

Progressive Corp.

May '22 Earnings: PIF Decline (again) Highlights Commoditization

With monthly PIF declines since Nov. '21, personal auto PIF compression could persist at least through YE22. If we don't see PIF growth inflection in '23, we would question PGR's superior franchise value. Especially after its first mover status in curtailing rate increase actions (except key states).

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PGR's underlying loss ratio of 73.0% in May deteriorated from 72.6% in April. On a seasonality perspective, May tends to be worse than April. But so is June, being progressively worse. PGR's PYD has been bouncing around, favorable and unfavorable by the month. PGR's catastrophe losses (6 pts of its combined ratio) was more atypical, we suspect Midwest hailstorms impacting auto physical damage to be the culprit (PCS events by catalog numbers: 2232, 2233, and 2235, cumulatively comprise \$2.3bn of industry losses reported thus far). Higher catastrophe losses contributed to PGR missing its targeted 96% combined ratio (96.5% at May '22).

We expect PGR's monthly personal auto PIF growth (y/y) to remain negative at least through YE22.

We look at sequential PIF movements as a precursor, with monthly declines transpiring since Nov. '21. May '22 personal auto PIF declined (1.8)% y/y (vs. our estimate of -1.7%) driven by a slowdown in auto direct (+0.0% vs. our +0.2%) and auto agency (-4.1% vs. our -3.9%). As PIF declines remain more evident in agency vs. direct, we expect PGR's customer mix to continue to shift, with a greater bias to direct over time. To recap, direct represents 55% of personal auto PIF in May '22. We are cautious about PGR's stance that the majority of personal auto rate increases are behind them (with the exception of a few key states).

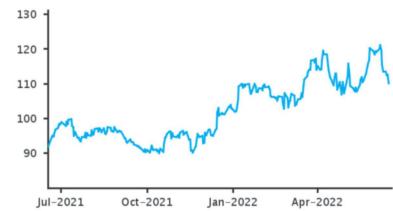
May operating EPS of \$0.27 neared our \$0.28 estimate. PGR's net investment income was better than expected, somewhat offset by worse catastrophe losses.

| CORE

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 90.00
	Unchanged
Price (21-Jun-22)	USD 112.18
Potential Upside/Downside	-19.8%
Market Cap (USD mn)	64079
Shares Outstanding (mn)	584.88
Free Float (%)	99.70
52 Wk Avg Daily Volume (mn)	2.8
Dividend Yield (%)	0.37
Return on Equity TTM (%)	12.73
Current BVPS (USD)	28.31
Source: Bloomberg	

Price Performance
52 Week range

Exchange-NYSE
USD 121.36-88.05



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

U.S. Insurance/Non-Life

Tracy Benguigui

+1 212 526 1561

tracy.benguigui@barclays.com

BCI, US

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Completed: 22-Jun-22, 00:06 GMT Released: 22-Jun-22, 00:11 GMT Restricted - External

PGR: Quarterly and Annual EPS (USD)

FY Dec	2021	2022			2023			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2022	2023
Q1	1.72A	1.12A	1.12A	0.52A	1.40E	1.39E	1.65E	-35%	24%
Q2	0.71A	0.96E	0.94E	0.97E	1.26E	1.23E	1.38E	32%	31%
Q3	0.15A	1.11E	1.12E	1.11E	1.23E	1.24E	1.39E	647%	11%
Q4	1.06A	1.31E	1.33E	1.46E	1.36E	1.36E	1.76E	25%	2%
Year	3.64A	4.50E	4.51E	4.72E	5.25E	5.23E	6.19E	24%	16%
P/E	30.1		24.3			20.9			

Consensus numbers are from Bloomberg received on 21-Jun-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 (17-Jun-2022)	USD 109.56
Net premiums earned (\$mn)	44,369	48,283	51,146	N/A	N/A	Price Target	USD 90.00
Net investment income (NII) (\$mn)	861	971	968	N/A	N/A	Why UNDERWEIGHT?	
Underwriting income (\$mn)	1,374	1,935	2,444	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	2,648	3,072	N/A	N/A		
Net income (\$mn)	3,324	1,810	3,072	N/A	N/A		
Effective tax rate (%)	20.4	20.7	21.0	N/A	N/A		
Combined ratio (%)	95.3	94.5	93.7	N/A	N/A		
Combined ratio (ex cats & py development) (%)	92.4	91.9	92.2	N/A	N/A		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	Upside case USD 125.00	
EPS (adj)	3.64	4.51	5.23	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 ~25x '23E EPS.	
EPS (reported)	5.66	3.08	5.23	N/A	N/A		
DPS	1.90	2.40	2.65	N/A	N/A		
BVPS	30.35	27.53	29.88	N/A	N/A		
BVPS (ex AOCI)	30.28	30.78	33.13	N/A	N/A		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR	Downside case USD 75.00	
Total investments	51,514	54,775	58,783	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	18,002	19,380	N/A	N/A		
Share buybacks	223	88	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	Upside/Downside scenarios	
Debt leverage (%)	21.2	25.7	24.3	N/A	23.7		
Financial leverage (%)	23.4	27.7	26.2	N/A	25.7		
Total capital return as a % of op. earnings	62.5	56.4	55.2	N/A	58.0		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	3.62	3.56	3.31	N/A	3.49		
P/E (adj) (x)	30.1	24.3	20.9	N/A	25.1		
Dividend yield (%)	1.7	2.2	2.4	N/A	2.1		
ROE (%)	18.5	9.7	15.5	N/A	14.6		



Note: FY End Dec

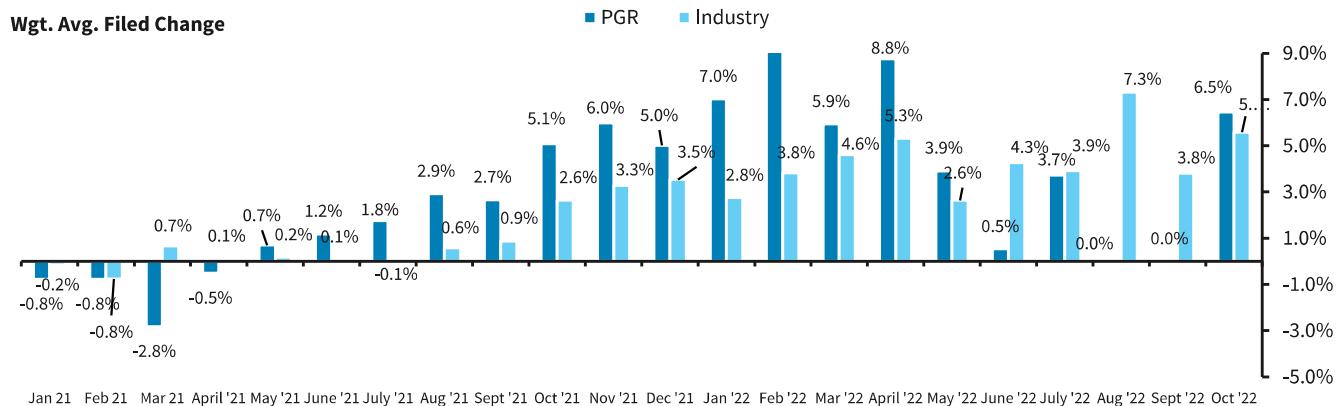
Source: Company data, Bloomberg, Barclays Research

What Rate Filings Tell Us:

Rate Approvals So Far ... Limited States

PGR's rate approvals show a weighted average of +3.9% approvals on ~\$5.4bn of subject renewal premiums, or ~\$200mn in additional premiums.

FIGURE 1. PGR received 3.9% weighted avg rate approvals in May '22, in 11 states: AR, ID, LA, ND, NH, NJ, NV, NY, OR, SC, and SD.



Personal auto only. Data as of 6/21/2022

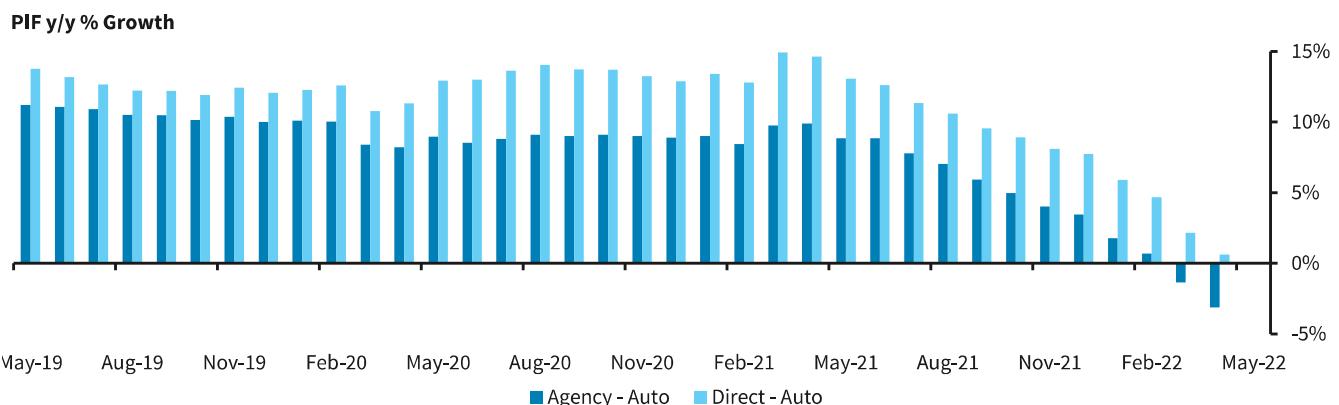
Source: S&P Global Market Intelligence, Barclays Research.

PIF Growth Spotlight

PIF growth y/y trend once again negative in May

PGR reported personal auto PIF growth of (1.8)% in April (vs. estimate of -1.7%), mostly seen in auto agency (-4.1% vs. our -3.9%) and a slowdown in auto direct (+0.0% vs. our +0.2%). Personal auto PIF growth on a m/m basis has been negative for 7 consecutive quarters: -0.4% Nov. '21, -0.4% Dec. '21, -0.3% Jan. '22, -0.1% Feb. '22, -0.4% March '22, -0.3% April and -0.2% May. We look at sequential PIF declines as a precursor.

FIGURE 2. PIF growth y/y trend moderating in May across agent (-3.1%) and direct (+0.6%).

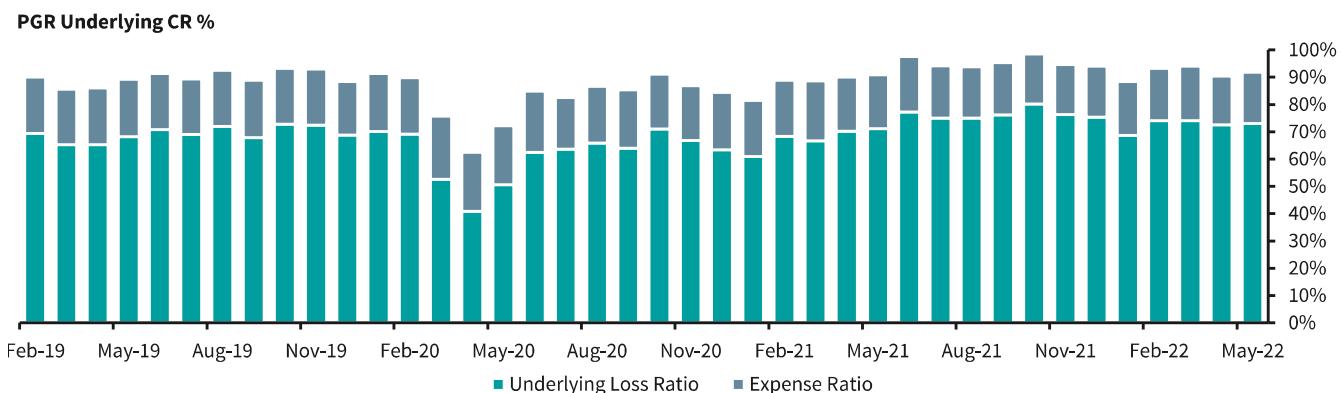


Source: Barclays Research, Company Data.

Underlying Combined Ratio Deteriorating Sequentially

PGR's underlying loss ratio of 73.0% in May deteriorated from 74.2% in April. PGR's 18.8% expense ratio up 100 bps m/m. We expect PGR to start to normalize marketing spend over time. PGR's underlying combined ratio deteriorated sequentially to 91.8% in May from 90.4% in April.

FIGURE 3. May '22 underlying loss ratio of 73.0% (vs. 73.7% Barclays) and expense ratio of 18.8% (vs. 18.7% Barclays)

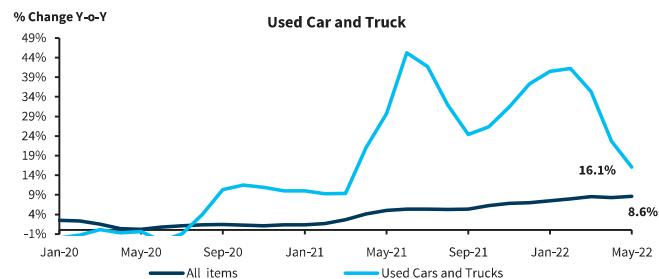


Source: Barclays Research, Company Data.

Inflation: Focus on Absolute Levels

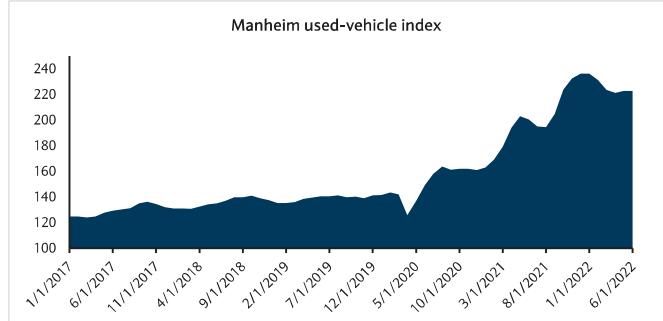
The Consumer Price Index (CPI) for All Urban Consumers rose 8.6% over the 12 months from May 2021 to May 2022. Used car and truck CPI incline has been decelerating since March '22, yet on an absolute basis 16.1% (May) remains severely elevated. We think CPI is a better indicator of used car prices than Manheim, as the latter focuses on wholesale prices.

FIGURE 4. CPI: Used Car and Truck (y/y +16.1% in May '22)



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

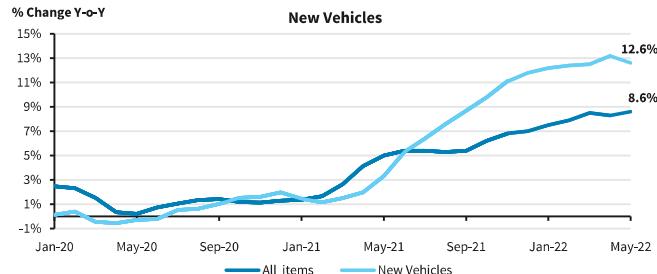
FIGURE 5. Manheim used car prices (y/y +11.1% in Mid June '22)



Source: Barclays Research, Bloomberg, Manheim

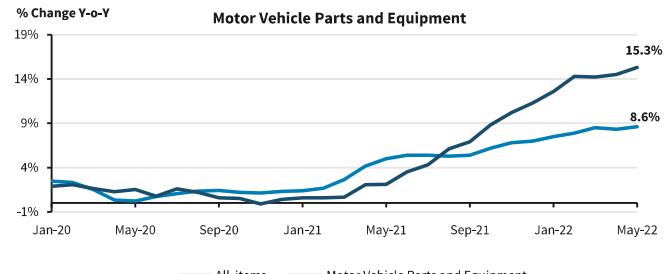
The new vehicle CPI index rose 12.6% y/y (vs. 13.2% in April) and Motor Vehicle Parts and Equipment CPI index rose 15.3% y/y (vs. 14.5% in April)

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 \$90 price target (unchanged) is based on 16x our '23 EPS (unchanged) and 2.9x '23 BVPS (ex AOCI) (unchanged).

Model Updates:

We typically base our loss ratio expectations on a rolling 3 month average.

Updated EPS: '22 from \$4.50 to \$4.51. '23E from \$5.25 to \$5.23.

Variance Tables – May '22

FIGURE 8. Variance Analysis - May '22

Summary Details		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		May '22	April '22	% Change	May '21	% Change	May '22	% Var.
Net premiums written	\$3,724	\$4,821	-23%	\$3,402	9%	\$3,689	1%	
Net investment income	\$94	\$87	7%	\$70	34%	\$76	24%	
Combined Ratio	96.5%	95.5%	99 bps	93.1%	338 bps	95.8%	67 bps	
Combined Ratio ex cats and PYD	91.8%	90.4%	143 bps	91.0%	84 bps	92.4%	(60 bps)	
Operating EPS	\$0.27	\$0.36	-25%	\$0.38	-28%	\$0.28	-3%	
Book value per share (ex. AOCI)	\$30.4	\$30.4	0.2%	\$30.0	1%	\$30.6	-1%	

NPW by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		May '22	April '22	% Change	May '21	% Change	May '22	% Var.
Personal lines-agent	\$1,338	\$1,775	-25%	\$1,286	4%	\$1,285	4.1%	
Personal lines-direct	\$1,482	\$1,952	-24%	\$1,357	9%	\$1,401	5.8%	
Total Personal Lines	\$2,820	\$3,728	-24%	\$2,644	6.7%	\$2,686	5.0%	
Commercial Business & Other	\$688	\$885	-22%	\$563	22%	\$788	-13%	
Property	\$217	\$207	5%	\$196	11%	\$215	1%	
Total Written Premiums	\$3,724	\$4,821	-23%	\$3,402	9%	\$3,689	1%	

CR by Segment		M/M		Y/Y		Barclays Est.		
(in \$mn, except per share)		May '22	April '22	% Change	May '21	% Change	May '22	% Var.
Total Personal Lines	96.1%	94.1%	200 bps	93.6%	250 bps	94.9%	120 bps	
Personal lines-agent	94.7%	93.8%	90 bps	93.1%	160 bps	93.5%	120 bps	
Personal lines-direct	97.3%	94.3%	300 bps	93.9%	340 bps	93.5%	380 bps	
Commercial Business & Other	88.2%	91.8%	(360 bps)	90.3%	(210 bps)	91.7%	(345 bps)	
Property	132.0%	137.4%	(540 bps)	94.3%	3770 bps	126.0%	600 bps	

Source: Barclays Research, Company Data.

Model Summary

FIGURE 9. Model Summary (pg. 1)

(\$ in mn, except per share data)	2019	2020	2021	2022E	2023E
Net premiums written	37,578	40,569	46,405	37,210	54,610
Revenues:					
Net premiums earned	36,192	39,262	44,369	48,283	51,146
Investment income	1,042	937	861	971	968
Total net realized gains (losses) on securities	1,029	1,630	1,509	(1,059)	-
Fees and other revenues	564	604	692	716	767
Service revenues	195	226	271	291	307
Total revenues	39,022	42,658	47,702	49,202	53,188
Expenses:					
Losses and loss adjustment expenses	25,471	25,122	33,628	36,389	37,728
Total underwriting expenses	7,998	8,843	9,368	9,958	10,974
Policyholder credit expense	-	1,077	-	-	-
Investment expenses	25	20	26	27	31
Service expenses	179	206	253	267	281
Interest expense	190	217	219	243	251
Total expenses	33,862	35,485	43,492	46,885	49,266
Underwriting Income	2,724	5,297	1,374	1,935	2,444
Income before income taxes	5,160	7,173	4,210	2,317	3,922
Provision for income taxes	1,180	1,469	859	480	823
Other comp (income) loss att. to NCI	(10)	-	-	-	-
Net income	3,970	5,705	3,351	1,837	3,099
Less: Preferred stock dividends	27	27	27	27	27
Net income to common shareholders	3,943	5,678	3,324	1,810	3,072
ATX total net realized gains (losses) on sec	813	1,288	1,192	(837)	-
Other	-	-	-	-	-
Operating income to common shareholders	3,130	4,390	2,132	2,648	3,072
Operating EPS	\$5.33	\$7.47	\$3.64	\$4.51	\$5.23
Net EPS	\$6.72	\$9.66	\$5.66	\$3.08	\$5.23
Net Written Premiums (y/y %)	15.2%	8.0%	14.4%	-19.8%	46.8%
Net Earned Premiums (y/y %)	17.0%	8.5%	13.0%	8.8%	5.9%

Source: Barclays Research, Company Data.

FIGURE 10. Model Summary (pg. 2)

(\$ in mn, except per share data)	2019	2020	2021	2022E	2023E
<u>Underwriting Margins</u>					
Loss and LAE ratio	70.4%	64.0%	75.8%	75.4%	73.8%
Expense ratio	20.5%	21.0%	19.6%	19.1%	20.0%
Combined ratio	90.9%	85.0%	95.3%	94.5%	93.7%
Catastrophes pretax	552	880	1,310	1,092	766
Cat pts	1.5%	2.2%	3.0%	2.3%	1.5%
PYD pretax (negative is unfavorable PYD)	(232)	(195)	5	(180)	-
PYD pts	-0.6%	-0.5%	0.0%	-0.4%	0.0%
Underlying loss ratio	68.2%	61.2%	72.8%	72.7%	72.3%
Underlying combined ratio	88.8%	82.2%	92.4%	91.9%	92.2%
<u>Share information</u>					
Shares beginning period	583.2	584.6	585.2	584.4	584.9
Shares issued	3	2	2	1	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
<u>Shareholders' equity and returns</u>					
Common shareholders' equity ex AOCI	12,612	15,613	17,697	18,002	19,380
Average common shareholders' equity ex AOCI	11,423	14,113	16,655	17,850	18,691
Book Value Per Share to common ex AOCI	\$21.57	\$26.68	\$30.28	\$30.78	\$33.13
Operating return on avg. common SHE ex AOCI	27.4%	31.1%	12.8%	14.8%	16.4%
Trailling twelve month average ROCE (as reported)	31.3%	35.6%	18.5%	9.7%	15.5%

Source: Barclays Research, Company Data.

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Progressive Corp. (PGR, 21-Jun-2022, USD 112.18), Underweight/Positive, CD/CE/J/K/M

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Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the “industry coverage universe”).

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Underweight - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Below is the list of companies that constitute the “industry coverage universe”:

U.S. Insurance/Non-Life

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Ryan Specialty Group Holdings (RYAN)	The Hartford Financial Services Group, Inc. (HIG)	The Travelers Companies, Inc. (TRV)

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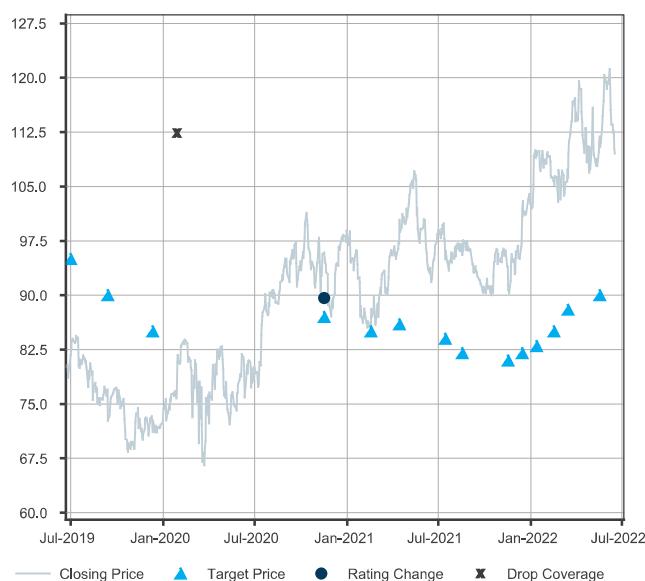
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 112.18 (21-Jun-2022)

Rating and Price Target Chart - USD (as of 21-Jun-2022)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
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
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

On 21-Jun-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 90.00.

Source: Bloomberg, Barclays Research

*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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Valuation Methodology: Our \$90 PT is based on 16x EPS and 2.9x BVPS (ex AOCI) on 2023E.

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