



Equity Research

Financial Services | U.S. Insurance/Non-Life
14 October 2021

Progressive Corp.

Sept '21: Feeling Fatigue

The key question is – when can PGR price its way back to its long-term target and start to grow auto PIF again to double digits? Some investors are still clinging to high hopes of PGR getting out of this dilemma in the next four months through pricing actions; however, we are more cautious. We think it can take 12-18 months for auto insurance pricing to be rational, even though most policies are 6 months. The longer it takes for regulators to get on board with rate filing requests (after that too long ago pressing upon rebates), the more time insurers will see accumulation of lost trend that they are not appropriately pricing. We see severity – as transitory “for longer”, with used car sale prices not rebasing to pre-pandemic levels.

Sept '21 operating EPS beat driven by cats, expenses: Sept operating EPS of \$0.08 beat our (\$0.07) estimate primarily on pre-tax cats (5.5 pts, ~\$195mn), which were ~1 pt better than we expected. The 5.5 pts included 4.7 pts (~\$168mn) of cat losses associated with Hurricane Ida, primarily in auto due to flooding in NJ, NY, and PA. PGR's underlying combined ratio was 95.3% (Figure 1) up 146 bps m/m on higher underlying loss ratio (76.2% vs. 75% in August) and expense ratio (19.1% vs. 18.8% in August).

PIF growth facing stiff headwinds on road to underwriting target: PGR's total personal auto PIF y/y growth (+7.9% vs. our estimate of +9.9%) fell significantly short of our estimate driven by a slowdown in auto direct (+9.6% vs. our +11.5%) and auto agency (+5.9% vs. +8.0%). See Figure 2 for monthly detail. Management actions are needed for PGR to meet its the long-term target CR of 96%. PGR currently has 20 pending requests for rate changes across 8 states. A key focus will be on the speed regulators allow rate increases, where we see pushback in TX where PGR has 8 pending requests ranging from 0% to +4.9% (Figure 4). FL is another tough state; PGR has 4 pending requests at around 6% rate increases (Figure 5).

We maintain our price target at \$82 and reiterate our Underweight rating. Our \$82 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022/2023. '22E and '23E EPS is \$4.24 (vs. \$4.23 prior) and \$5.49 (unchanged), respectively. '22E and '23E BVPS (ex AOCI) is \$30.36 (vs. \$30.43 prior) and \$32.98 (vs. \$33.05 prior), respectively.

PGR: Quarterly and Annual EPS (USD)

	2020		2021		2022		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	1.91A	1.72A	1.72A	2.51A	0.77E	0.77E	1.25E	-10%	-55%
Q2	1.85A	0.71A	0.71A	1.34A	0.92E	0.92E	1.14E	-62%	30%
Q3	1.88A	0.01E	0.15A	0.17E	1.16E	1.17E	1.15E	-92%	680%
Q4	1.83A	0.58E	0.57E	1.08E	1.38E	1.39E	1.43E	-69%	144%
Year	7.47A	3.02E	3.16E	3.70E	4.23E	4.24E	5.02E	-58%	34%
P/E	12.2		28.8			21.4			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 14-Oct-2021; 12:50 GMT

Completed: 14-Oct-21, 19:25 GMT
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Stock Rating	UNDERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 82.00
	Unchanged
Price (13-Oct-2021)	USD 90.82
Potential Upside/Downside	-9.7%
Tickers	PGR
Market Cap (USD mn)	53157
Shares Outstanding (mn)	585.30
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.44
Return on Equity TTM (%)	31.77
Current BVPS (USD)	31.07

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 107.59-82.29

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

U.S. Insurance/Non-Life

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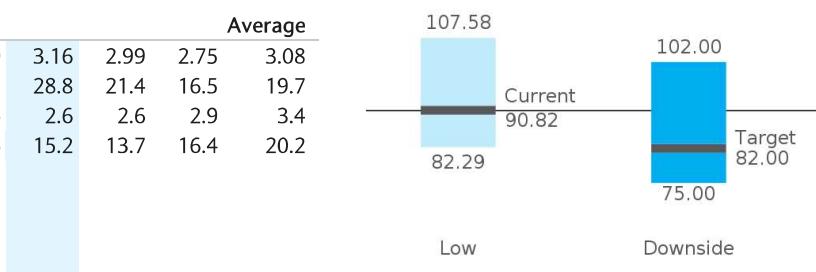
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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 10.

U.S. Insurance/Non-Life						Industry View: POSITIVE		
Progressive Corp. (PGR)						Stock Rating: UNDERWEIGHT		
Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (13-Oct-2021)	USD 90.82	
Net premiums earned	39,262	44,197	49,057	54,381	11.5%	Price Target	USD 82.00	
Net investment income (NII)	937	864	939	1,008	2.5%	Why Underweight? 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. We see PGR's business expansion beyond core personal auto focus to be more defensive vs. offensive. PGR's excess growth in commercial auto runs against the industry grain and expands risk appetite to riskier auto classes.		
Underwriting income	5,297	1,020	1,748	2,545	-21.7%			
Operating income	4,390	1,848	2,491	3,227	-9.7%			
Net income	5,678	2,704	2,491	3,227	-17.2%			
Effective tax rate (%)	20.5	20.6	21.0	21.0	0.9%			
Combined ratio (%)	85.0	96.1	94.9	93.8	3.4%			
Combined ratio (ex cats & py development) (%)	82.2	92.4	92.9	91.8	3.8%			
Per share data (\$)					CAGR	Upside case	USD 102.00	
EPS (adj)	7.47	3.16	4.24	5.49	-9.7%	If PGR is able to leverage its multivariate pricing model across newer business lines, it could achieve the same measurable success as its core personal auto book. Upside case reflects ~24x '22E EPS and ~19x '23E EPS.		
EPS (reported)	9.66	4.61	4.24	5.49	-17.1%			
DPS	4.90	2.40	2.40	2.65	-18.5%			
BVPS	28.27	29.35	30.96	33.58	5.9%			
BVPS (ex AOCI)	26.68	28.75	30.36	32.98	7.3%			
Balance sheet and capital return (\$mn)					CAGR	Downside case	USD 75.00	
Total investments	47,530	53,121	57,118	61,355	8.9%	We think margins peak in 2020 and are not reflective of longer term trends. Auto pricing reflects artificially low frequency trends brought on by a pandemic. Downside case reflects ~18x '22E EPS and ~14x '23E EPS.		
Common shareholders' equity (ex AOCI)	15,613	16,817	17,760	19,293	7.3%			
Share buybacks	112	166	144	144	8.7%			
Dividends paid	2,866	1,404	1,404	1,550	-18.5%			
Balance sheet and capital return metrics					Average	Upside/Downside scenarios		
Debt leverage (%)	25.1	22.1	21.2	19.8	22.0	Price History		
Financial leverage (%)	27.4	24.3	23.3	21.8	24.2	Prior 12 months		
Total capital return as a % of op. earnings	67.8	85.0	62.2	52.5	66.9	High		
Valuation metrics					Average	Price Target		
P/BV (ex AOCI) (x)	3.40	3.16	2.99	2.75	3.08	Next 12 months		
P/E (adj) (x)	12.2	28.8	21.4	16.5	19.7	Upside		
Dividend yield (%)	5.4	2.6	2.6	2.9	3.4			
ROE (%)	35.6	15.2	13.7	16.4	20.2			



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

FIGURE 1

Sept '21 underlying loss ratio of 76.2% (vs. 75.5% Barclays) and expense ratio of 19.1% (vs. 20.4% Barclays)

PGR Underlying CR %

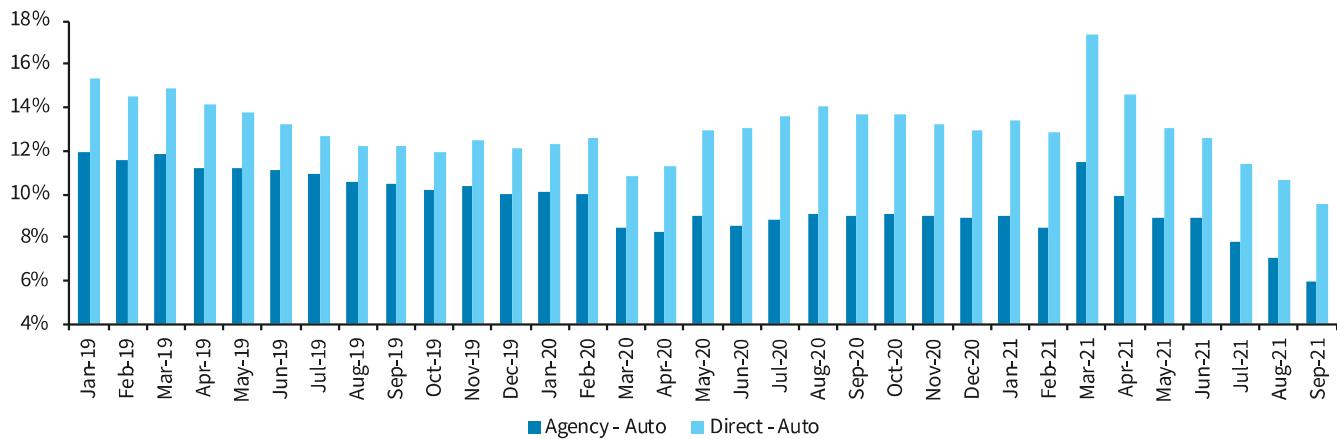


Source: Barclays Research, Company Data.

FIGURE 2

y/y PIF growth trend continued descent in Sept across agent (+5.9%) and direct (+9.6%)

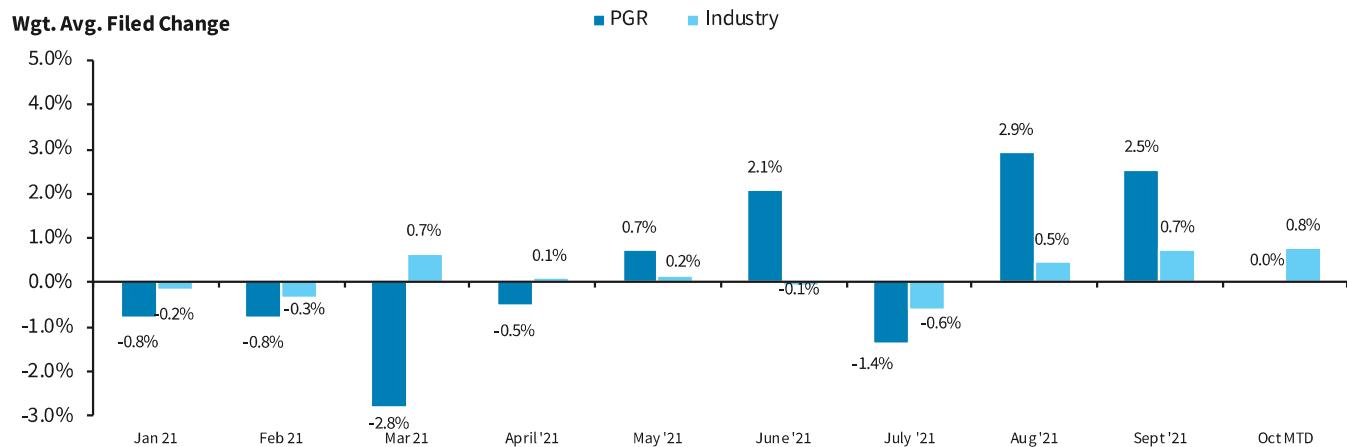
PIF y/y % Growth



Source: Barclays Research, Company Data.

FIGURE 3

PGR filing for rate increases exceeding industry in 4 of last 6 months has been a headwind for PIF growth



Source: S&P Global Market Intelligence, Barclays Research.

Note: October month to date as of October 14, 2021.

FIGURE 4

Pending Rate Approval Requests in TX (Top 10 by Market Share in Personal Auto)

Company	State	# Pending	Low	High
ALL	TX	1	-1.7%	6.7%
AFAM	TX	3	0.0%	3.2%
Farmers	TX	4	0.0%	9.9%
GEICO	TX	4	0.0%	13.8%
LIBMUT	TX	1		3.9%
Nationwide	TX	5	0.0%	3.9%
PGR	TX	8	0.0%	4.9%
State Farm	TX	3	0.0%	5.6%
TRV	TX	2	0.0%	0.0%
USAA	TX	2	-0.1%	0.0%

Source: Barclays Research, Capital IQ Pro.

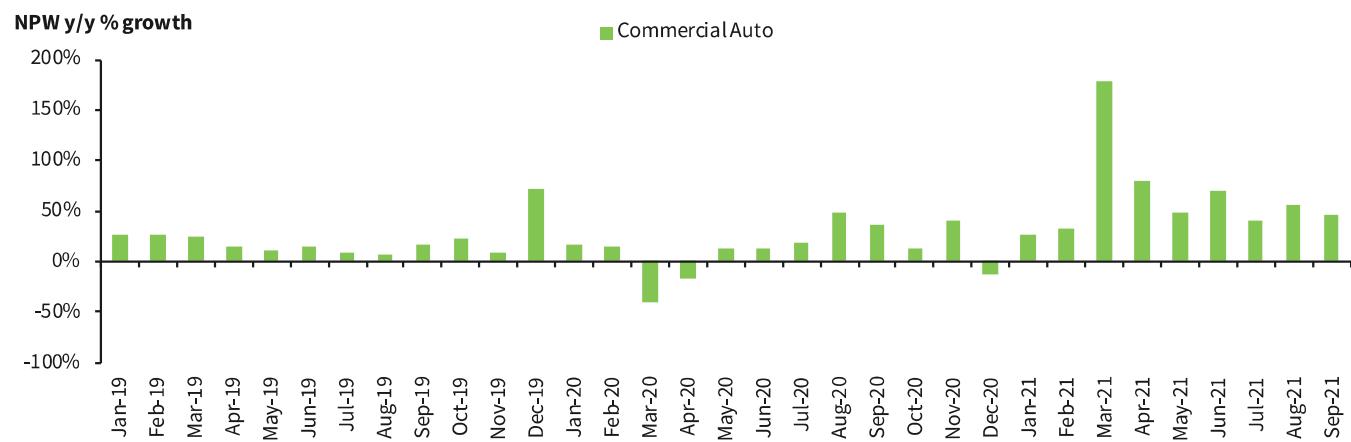
PGR has 4 pending requests in FL around 6% rate increases.

FIGURE 5
Pending Rate Approval Requests in FL (Top 10 by Market Share in Personal Auto)

Rate Request				
Company	State	# Pending	Low	High
ALL	FL	4	na	na
AFAM	FL	2	na	na
Farmers	FL	4	4.0%	11.4%
GEICO	FL	3	0.0%	5.0%
LIBMUT	FL	4	na	na
Nationwide	FL	0	na	na
PGR	FL	4	6.0%	6.1%
State Farm	FL	4	0.0%	0.0%
TRV	FL	0	na	na
USAA	FL	0	na	na

Source: Barclays Research, Capital IQ Pro.

FIGURE 6
Commercial growth spot - Sept NPW growth ~+46% y/y. Downside – more capital intensive business



Source: Barclays Research, Company Data.

Variance Tables – Sept '21 and 3Q21

FIGURE 7

PGR Sept 2021 Variance Analysis

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Sept '21A	Aug '21	% Change	Sept '20	% Change	Sept '21	% Var.
Net premiums written	\$4,004	\$3,891	3%	\$3,468	15%	\$3,775	6%
Net investment income	\$74	\$68	9%	\$75	-3%	\$74	-1%
Combined Ratio	100.1%	105.3%	(524 bps)	88.2%	1192 bps	103.0%	(288 bps)
Combined Ratio ex cats and PYD	95.3%	93.8%	146 bps	85.8%	948 bps	95.8%	(58 bps)
Operating EPS	\$0.08	-\$0.19	-140%	\$0.57	-86%	-\$0.07	-214%
Book value per share (ex. AOCI)	\$30.3	\$30.5	-1%	\$28.4	7%	\$30.3	0%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Sept '21A	Aug '21	% Change	Sept '20	% Change	Sept '21	% Var.
Personal lines-agent	\$1,394	\$1,374	1%	\$1,311	6%	\$1,377	1%
Personal lines-direct	\$1,556	\$1,522	2%	\$1,402	11%	\$1,500	4%
Total Personal Lines	\$2,950	\$2,896	2%	\$2,713	9%	\$2,877	3%
Commercial Business & Other	\$862	\$782	10%	\$591	46%	\$709	21%
Property	\$192	\$213	-10%	\$164	17%	\$188	2%
Total Written Premiums	\$4,004	\$3,891	3%	\$3,468	15%	\$3,775	6%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Sept '21A	Aug '21	% Change	Sept '20	% Change	Sept '21	% Var.
Total Personal Lines	103.2%	100.4%	280 bps	87.6%	1560 bps	102.1%	114 bps
Personal lines-agent	100.0%	100.4%	(40 bps)	85.6%	1440 bps	96.9%	310 bps
Personal lines-direct	106.0%	100.4%	560 bps	89.4%	1660 bps	99.5%	650 bps
Commercial Business & Other	89.5%	92.1%	(260 bps)	85.5%	400 bps	90.8%	(130 bps)
Property	87.6%	225.7%	(13810 bps)	107.7%	(2010 bps)	157.0%	(6940 bps)

Source: Barclays Research, Company Data.

FIGURE 8
3Q21 Variance Analysis

Summary Details (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	3Q21A	2Q21	% Change	3Q20	% Change	3Q21	% Var.
Net premiums written	\$12,447	\$11,480	8%	\$11,015	13%	\$12,217	2%
Net investment income	\$209	\$211	-1%	\$231	-9%	\$209	0%
Combined Ratio	100.4%	96.5%	390 bps	87.8%	1261 bps	101.3%	(89 bps)
Combined Ratio ex cats and PYD	94.4%	92.7%	165 bps	84.7%	970 bps	94.6%	(17 bps)
Operating EPS	\$0.15	\$0.71	-79%	\$1.88	-92%	\$0.00	nm
Book value per share (ex. AOCI)	\$30.3	\$30.2	0%	\$28.4	7%	\$30.3	0%

NPW by Segment (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	3Q21A	2Q21	% Change	3Q20	% Change	3Q21	% Var.
Personal lines-agent	\$4,472	\$4,326	3%	\$4,252	5%	\$4,455	0%
Personal lines-direct	\$4,995	\$4,574	9%	\$4,633	8%	\$4,939	1%
Total Personal Lines	\$9,467	\$8,900	6%	\$8,885	7%	\$9,394	1%
Commercial Business & Other	\$2,375	\$1,989	19%	\$1,610	48%	\$2,223	7%
Property	\$604	\$591	2%	\$521	16%	\$600	1%
Total Written Premiums	\$12,447	\$11,480	8%	\$11,015	13%	\$12,217	2%

CR by Segment (in \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	3Q21A	2Q21	% Change	3Q20	% Change	3Q21	% Var.
Total Personal Lines	100.2%	96.2%	404 bps	86.6%	1365 bps	99.9%	33 bps
Personal lines-agent	99.0%	95.1%	398 bps	85.1%	1397 bps	98.1%	96 bps
Personal lines-direct	101.3%	97.2%	409 bps	88.0%	1333 bps	99.3%	200 bps
Commercial Business & Other	89.5%	92.0%	(250 bps)	87.2%	232 bps	89.9%	(39 bps)
Property	142.3%	116.6%	2572 bps	111.8%	3051 bps	165.5%	(2318 bps)

Source: Barclays Research, Company Data.

Model Summary

FIGURE 9

Model Summary (pg. 1)

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
Net premiums written	32,610	37,578	40,569	46,620	51,052	55,788
Revenues:						
Net premiums earned	30,933	36,192	39,262	44,197	49,057	54,381
Investment income	821	1,042	937	864	939	1,008
Total net realized gains (losses) on securities	(406)	1,029	1,630	1,084	-	-
Fees and other revenues	472	564	604	698	746	816
Service revenues	159	195	226	271	260	288
Total revenues	31,979	39,022	42,658	47,114	51,002	56,494
Expenses:						
Losses and loss adjustment expenses	21,721	25,471	25,122	33,716	36,563	39,928
Total underwriting expenses	6,770	7,998	8,843	9,461	10,746	11,909
Policyholder credit expense	-	-	1,077	-	-	-
Investment expenses	24	25	20	26	30	33
Service expenses	134	179	206	253	270	299
Interest expense	167	190	217	218	206	206
Total expenses	28,815	33,862	35,485	43,674	47,815	52,374
Underwriting Income	2,443	2,724	5,297	1,020	1,748	2,545
Income before income taxes	3,164	5,160	7,173	3,439	3,187	4,120
Provision for income taxes	543	1,180	1,469	708	669	865
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-	-
Net income	2,615	3,970	5,705	2,731	2,518	3,255
Less: Preferred stock dividends	21	27	27	27	27	27
Net income to common shareholders	2,594	3,943	5,678	2,704	2,491	3,227
ATX total net realized gains (losses) on sec	(320)	813	1,288	856	-	-
Other	(1)	-	-	-	-	-
Operating income to common shareholders	2,915	3,130	4,390	1,848	2,491	3,227
Operating EPS	\$5.00	\$5.33	\$7.47	\$3.16	\$4.24	\$5.49
Net EPS	\$4.43	\$6.72	\$9.66	\$4.61	\$4.24	\$5.49
Net Written Premiums (y/y %)		15.2%	8.0%	14.9%	9.5%	9.3%
Net Earned Premiums (y/y %)		17.0%	8.5%	12.6%	11.0%	10.9%

Source: Barclays Research, Company Data.

FIGURE 10
Model Summary (pg. 2)

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
<u>Underwriting Margins</u>						
Loss and LAE ratio	70.2%	70.4%	64.0%	76.3%	74.5%	73.4%
Expense ratio	20.4%	20.5%	21.0%	19.8%	20.4%	20.4%
Combined ratio	90.6%	90.9%	85.0%	96.1%	94.9%	93.8%
Catastrophes pretax	567	552	880	1,425	727	801
Cat pts	1.8%	1.5%	2.2%	3.2%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	(214)	(245)	(272)
PYD pts	-0.3%	-0.6%	-0.5%	-0.5%	-0.5%	-0.5%
Underlying loss ratio	68.1%	68.2%	61.2%	72.6%	72.5%	71.4%
Underlying combined ratio	88.5%	88.8%	82.2%	92.4%	92.9%	91.8%
<u>Share information</u>						
Shares beginning period	581.7	583.2	584.6	585.2	585.0	585.0
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	585.0	585.0	585.0
Weighted average shares - basic	582.4	583.8	584.9	584.9	585.0	585.0
Dilution	3.8	3.1	2.5	2.1	2.1	2.1
Weighted average shares - diluted	586.2	586.9	587.4	587.0	587.1	587.1
<u>Capital deployment</u>						
Assumed Share price for repurchases	\$58	\$73	\$86	\$92	\$85	\$85
# of shares repurchased (in mn)	1.3	1.2	1.3	1.8	1.7	1.7
\$ Repurchased	76	86	112	166	144	144
Dividends per share	\$2.51	\$2.65	\$4.90	\$2.40	\$2.40	\$2.65
\$ amt common dividend	1,465	1,548	2,866	1,404	1,404	1,550
Total capital returned	1,541	1,634	2,978	1,570	1,548	1,695
Total capital returned, % normalized earnings	53%	52%	68%	85%	62%	53%
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	10,234	12,612	15,613	16,817	17,760	19,293
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,215	17,289	18,526
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$28.75	\$30.36	\$32.98
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	11.4%	14.4%	17.4%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	15.2%	13.7%	16.4%

Source: Barclays Research, Company Data.

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Progressive Corp. (PGR, 13-Oct-2021, USD 90.82), Underweight/Positive, CD/CE/J/K/M

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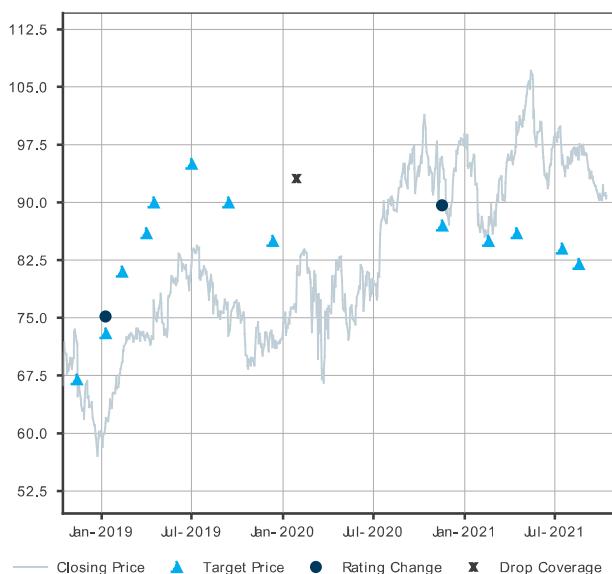
IMPORTANT DISCLOSURES

IMPORTANT DISCLOSURES**Progressive Corp. (PGR / PGR)**

USD 90.82 (13-Oct-2021)

Stock Rating

Industry View

UNDERWEIGHT**POSITIVE****Rating and Price Target Chart - USD (as of 13-Oct-2021)****Currency=USD**

Publication Date	Closing Price	Rating	Adjusted Price Target
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
09-Jan-2019	61.30	Overweight	73.00
12-Nov-2018	71.90		67.00

On 14-Oct-2018, prior to any intra-day change that may have been published, the rating for this security was Underweight, and the adjusted price target was 59.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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

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Valuation Methodology: Our \$82 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022/2023. '22E and '23E EPS is \$4.24 and \$5.49, respectively. '22E and '23E BVPS (ex AOCI) is \$30.36 and \$32.98, respectively.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: The primary risks to our thesis are if PGR were to meet its 96% combined ratio objective in newer business lines driving the recent expansion of its core business profile by leveraging its multivariate pricing model. In addition, we think margins are peaking in 2020 due to environmental factors and not reflective of longer-term trends but if PGR is able to avoid margin pressure over the long term it could maintain a stronger earnings growth profile than anticipated. While auto pricing currently reflects artificially low frequency trends brought on by a pandemic, a reversion to more normal pricing points should prove difficult to achieve. However, normalization of pricing could drive better performance in personal auto.

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