can improve PIF growth back to double digit levels while producing underlying loss ratios <70% on a sustainable basis. This would require loss cost trends abating, that is outside our base case. Next, PGR may be uniquely positioned to make a digital breakthrough within the small commercial lines market (\$120bn premiums/TAM) if it can successfully leverage its multivariate pricing model it is known for on the personal auto side.

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