

Progressive Corp.

## Dec. '22 Earnings: Slow Progression Turning Around AYLR

While PGR is making sequential progress improving its AY loss ratio, it is doing so at an anemic speed. Its AYLR has a way to go to return to pre-pandemic levels (~68%). Sequential PIF growth is slowing down, which we think is owed to capital constraints.

**The cost & sustainability of growth:** Personal auto PIF grew +0.4% sequentially (Dec. '22 vs. Nov. '22), down from +0.8% sequentially (Nov. vs. Oct.). On an annualized basis, that would imply PIF growth of 5% vs. 10% (keeping monthly growth constant over 12 months). We question the sustainability of growth, as PGR's premiums to surplus is near 3x. On a y/y basis, PGR recognized positive personal auto PIF growth over the last 3 quarters (+2.6% Dec., +1.7% Nov. and +0.5% in Oct.) PGR's pricing may appear more competitive as the insurer believes taking rates is behind them, a sentiment that we think is premature. PGR may be leaving rate on the table as growth is coming with less effort (expense ratio 17.3% Dec. '22 vs. 20% pre-pandemic). Finally, there is usually a new business penalty, and it takes a few policy terms to meet profitability hurdle rates. (In 3Q22, PGR saw total new personal auto application growth of 20% y/y). As the pendulum swings back to growth, we worry that it may be challenging for PGR to operationally demonstrate the same restraint and turn down business when appropriate.

PGR's underlying loss ratio improved to 75.4% in Dec. from 75.7% in Nov. and 77.6% in Oct. PGR's expense ratio fell to 17.3% in Dec. from 18.0% in Nov. and remains below pre-pandemic levels (north of 20%). We do not think an expense ratio well below 20% (especially this month's 17.3%) is sustainable. PGR's underlying loss ratio three-month simple average of 76.5% has a way to go to return to pre-pandemic levels (~68%). We think auto insurers will approach rate adequacy in 2024 – to be sure, not a return to 2019 levels. Finally, on a FY22 basis, PGR achieved its targeted combined ratio <96% as it reported a 95.8% combined ratio.

**Asset Leverage:** PGR continues to see more NII gains, as the duration of its assets is shorter, leading to a quicker turnover rate, and its total investments to shareholders equity is high at 3.4x. On a capital adequacy standpoint, while auto is a less capital-intensive business than other lines, we think PGR's high asset leverage may pressure an already constrained capital position. PGR's premium growth levels (+15% NPW y/y) consume capital and it is generating lower organic capital through earnings than its historical trend. PGR's pre-tax net investment income (ex expenses) this month was \$151mn vs. our \$118mn estimate. Part of the boost of PGR's NII (\$21mn) was due to an accounting change.

Dec. operating EPS of \$0.53 beat our \$0.36 estimate, reflecting better NII and underwriting income. We had modeled catastrophe loss of \$43mn vs. PGR's \$64mn.

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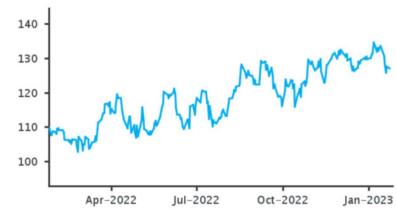
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PGR	<b>UNDERWEIGHT</b>
	Unchanged
U.S. Insurance/Non-Life	<b>POSITIVE</b>
	Unchanged
Price Target	<b>USD 121.00</b>
	Unchanged
Price (24-Jan-23)	<b>USD 129.19</b>
Potential Upside/Downside	-6.3%
Market Cap (USD mn)	<b>75576</b>
Shares Outstanding (mn)	<b>585.00</b>
Free Float (%)	<b>99.70</b>
52 Wk Avg Daily Volume (mn)	<b>2.6</b>
Dividend Yield (%)	<b>0.31</b>
Return on Equity TTM (%)	<b>5.14</b>
Current BVPS (USD)	<b>24.41</b>
Source: Bloomberg	

Price Performance **Exchange-NYSE**  
 52 Week range **USD 135.45-100.81**



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>2022</b>	<b>2023</b>			<b>2024</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>2023</b>	<b>2024</b>
Q1	1.12A	1.16E	1.39E	1.66E	1.71E	1.71E	2.05E	24%	23%
Q2	1.03A	1.22E	1.26E	1.48E	1.79E	1.77E	1.67E	22%	40%
Q3	0.49A	1.39E	1.40E	1.47E	1.85E	1.83E	1.73E	186%	31%
Q4	1.47A	1.65E	1.63E	1.88E	1.85E	1.84E	2.16E	11%	13%
Year	4.12A	5.41E	5.69E	6.52E	7.19E	7.16E	7.62E	38%	26%
P/E	31.4		22.7			18.1			

Consensus numbers are from Bloomberg received on 25-Jan-2023; 13:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)							UNDERWEIGHT
Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (24-Jan-2023)	USD 129.19
Net premiums earned	49,241	54,671	59,083	63,200	8.7%	Price Target	USD 121.00
Net investment income (NII)	1,260	1,630	1,763	1,891	14.5%	<b>Why UNDERWEIGHT?</b>	
Underwriting income	1,342	2,069	2,949	3,212	33.8%	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	3,342	4,195	4,553	23.5%		
Net income	694	3,342	4,195	4,553	87.2%		
Effective tax rate (%)	21.8	21.0	21.0	21.0	-1.2%		
Combined ratio (%)	95.8	94.7	93.5	93.4	-0.8%		
Combined ratio (ex cats & py development) (%)	92.6	93.3	92.5	92.4	-0.1%		
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR		
EPS (adj)	4.12	5.69	7.16	7.78	23.7%		
EPS (reported)	1.18	5.69	7.16	7.78	87.5%		
DPS	0.40	2.65	2.65	2.65	87.8%		
BVPS	26.32	29.18	33.52	34.14	9.1%		
BVPS (ex AOCI)	31.01	33.99	38.34	38.96	7.9%		
Diluted shares (mn)	587	587	586	586	0.0%		
Balance sheet and capital return (\$mn)	2022A	2023E	2024E	2025E	CAGR		
Total investments	53,548	57,522	61,717	62,142	5.1%		
Common shareholders' equity (ex AOCI)	18,140	19,862	22,356	22,705	7.8%		
Share buybacks	63	70	156	156	35.0%		
Dividends paid	234	1,549	1,546	1,542	87.6%		
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average		
Debt leverage (%)	25.5	23.9	21.8	21.6	23.2		
Financial leverage (%)	27.5	25.7	23.5	23.3	25.0		
Total capital return as a % of op. earnings	12.3	48.4	40.6	37.3	34.6		
Valuation metrics	2022A	2023E	2024E	2025E	Average		
P/BV (ex AOCI) (x)	4.17	3.80	3.37	3.32	3.66		
P/E (adj) (x)	31.4	22.7	18.1	16.6	22.2		
Dividend yield (%)	0.3	2.1	2.1	2.1	1.6		
ROE (%)	3.8	16.6	18.9	19.0	14.6		

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

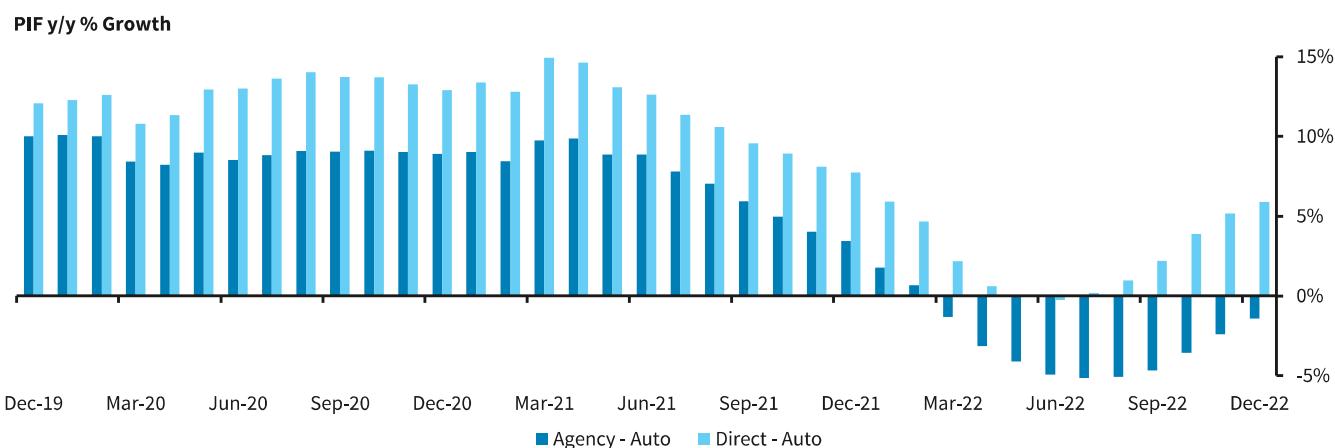


## PIF Growth Spotlight

PGR reported personal auto PIF y/y growth of +2.6% in Dec. (slightly below our estimate of +2.7%), as compression in auto agency (-1.4% vs. our -1.5%) is more than offset by growth in auto direct (+5.9% vs. our 6.0%).

As PIF declines remain more evident in agency, we expect PGR's customer mix to continue to shift toward direct over time. To recap, direct represents 57% of personal auto PIF in Dec. '22.

**FIGURE 1. PIF growth y/y in Dec. with agent (-1.4%) and direct (+5.9%)**

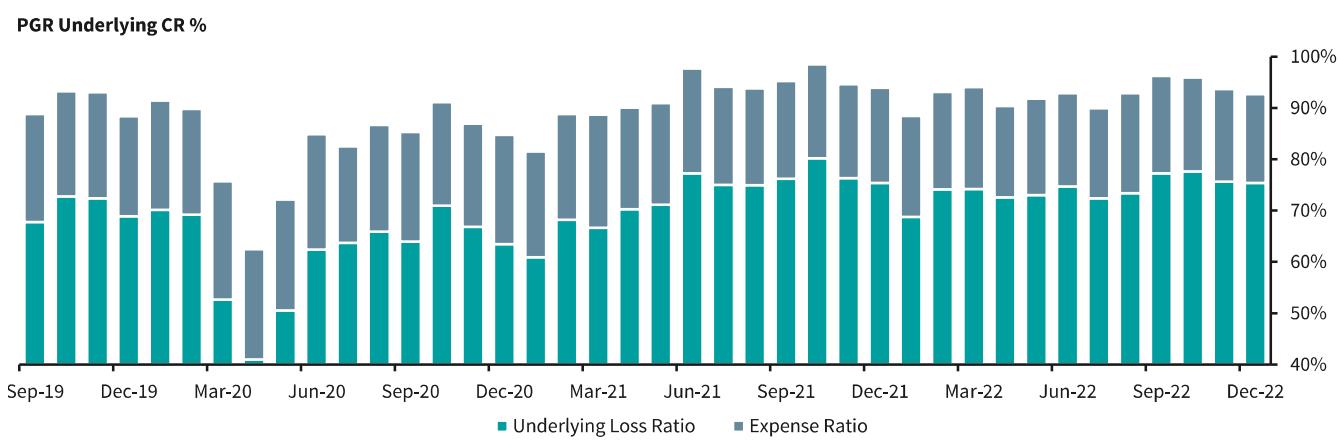


Source: Barclays Research, Company Data.

## Underlying loss ratio improving

PGR's underlying loss ratio improved to 75.4% in Dec. from 75.7% in Nov. and 77.6% in Oct. PGR's expense ratio of 17.3% in Dec. has declined relative to its run rate. Collectively, PGR's underlying combined ratio of 92.7% has improved from 93.7% in Nov., 95.9% in Oct., and 96.2% in Sept.

**FIGURE 2. Dec. '22 underlying loss ratio of 75.4% (vs. 75.7% Barclays) and expense ratio of 17.3% (vs. 19.0% Barclays)**



Source: Barclays Research, Company Data.

## Inflation: Focus on Absolute Levels

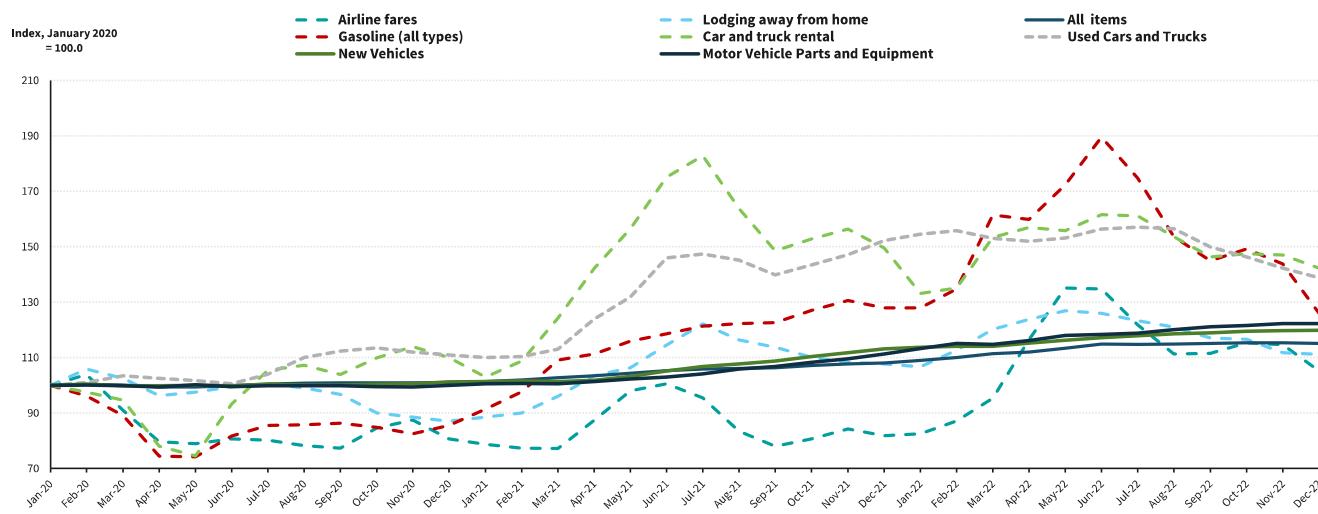
Our focus is on an absolute basis, where used car pricing remains significantly elevated (see Figure 3). Likewise, if we compare used car & trucking pricing to Dec. '19 levels, it is up 37.7% vs. all items at 15.5%. We pay lesser attention to the Consumer Price Index (CPI) for All Urban

Consumers, which rose 6.5% over the 12 months from Dec. 2021 to Dec. 2022. Used car and truck CPI trails all items at -8.8% in Dec. vs. -3.3% in Nov.

Manheim pricing was +0.8% m/m. We put less weight on Manheim pricing -14.9% y/y basis. More importantly, if we compare Dec '22 to Dec '19, Manheim pricing is still up 43%.

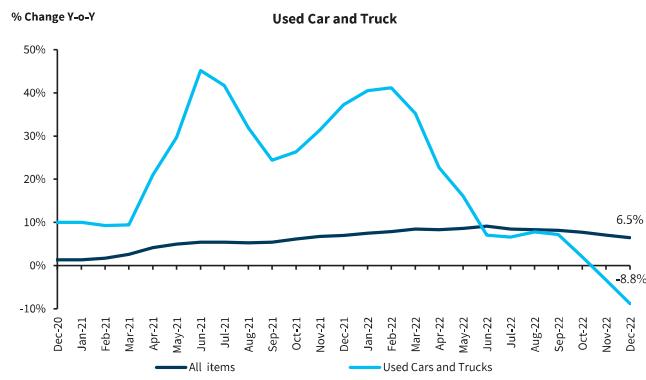
Compounded auto pricing during that period has not caught up – not anywhere close. There is still significant rate catch-up needed to see that inflection point. It will be like an “x”; loss costs go down, then pricing goes up – where the two intersect in our view can take a bit longer, especially given how long it is taking auto pricing to actually “earn” in.

**FIGURE 3. CPI Indexed to Jan. '20**



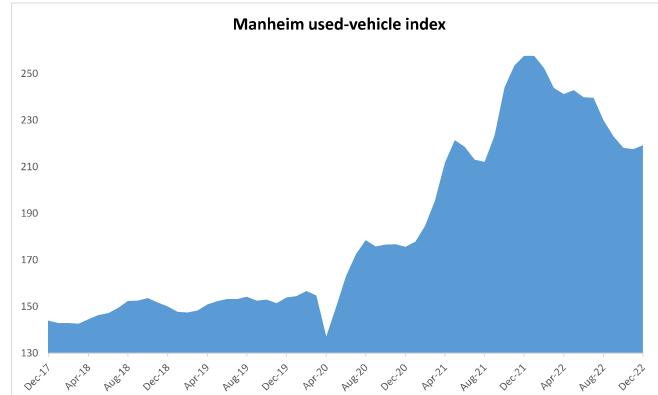
Source: Barclays Research, U.S. Bureau of Labor Statistics

**FIGURE 4. CPI: Used Car and Truck (y/y -8.8% in Dec. '22)**



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

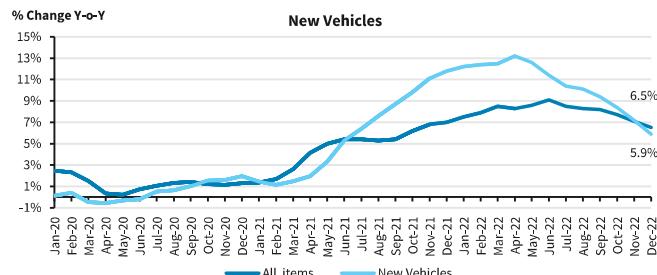
**FIGURE 5. Manheim used car prices (y/y -14.9% in Dec. '22)**



Source: Barclays Research, Bloomberg, Manheim

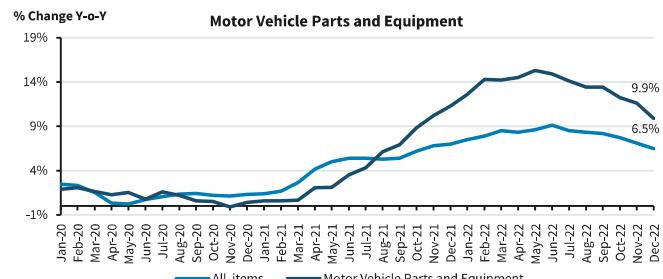
The new vehicle CPI index rose 5.9% y/y (vs. 7.2% in Nov.) and Motor Vehicle Parts and Equipment CPI index rose 9.9% y/y (vs. 11.6% in Nov.). However, comparing Dec. '22 vs. Dec. '19, new vehicles and car parts rose 20.0% and 22.8%, respectively.

**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

## Valuation

Our PT of \$121 (unchanged) is based on 16.5x our '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: '23E from \$5.41 to \$5.69 and '24E from \$7.19 to \$7.16.

## Variance Tables – Dec. '22

FIGURE 8. Variance Analysis - Dec. '22

Summary Details		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		Dec '22	Nov '22	% Change	Dec '21	% Change	Dec '22	% Var.
Net premiums written	\$3,574	\$3,699	-3%	\$3,113	15%	\$3,650	-2%	
Net investment income	\$151	\$119	27%	\$81	87%	\$118	28%	
Combined Ratio	93.3%	92.2%	110 bps	94.6%	(130 bps)	95.7%	(244 bps)	
Combined Ratio ex cats and PYD	92.7%	93.7%	(102 bps)	94.0%	(132 bps)	94.7%	(203 bps)	
Operating EPS	\$0.53	\$0.54	-1%	\$0.37	45%	\$0.36	48%	
Book value per share (ex. AOCI)	\$31.4	\$31.50	-0.3%	\$30.3	4%	\$31.3	0%	

NPW by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		Dec '22	Nov '22	% Change	Dec '21	% Change	Dec '22	% Var.
Personal lines-agent	\$1,348	\$1,384	-3%	\$1,150	17%	\$1,289	4.6%	
Personal lines-direct	\$1,522	\$1,571	-3%	\$1,258	21%	\$1,491	2.0%	
Total Personal Lines	\$2,870	\$2,955	-3%	\$2,409	19.1%	\$2,780	3.2%	
Commercial Business & Other	\$498	\$552	-10%	\$518	-4%	\$674	-26%	
Property	\$206	\$192	7%	\$186	11%	\$196	5%	
Total Written Premiums	\$3,574	\$3,699	-3%	\$3,113	15%	\$3,650	-2%	

CR by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		Dec '22	Nov '22	% Change	Dec '21	% Change	Dec '22	% Var.
Total Personal Lines	91.8%	91.8%	0 bps	95.6%	(380 bps)	96.5%	(473 bps)	
Personal lines-agent	92.5%	92.8%	(30 bps)	93.6%	(110 bps)	96.8%	(430 bps)	
Personal lines-direct	91.1%	91.0%	10 bps	97.4%	(630 bps)	94.8%	(370 bps)	
Commercial Business & Other	96.8%	95.7%	110 bps	85.1%	1170 bps	92.1%	470 bps	
Property	104.8%	83.9%	2090 bps	112.8%	(800 bps)	97.0%	780 bps	

Source: Barclays Research estimates, Company Data.

## Variance Tables – 4Q22

FIGURE 9. Variance analysis - 4Q22

Summary Details (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	4Q22A	3Q22	% Change	4Q21	% Change	4Q22E	% Var.
Net premiums written	\$12,460	\$13,012	-4%	\$10,749	16%	\$12,536	-1%
Net investment income	\$385	\$334	15%	\$214	79.9%	\$352	9.3%
Combined Ratio	93.9%	99.2%	(531 bps)	94.7%	(81 bps)	94.7%	(76 bps)
Combined Ratio ex cats and PYD	94.2%	92.8%	136 bps	95.9%	(168 bps)	94.8%	(62 bps)
Operating EPS	\$1.47	\$0.49	199%	\$1.06	39%	\$1.30	13%
Book value per share (ex. AOCI)	\$31.4	\$30.1	4%	\$30.3	4%	\$31.3	0%

NPW by Segment (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	4Q22A	3Q22	% Change	4Q21	% Change	4Q22E	% Var.
Personal lines-agent	\$4,579	\$4,745	-3%	\$4,001	14%	\$4,520	1%
Personal lines-direct	\$5,179	\$5,584	-7%	\$4,574	13%	\$5,149	1%
Total Personal Lines	\$9,758	\$10,329	-6%	\$8,900	10%	\$9,668	1%
Commercial Business & Other	\$2,100	\$2,064	2%	\$1,989	6%	\$2,276	-7.7%
Property	\$602	\$625	-4%	\$591	2%	\$591	2%
Total Written Premiums	\$12,460	\$13,017	-4%	\$11,480	9%	\$12,536	-1%

CR by Segment (in \$mn, except per share)	Q/Q		Y/Y		Barclays Est.		
	4Q22A	3Q22	% Change	4Q21	% Change	4Q22E	% Var.
Total Personal Lines	93.9%	100.0%	(609 bps)	96.3%	(237 bps)	95.4%	(150 bps)
Personal lines-agent	95.1%	100.9%	(589 bps)	95.4%	(36 bps)	96.4%	(134 bps)
Personal lines-direct	92.9%	99.2%	(626 bps)	97.1%	(414 bps)	94.1%	(116 bps)
Commercial Business & Other	94.6%	89.7%	485 bps	89.6%	501 bps	93.1%	145 bps
Property	91.2%	125.1%	(3396 bps)	88.1%	306 bps	88.5%	264 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	55,707	60,123	64,168
Revenues:							
Net premiums earned	36,192	39,262	44,369	49,241	54,671	59,083	63,200
Investment income	1,042	937	861	1,260	1,630	1,763	1,891
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,912)	-	-	-
Fees and other revenues	564	604	692	722	820	886	948
Service revenues	195	226	271	299	328	354	379
<b>Total revenues</b>	<b>39,022</b>	<b>42,658</b>	<b>47,702</b>	<b>49,611</b>	<b>57,449</b>	<b>62,087</b>	<b>66,418</b>
Expenses:							
Losses and loss adjustment expenses	25,471	25,122	33,628	38,123	41,084	43,143	46,085
Total underwriting expenses	7,998	8,843	9,368	9,777	11,518	12,991	13,903
Policyholder credit expense	-	1,077	-	-	-	-	-
Investment expenses	25	20	26	24	31	33	35
Service expenses	179	206	253	297	301	325	348
Interest expense	190	217	219	244	251	251	251
<b>Total expenses</b>	<b>33,862</b>	<b>35,485</b>	<b>43,492</b>	<b>48,464</b>	<b>53,185</b>	<b>56,743</b>	<b>60,622</b>
Underwriting Income	2,724	5,297	1,374	1,342	2,069	2,949	3,212
Income before income taxes	5,160	7,173	4,210	1,147	4,264	5,344	5,796
Provision for income taxes	1,180	1,469	859	201	895	1,122	1,217
Other comp (income) loss att. to NCI	(10)	-	-	-	-	-	-
Net income	3,970	5,705	3,351	946	3,369	4,222	4,579
Less: Preferred stock dividends	27	27	27	27	27	26	26
<b>Net income to common shareholders</b>	<b>3,943</b>	<b>5,678</b>	<b>3,324</b>	<b>919</b>	<b>3,342</b>	<b>4,195</b>	<b>4,553</b>
ATX total net realized gains (losses) on sec	813	1,288	1,192	(1,496)	-	-	-
Other	-	-	-	(225)	-	-	-
<b>Operating income to common shareholders</b>	<b>3,130</b>	<b>4,390</b>	<b>2,132</b>	<b>2,640</b>	<b>3,342</b>	<b>4,195</b>	<b>4,553</b>
<b>Operating EPS</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$3.63</b>	<b>\$4.50</b>	<b>\$5.69</b>	<b>\$7.16</b>	<b>\$7.78</b>
<b>Net EPS</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$5.66</b>	<b>\$1.56</b>	<b>\$5.69</b>	<b>\$7.16</b>	<b>\$7.78</b>
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	10.1%	9.1%	7.9%	6.7%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	11.0%	11.0%	8.1%	7.0%

Source: Barclays Research estimates, 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>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b><u>Underwriting Margins</u></b>							
Loss and LAE ratio	70.4%	64.0%	75.8%	77.4%	75.1%	73.0%	72.9%
Expense ratio	20.5%	21.0%	19.6%	18.4%	19.6%	20.5%	20.5%
<b>Combined ratio</b>	<b>90.9%</b>	<b>85.0%</b>	<b>95.3%</b>	<b>95.8%</b>	<b>94.7%</b>	<b>93.5%</b>	<b>93.4%</b>
Catastrophes pretax	552	880	1,310	1,667	775	621	670
Cat pts	1.5%	2.2%	3.0%	3.4%	1.4%	1.1%	1.1%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	86	-	-	-
PYD pts	-0.6%	-0.5%	0.0%	0.2%	0.0%	0.0%	0.0%
<b>Underlying loss ratio</b>	<b>68.2%</b>	<b>61.2%</b>	<b>72.8%</b>	<b>74.2%</b>	<b>73.7%</b>	<b>72.0%</b>	<b>71.9%</b>
<b>Underlying combined ratio</b>	<b>88.8%</b>	<b>82.2%</b>	<b>92.4%</b>	<b>92.6%</b>	<b>93.3%</b>	<b>92.5%</b>	<b>92.4%</b>
<b><u>Share information</u></b>							
Shares beginning period	583.2	584.6	585.2	584.4	584.9	584.4	583.2
Shares issued	3	2	2	1	-	-	-
Shares Repurchased	1	1	2	1	1	1	1
Common Shares Outstanding, end of period	584.6	585.2	584.4	584.9	584.4	583.2	582.8
Weighted average shares - basic	583.8	584.9	584.7	584.6	584.6	583.7	583.4
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	587.3	586.4	586.1
<b><u>Shareholders' equity and returns</u></b>							
Common shareholders' equity ex AOCI	12,612	15,613	17,697	18,364	20,087	22,581	22,930
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	18,031	19,226	21,334	22,755
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$31.40	\$34.37	\$38.72	\$39.35
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	14.6%	17.4%	19.7%	20.0%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	5.0%	16.4%	18.7%	18.8%

Source: Barclays Research estimates, Company Data.

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

**Progressive Corp.** (PGR, 24-Jan-2023, USD 129.19), Underweight/Positive, CD/CE/J/K/M

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## Progressive Corp. (PGR / PGR)

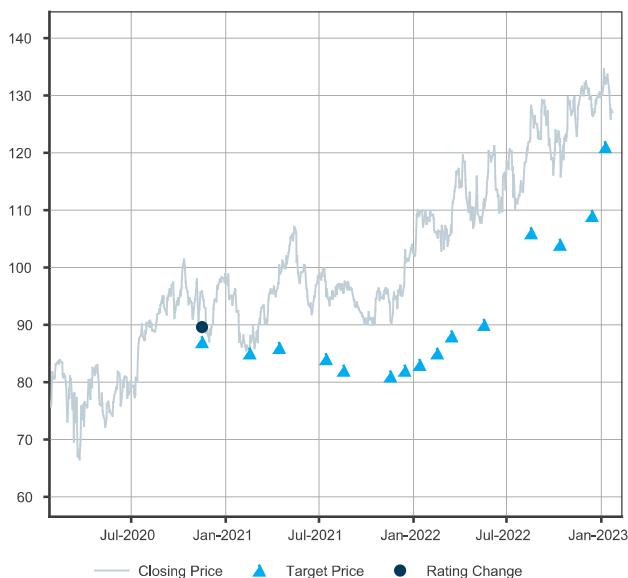
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

**USD 129.19** (24-Jan-2023)

### Rating and Price Target Chart - USD (as of 24-Jan-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
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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