

Progressive Corp.

July '22 Earnings: Better than expected

| CORE

No doubt July is a strong print. However, we think PGR's expense ratio and favorable PYD is less sustainable.

Key Highlights: PGR's underlying loss ratio of 72.4% in July was notably better than 74.3% in June and 73.0% in May. Still a way to go to return to pre-pandemic levels (~68%). PGR's expense ratio of 17.6% feels like an anomaly. The more time that goes by the more expensive it is to repair vehicles. We think PGR's favorable PYD that benefited the combined ratio by 1.6 points this month is less sustainable.

PGR is showing traction in earning in auto pricing increases; its average monthly NWP per policy (6 months rolling) is up 11.4% on a sequential basis.

Following 8 months of sequential auto PIF declines, July marked a modest increase in m/m PIF growth at 0.3%, thanks to direct auto (0.8% m/m). Still, PGR reported personal auto PIF growth of (2.2)% in July (vs. our -2.6%), mostly seen in auto agency (-5.2% vs. our -5.3%) followed by auto direct (+0.2% vs. our -0.4%).

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.

July operating EPS of \$0.75 beat our \$0.31 estimate. PGR's investment income, favorable PYD, catastrophe losses, expense ratio and underlying loss ratio were all better than expected.

PGR: Quarterly and Annual EPS (USD)

FY Dec	2021	2022			2023			Change y/y	
		Old	New	Cons	Old	New	Cons	2022	2023
Q1	1.72A	1.12A	1.12A	0.52A	1.22E	1.41E	1.57E	-35%	26%
Q2	0.71A	1.03E	1.03A	-0.94A	1.23E	1.43E	1.43E	45%	39%
Q3	0.14A	0.82E	1.42E	1.14E	1.26E	1.44E	1.42E	914%	1%
Q4	1.06A	1.15E	1.33E	1.46E	1.39E	1.60E	1.75E	25%	20%
Year	3.63A	4.13E	4.91E	4.59E	5.10E	5.88E	6.25E	35%	20%
P/E	33.7		24.9			20.8			

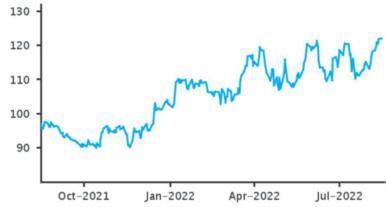
Consensus numbers are from Bloomberg received on 17-Aug-2022; 12:50 GMT

Source: Barclays Research

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 106.00
	raised 18% from USD 90.00
Price (16-Aug-22)	USD 122.49
Potential Upside/Downside	-13.5%
Market Cap (USD mn)	71646
Shares Outstanding (mn)	584.92
Free Float (%)	99.70
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 122.77-88.05



Source: IDC
Link to Barclays Live for interactive charting

U.S. Insurance/Non-Life

Tracy Benguigui

+1 212 526 1561
tracy.benguigui@barclays.com
BCI, US

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U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)						UNDERWEIGHT	
Income statement (\$mn)	2021A	2022E	2023E	2024E	CAGR	Price (16-Aug-2022)	USD 122.49
Net premiums earned	44,369	49,208	54,045	58,535	9.7%	Price Target	USD 106.00
Net investment income (NII)	861	1,128	1,269	1,373	16.8%	Why UNDERWEIGHT?	
Underwriting income	1,374	2,054	2,583	2,873	27.9%	Our call on PGR takes a longer term view.	
Operating income	2,132	2,882	3,454	3,819	21.5%	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.	
Net income	3,324	1,619	3,454	3,819	4.7%		
Effective tax rate (%)	20.4	22.3	21.0	21.0	1.0%		
Combined ratio (%)	95.3	94.4	93.7	93.6	-0.6%		
Combined ratio (ex cats & py development) (%)	92.4	92.1	92.3	92.5	0.1%		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	Upside case USD 132.00	
EPS (adj)	3.63	4.91	5.88	6.50	21.4%	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 ~22x '23E EPS.	
EPS (reported)	5.66	2.75	5.88	6.50	4.7%		
DPS	1.90	2.40	2.65	28.20	145.8%		
BVPS	30.35	27.50	30.40	8.75	-33.9%		
BVPS (ex AOCI)	30.28	30.54	33.44	11.79	-27.0%		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR	Downside case USD 90.00	
Total investments	51,514	54,753	58,982	63,804	7.4%	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	17,861	19,557	6,896	-27.0%		
Share buybacks	223	38	209	-11	N/A		
Dividends paid	1,109	1,403	1,550	16,491	145.9%		
Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average	Upside/Downside scenarios	
Debt leverage (%)	21.2	25.8	24.2	46.4	29.4		
Financial leverage (%)	23.4	27.8	26.0	49.9	31.8		
Total capital return as a % of op. earnings	62.5	50.0	50.9	431.5	148.7		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	4.04	4.01	3.66	10.39	5.53		
P/E (adj) (x)	33.7	24.9	20.8	18.8	24.6		
Dividend yield (%)	1.6	2.0	2.2	23.0	7.2		
ROE (%)	18.5	8.8	17.4	30.2	18.7		

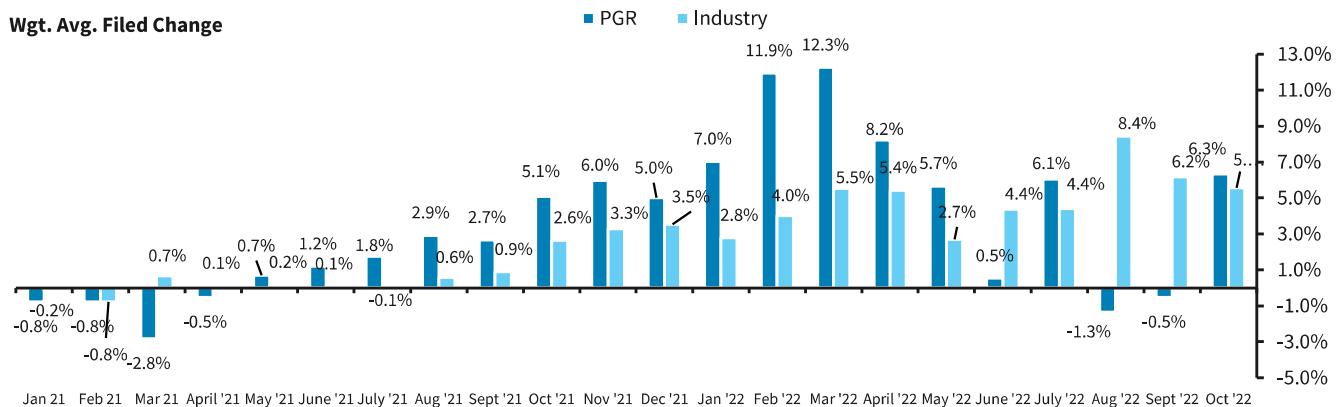
Note: FY End Dec
Source: Company data, Bloomberg, Barclays Research

Price History (Prior 12 months)	Price Target (Next 12 months)
High: 122.77	Upside: 132.00
Current: 122.49	Target: 106.00
Low: 88.05	Downside: 90.00

What Rate Filings Tell Us:

PGR was on the earlier side taking rate increases vs. the industry. The bull case is that PGR needs less of a catch up. With inflation at high absolute levels, we remain cautious on PGR's stance that getting more rate is behind them, with the exception of a few key states,. Albeit, July was a strong print.

FIGURE 1. PGR rate approvals vs. Industry



Personal Auto only: Data as of Aug 17, 2022

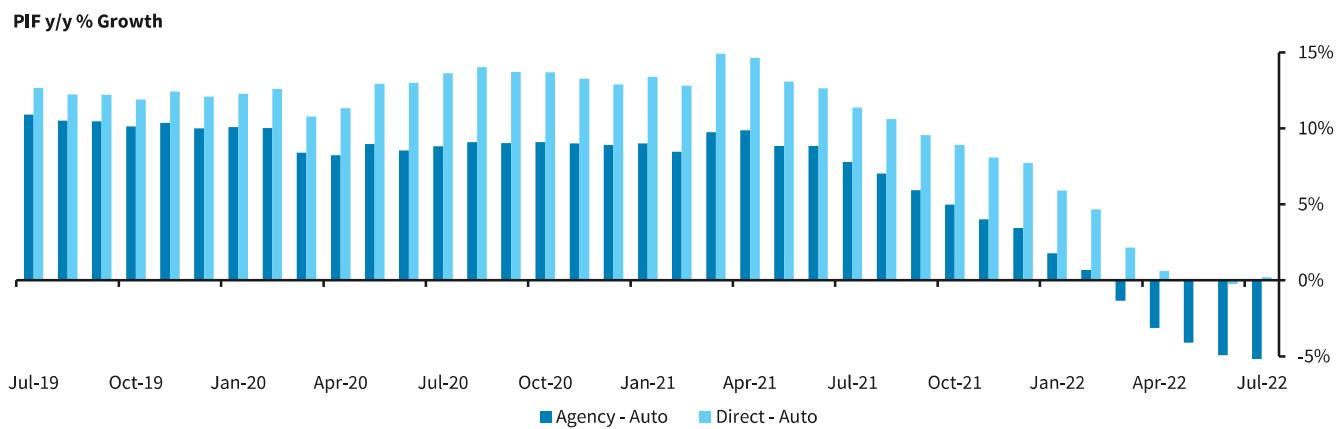
Source: S&P Global Market Intelligence, Barclays Research

PIF Growth Spotlight

PGR reported personal auto PIF growth of (2.2)% in July (better than our estimate of -2.6%), mostly seen in auto agency (-5.2% vs. our -5.3%) followed by auto direct (+0.2% vs. our -0.4%).

As PIF declines remain more evident in agency vs. direct, we expect PGR's customer mix to continue to shift toward direct over time. We saw PIF sequential declines in agency over the last 11 quarters while in July modest pick up in direct. To recap, direct represents 54% of personal auto PIF in July '22.

FIGURE 2. PIF growth y/y in July with agent (-5.2%) and direct (+0.2%).

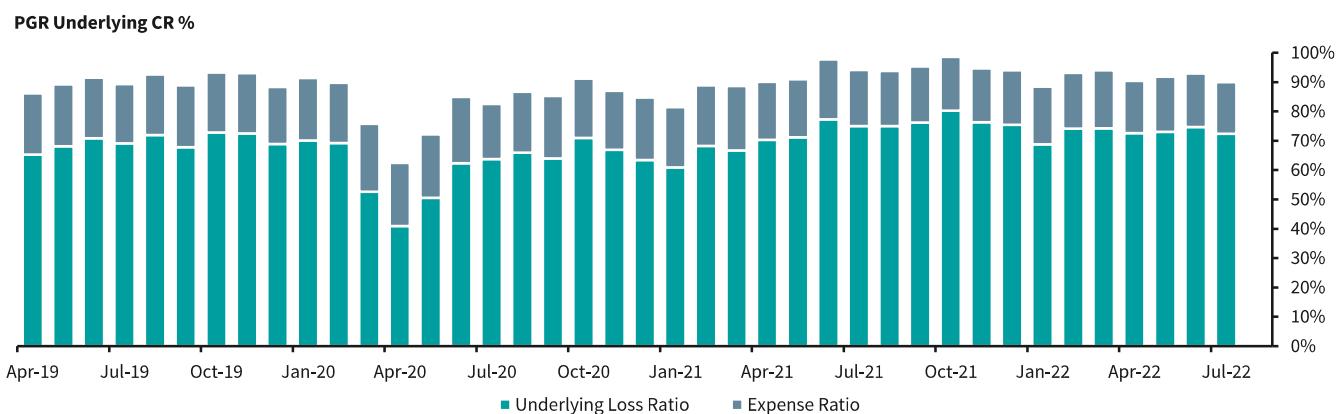


Source: Barclays Research, Company Data.

Underlying Combined Ratio Improving Sequentially

PGR's underlying loss ratio of 72.4% in July was notably better than 74.7% in June and 73.0% in May. Still a way to go to return to pre-pandemic levels (~68%). PGR's expense ratio of 17.6% feels like an anomaly. Collectively, PGR's underlying combined ratio of 90% improved sequentially from 92.4% in June and 91.8% in May.

FIGURE 3. July '22 underlying loss ratio of 72.4% (vs. 74.7% Barclays) and expense ratio of 17.6% (vs. 19.0% Barclays)

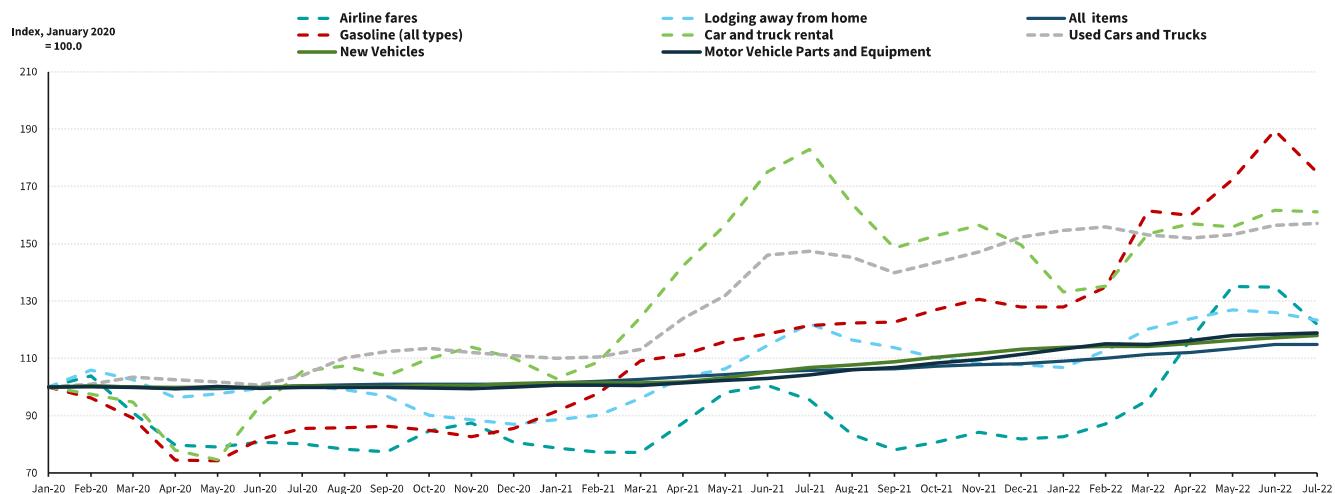


Source: Barclays Research, Company Data.

Inflation: Focus on Absolute Levels

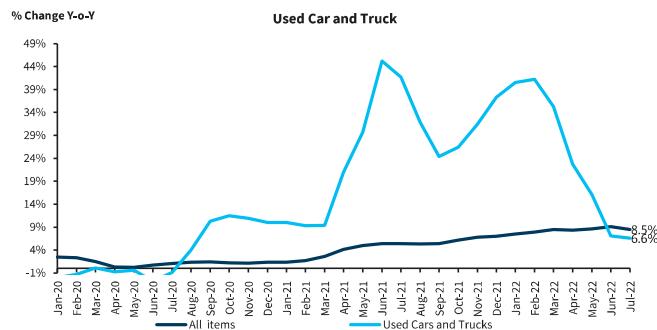
The Consumer Price Index (CPI) for All Urban Consumers rose 8.5% over the 12 months from July 2021 to July 2022. Used car and truck CPI incline has been decelerating since March '22, yet on an absolute basis used car pricing remains significantly elevated.

FIGURE 4. CPI Indexed to Jan. '20



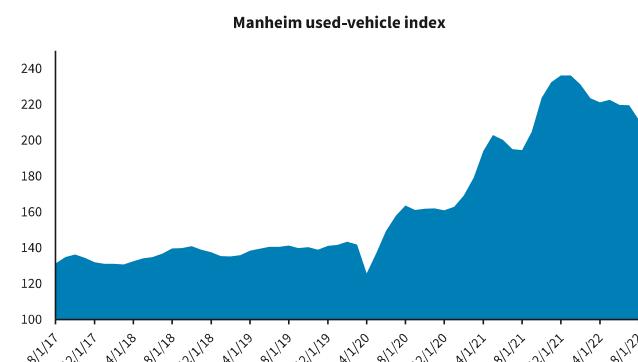
Source: Barclays Research, U.S. Bureau of Labor Statistics

FIGURE 5. CPI: Used Car and Truck (y/y +6.6% in July '22)



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

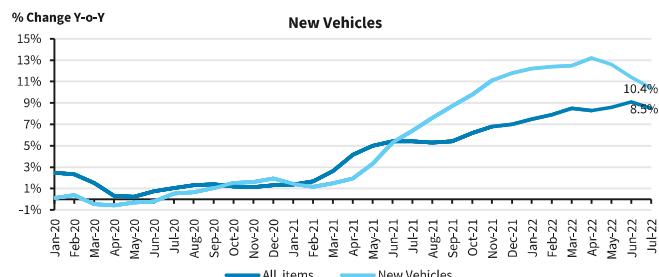
FIGURE 6. Manheim used car prices (y/y 8.8% in Aug '22)



Source: Barclays Research, Bloomberg, Manheim

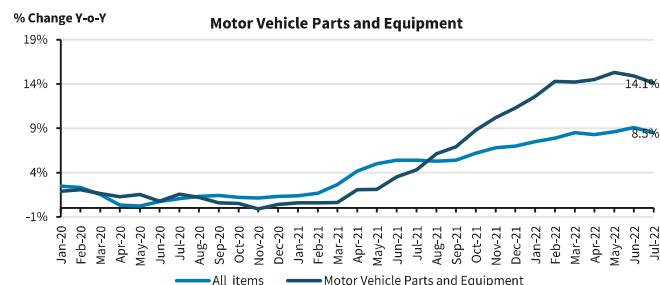
The new vehicle CPI index rose 10.4% y/y (vs. 11.4% in June) and Motor Vehicle Parts and Equipment CPI index rose 14.1% y/y (vs. 14.9% in June).

FIGURE 7. CPI % Change (Y-o-Y): New Vehicles



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

FIGURE 8. CPI % Change (Y-o-Y): Motor Vehicle Parts and Equipment



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

Valuation

We raise our PT to \$106 from \$90 based on 18x (up from 16x) our '23E EPS and 3.2x (up from 2.9x) '23E BVPS (ex AOCI).

Model Updates:

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

Updated EPS: '22E from \$4.13 to \$4.91. '23E from \$5.10 to \$5.88.

Variance Tables – July '22

FIGURE 9. Variance Analysis - July '22

Summary Details		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		July '22	June '22	% Change	July '21	% Change	July '22	% Var.
Net premiums written	\$4,929	\$3,877	27%	\$4,552	8%	\$4,966	-1%	
Net investment income	\$98	\$112	-12%	\$68	45%	\$78	26%	
Combined Ratio	89.8%	94.7%	(490 bps)	96.7%	(690 bps)	96.1%	(634 bps)	
Combined Ratio ex cats and PYD	90.0%	92.8%	(288 bps)	94.1%	(419 bps)	93.8%	(381 bps)	
Operating EPS	\$0.75	\$0.40	90%	\$0.27	183%	\$0.31	139%	
Book value per share (ex. AOCI)	\$30.8	\$29.6	4.0%	\$30.6	0%	\$29.8	3%	

NPW by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		July '22	June '22	% Change	July '21	% Change	July '22	% Var.
Personal lines-agent	\$1,815	\$1,381	31%	\$1,704	7%	\$1,727	5.1%	
Personal lines-direct	\$2,152	\$1,544	39%	\$0	#DIV/0!	\$2,069	4.0%	
Total Personal Lines	\$3,967	\$2,925	36%	\$3,621	9.6%	\$3,797	4.5%	
Commercial Business & Other	\$755	\$736	3%	\$732	3%	\$951	-21%	
Property	\$206	\$216	-4%	\$199	4%	\$219	-6%	
Total Written Premiums	\$4,929	\$3,877	27%	\$4,552	8%	\$4,966	-1%	

CR by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		July '22	June '22	% Change	July '21	% Change	July '22	% Var.
Total Personal Lines	91.6%	95.3%	(370 bps)	97.8%	(620 bps)	96.1%	(451 bps)	
Personal lines-agent	90.8%	93.7%	(290 bps)	97.2%	(640 bps)	94.2%	(337 bps)	
Personal lines-direct	92.4%	96.7%	(430 bps)	98.3%	(590 bps)	95.0%	(260 bps)	
Commercial Business & Other	81.3%	87.8%	(650 bps)	87.3%	(600 bps)	92.6%	(1130 bps)	
Property	94.1%	112.0%	(1790 bps)	112.8%	(1870 bps)	114.0%	(1990 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	51,372	57,498	63,922
Revenues:						
Net premiums earned	36,192	39,262	44,369	49,208	54,045	58,535
Investment income	1,042	937	861	1,131	1,273	1,377
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,313)	-	-
Fees and other revenues	564	604	692	725	811	878
Service revenues	195	226	271	302	324	351
Total revenues	39,022	42,658	47,702	50,053	56,453	61,141
Expenses:						
Losses and loss adjustment expenses	25,471	25,122	33,628	37,174	40,012	42,802
Total underwriting expenses	7,998	8,843	9,368	9,947	11,451	12,860
Policyholder credit expense	-	1,077	-	-	-	-
Investment expenses	25	20	26	26	31	34
Service expenses	179	206	253	282	297	322
Interest expense	190	217	219	243	251	251
Total expenses	33,862	35,485	43,492	47,897	52,043	56,269
Underwriting Income	2,724	5,297	1,374	2,087	2,583	2,873
Income before income taxes	5,160	7,173	4,210	2,156	4,411	4,872
Provision for income taxes	1,180	1,469	859	481	926	1,023
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-
Net income	3,970	5,705	3,351	1,676	3,485	3,849
Less: Preferred stock dividends	27	27	27	27	27	26
Net income to common shareholders	3,943	5,678	3,324	1,649	3,458	3,822
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,038)	-	-
Other	-	-	-	(225)	-	-
Operating income to common shareholders	3,130	4,390	2,132	2,911	3,458	3,822
Operating EPS	\$5.33	\$7.47	\$3.63	\$4.96	\$5.88	\$6.51
Net EPS	\$6.72	\$9.66	\$5.66	\$2.80	\$5.88	\$6.51
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	10.7%	11.9%	11.2%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	10.9%	9.8%	8.3%

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%	75.5%	74.0%	73.1%
Expense ratio	20.5%	21.0%	19.6%	18.7%	19.7%	20.5%
Combined ratio	90.9%	85.0%	95.3%	94.3%	93.7%	93.6%
Catastrophes pretax	552	880	1,310	1,050	785	615
Cat pts	1.5%	2.2%	3.0%	2.1%	1.5%	1.1%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(72)	-	-
PYD pts	-0.6%	-0.5%	0.0%	-0.1%	0.0%	0.0%
Underlying loss ratio	68.2%	61.2%	72.8%	73.3%	72.6%	72.1%
Underlying combined ratio	88.8%	82.2%	92.4%	92.0%	92.3%	92.5%
<u>Share information</u>						
Shares beginning period	583.2	584.6	585.2	584.4	584.8	584.8
Shares issued	3	2	2	1	2	(0)
Shares Repurchased	1	1	2	0	2	(0)
Common Shares Outstanding, end of period	584.6	585.2	584.4	584.8	584.8	584.8
Weighted average shares - basic	583.8	584.9	584.7	584.7	584.8	584.8
Dilution	3.1	2.5	2.3	2.0	2.1	2.1
Weighted average shares - diluted	586.9	587.4	587.0	586.6	586.9	586.9
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	12,612	15,613	17,697	17,891	19,590	6,932
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,794	18,741	13,261
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.59	\$33.50	\$11.85
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	16.4%	18.4%	28.8%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	9.0%	17.4%	30.2%

Source: Barclays Research, Company Data.

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Progressive Corp. (PGR, 16-Aug-2022, USD 122.49), Underweight/Positive, CD/CE/J/K/M

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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.

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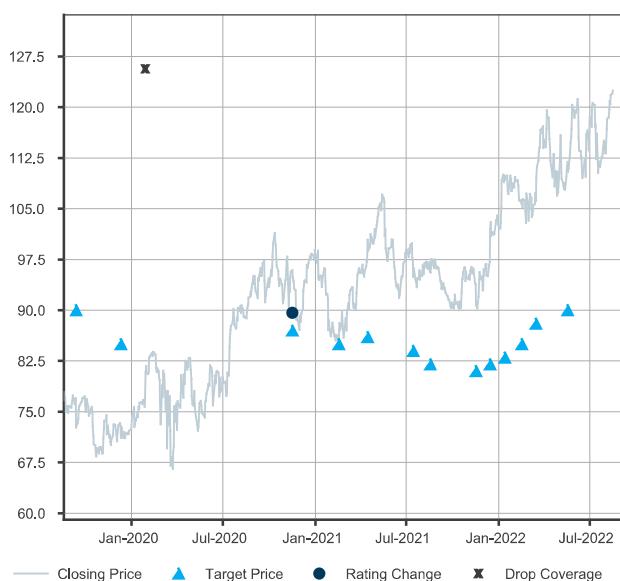
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 122.49 (16-Aug-2022)

Rating and Price Target Chart - USD (as of 16-Aug-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 18-Aug-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

*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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