

Progressive Corp.

Nov '21 Earnings Beat Doesn't Set a New Trajectory

PGR plans to take multiple bites of the apple in its rate request journey to help salvage declining PIF growth (m/m). That leveled approach aggravates rate adequacy when loss trend is rising. PGR should chomp not nibble the apple. We need to see more sustainable progress to get more constructive.

While November results show that PGR's underwriting results are now back below its 96% target (with 91.9% reported), we recognize that the company had to sacrifice meaningful PIF growth to get there (see Figure 1). Likewise PGR's reported 1.3 points of favorable PYD and (1.4) points of catastrophe losses from Ida can be counted on to continue. It feels early to us to recognize favorable development from Ida, which we think may take more time for ultimate losses to be better understood.

PGR's underlying loss ratio of 76.3% was much better than our expected 80.1%. We do not think one month is an indicative trend and still side with more caution. We anticipate accumulation of lost trends that auto insurers are not appropriately pricing. We view higher severity loss trends looking as a "Step Level Change" vs. a straight line (normal times run-rate is 4-5%). When inflationary pressures abate, we do not see auto used car prices to rebase to pre-pandemic levels. Some automakers have announced that they are cutting production in 2022 in light of circuit shortages, potentially exacerbating the pricing levels of used cars and parts. Likewise many Fortune 500 workers will be returning to work in January contributing to higher frequency losses.

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 like the plan, but would prefer to see PGR should chomp not nibble the apple. **We include in this note our analysis of PGR's approved and pending rate filings.** We think it can take 12-18 months for auto insurance pricing to be rational, even though most policies are 6 months.

Nov. operating EPS of \$0.46 beat our \$0.07 estimate primarily on better underlying results, favorable reserve PYD and Ida related favorable development.

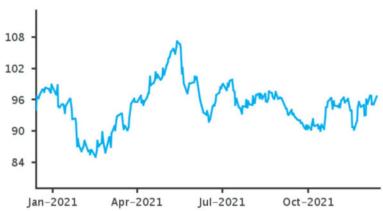
We view PGR's declared \$1.50 annual dividend, as expected is well below last year's \$4.50 amount but is also well below \$2.25 in 2019 and \$2.514 in 2018. We see this year's lower annual dividend as a sign that management has less conviction of its 2022 earnings power.

CORE Earnings Review

PGR	UNDERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 82.00
	raised 1% from USD 81.00
Price (14-Dec-21)	USD 97.14
Potential Upside/Downside	-15.6%
Market Cap (USD mn)	56769
Shares Outstanding (mn)	584.40
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.41
Return on Equity TTM (%)	22.69
Current BVPS (USD)	30.88

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 107.59-84.89



Source: IDC

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

U.S. Insurance/Non-Life

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PGR: Quarterly and Annual EPS (USD)

FY Dec	2020	2021			2022			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	1.91A	1.72A	1.72A	2.51A	0.45E	0.56E	1.07E	-10%	-67%
Q2	1.85A	0.71A	0.71A	1.34A	0.89E	0.87E	0.98E	-62%	23%
Q3	1.88A	0.15A	0.15A	0.19A	1.25E	1.21E	1.11E	-92%	707%
Q4	1.83A	0.39E	0.87E	0.83E	1.50E	1.45E	1.44E	-52%	67%
Year	7.47A	2.98E	3.46E	3.35E	4.09E	4.09E	4.53E	-54%	18%
P/E	13.0		28.1			23.8			

Consensus numbers are from Bloomberg received on 15-Dec-2021; 13:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Progressive Corp. (PGR)						UNDERWEIGHT	
Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (14-Dec-2021)	USD 97.14
Net premiums earned	39,262	44,446	48,279	52,425	10.1%	Price Target	USD 82.00
Net investment income (NII)	937	853	943	1,013	2.6%	Why UNDERWEIGHT?	
Underwriting income	5,297	1,256	1,640	2,523	-21.9%	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	4,390	2,023	2,399	3,191	-10.1%		
Net income	5,678	3,040	2,399	3,191	-17.5%		
Effective tax rate (%)	20.5	20.7	21.0	21.0	0.9%		
Combined ratio (%)	85.0	95.6	95.1	93.7	3.3%		
Combined ratio (ex cats & py development) (%)	82.2	92.6	93.6	92.2	3.9%		
Per share data (\$)	2020A	2021E	2022E	2023E	CAGR	Upside case USD 103.00	
EPS (adj)	7.47	3.46	4.09	5.44	-10.1%	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 '22E EPS and ~19x '23E EPS.	
EPS (reported)	9.66	5.19	4.09	5.44	-17.4%		
DPS	4.90	1.90	2.40	2.65	-18.5%		
BVPS	28.27	30.06	31.52	34.09	6.4%		
BVPS (ex AOCI)	26.68	29.80	31.26	33.82	8.2%		
Balance sheet and capital return (\$mn)	2020A	2021E	2022E	2023E	CAGR	Downside case USD 75.00	
Total investments	47,530	53,353	57,372	61,616	9.0%	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)	15,613	17,415	18,268	19,766	8.2%		
Share buybacks	112	226	144	144	8.7%		
Dividends paid	2,866	1,110	1,403	1,549	-18.5%		
Balance sheet and capital return metrics	2020A	2021E	2022E	2023E	Average	Upside/Downside scenarios	
Debt leverage (%)	25.1	21.5	20.7	19.5	21.7		
Financial leverage (%)	27.4	23.6	22.8	21.4	23.8		
Total capital return as a % of op. earnings	67.8	66.1	64.5	53.1	62.9		
Valuation metrics	2020A	2021E	2022E	2023E	Average		
P/BV (ex AOCI) (x)	3.64	3.26	3.11	2.87	3.22		
P/E (adj) (x)	13.0	28.1	23.8	17.9	20.7		
Dividend yield (%)	5.0	2.0	2.5	2.7	3.0		
ROE (%)	35.6	16.9	12.9	15.8	20.3		

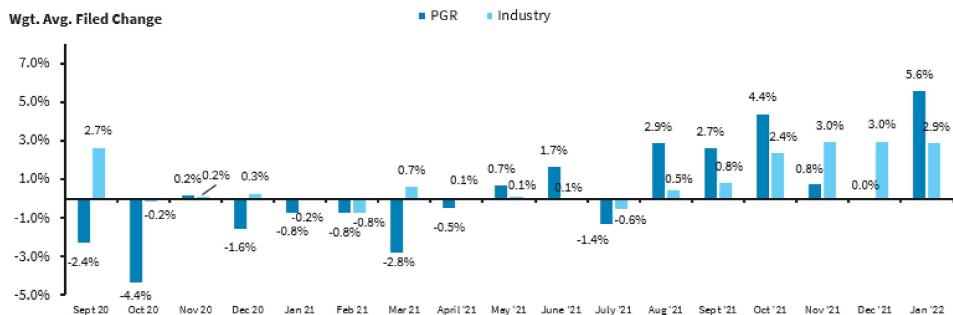
Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research



What Rate Filings Tell Us:

Rate Approvals So Far .. Rate Decreases Taken Early Means More Catch-Up

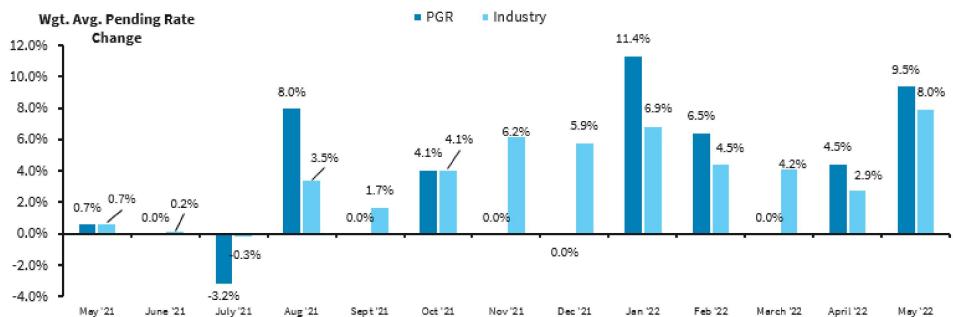


Source: S&P Global Market Intelligence, Barclays Research. Personal auto only.

Looking at November renewal effective dates, PGR received approvals amongst 8 states ranging from -1% to 6.7%. We are not seeing any rate approvals for December renewals so far, however January appears to serve more of a catch up.

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: Still in Limbo ... Well Past Requested Renewal Effective Dates



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

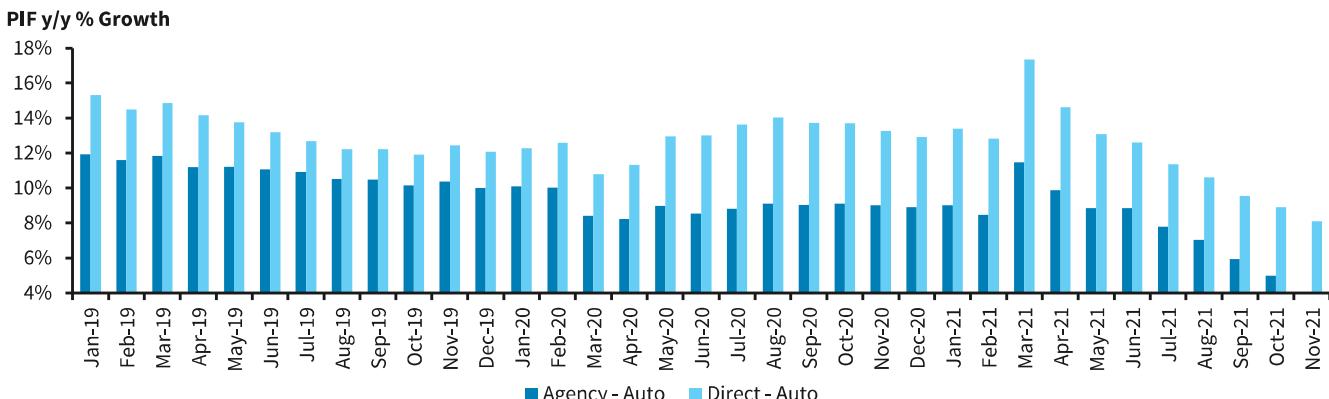
PGR currently has 62 requests for pending rate changes across 14 states. States we are watching closely are TX (10 pending rate increases ranging from 0%-8.4%) and FL (4 pending rate increases; magnitude not disclosed).

PGR has filed requests that are still pending for January 2022 renewal effective dates that at first glance appear ahead of the industry weighted averages. PGR has 4 outstanding filings for pending rate increases ranging from 9.9% to 11.8% for January 2022 renewal effective dates, all in TN, not nationwide. Therefore a small sample size.

PIF Growth Spotlight

PIF growth y/y trend continued to fall in November across agent (+4.0%) and direct (+8.1%).

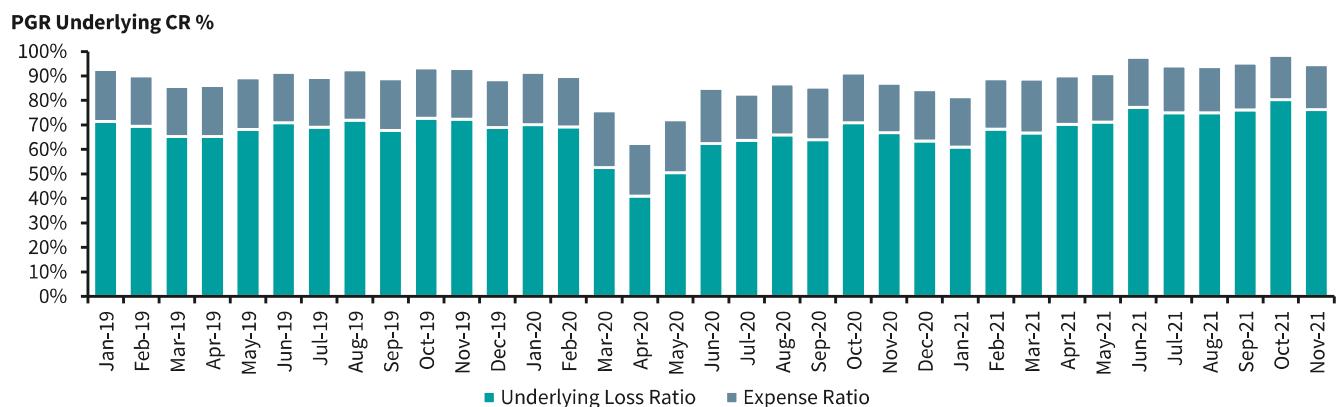
FIGURE 1. PIF growth y/y trend continued to fall in November across agent (+4.0%) and direct (+8.1%).



Source: Barclays Research, Company Data

Underlying Combined Ratio ... Far from Long Term Target

FIGURE 2. Nov. '21 underlying loss ratio of 76.3% (vs. 80.1% Barclays) and expense ratio of 18.3% (vs. 18.8% Barclays)



Source: Barclays Research, Company Data.

Valuation

We raise our price target to \$82 from \$81 based on higher book value and reiterate our **Underweight rating**. Our \$82 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022E/2023E. '22E and '23E EPS is \$4.09 (unchanged) and \$5.44 (vs. \$5.45 prior), respectively. '22E and '23E BVPS (ex AOCI) is \$31.26 (vs. \$30.38 prior) and \$33.82 (vs. \$32.96 prior), respectively. We incorporate a lower annual dividend from our original expectations.

Model Updates:

We lower our PIF growth expectations and are more explicitly linking average premiums per policy to our NPW and NPE forecast.

Variance Tables – Nov '21

FIGURE 3. Variance Analysis

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Nov '21A	Oct '21	% Change	Nov '20	% Change	Nov '21	% Var.
Net premiums written	\$3,289	\$4,347	-24%	\$2,958	11%	\$3,567	-8%
Net investment income	\$72	\$66	9%	\$75	-4%	\$75	-4%
Combined Ratio	91.9%	97.2%	(533 bps)	86.5%	535 bps	100.1%	(829 bps)
Combined Ratio ex cats and PYD	94.6%	98.5%	(389 bps)	85.9%	871 bps	98.9%	(434 bps)
Operating EPS	\$0.46	\$0.23	104%	\$0.64	-27%	\$0.07	600%
Book value per share (ex. AOCI)	\$31.2	\$30.9	1%	\$30.0	4%	\$30.9	1%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Nov '21A	Oct '21	% Change	Nov '20	% Change	Nov '21	% Var.
Personal lines-agent	\$1,218	\$1,633	-25%	\$1,164	5%	\$1,245	-2%
Personal lines-direct	\$1,337	\$1,744	-23%	\$1,237	8%	\$1,373	-3%
Total Personal Lines	\$2,555	\$3,376	-24%	\$2,401	6%	\$2,618	-2%
Commercial Business & Other	\$555	\$789	-30%	\$410	35%	\$780	-29%
Property	\$180	\$182	-1%	\$147	23%	\$169	7%
Total Written Premiums	\$3,289	\$4,347	-24%	\$2,958	11%	\$3,567	-8%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Nov '21A	Oct '21	% Change	Nov '20	% Change	Nov '21	% Var.
Total Personal Lines	93.8%	98.9%	(510 bps)	88.2%	560 bps	102.0%	(821 bps)
Personal lines-agent	94.4%	97.7%	(330 bps)	87.5%	690 bps	99.7%	(530 bps)
Personal lines-direct	93.2%	99.9%	(670 bps)	88.9%	430 bps	102.2%	(900 bps)
Commercial Business & Other	89.4%	93.5%	(410 bps)	86.1%	330 bps	92.4%	(295 bps)
Property	71.0%	79.6%	(860 bps)	59.3%	1170 bps	97.5%	(2650 bps)

Source: Barclays Research, Company Data

FIGURE 4. Model Summary

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
Net premiums written	32,610	37,578	40,569	46,620	50,409	54,767
Revenues:						
Net premiums earned	30,933	36,192	39,262	44,446	48,279	52,425
Investment income	821	1,042	937	853	943	1,013
Total net realized gains (losses) on securities	(406)	1,029	1,630	1,287	-	-
Fees and other revenues	472	564	604	696	734	786
Service revenues	159	195	226	273	256	278
Total revenues	31,979	39,022	42,658	47,556	50,212	54,502
Expenses:						
Losses and loss adjustment expenses	21,721	25,471	25,122	33,795	36,475	38,604
Total underwriting expenses	6,770	7,998	8,843	9,395	10,164	11,297
Policyholder credit expense	-	-	1,077	-	-	-
Investment expenses	24	25	20	26	31	33
Service expenses	134	179	206	255	266	288
Interest expense	167	190	217	219	206	206
Total expenses	28,815	33,862	35,485	43,689	47,141	50,428

Underwriting Income	2,443	2,724	5,297	1,256	1,640	2,523
Income before income taxes	3,164	5,160	7,173	3,867	3,072	4,074
Provision for income taxes	543	1,180	1,469	800	645	855
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-	-
Net income	2,615	3,970	5,705	3,067	2,426	3,218
Less: Preferred stock dividends	21	27	27	27	27	27
Net income to common shareholders	2,594	3,943	5,678	3,040	2,399	3,191
ATX total net realized gains (losses) on sec	(320)	813	1,288	1,017	-	-
Other	(1)	-	-	-	-	-
Operating income to common shareholders	2,915	3,130	4,390	2,023	2,399	3,191
Operating EPS	\$5.00	\$5.33	\$7.47	\$3.46	\$4.09	\$5.44
Net EPS	\$4.43	\$6.72	\$9.66	\$5.19	\$4.09	\$5.44
Net Written Premiums (y/y %)		15.2%	8.0%	14.9%	8.1%	8.6%
Net Earned Premiums (y/y %)		17.0%	8.5%	13.2%	8.6%	8.6%

Source: Barclays Research, Company Data

FIGURE 5. Model Summary Continued

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
Underwriting Margins						
Loss and LAE ratio	70.2%	70.4%	64.0%	76.0%	75.6%	73.6%
Expense ratio	20.4%	20.5%	21.0%	19.6%	19.5%	20.0%
Combined ratio	90.6%	90.9%	85.0%	95.6%	95.1%	93.7%
Catastrophes pretax	567	552	880	1,277	719	783
Cat pts	1.8%	1.5%	2.2%	2.9%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	(52)	-	-
PYD pts	-0.3%	-0.6%	-0.5%	-0.1%	0.0%	0.0%
Underlying loss ratio	68.1%	68.2%	61.2%	73.0%	74.1%	72.1%
Underlying combined ratio	88.5%	88.8%	82.2%	92.6%	93.6%	92.2%
Share information						
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
Capital deployment						
Assumed Share price for repurchases	\$58	\$73	\$86	\$92	\$85	\$85
# of shares repurchased (in mn)	1.3	1.2	1.3	2.5	1.7	1.7
\$ Repurchased	76	86	112	226	144	144
Dividends per share	\$2.51	\$2.65	\$4.90	\$1.90	\$2.40	\$2.65
\$ amt common dividend	1,465	1,548	2,866	1,110	1,403	1,549
Total capital returned	1,541	1,634	2,978	1,336	1,547	1,693

Total capital returned, % normalized earnings	53%	52%	68%	66%	64%	53%
<u>Shareholders' equity and returns</u>						
Common shareholders' equity ex AOCI	10,234	12,612	15,613	17,415	18,268	19,766
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,514	17,841	19,017
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$29.80	\$31.26	\$33.82
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	12.2%	13.4%	16.8%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	16.9%	12.9%	15.8%

Source: Barclays Research, Company Data

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Progressive Corp. (PGR, 14-Dec-2021, USD 97.14), Underweight/Positive, CD/CE/J/K/M

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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.

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Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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U.S. Insurance/Non-Life

AIG, Inc. (AIG)	Allstate Corp. (ALL)	Arch Capital Group Ltd. (ACGL)
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Palomar Holdings, Inc. (PLMR)	Progressive Corp. (PGR)	Root Inc. (ROOT)
Ryan Specialty Group Holdings (RYAN)	The Hartford Financial Services Group, Inc. (HIG)	The Travelers Companies, Inc. (TRV)

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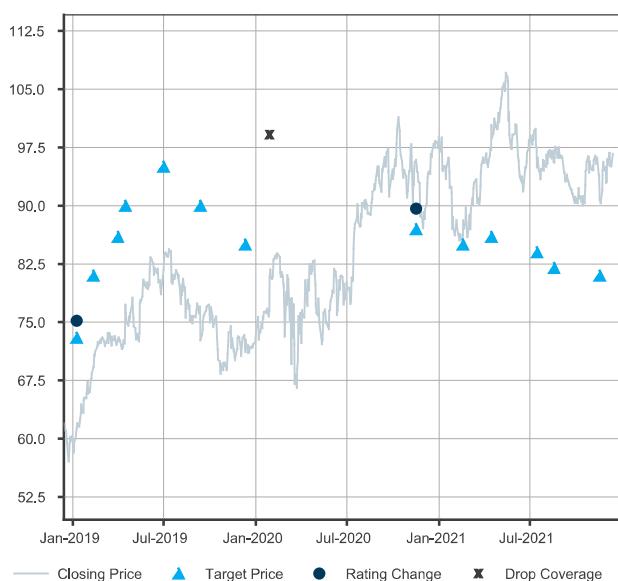
Stock Rating: **UNDERWEIGHT**

Industry View: **POSITIVE**

USD 97.14 (14-Dec-2021)

Rating and Price Target Chart - USD (as of 14-Dec-2021)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price	Rating	Adjusted Price Target
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
09-Jan-2019	61.30	Overweight	73.00

On 15-Dec-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 67.00.

Source: Bloomberg, Barclays Research

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

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Valuation Methodology: Our \$82 PT is based on 16x EPS and 2.7x BVPS (ex AOCI) on 2022E/2023E.

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