

Progressive Corp.

Feb '23 Earnings: Unfavorable PYD Mostly Stems from Personal Auto

Higher settlements, aging, and inflationary factors contributed to adverse PYD. Despite CPI type of inflation being past its trough, insurance severity trends are lingering longer. We pay more attention to absolute inflation.

Unfavorable PYD: PGR reported 3.5 pts of unfavorable PYD, following 6.5 pts of unfavorable PYD in January. The majority (70%) of the \$145mn of unfavorable PYD was in the personal auto segment related to property damage, collision, and comprehensive coverages given higher settlements and changes to re-estimates including inflationary factors. We estimate that adverse PYD contributed 3.1 pts to personal lines loss ratio. The balance of adverse PYD came from commercial auto (25%) and property. These collective two-month actions are a negative read on ALL (we model \$140mn or 1.2 pts of adverse PYD on ALL's 1Q23 estimates).

The cost & sustainability of growth: Personal auto PIF grew +2.4% sequentially (Feb '23 vs. Jan '22), stable compared to +2.4% sequentially (Jan '23 vs. Dec '22). On an annualized basis, that would imply PIF growth of 29% (keeping monthly growth constant over 12 months), though there are seasonality adjustments needed. We question the sustainability of growth, as PGR's premiums to surplus is ~3x. On a y/y basis, PGR recognized positive personal auto PIF growth over the last five months (+8.1% in Feb, +5.4% in Jan, +2.6% in Dec, +1.7% in Nov. and 0.5% in Oct.). PGR's pricing may appear more competitive as the insurer believes taking rates is behind it, a sentiment that we think is premature. PGR may be leaving rate on the table. PGR's overall premium growth levels (+31% NPW y/y) consume capital, and it is generating lower organic capital through earnings than its historical trend.

PGR's underlying loss ratio three-month simple average of 71.5% (70.6% Feb., 68.5% Jan., 75.4% Dec.) has a way to go to return to pre-pandemic levels (~68%). More importantly, PGR is on the trajectory to reach double-digit PIF growth by March or April. We would like to see a reversion to its pre-pandemic underlying loss ratio of 68% on a sustainable basis with no PYD noise in order to justify growth that is faster than marketplace conditions.

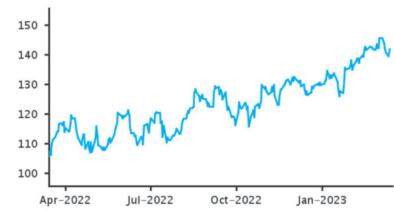
PGR's expense ratio was roughly stable at 20.6% in Feb vs. 20.2% in Jan and increased from 17.3% in Dec. To recap, PGR's pre-pandemic expense ratio ran just north of 20%. We note, PGR's reported combined ratio in February was 95.1%, below the 96% target.

PGR's pre-tax net investment income (ex expenses) this month was \$128mn vs. our \$133mn estimate. Lower equity market returns (-2.4% common stock yield) and fixed income returns (-

| CORE

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 123.00
	Unchanged
Price (14-Mar-23)	USD 141.84
Potential Upside/Downside	-13.3%
Market Cap (USD mn)	83025
Shares Outstanding (mn)	585.34
Free Float (%)	99.70
52 Wk Avg Daily Volume (mn)	2.6
Dividend Yield (%)	0.28
Return on Equity TTM (%)	4.19
Current BVPS (USD)	26.32
Source: Bloomberg	

Price Performance Exchange-NYSE
52 Week range USD 146.50-104.01



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

U.S. Insurance/Non-Life

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1.2%) weighed on NII in the quarter. As of February 28, 2023, PGR held a marginal \$74mn of fixed income securities and \$1mn of common stock related to liquidated financial institutions.

February operating EPS of \$0.41 slightly missed our \$0.42 estimate, reflecting adverse PYD tempered by higher premium growth than expectations. We also had modeled catastrophe loss of \$38mn vs. PGR's \$17mn.

PGR: Quarterly and Annual EPS (USD)

	2022	2023			2024			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2023	2024
Q1	1.12A	1.26E	1.25E	1.55E	1.88E	1.88E	2.14E	12%	50%
Q2	1.03A	1.31E	1.23E	1.50E	1.69E	1.68E	1.77E	19%	37%
Q3	0.49A	1.46E	1.45E	1.47E	1.71E	1.71E	1.78E	196%	18%
Q4	1.47A	1.71E	1.70E	1.93E	1.88E	1.87E	2.26E	16%	10%
Year	4.12A	5.74E	5.62E	6.44E	7.16E	7.15E	7.94E	36%	27%
P/E	34.5		25.2			19.8			

Consensus numbers are from Bloomberg received on 15-Mar-2023; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)							UNDERWEIGHT
Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (14-Mar-2023)	USD 141.84
Net premiums earned	49,241	56,514	60,865	65,069	9.7%	Price Target	USD 123.00
Net investment income (NII)	1,260	1,649	1,919	2,140	19.3%	Why UNDERWEIGHT?	
Underwriting income	1,342	1,960	2,761	3,148	32.9%	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	2,415	3,301	4,191	4,720	25.0%		
Net income	694	3,402	4,191	4,720	89.4%		
Effective tax rate (%)	21.8	20.8	21.0	21.0	-1.2%		
Combined ratio (%)	95.8	95.0	94.0	93.7	-0.8%		
Combined ratio (ex cats & py development) (%)	92.6	92.7	92.2	91.9	-0.2%		
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR		
EPS (adj)	4.12	5.62	7.15	8.07	25.1%		
EPS (reported)	1.18	5.80	7.15	8.07	89.8%		
DPS	0.40	2.65	2.65	2.65	87.8%		
BVPS	26.32	29.26	33.58	34.31	9.2%		
BVPS (ex AOCI)	31.01	34.37	39.25	40.33	9.2%		
Diluted shares (mn)	587	588	587	587	0.0%		
Balance sheet and capital return (\$mn)	2022A	2023E	2024E	2025E	CAGR		
Total investments	53,548	58,920	63,320	63,788	6.0%		
Common shareholders' equity (ex AOCI)	18,140	20,103	22,913	23,526	9.1%		
Share buybacks	63	94	156	156	35.0%		
Dividends paid	234	1,550	1,547	1,544	87.6%		
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average		
Debt leverage (%)	25.5	23.7	21.7	21.5	23.1		
Financial leverage (%)	27.5	25.5	23.4	23.2	24.9		
Total capital return as a % of op. earnings	12.3	49.8	40.6	36.0	34.7		
Valuation metrics	2022A	2023E	2024E	2025E	Average		
P/BV (ex AOCI) (x)	4.57	4.13	3.61	3.52	3.96		
P/E (adj) (x)	34.5	25.2	19.8	17.6	24.3		
Dividend yield (%)	0.3	1.9	1.9	1.9	1.5		
ROE (%)	3.8	16.9	18.8	19.0	14.6		

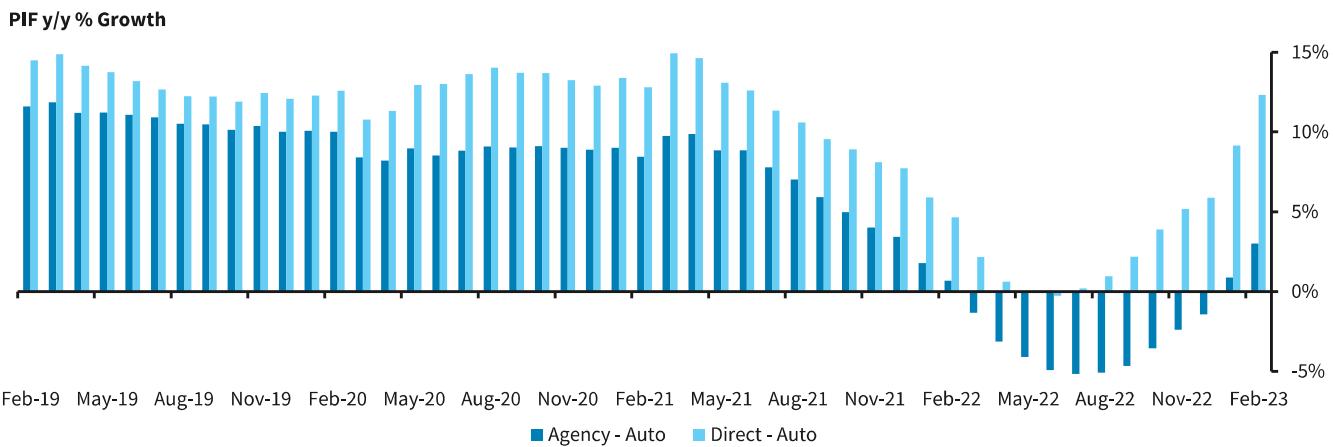
Note: FY End Dec
Source: Company data, Bloomberg, Barclays Research



PIF Growth Spotlight

PGR reported personal auto PIF y/y growth of +8.1% in February (above our estimate of +7.0%), as auto agency PIF (+3.0% vs. our +2.8%) and auto direct (+12.3% vs. our 10.4%). outperformed our estimates. PGR is on the trajectory to produce double-digit PIF growth by March or April.

FIGURE 1. PIF growth y/y in February with agent (+3.0%) and direct (+12.3%)

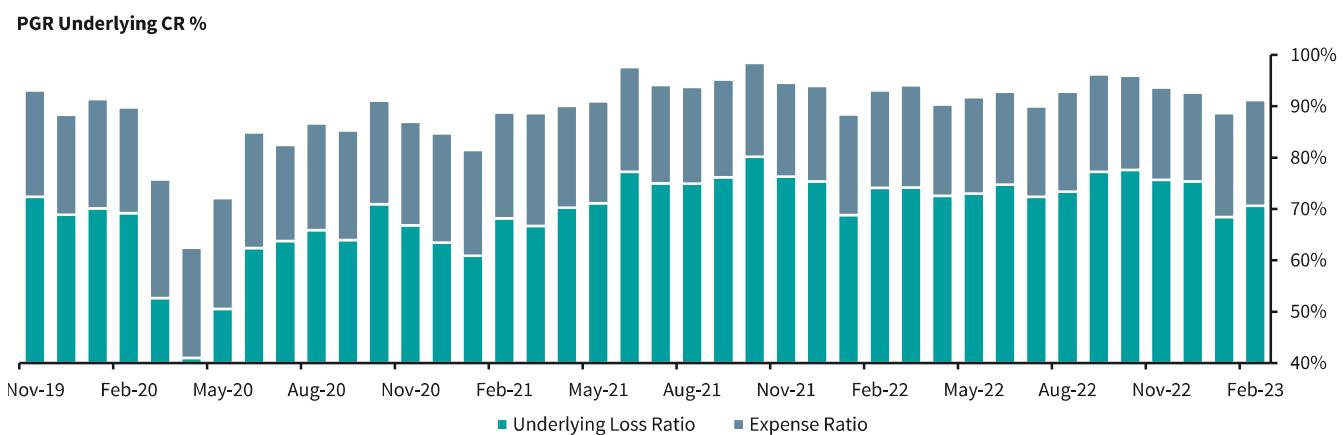


Source: Barclays Research, Company Data

Underlying loss ratio - Improvements still needed to justify if growth is rational

PGR's underlying loss ratio of 70.6% in Feb was worse than 68.5% in Jan. We think February is somewhat more favorable on a seasonality standpoint, just not as favorable as January, supporting a better underlying loss ratio than 75.4% in Dec. PGR's expense ratio was roughly stable at 20.6% in Feb vs. 20.2% in Jan and increased from 17.3% in Dec. Collectively, PGR's underlying combined ratio of 91.2% has deteriorated from 88.7% in Jan, 92.7% in Dec, and 93.7% in Nov.

FIGURE 2. February '23 underlying loss ratio of 70.6% (vs. 75.3% Barclays) and expense ratio of 20.6% (vs. 19.1% Barclays)



Source: Barclays Research, Company Data

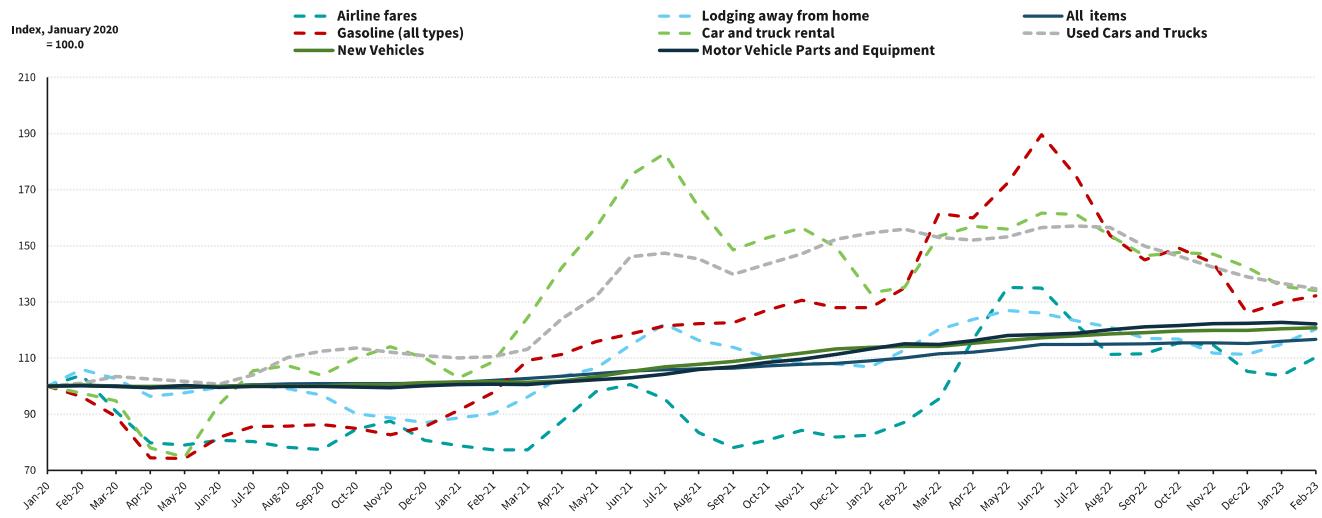
Inflation: Focus on Absolute Levels

Our focus is on an absolute basis, where used car pricing remains significantly elevated (see Figure 3). Likewise, if we compare used car & truck pricing to Jan '19 levels, it is up 31.0% vs. all items at 19.5%. We pay lesser attention to the Consumer Price Index (CPI) for All Urban

Consumers, which rose 6.0% over the 12 months from Feb 2022 to Feb 2023. Used car and truck CPI trails all items at -13.6% in Feb vs. -11.6% in Jan.

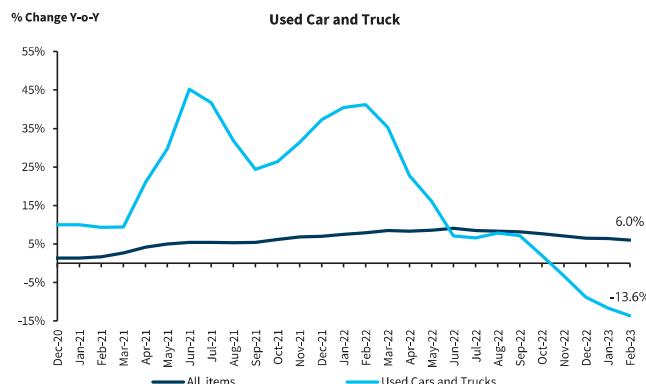
Manheim pricing was +4.1% m/m. We put less weight on Manheim pricing -7.3% y/y basis. More importantly, if we compare Jan '22 to Jan '20, Manheim pricing is still up 49%. Compounded auto pricing during that period has not caught up – not anywhere close. There is still significant rate catch-up needed to see that inflection point. It will be like an “x”; loss costs go down, then pricing goes up – where the two intersect in our view can take a bit longer, especially given how long it is taking auto pricing to actually “earn” in.

FIGURE 3. CPI Indexed to January '20



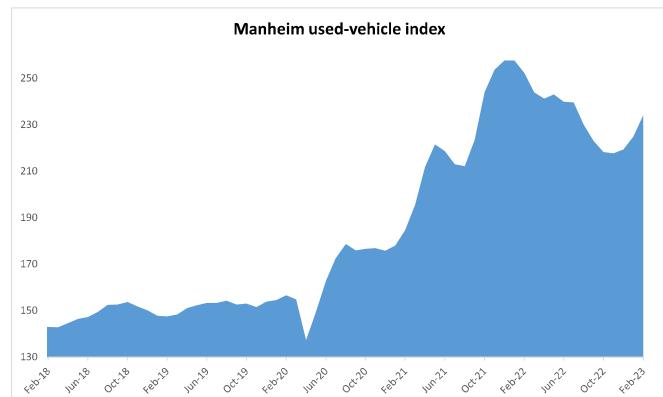
Source: Barclays Research, U.S. Bureau of Labor Statistics

FIGURE 4. CPI: Used Car and Truck (y/y -13.6% in Feb '23)



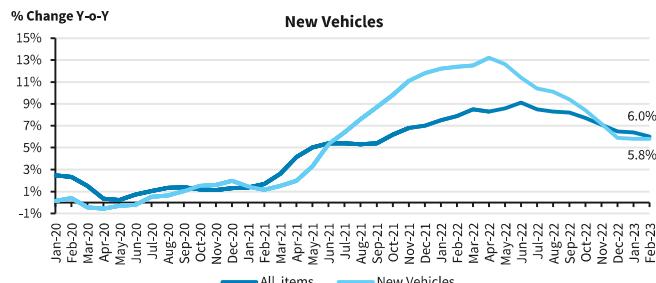
Source: Barclays Research, U.S. Bureau of Labor Statistics

FIGURE 5. Manheim Used Car Prices (y/y -7.3% in Feb '23)

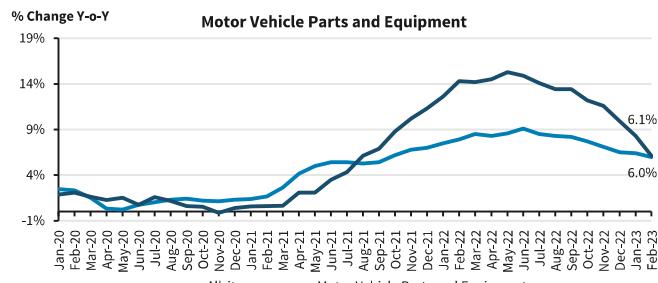


Source: Barclays Research, Bloomberg, Manheim

The new vehicle CPI index rose 5.8% y/y (vs. 5.8% in Jan) and Motor Vehicle Parts and Equipment CPI index rose 6.1% y/y (vs. 8.3% in Jan). However, comparing Feb '23 vs. Jan '19, new vehicles and car parts rose 20.9% and 24.3%, respectively.

FIGURE 6. CPI % Change (Y-o-Y): New Vehicles

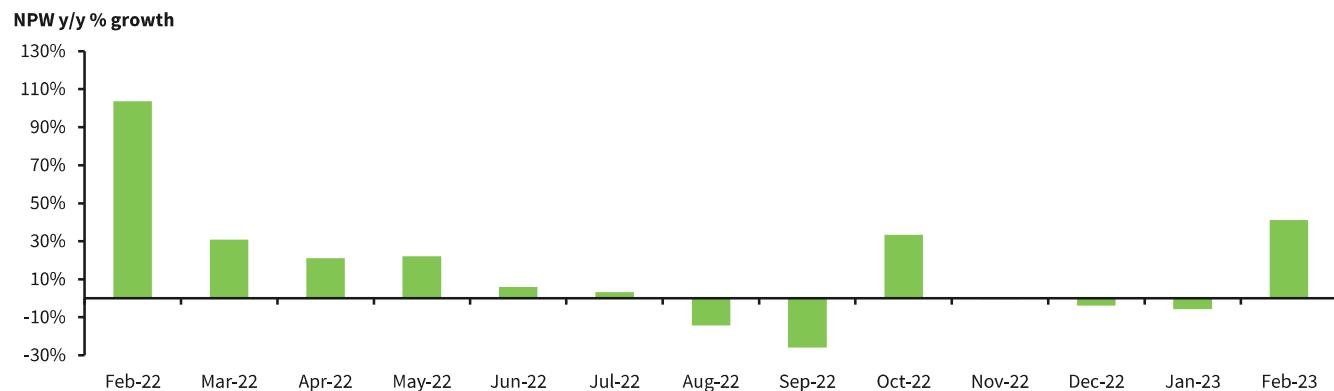
Source: Barclays Research, U.S. Bureau of Labor Statistics

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 41% (y/y), ex TNC (1)%

TNC once again obscures Commercial NPW growth: Reported commercial premium growth was up 41% in Feb '23, excluding TNC commercial premiums were down ~(1%). During Feb. '23 TNC businesses benefited from higher rates, higher projected mileage and new policies in 3 additional states. We note that ALL had cut its TNC business in half. We estimated a (1)% reduction in Commercial NPW. Feb '22 was also tough comp with 104% NPW growth, PGR's uptick in TNC business had reflected: 1.) shift to 12-month policies from 6 months 2.) higher premiums linked to anticipated more miles driven and 3.) rate increases. Excluding TNC, PGR would have shown 40% y/y increases in NPW in Feb. '22, owed to "for hire" transportation segment (riskier vehicle classes).

FIGURE 8. Commercial NPW growth (monthly)

Source: Barclays Research, Company Data

Valuation

Our PT of \$123 (unchanged) is based on 16.5x our new '24E EPS and 3.2x '24E BVPS (ex AOCI). Multiples are unchanged.

Model Updates:

We typically base our loss ratio expectations on a rolling 3-month average. We are also reducing growth within commercial auto in our forecast period.

Updated EPS: We revise '23E from \$5.74 to \$5.62 and '24E from \$7.16 to \$7.15.

Variance Tables – Feb '23

FIGURE 9. Variance Analysis - Feb '23

Summary Details		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Feb '23A	Jan '23	% Change	Feb '22	% Change	Feb '23	% Var.
Net premiums written	\$6,058	\$5,332	14%	\$4,626	31%	\$5,297	14%
Net investment income	\$128	\$131	-3%	\$73	74%	\$133	-4%
Combined Ratio	95.1%	96.0%	(90 bps)	93.6%	150 bps	95.2%	(15 bps)
Combined Ratio ex cats and PYD	91.2%	88.7%	257 bps	93.1%	(189 bps)	94.3%	(310 bps)
Operating EPS	\$0.41	\$0.43	-5%	\$0.38	7%	\$0.42	-1%
Book value per share (ex. AOCI)	\$32.0	\$31.70	0.8%	\$29.8	7%	\$32.1	-1%

NPW by Segment		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Feb '23A	Jan '23	% Change	Feb '22	% Change	Feb '23	% Var.
Personal lines-agent	\$1,812	\$1,918	-6%	\$1,482	22%	\$1,745	3.8%
Personal lines-direct	\$2,246	\$2,411	-7%	\$1,699	32%	\$2,103	6.8%
Total Personal Lines	\$4,058	\$4,329	-6%	\$3,181	27.6%	\$3,848	5.5%
Commercial Business & Other	\$1,801	\$826	118%	\$1,277	41%	\$1,264	42%
Property	\$199	\$176	13%	\$168	18%	\$185	7%
Total Written Premiums	\$6,058	\$5,332	14%	\$4,626	31%	\$5,297	14%

CR by Segment		M/M		Y/Y		Barclays Est.	
(in \$mn, except per share)	Feb '23A	Jan '23	% Change	Feb '22	% Change	Feb '23	% Var.
Total Personal Lines	95.3%	96.5%	(120 bps)	94.2%	110 bps	95.6%	(26 bps)
Personal lines-agent	93.3%	93.6%	(30 bps)	92.7%	60 bps	94.7%	(140 bps)
Personal lines-direct	96.9%	99.1%	(220 bps)	95.5%	140 bps	95.0%	190 bps
Commercial Business & Other	98.5%	94.9%	360 bps	94.7%	380 bps	93.9%	465 bps
Property	78.4%	88.7%	(1030 bps)	81.6%	(320 bps)	95.0%	(1660 bps)

Source: Barclays Research estimates, Company Data

Model Summary

FIGURE 10. Model Summary (pg. 1)

(\$ in mn, except per share data)	2019	2020	2021	2022	2023E	2024E	2025E
Net premiums written	37,578	40,569	46,405	51,081	58,544	62,610	66,916
Revenues:							
Net premiums earned	36,192	39,262	44,369	49,241	56,514	60,865	65,069
Investment income	1,042	937	861	1,260	1,649	1,919	2,140
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,912)	129	-	-
Fees and other revenues	564	604	692	722	855	913	976
Service revenues	195	226	271	299	331	365	390
Total revenues	39,022	42,658	47,702	49,611	59,478	64,062	68,576
Expenses:							
Losses and loss adjustment expenses	25,471	25,122	33,628	38,123	42,350	44,720	47,607
Total underwriting expenses	7,998	8,843	9,368	9,777	12,203	13,383	14,315
Policyholder credit expense	-	1,077	-	-	-	-	-
Investment expenses	25	20	26	24	30	34	36
Service expenses	179	206	253	297	313	335	358
Interest expense	190	217	219	244	252	251	251
Total expenses	33,862	35,485	43,492	48,689	55,149	58,723	62,567
Underwriting Income	2,724	5,297	1,374	1,342	1,960	2,761	3,148
Income before income taxes	5,160	7,173	4,210	922	4,329	5,339	6,009
Provision for income taxes	1,180	1,469	859	201	900	1,121	1,262
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-	-
Net income	3,970	5,705	3,351	721	3,429	4,218	4,747
Less: Preferred stock dividends	27	27	27	27	27	26	26
Net income to common shareholders	3,943	5,678	3,324	694	3,402	4,191	4,720
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,496)	102	-	-
Other	-	-	-	(225)	-	-	-
Operating income to common shareholders	3,130	4,390	2,132	2,415	3,301	4,191	4,720
Operating EPS	\$5.33	\$7.47	\$3.63	\$4.12	\$5.62	\$7.15	\$8.07
Net EPS	\$6.72	\$9.66	\$5.66	\$1.18	\$5.80	\$7.15	\$8.07
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	10.1%	14.6%	6.9%	6.9%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	11.0%	14.8%	7.7%	6.9%

Source: Barclays Research estimates, Company Data

FIGURE 11. Model Summary (pg. 2)

(\$ in mn, except per share data)	2019	2020	2021	2022	2023E	2024E	2025E
<u>Underwriting Margins</u>							
Loss and LAE ratio	70.4%	64.0%	75.8%	77.4%	74.9%	73.5%	73.2%
Expense ratio	20.5%	21.0%	19.6%	18.4%	20.1%	20.5%	20.5%
Combined ratio	90.9%	85.0%	95.3%	95.8%	95.0%	94.0%	93.7%
Catastrophes pretax	552	880	1,310	1,667	782	876	948
Cat pts	1.5%	2.2%	3.0%	3.4%	1.4%	1.4%	1.5%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	86	(540)	(182)	(195)
PYD pts	-0.6%	-0.5%	0.0%	0.2%	-1.0%	-0.3%	-0.3%
Underlying loss ratio	68.2%	61.2%	72.8%	74.2%	72.6%	71.7%	71.4%
Underlying combined ratio	88.8%	82.2%	92.4%	92.6%	92.7%	92.2%	91.9%
<u>Share information</u>							
Shares beginning period	583.2	584.6	585.2	584.4	584.9	584.9	583.7
Shares issued	3	2	2	1	1	-	-
Shares Repurchased	1	1	2	1	1	1	1
Common Shares Outstanding, end of period	584.6	585.2	584.4	584.9	584.9	583.7	583.3
Weighted average shares - basic	583.8	584.9	584.7	584.6	585.1	584.2	584.0
Dilution	3.1	2.5	2.3	2.3	2.7	2.7	2.7
Weighted average shares - diluted	586.9	587.4	587.0	586.9	587.8	586.9	586.7
<u>Shareholders' equity and returns</u>							
Common shareholders' equity ex AOCI	12,612	15,613	17,697	18,140	20,103	22,913	23,526
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,918	19,121	21,508	23,220
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$31.01	\$34.37	\$39.25	\$40.33
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	13.5%	17.3%	19.5%	20.3%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	3.8%	16.9%	18.8%	19.0%

Source: Barclays Research estimates, Company Data

Analyst(s) Certification(s):

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Primary Stocks (Ticker, Date, Price)

Progressive Corp. (PGR, 14-Mar-2023, USD 141.84), Underweight/Positive, CD/CE/J/K/M

Materially Mentioned Stocks (Ticker, Date, Price)

Allstate Corp. (ALL, 14-Mar-2023, USD 114.36), Equal Weight/Positive, CD/CE/E/J/K/L/M

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Palomar Holdings, Inc. (PLMR)	Progressive Corp. (PGR)	Root Inc. (ROOT)
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The Travelers Companies, Inc. (TRV)		

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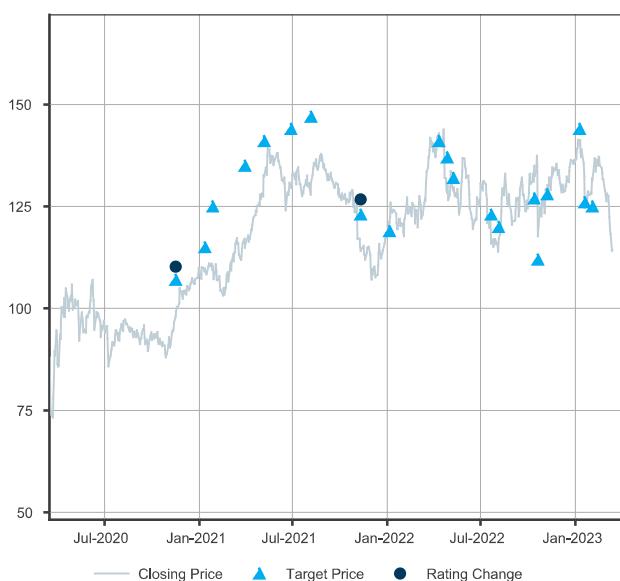
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

USD 114.36 (14-Mar-2023)

Rating and Price Target Chart - USD (as of 14-Mar-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
03-Feb-2023	131.89		125.00
19-Jan-2023	132.43		126.00
09-Jan-2023	141.37		144.00
07-Nov-2022	128.82		128.00
20-Oct-2022	135.15		112.00
13-Oct-2022	131.13		127.00
05-Aug-2022	113.92		120.00
21-Jul-2022	122.34		123.00
09-May-2022	130.56		132.00
27-Apr-2022	128.98		137.00
11-Apr-2022	141.93		141.00
05-Jan-2022	121.13		119.00
10-Nov-2021	114.11	Equal Weight	123.00
06-Aug-2021	130.82		147.00
28-Jun-2021	129.75		144.00
07-May-2021	132.26		141.00
31-Mar-2021	114.90		135.00
27-Jan-2021	110.51		125.00
12-Jan-2021	109.78		115.00
16-Nov-2020	98.06	Overweight	107.00

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our \$125 price target is based on a 50/50 weighted average of our blended ~11.5x our 2024 EPS and 1.7x our 2024 book value per share ex AOCI.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Steeper acceleration of loss cost trends, particularly on the severity side, which would pressure the company's margins. A prolonged period of low interest rates will likely pressure net investment income. Allstate has substantial exposure to natural catastrophe losses, stemming from its large homeowners insurance business. Despite the acquisition being relatively small, integration of National General could be challenging and lead to execution risk in combining business units under one operational model.

Progressive Corp. (PGR / PGR)

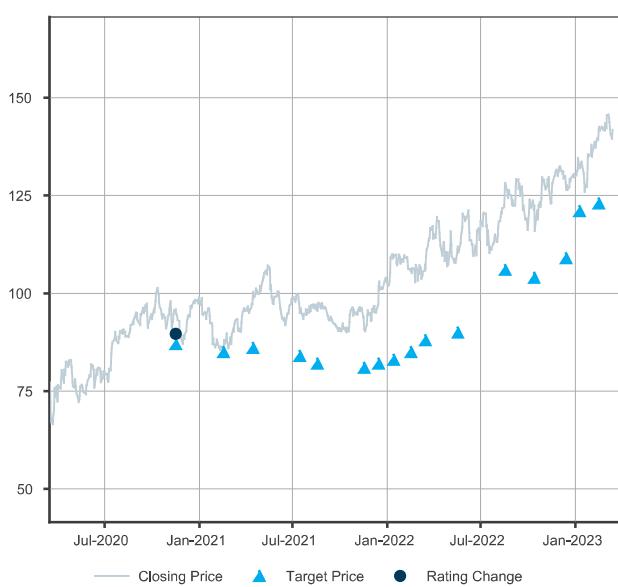
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 141.84 (14-Mar-2023)

Rating and Price Target Chart - USD (as of 14-Mar-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
15-Feb-2023	139.27		123.00

09-Jan-2023	134.61	121.00
14-Dec-2022	126.58	109.00
13-Oct-2022	121.40	104.00
18-Aug-2022	122.49	106.00
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

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our \$123 PT is based on 16.5x EPS and 3.2x BVPS (ex AOCI) on 2024E.

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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