

Progressive Corp.

## Dec '21 Earnings: Long Grind

Even though PGR is once again showing a combined ratio below its target, we think getting back to rate adequacy and double-digit PIF growth will be a long grind.

December results show that PGR's underwriting results are again below its 96% target (with 94.6% reported), though we recognize that the company had to sacrifice meaningful PIF growth to get there (see Figure 2). Just like last month, PGR once again recognized favorable development from Ida losses (0.4 pts on the combined ratio). While Ida favorable development was on auto business opposed to homeowners, we still think it may be premature to take such actions.

PGR's underlying loss ratio of 75.4% was worse than our expected 74.4% as we expected a frequency benefit from Omicron. Just like we said post Nov. '21 results, we do not think a month or two is an indicative trend and still side with more caution.

**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. That approach could aggravate rate adequacy. In the meantime, we will see accumulation of loss trend with severity on the rise and more rate catch-up needs. **We include in this note our analysis of PGR's approved and pending rate filings.** We think it can take until late 2023 for auto insurance pricing to be rational, even though most policies are 6 months.

Dec. operating EPS of \$0.37 beat our \$0.35 estimate primarily on favorable reserve PYD (we modeled nil), slightly better NII, lower tax rate, tempered by worse catastrophe losses than our expectations.

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

FY Dec	Actual	2022			2023			Change y/y	
		Old	New	Cons	Old	New	Cons	2022	2023
Q1	1.72A	0.67E	0.76E	1.06E	N/A	1.39E	1.53E	-56%	83%
Q2	0.71A	0.87E	0.85E	0.95E	N/A	1.24E	1.25E	20%	46%
Q3	0.15A	1.21E	1.18E	1.10E	N/A	1.21E	1.31E	687%	3%
Q4	1.06A	1.45E	1.40E	1.42E	N/A	1.38E	1.74E	32%	-1%
Year	3.64A	4.20E	4.20E	4.52E	N/A	5.22E	5.76E	15%	24%
P/E	30.0		26.0			21.0			

Consensus numbers are from Bloomberg received on 26-Jan-2022; 13:50 GMT

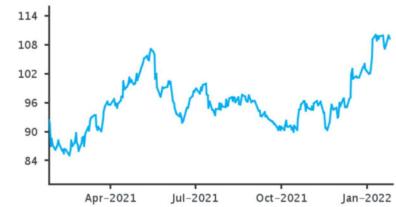
Source: Barclays Research

| CORE

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 83.00
	Unchanged
Price (25-Jan-22)	USD 109.30
Potential Upside/Downside	-24.1%
Market Cap (USD mn)	63875
Shares Outstanding (mn)	584.40
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.8
Dividend Yield (%)	0.37
Return on Equity TTM (%)	22.69
Current BVPS (USD)	30.88

Source: Bloomberg

Price Performance      Exchange-NYSE  
52 Week range      USD 111.13-83.65



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 (25-Jan-2022)	USD 109.30
Net premiums earned (\$mn)	44,369	47,542	50,577	N/A	N/A	Price Target	USD 83.00
Net investment income (NII) (\$mn)	861	911	978	N/A	N/A	<b>Why UNDERWEIGHT?</b>	
Underwriting income (\$mn)	1,374	1,763	2,421	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	2,463	3,062	N/A	N/A		
Net income (\$mn)	3,324	2,463	3,062	N/A	N/A		
Effective tax rate (%)	20.4	21.0	21.0	N/A	N/A		
Combined ratio (%)	95.3	94.8	93.7	N/A	N/A		
Combined ratio (ex cats & py development) (%)	92.4	93.3	92.2	N/A	N/A		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	<b>Upside case</b> USD 120.00	
EPS (adj)	3.64	4.20	5.22	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 ~29x '22E EPS and ~23x '23E EPS.	
EPS (reported)	5.67	4.20	5.22	N/A	N/A		
DPS	0.40	2.40	2.65	N/A	N/A		
BVPS	30.54	32.11	34.45	N/A	N/A		
BVPS (ex AOCI)	30.48	32.05	34.39	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	55,390	59,423	N/A	N/A	PGR's baseline pricing may be low, brought on by a pandemic with greater rate catch up. Downside case reflects ~18x '22E EPS and ~14x '23E EPS.	
Common shareholders' equity (ex AOCI)	17,813	18,729	20,098	N/A	N/A		
Share buybacks	221	144	144	N/A	N/A		
Dividends paid	234	1,403	1,549	N/A	N/A		
Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average	<b>Upside/Downside scenarios</b>	
Debt leverage (%)	21.1	20.3	19.2	N/A	20.2		
Financial leverage (%)	23.2	22.4	21.2	N/A	22.3		
Total capital return as a % of op. earnings	21.4	62.8	55.3	N/A	46.5		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	3.59	3.41	3.18	N/A	3.39		
P/E (adj) (x)	30.0	26.0	21.0	N/A	25.7		
Dividend yield (%)	0.4	2.2	2.4	N/A	1.7		
ROE (%)	18.4	12.9	14.9	N/A	15.4		



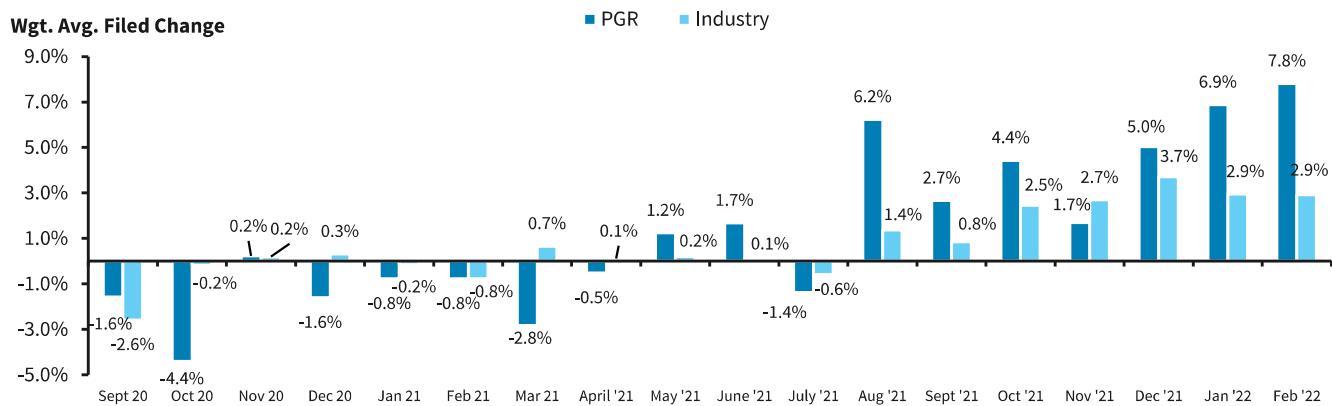
Note: FY End Dec

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 5% weighted average rate approval in Dec '21, only in one state: AZ**



Personal auto only

Source: S&P Global Market Intelligence, Barclays Research

Looking at December renewal effective dates, PGR received 2 rate approvals only in AZ ranging from 3.5% to 6.9%. January appears to serve more of a catch up with 25 rate approvals received in: VA, TN, PA, MS, NC, KS, AR, ME, SC and AL ranging from 0%-11.7% (latter in TN, all other states are single digits).

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 +2.3% on subject premiums

PGR has submitted pending rate increases through renewal effective dates May '22 in just 11 states, not nationwide: CT, DC, FL, GA, HI, ID, MD, MI, NV, OR, and TX.

## PIF Growth Spotlight

**PIF growth y/y trend continued to fall in December across agent (+3.4%) and direct (+7.7%).**

PGR reported -0.4% m/m decline in auto PIF growth (in line with our modeled -0.4%).

**FIGURE 2. PIF growth y/y trend continued to fall in December across agent (+3.4%) and direct (+7.7%).**

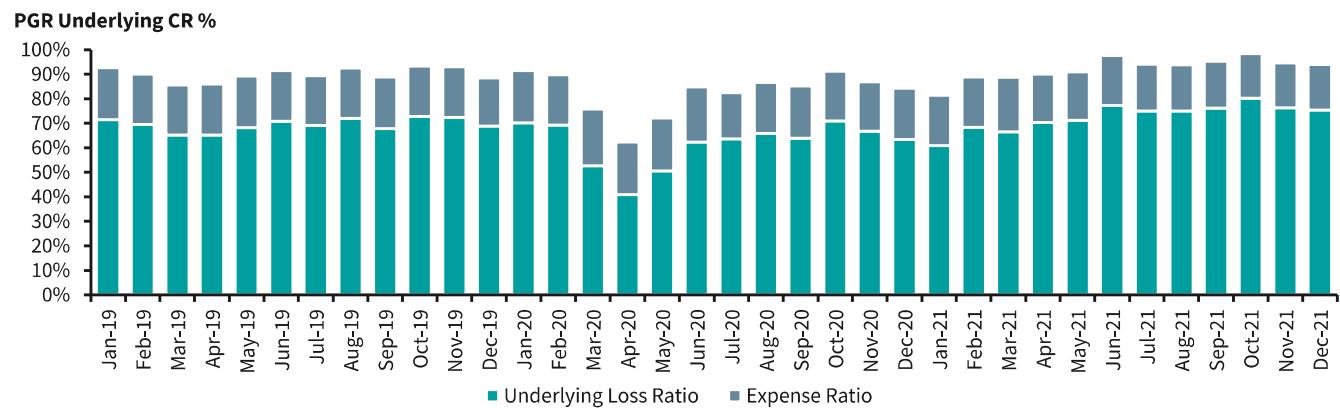


Source: Barclays Research, Company Data

## Underlying Combined Ratio Improving Sequentially

Though we would like to see greater improvements within auto (total auto loss ratio ex catastrophes improved 30 bps m/m). We think PGR's property loss ratio (ex cats) of 48% is not sustainable though it has kept up near this level in the last few months. Part of PGR's combined ratio improvement story is on the expense ratio side. Lower advertising is a lever PGR can pull until pricing becomes more rational, but not over the longer term.

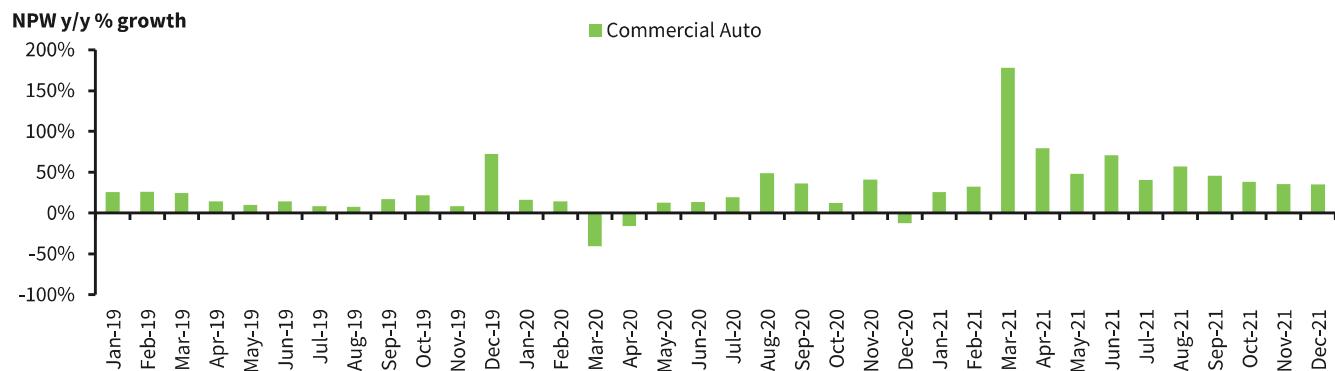
**FIGURE 3. Dec. '21 underlying loss ratio of 75.4% (vs. 74.4% Barclays) and expense ratio of 18.6% (vs. 18.8% Barclays)**



Source: Barclays Research, Company Data.

## Commercial Auto NPW at 35% in Dec. '21

**FIGURE 4. Commercial auto NPW growth (monthly)**



Source: Barclays Research, Company Data.

## Valuation

Our \$83 price target is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022E/2023E (no change in methodology).

### Model Updates:

We lower our PIF growth expectations in Jan. '22E-April '22E. We think PGR may benefit from a frequency tailwind from Omicron in January prompting us to reduce our loss ratio expectations for the month and slightly so for subsequent months.

## Variance Tables – Dec '21

FIGURE 5. Variance Analysis - Dec. '21

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Dec '21A	Nov '21	% Change	Dec '20	% Change	Dec '21	% Var.
Net premiums written	\$3,113	\$3,289	-5%	\$2,789	12%	\$3,329	-6%
Net investment income	\$83	\$72	15%	\$73	14%	\$75	10%
Combined Ratio	94.6%	91.9%	277 bps	84.8%	979 bps	94.4%	19 bps
Combined Ratio ex cats and PYD	94.0%	94.6%	(57 bps)	84.4%	962 bps	93.2%	82 bps
Operating EPS	\$0.37	\$0.46	-21%	\$0.74	-50%	\$0.35	5%
Book value per share (ex. AOCL)	\$30.5	\$31.2	-2%	\$26.7	14%	\$30.0	2%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Dec '21A	Nov '21	% Change	Dec '20	% Change	Dec '21	% Var.
Personal lines-agent	\$1,150	\$1,218	-6%	\$1,080	6%	\$1,148	0%
Personal lines-direct	\$1,258	\$1,337	-6%	\$1,165	8%	\$1,268	-1%
Total Personal Lines	\$2,409	\$2,555	-6%	\$2,245	7%	\$2,415	0%
Commercial Business & Other	\$518	\$555	-7%	\$384	35%	\$729	-29%
Property	\$186	\$180	4%	\$160	17%	\$184	1%
Total Written Premiums	\$3,113	\$3,289	-5%	\$2,789	12%	\$3,329	-6%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Dec '21A	Nov '21	% Change	Dec '20	% Change	Dec '21	% Var.
Total Personal Lines	95.6%	93.8%	180 bps	86.6%	900 bps	94.7%	89 bps
Personal lines-agent	93.6%	94.4%	(80 bps)	85.1%	850 bps	93.4%	20 bps
Personal lines-direct	97.4%	93.2%	420 bps	87.9%	950 bps	94.0%	340 bps
Commercial Business & Other	85.1%	89.4%	(430 bps)	84.0%	110 bps	92.4%	(725 bps)
Property	112.8%	71.0%	4180 bps	64.7%	4810 bps	97.0%	1580 bps

Source: Barclays Research, Company Data

## Variance Tables – 4Q21

FIGURE 6. Variance Analysis - 4Q21

Summary Details (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	4Q21A	3Q21	% Change	4Q20	% Change	4Q21	% Var.
Net premiums written	\$10,749	\$12,447	-14%	\$9,542	13%	\$10,964	-2%
Net investment income	\$221	\$209	6%	\$221	0%	\$214	4%
Combined Ratio	94.7%	100.4%	(567 bps)	88.3%	645 bps	94.7%	6 bps
Combined Ratio ex cats and PYD	95.9%	94.4%	151 bps	86.4%	946 bps	95.6%	27 bps
Operating EPS	\$1.06	\$0.15	600%	\$1.83	-42%	\$0.00	nm
Book value per share (ex. AOCL)	\$30.5	\$30.3	1%	\$26.7	14%	\$30.0	2%

NPW by Segment (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	4Q21A	3Q21	% Change	4Q20	% Change	4Q21	% Var.
Personal lines-agent	\$4,001	\$4,472	-11%	\$3,751	7%	\$3,998	0%
Personal lines-direct	\$4,339	\$4,995	-13%	\$3,952	10%	\$4,349	0%
Total Personal Lines	\$8,340	\$9,467	-12%	\$7,703	8%	\$8,347	0%
Commercial Business & Other	\$1,861	\$2,375	-22%	\$1,366	36%	\$2,073	-10%
Property	\$548	\$604	-9%	\$474	16%	\$545	0%
Total Written Premiums	\$10,749	\$12,447	-14%	\$9,542	13%	\$10,964	-2%

CR by Segment (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	4Q21A	3Q21	% Change	4Q20	% Change	4Q21	% Var.
Total Personal Lines	96.3%	100.2%	(395 bps)	88.9%	734 bps	96.0%	29 bps
Personal lines-agent	95.4%	99.0%	(363 bps)	87.9%	751 bps	95.3%	9 bps
Personal lines-direct	97.1%	101.3%	(425 bps)	89.9%	717 bps	96.0%	107 bps
Commercial Business & Other	89.6%	89.5%	7 bps	86.1%	344 bps	91.9%	(229 bps)
Property	88.1%	142.3%	(5420 bps)	85.6%	254 bps	82.7%	538 bps

Source: Barclays Research, Company Data

**FIGURE 7. Model Summary**

<b>(\$ in mn, except per share data)</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022E</b>	<b>2023E</b>
Net premiums written	32,610	37,578	40,569	46,405	49,236	52,451
Revenues:						
Net premiums earned	30,933	36,192	39,262	44,369	47,542	50,577
Investment income	821	1,042	937	861	911	978
Total net realized gains (losses) on securities	(406)	1,029	1,630	1,509	-	-
Fees and other revenues	472	564	604	692	723	759
Service revenues	159	195	226	271	252	268
<b>Total revenues</b>	<b>31,979</b>	<b>39,022</b>	<b>42,658</b>	<b>47,702</b>	<b>49,428</b>	<b>52,581</b>
Expenses:						
Losses and loss adjustment expenses	21,721	25,471	25,122	33,628	35,777	37,246
Total underwriting expenses	6,770	7,998	8,843	9,368	10,003	10,910
Policyholder credit expense	-	-	1,077	-	-	-
Investment expenses	24	25	20	26	29	32
Service expenses	134	179	206	253	261	278
Interest expense	167	190	217	219	206	206
<b>Total expenses</b>	<b>28,815</b>	<b>33,862</b>	<b>35,485</b>	<b>43,492</b>	<b>46,277</b>	<b>48,672</b>
Underwriting Income	2,443	2,724	5,297	1,374	1,763	2,421
Income before income taxes	3,164	5,160	7,173	4,210	3,152	3,910
Provision for income taxes	543	1,180	1,469	859	662	821
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-	-
Net income	2,615	3,970	5,705	3,351	2,490	3,089
Less: Preferred stock dividends	21	27	27	27	27	27
<b>Net income to common shareholders</b>	<b>2,594</b>	<b>3,943</b>	<b>5,678</b>	<b>3,324</b>	<b>2,463</b>	<b>3,062</b>
ATX total net realized gains (losses) on sec	(320)	813	1,288	1,192	-	-
Other	(1)	-	-	-	-	-
<b>Operating income to common shareholders</b>	<b>2,915</b>	<b>3,130</b>	<b>4,390</b>	<b>2,132</b>	<b>2,463</b>	<b>3,062</b>
<b>Operating EPS</b>	<b>\$5.00</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$3.64</b>	<b>\$4.20</b>	<b>\$5.22</b>
<b>Net EPS</b>	<b>\$4.43</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$5.67</b>	<b>\$4.20</b>	<b>\$5.22</b>
Net Written Premiums (y/y %)		15.2%	8.0%	14.4%	6.1%	6.5%
Net Earned Premiums (y/y %)		17.0%	8.5%	13.0%	7.2%	6.4%

Source: Barclays Research, Company Data

**FIGURE 8. Model Summary Continued**

(\$ in mn, except per share data)	2018	2019	2020	2021	2022E	2023E
<b><u>Underwriting Margins</u></b>						
Loss and LAE ratio	70.2%	70.4%	64.0%	75.8%	75.3%	73.6%
Expense ratio	20.4%	20.5%	21.0%	19.6%	19.5%	20.1%
<b>Combined ratio</b>	<b>90.6%</b>	<b>90.9%</b>	<b>85.0%</b>	<b>95.3%</b>	<b>94.8%</b>	<b>93.7%</b>
Catastrophes pretax	567	552	880	1,310	713	767
Cat pts	1.8%	1.5%	2.2%	3.0%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	5	-	-
PYD pts	-0.3%	-0.6%	-0.5%	0.0%	0.0%	0.0%
<b>Underlying loss ratio</b>	<b>68.1%</b>	<b>68.2%</b>	<b>61.2%</b>	<b>72.8%</b>	<b>73.8%</b>	<b>72.1%</b>
<b>Underlying combined ratio</b>	<b>88.5%</b>	<b>88.8%</b>	<b>82.2%</b>	<b>92.4%</b>	<b>93.3%</b>	<b>92.2%</b>
<b><u>Share information</u></b>						
Shares beginning period	581.7	583.2	584.6	585.2	584.4	584.4
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	584.4	584.4	584.4
Weighted average shares - basic	582.4	583.8	584.9	584.9	584.4	584.4
Dilution	3.8	3.1	2.5	2.1	2.1	2.1
Weighted average shares - diluted	586.2	586.9	587.4	586.9	586.5	586.5
<b><u>Capital deployment</u></b>						
Assumed Share price for repurchases	\$58	\$73	\$86	\$91	\$85	\$85
# of shares repurchased (in mn)	1.3	1.2	1.3	2.4	1.7	1.7
\$ Repurchased	76	86	112	221	144	144
Dividends per share	\$2.51	\$2.65	\$4.90	\$0.40	\$2.40	\$2.65
\$ amt common dividend	1,465	1,548	2,866	234	1,403	1,549
Total capital returned	1,541	1,634	2,978	455	1,547	1,693
Total capital returned, % normalized earnings	53%	52%	68%	21%	63%	55%
<b><u>Shareholders' equity and returns</u></b>						
Common shareholders' equity ex AOCI	10,234	12,612	15,613	17,813	18,729	20,098
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,713	18,271	19,413
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$30.48	\$32.05	\$34.39
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	12.8%	13.5%	15.8%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	18.4%	12.9%	14.9%

Source: Barclays Research, Company Data

**Analyst(s) Certification(s):**

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**Progressive Corp.** (PGR, 25-Jan-2022, USD 109.30), Underweight/Positive, CD/CE/J/K/M

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## Progressive Corp. (PGR / PGR)

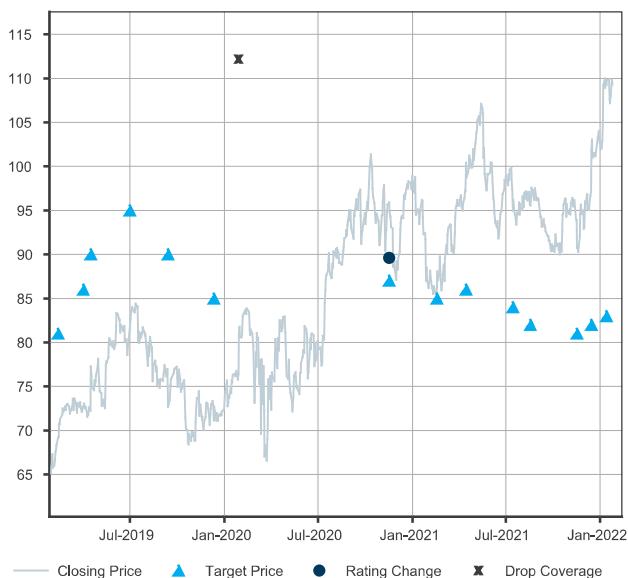
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

**USD 109.30** (25-Jan-2022)

### Rating and Price Target Chart - USD (as of 25-Jan-2022)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price	Rating	Adjusted Price Target
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
11-Feb-2019	69.16		81.00

On 26-Jan-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 73.00.

Source: Bloomberg, Barclays Research

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**Valuation Methodology:** Our \$83 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022E/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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