

Progressive Corp.

## Feb. '22 Earnings: Dwindling PIF Growth

We anticipate a long grind for PGR to get back to double-digit PIF personal auto growth. Commercial writing uptick may be less repeatable.

PGR's underlying loss ratio of 74.1% in Feb. was better than our expected 75.1%, yet worse than Jan. 68.8%. We think January is a tough comparison thanks to the frequency tailwind from Omicron. We are seeing opposite indications of used car sales based on CPI vs. Manheim data (see Figures 4 & 5). A more conservative approach would be to lean in on CPI data. We also learned on PGR's investor call on March. 1st that we may see a delay in the cost of auto physical damage (i.e. used car parts) and collision with third parties reflecting subrogation. We also think war may bring on further supply chain disruptions.

PIF growth slowdown: PGR's total personal auto PIF y/y growth slowed (+2.8%, in line with our estimate of +2.8%) driven by a slowdown in auto direct (+4.7% vs. our +4.6%) and auto agency (+0.7% vs. our +0.5%). We anticipate a long grind for PGR to get back to rate adequacy and double-digit PIF growth. PGR plans to take 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 (the latter on 15% of its premiums).** 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.

We think PGR's commercial NPW growth of 104% is less repeatable (more on this). Bottom line, we are concerned that PGR may be increasing its focus on more capital-intensive business that may weigh in on its ROE profile in the longer term.

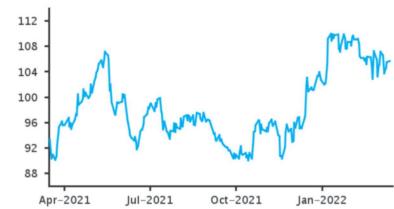
Feb. operating EPS of \$0.38 beat our \$0.29 estimate primarily on a better underlying loss ratio and catastrophe losses than our expectations.

| CORE

PGR	<b>UNDERWEIGHT</b>
	Unchanged
U.S. Insurance/Non-Life	<b>POSITIVE</b>
	Unchanged
Price Target	<b>USD 88.00</b>
	raised 4% from USD 85.00
Price (15-Mar-22)	<b>USD 107.31</b>
Potential Upside/Downside	<b>-18.0%</b>
Market Cap (USD mn)	<b>62760</b>
Shares Outstanding (mn)	<b>584.85</b>
Free Float (%)	<b>99.68</b>
52 Wk Avg Daily Volume (mn)	<b>2.7</b>
Dividend Yield (%)	<b>0.37</b>
Return on Equity TTM (%)	<b>19.39</b>
Current BVPS (USD)	<b>30.35</b>

Source: Bloomberg

Price Performance	<b>Exchange-NYSE</b>
52 Week range	<b>USD 111.85-88.05</b>



Source: IDC

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

### U.S. Insurance/Non-Life

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**PGR: Quarterly and Annual EPS (USD)**

<b>FY Dec</b>	<b>2021</b>	<b>2022</b>			<b>2023</b>			<b>Change y/y</b>	
	<b>Actual</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>Old</b>	<b>New</b>	<b>Cons</b>	<b>2022</b>	<b>2023</b>
Q1	1.72A	1.08E	1.23E	1.19E	1.38E	1.37E	1.55E	-28%	11%
Q2	0.71A	0.89E	0.94E	0.95E	1.20E	1.20E	1.29E	32%	28%
Q3	0.15A	1.07E	1.07E	1.09E	1.17E	1.17E	1.30E	613%	9%
Q4	1.06A	1.28E	1.25E	1.43E	1.33E	1.30E	1.65E	18%	4%
Year	3.64A	4.31E	4.49E	4.61E	5.07E	5.04E	5.95E	23%	12%
P/E	29.5		23.9			21.3			

Consensus numbers are from Bloomberg received on 16-Mar-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 (15-Mar-2022)	USD 107.31
Net premiums earned (\$mn)	44,369	47,602	50,427	N/A	N/A	Price Target	USD 88.00
Net investment income (NII) (\$mn)	861	897	962	N/A	N/A	<b>Why UNDERWEIGHT?</b>	
Underwriting income (\$mn)	1,374	2,007	2,354	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	2,635	2,959	N/A	N/A		
Net income (\$mn)	3,324	2,195	2,959	N/A	N/A		
Effective tax rate (%)	20.4	20.7	21.0	N/A	N/A		
Combined ratio (%)	95.3	94.3	93.8	N/A	N/A		
Combined ratio (ex cats & py development) (%)	92.4	92.5	92.3	N/A	N/A		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	<b>Upside case</b> USD 120.00	
EPS (adj)	3.64	4.49	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 ~24x '23E EPS.	
EPS (reported)	5.66	3.74	5.04	N/A	N/A		
DPS	1.90	2.40	2.65	N/A	N/A		
BVPS	30.35	29.78	31.94	N/A	N/A		
BVPS (ex AOCI)	30.28	30.86	33.02	N/A	N/A		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR	<b>Downside case</b> USD 75.00	
Total investments	51,514	54,340	58,638	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	18,047	19,312	N/A	N/A		
Share buybacks	223	100	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	<b>Upside/Downside scenarios</b>	
Debt leverage (%)	21.2	25.7	24.4	N/A	23.8		
Financial leverage (%)	23.4	27.6	26.3	N/A	25.8		
Total capital return as a % of op. earnings	62.5	57.0	57.3	N/A	58.9		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	3.54	3.48	3.25	N/A	3.42		
P/E (adj) (x)	29.5	23.9	21.3	N/A	24.9		
Dividend yield (%)	1.8	2.2	2.5	N/A	2.2		
ROE (%)	18.5	11.8	14.9	N/A	15.1		



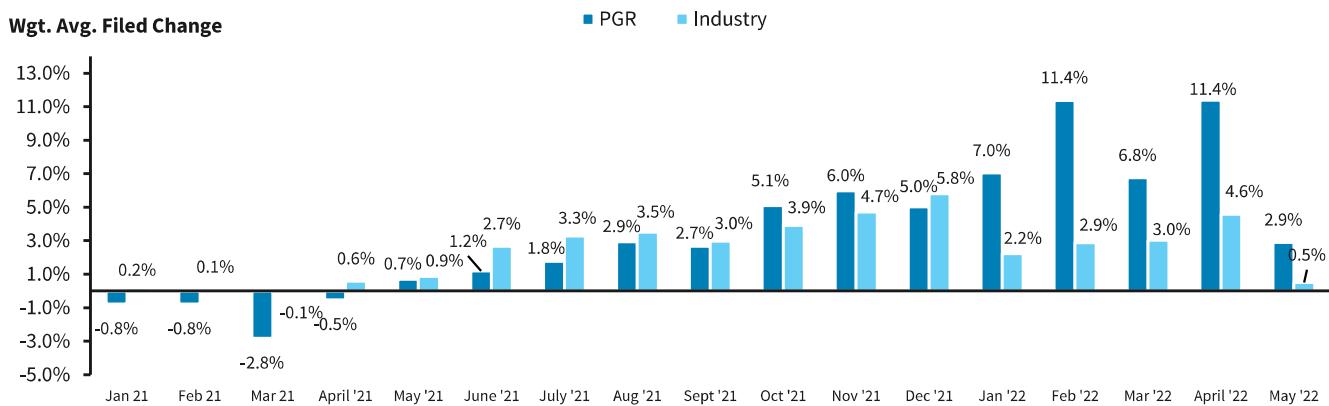
Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

## What Rate Filings Tell Us:

Rate Approvals So Far ... Rate Decreases Taken Early Means More Catch-Up

**FIGURE 1. PGR received 11.4% weighted avg rate approvals in Feb. '22, in 6 states: AK, IL, ME, OH, SC, and UT.**



Personal auto only

Source: S&P Global Market Intelligence, Barclays Research

Looking at February renewal effective dates, PGR received 24 rate approvals in 6 states: AK, IL, ME, OH, SC, and UT, ranging from 0% to ~20%. PGR's rate approvals show a weighted average of +11.4% approvals on ~\$1.9bn of subject premiums, or ~\$218mn 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.

### Pending Filings: So far the total ask is +10% on subject premiums

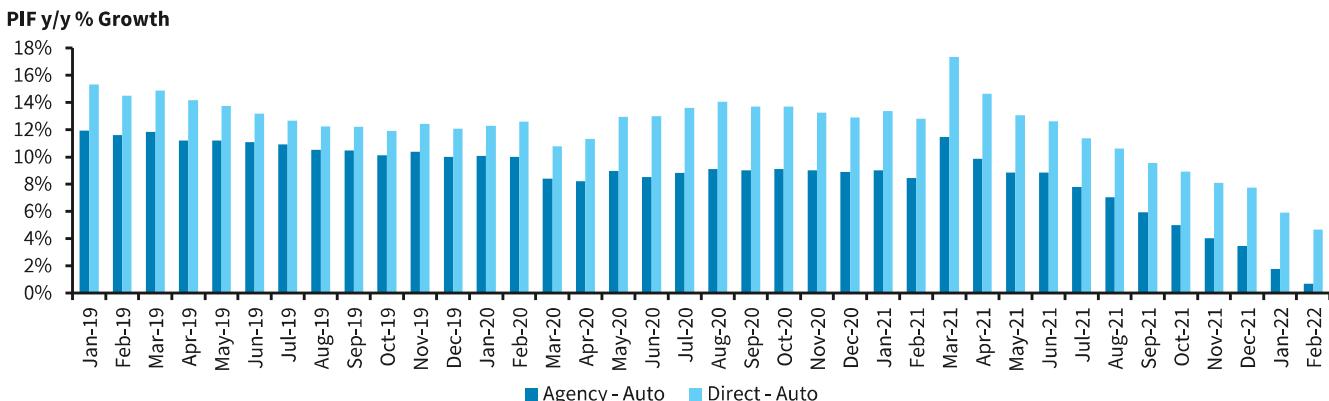
PGR has submitted pending rate increases through renewal effective dates June '22 in just 9 states, not nationwide: DC, FL, GA, HI, ID, MD, NJ, TN, TX. Similar to the approved filings, PGR's pending rate increases show a weighted average of 10% approvals on ~\$5.5bn of subject premiums, or ~\$555mn in 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 are on about 15% of its premiums.

## PIF Growth Spotlight

### PIF growth y/y trend continued to moderate in February: Personal auto 2.8% (in line with our modeled 2.8%)

On a sequential basis, personal auto PIF growth fell -0.1% m/m (vs. our modeled -0.2%).

**FIGURE 2. PIF growth y/y trend continued to moderate in February across agent (+0.7%) and direct (+4.7x%).**

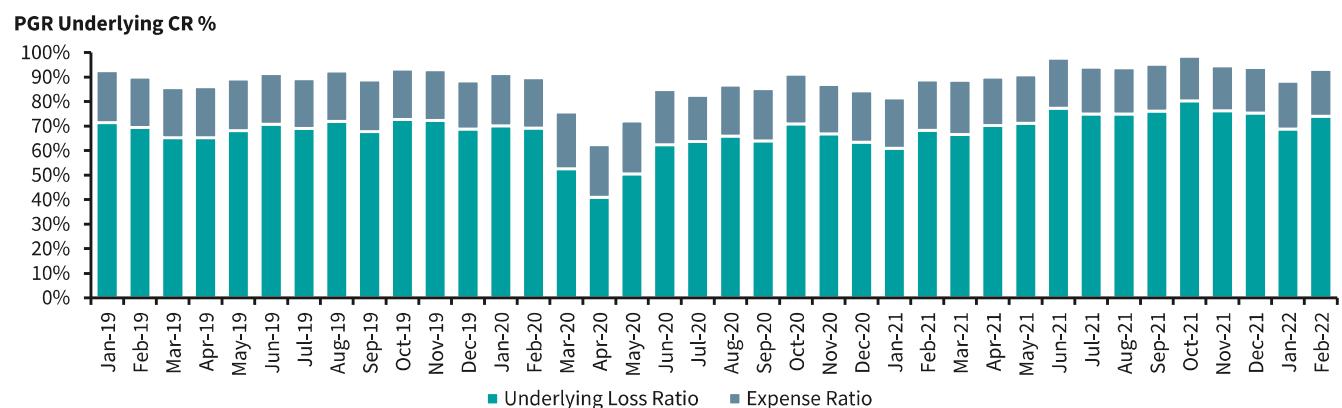


Source: Barclays Research, Company Data.

## Underlying Combined Ratio Deteriorating Sequentially

PGR reported a m/m deterioration of its underlying loss ratio: 74.1% (Feb) from 68.8% (Jan.). We think last month's underlying loss ratio was artificially low thanks to Omicron frequency tailwind and questionable loss picks. We had modeled a more conservative 75.1%. PGR's property loss ratio (ex cats) of 52.6% has not kept up with its high 40% level in the last few months. However, lower premiums than PGR's historical run rate elevate the fixed portion of expenses. We saw PGR's expense ratio decline sequentially to 19.0% from 19.6% (we estimated 19.4%).

**FIGURE 3. Feb. '22 underlying loss ratio of 74.1% (vs. 75.1% Barclays) and expense ratio of 19.0% (vs. 19.4% Barclays)**



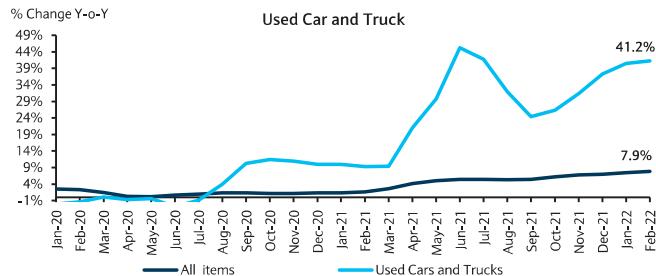
Source: Barclays Research, Company Data.

## Inflation: Manheim vs. CPI Disconnect

The Consumer Price Index (CPI) for All Urban Consumers rose 7.9% over the 12 months from February 2020 to February 2021. Leading pricing indicators were: used car and truck up 41.2% (vs. 40.5% in Jan.), though we have seen car and truck rentals up 24.3% in Jan. (vs. 29% in Jan.). Manheim is showing an opposite trend in used car sales - moderation not rising.

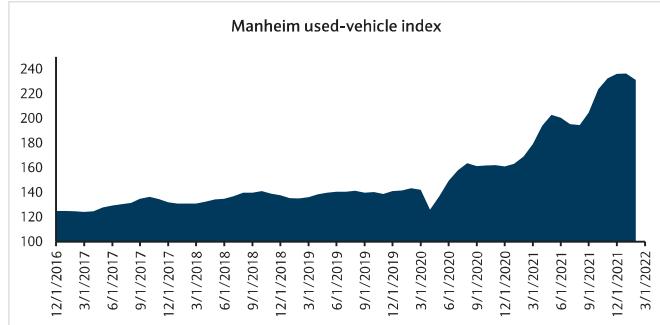
While Omicron may help on the frequency side in the short term, we think on a lagged basis the variant may lead to greater supply chain disruptions, pressuring used car sale and parts prices.

**FIGURE 4. CPI (y/y %): Used Car and Truck climbing (Feb '22)**



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

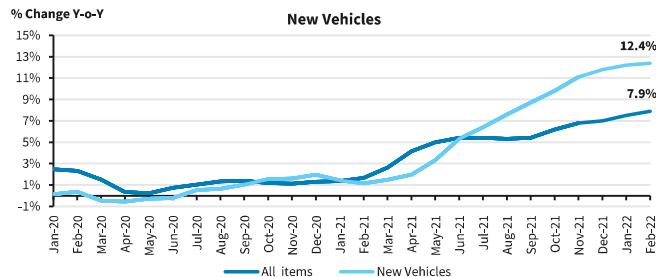
**FIGURE 5. Yet Manheim used car prices are Moderating (Feb '22)**



Source: Barclays Research, Bloomberg, Manheim

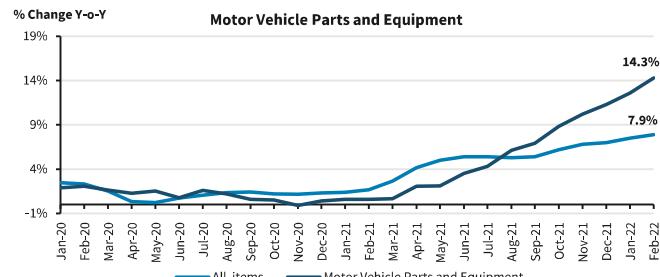
We see apparent circularity between higher used car prices and auto parts/chips. As used cars become more expensive, that creates a ripple effect to auto parts, given many are sourced from used cars. The new vehicle CPI index rose 12.4% y/y (vs. 12.2% in Jan.) and Motor Vehicle Parts and Equipment CPI index rose 14.3% y/y (vs. 12.6% in Jan.).

**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**

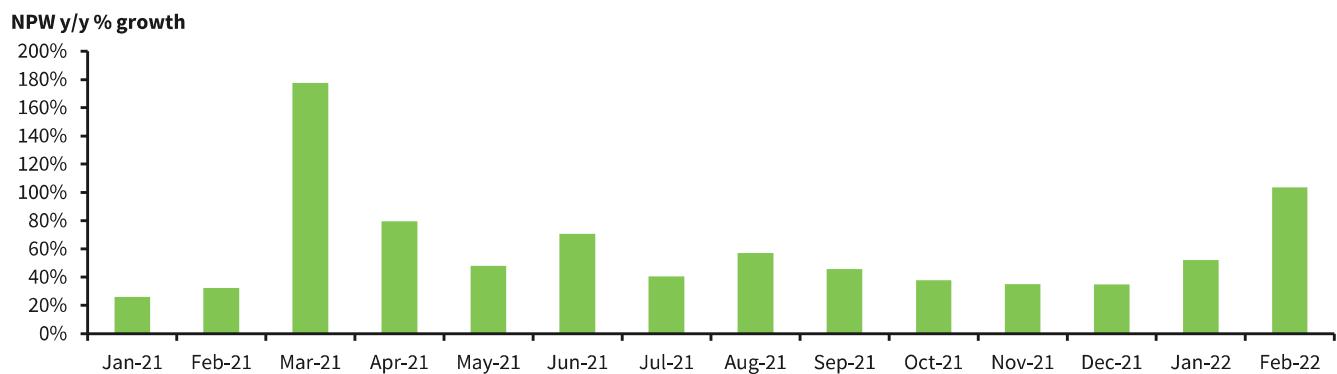


Source: Barclays Research, U.S. Bureau of Labor Statistics

## Commercial NPW Growth of 104% (y/y) in Feb. '22

PGR's uptick in TNC business reflected: 1.) Shift to 12 month policies from 6 months 2.) higher premiums linked to anticipated more miles driven 3.) rate increases. Excluding TNC, PGR would have shown 40% y/y increases in NPW, owed to "for hire" transportation segment (riskier vehicle classes).

**FIGURE 8. Commercial NPW growth (monthly)**



Source: Barclays Research, Company Data.

## Valuation

We raise our PT to \$88 from \$85 as we changed our methodology to base our multiples off 2023E rather than a 2022E/2023E blend. As such our \$88 PT reflects a 16x EPS and 2.9x BVPS (ex AOCI).

### Model Updates:

Although we typically base our loss ratio expectations on a rolling 3 month average, we discount Jan. loss experience due to Omicron. We included PGR's \$1.5bn debt raise in March, we expect incremental interest expense will start to be reflected in 3Q22.

Updated '22E EPS to \$4.49 from \$4.31 and '23E EPS to \$5.04 from \$5.07.

Updated '22E BVPS ex AOCI to \$30.86 from \$31.63 and '23E BVPS ex AOCI to \$33.02 from \$33.82.

## Variance Tables – Feb. '22

FIGURE 9. Variance Analysis - Feb. '22

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Feb '22A	Jan '21	% Change	Feb '21	% Change	Feb '22	% Var.
Net premiums written	\$4,626	\$4,585	1%	\$3,852	20%	\$4,171	11%
Net investment income	\$76	\$72	4%	\$67	12%	\$74	2%
Combined Ratio	93.7%	92.9%	73 bps	91.4%	225 bps	95.5%	(180 bps)
Combined Ratio ex cats and PYD	93.2%	88.3%	485 bps	88.9%	427 bps	94.5%	(135 bps)
Operating EPS	\$0.38	\$0.51	-25%	\$0.43	-10%	\$0.29	33%
Book value per share (ex. AOCI)	\$29.8	\$30.3	-1.9%	\$27.5	8%	\$30.6	-3%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Feb '22A	Jan '21	% Change	Feb '21	% Change	Feb '22	% Var.
Personal lines-agent	\$1,482	\$1,631	-9%	\$1,449	2%	\$1,484	-0.2%
Personal lines-direct	\$1,699	\$1,922	-12%	\$1,626	4%	\$1,707	-0.5%
Total Personal Lines	\$3,181	\$3,553	-10%	\$3,075	3%	\$3,191	-0.3%
Commercial Business & Other	\$1,277	\$877	46%	\$627	104%	\$815	57%
Property	\$168	\$156	8%	\$150	12%	\$165	2%
Total Written Premiums	\$4,626	\$4,585	1%	\$3,852	20%	\$4,171	11%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Feb '22A	Jan '21	% Change	Feb '21	% Change	Feb '22	% Var.
Total Personal Lines	94.2%	95.0%	(80 bps)	89.1%	510 bps	96.2%	(200 bps)
Personal lines-agent	92.7%	91.5%	120 bps	87.6%	510 bps	93.5%	(80 bps)
Personal lines-direct	95.5%	98.2%	(270 bps)	90.5%	500 bps	97.3%	(180 bps)
Commercial Business & Other	94.7%	87.6%	710 bps	87.5%	720 bps	91.4%	335 bps
Property	81.6%	77.0%	460 bps	143.7%	(6210 bps)	98.0%	(1640 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
Net premiums written	37,578	40,569	46,405	49,587	54,081
Revenues:					
Net premiums earned	36,192	39,262	44,369	47,602	50,427
Investment income	1,042	937	861	897	962
Total net realized gains (losses) on securities	1,029	1,630	1,509	(557)	-
Fees and other revenues	564	604	692	718	756
Service revenues	195	226	271	254	267
<b>Total revenues</b>	<b>39,022</b>	<b>42,658</b>	<b>47,702</b>	<b>48,913</b>	<b>52,413</b>
Expenses:					
Losses and loss adjustment expenses	25,471	25,122	33,628	35,565	37,177
Total underwriting expenses	7,998	8,843	9,368	10,029	10,896
Policyholder credit expense	-	1,077	-	-	-
Investment expenses	25	20	26	28	31
Service expenses	179	206	253	259	277
Interest expense	190	217	219	229	252
<b>Total expenses</b>	<b>33,862</b>	<b>35,485</b>	<b>43,492</b>	<b>46,111</b>	<b>48,633</b>
Underwriting Income	2,724	5,297	1,374	2,007	2,354
Income before income taxes	5,160	7,173	4,210	2,802	3,780
Provision for income taxes	1,180	1,469	859	580	794
Other comp (income) loss att. to NCI	(10)	-	-	-	-
Net income	3,970	5,705	3,351	2,222	2,986
Less: Preferred stock dividends	27	27	27	27	27
<b>Net income to common shareholders</b>	<b>3,943</b>	<b>5,678</b>	<b>3,324</b>	<b>2,195</b>	<b>2,959</b>
ATX total net realized gains (losses) on sec	813	1,288	1,192	(440)	-
Other	-	-	-	-	-
<b>Operating income to common shareholders</b>	<b>3,130</b>	<b>4,390</b>	<b>2,132</b>	<b>2,635</b>	<b>2,959</b>
<b>Operating EPS</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$3.64</b>	<b>\$4.49</b>	<b>\$5.04</b>
<b>Net EPS</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$5.66</b>	<b>\$3.74</b>	<b>\$5.04</b>
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	6.9%	9.1%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	7.3%	5.9%

Source: Barclays Research, Company Data.

**FIGURE 11. Model Summary (pg. 2)**

<b>(\$ in mn, except per share data)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
<b><u>Underwriting Margins</u></b>					
Loss and LAE ratio	70.4%	64.0%	75.8%	74.7%	73.7%
Expense ratio	20.5%	21.0%	19.6%	19.6%	20.1%
<b>Combined ratio</b>	<b>90.9%</b>	<b>85.0%</b>	<b>95.3%</b>	<b>94.3%</b>	<b>93.8%</b>
Catastrophes pretax	552	880	1,310	665	758
Cat pts	1.5%	2.2%	3.0%	1.4%	1.5%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(194)	-
PYD pts	-0.6%	-0.5%	0.0%	-0.4%	0.0%
<b>Underlying loss ratio</b>	<b>68.2%</b>	<b>61.2%</b>	<b>72.8%</b>	<b>72.9%</b>	<b>72.2%</b>
<b>Underlying combined ratio</b>	<b>88.8%</b>	<b>82.2%</b>	<b>92.4%</b>	<b>92.5%</b>	<b>92.3%</b>
<b><u>Share information</u></b>					
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
<b><u>Capital deployment</u></b>					
Assumed Share price for repurchases	\$73	\$86	\$92	\$89	\$85
# of shares repurchased (in mn)	1.2	1.3	2.4	1.1	1.7
\$ Repurchased	86	112	223	100	144
Dividends per share	\$2.65	\$4.90	\$1.90	\$2.40	\$2.65
\$ amt common dividend	1,548	2,866	1,109	1,404	1,550
Total capital returned	1,634	2,978	1,332	1,503	1,694
Total capital returned, % normalized earnings	52%	68%	63%	57%	57%
<b><u>Shareholders' equity and returns</u></b>					
Common shareholders' equity ex AOCI	12,612	15,613	17,697	18,047	19,312
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,872	18,679
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.86	\$33.02
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	14.7%	15.8%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	11.8%	14.9%

Source: Barclays Research, Company Data.

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**Primary Stocks (Ticker, Date, Price)**

**Progressive Corp.** (PGR, 15-Mar-2022, USD 107.31), Underweight/Positive, CD/CE/J/K/M

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## Progressive Corp. (PGR / PGR)

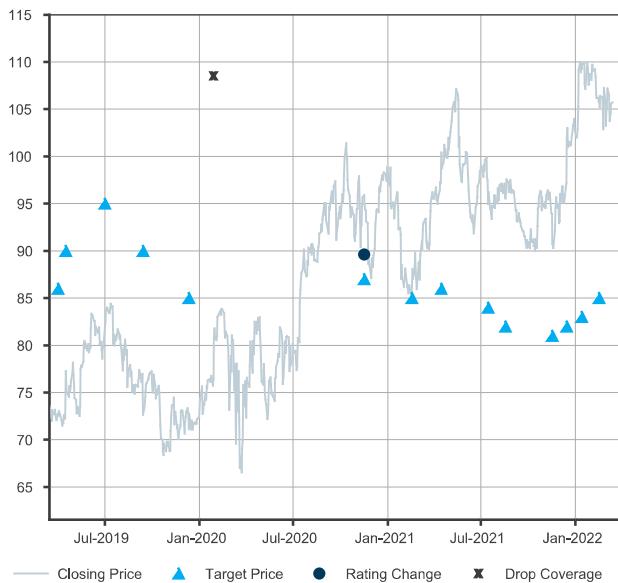
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

**USD 107.31** (15-Mar-2022)

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

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
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
01-Apr-2019	72.76		86.00

On 16-Mar-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 81.00.

Source: Bloomberg, Barclays Research

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**Valuation Methodology:** Our \$88 PT is based on 16x EPS and 2.9x BVPS (ex AOCI) on 2023E.

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