



## Equity Research

Financial Services | U.S. Insurance/Non-Life  
17 September 2021

Progressive Corp.

## Aug '21 Heavy Cats and Slower PIF Growth

**August operating EPS loss driven by cat losses:** August operating EPS of (\$0.19) missed our \$0.10 estimate primarily on 12.3 pts of cat losses (~\$432mn), which pushed the company combined ratio to 105.3%. The 12.3 pts included 9.7 pts (~\$342mn) of cat losses associated with Hurricane Ida. Ex cats and PYD, PGR's underlying combined ratio was 93.8% (Figure 1). PGR's reported monthly underlying combined ratios had improved sequentially from 94.1% in July to 93.8% in August, with improvements coming in from its August expense ratio of 18.8% (beat our 20.4% estimate).

**Ida's lingering impact:** September will continue feeling Ida's effects in cat losses based on PGR's disclosures through mid month (~\$168mn). We're also including a normalized monthly cat load resulting in estimated cats of ~\$232mn, 6.6 pts (vs. \$67mn, 1.9 pts prior) in September. This is the primary change driving our expected operating EPS for Sept to (\$0.07) from \$0.10. For 3Q21, we expect operating EPS of \$0.01 vs. \$0.47 prior.

**Slowing PIF growth as focus continues shifting to bottom line:** PGR's total personal auto PIF y/y growth (+8.9% vs. our estimate of +9.9%) missed our estimate driven by slower growth in both auto direct (+10.6% vs. our +11.5%) and auto agency (+7.0% vs. +8.0%). See Figure 2. In 2Q, management discussed steps being taken to achieve the long-term target of 96%, including 5% average rate increase filings and harder pricing on the horizon (Figure 3). A key focus will be on the speed regulators allow rate increases, with some pushback seen in TX.

**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. Our 2022E and 2023E EPS are \$4.23 (unchanged) and \$5.49 (unchanged), respectively. Our 2022E and 2023E BVPS (ex AOCI) are \$30.4 (vs. \$30.8 prior) and \$33.1 (vs. \$33.4 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	1.26E	-10%	-55%
Q2	1.85A	0.71A	0.71A	1.34A	0.92E	0.92E	1.14E	-62%	30%
Q3	1.88A	0.47E	0.01E	0.59E	1.16E	1.16E	1.16E	-99%	11500%
Q4	1.83A	0.58E	0.58E	1.08E	1.38E	1.38E	1.46E	-68%	138%
Year	7.47A	3.49E	3.02E	4.23E	4.23E	4.23E	5.12E	-60%	40%
P/E	12.4		30.8			22.0			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 17-Sep-2021; 12:50 GMT

Stock Rating	UNDERWEIGHT
	Unchanged
Industry View	POSITIVE
	Unchanged
Price Target	USD 82.00
	Unchanged
Price (16-Sep-2021)	USD 92.99
Potential Upside/Downside	-11.8%
Tickers	PGR
Market Cap (USD mn)	54427
Shares Outstanding (mn)	585.30
Free Float (%)	99.68
52 Wk Avg Daily Volume (mn)	2.7
Dividend Yield (%)	0.43
Return on Equity TTM (%)	31.77
Current BVPS (USD)	31.07

Source: Bloomberg



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

### U.S. Insurance/Non-Life

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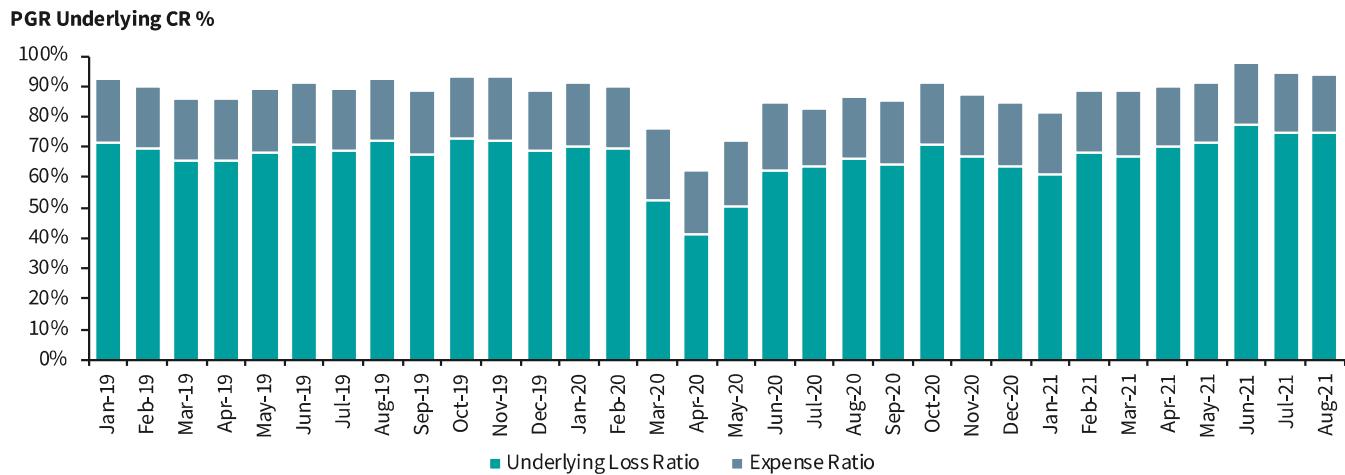
U.S. Insurance/Non-Life						Industry View: POSITIVE		
Progressive Corp. (PGR)						Stock Rating: UNDERWEIGHT		
<b>Income statement (\$mn)</b>	2020A	2021E	2022E	2023E	CAGR	<b>Price (16-Sep-2021)</b>	USD 92.99	
Net premiums earned	39,262	44,108	48,942	54,241	11.4%	<b>Price Target</b>	USD 82.00	
Net investment income (NII)	937	865	940	1,009	2.5%	<b>Why Underweight?</b> 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	926	1,743	2,545	-21.7%			
Operating income	4,390	1,775	2,486	3,227	-9.8%			
Net income	5,678	2,803	2,486	3,227	-17.2%			
Effective tax rate (%)	20.5	20.7	21.0	21.0	0.9%			
Combined ratio (%)	85.0	96.3	94.9	93.8	3.4%			
Combined ratio (ex cats & py development) (%)	82.2	92.5	92.9	91.8	3.7%			
<b>Per share data (\$)</b>					CAGR	<b>Upside case</b>	USD 102.00	
EPS (adj)	7.47	3.02	4.23	5.49	-9.8%	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	4.78	4.23	5.49	-17.1%			
DPS	4.90	2.20	2.40	2.65	-18.5%			
BVPS	28.27	29.77	31.37	33.99	6.3%			
BVPS (ex AOCI)	26.68	28.83	30.43	33.05	7.4%			
<b>Balance sheet and capital return (\$mn)</b>					CAGR	<b>Downside case</b>	USD 75.00	
Total investments	47,530	53,223	57,190	61,392	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	16,874	17,811	19,342	7.4%			
Share buybacks	112	139	144	144	8.7%			
Dividends paid	2,866	1,288	1,405	1,551	-18.5%			
<b>Balance sheet and capital return metrics</b>					Average	<b>Upside/Downside scenarios</b>		
Debt leverage (%)	25.1	22.0	21.1	19.8	22.0	Price History		
Financial leverage (%)	27.4	24.2	23.2	21.8	24.2	Prior 12 months		
Total capital return as a % of op. earnings	67.8	80.4	62.3	52.5	65.8	High		
<b>Valuation metrics</b>					Average	Price Target		
P/BV (ex AOCI) (x)	3.49	3.23	3.06	2.81	3.15	Next 12 months		
P/E (adj) (x)	12.4	30.8	22.0	16.9	20.5	Upside		
Dividend yield (%)	5.3	2.4	2.6	2.8	3.3			
ROE (%)	35.6	15.7	13.6	16.4	20.3			

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



FIGURE 1

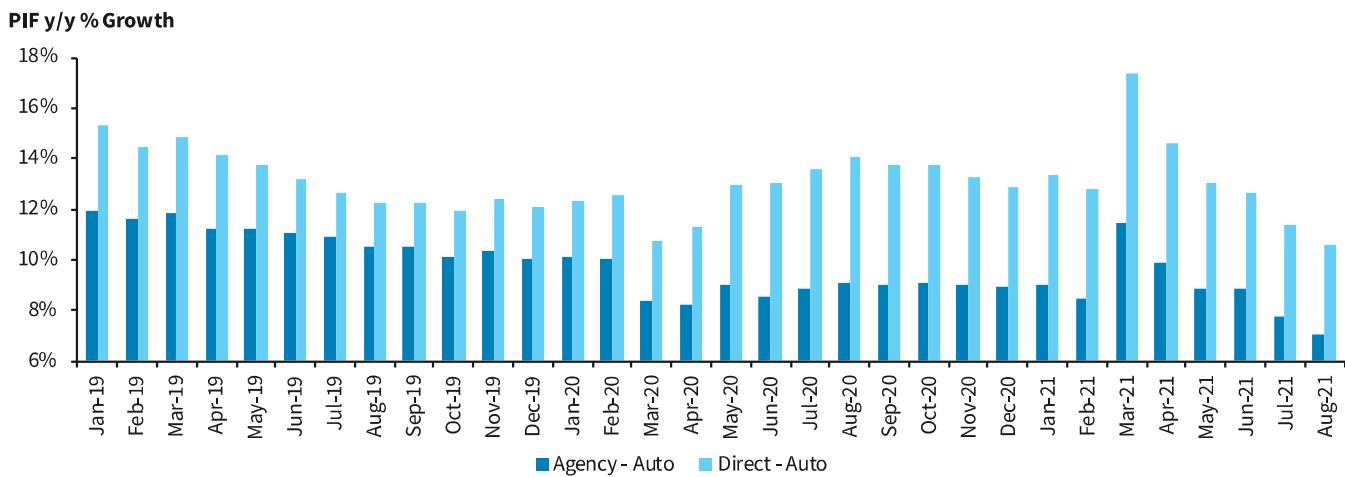
Aug '21 underlying loss ratio of 75% (vs. 76.4% Barclays) and expense ratio of 18.8% (vs. 20.4% Barclays)



Source: Barclays Research, Company Data.

FIGURE 2

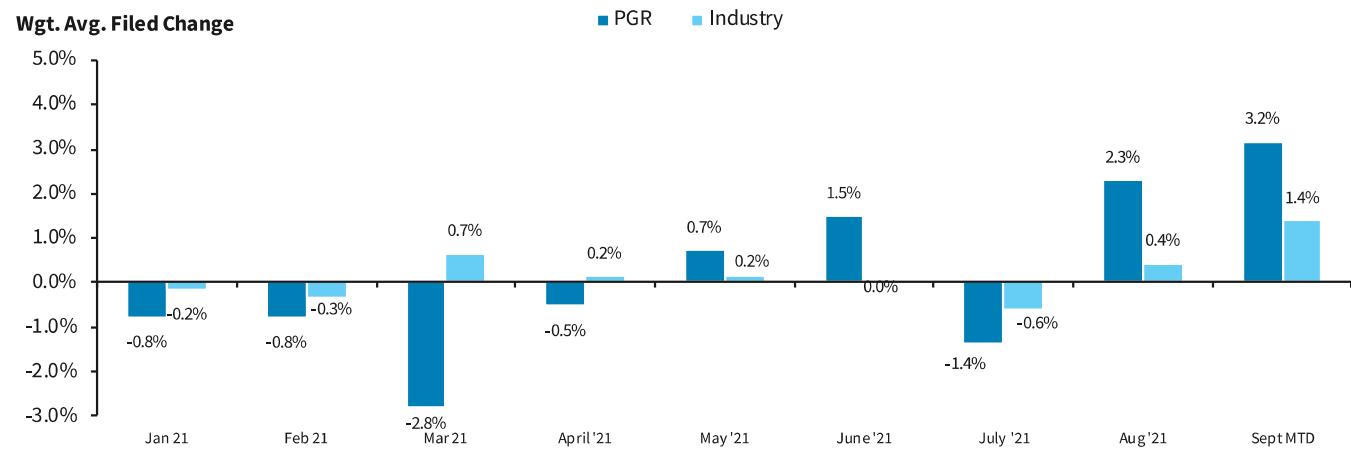
August PIF y/y growth continued slow down across agent (+7%) and direct (+10.6%)



Source: Barclays Research, Company Data.

FIGURE 3

PGR filing for rate increases exceeding industry in 4 of last 5 months proving to be a headwind for PIF growth

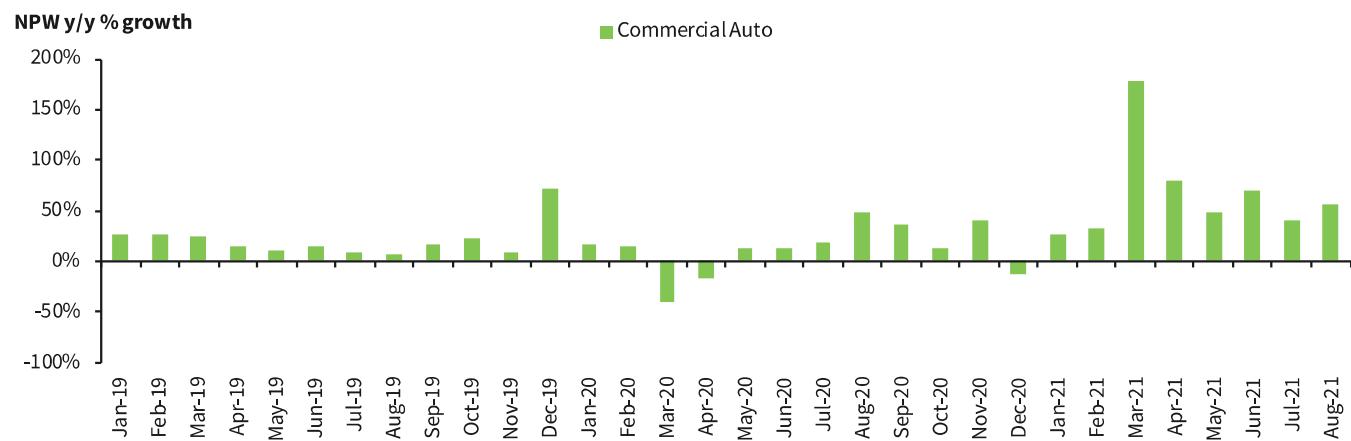


Source: S&P Global Market Intelligence, Barclays Research.

Note: August month to date as of September 16, 2021.

FIGURE 4

Commercial growth spot – Aug NPW growth +57% y/y. Downside – more capital intensive business



Source: Barclays Research, Company Data.

## Variance Table

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FIGURE 5  
PGR Aug 2021 Variance Analysis

Summary Details (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Aug '21A	July '21	% Change	Aug '20	% Change	Aug '21	% Var.
Net premiums written	\$3,891	\$4,552	-15%	\$3,438	13%	\$3,831	2%
Net investment income	\$68	\$68	-1%	\$80	-16%	\$74	-8%
Combined Ratio	105.3%	96.7%	862 bps	92.2%	1309 bps	99.3%	604 bps
Combined Ratio ex cats and PYD	93.8%	94.1%	(34 bps)	86.0%	782 bps	96.8%	(296 bps)
Operating EPS	-\$0.19	\$0.27	-172%	\$0.38	-150%	\$0.10	-287%
Book value per share (ex. AOCI)	\$30.5	\$30.6	0%	\$28.1	9%	\$30.8	-1%

NPW by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Aug '21A	July '21	% Change	Aug '20	% Change	Aug '21	% Var.
Personal lines-agent	\$1,374	\$1,704	-19%	\$1,314	5%	\$1,380	0%
Personal lines-direct	\$1,522	\$1,917	-21%	\$1,444	5%	\$1,545	-2%
Total Personal Lines	\$2,896	\$3,621	-20%	\$2,758	5%	\$2,925	-1%
Commercial Business & Other	\$782	\$732	7%	\$498	57%	\$697	12%
Property	\$213	\$199	7%	\$182	17%	\$209	2%
Total Written Premiums	\$3,891	\$4,552	-15%	\$3,438	13%	\$3,831	2%

CR by Segment (in \$mn, except per share)	M/M			Y/Y		Barclays Est.	
	Aug '21A	July '21	% Change	Aug '20	% Change	Aug '21	% Var.
Total Personal Lines	100.4%	97.8%	260 bps	89.6%	1080 bps	100.3%	14 bps
Personal lines-agent	100.4%	97.2%	320 bps	88.0%	1240 bps	97.9%	250 bps
Personal lines-direct	100.4%	98.3%	210 bps	91.0%	940 bps	100.5%	(10 bps)
Commercial Business & Other	92.1%	87.3%	480 bps	91.4%	70 bps	90.8%	130 bps
Property	225.7%	112.8%	11290 bps	147.1%	7860 bps	111.0%	11470 bps

Source: Barclays Research, Company Data.

## Model Summary

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**FIGURE 6**  
**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	46,390	50,793	55,496
Revenues:						
Net premiums earned	30,933	36,192	39,262	44,108	48,942	54,241
Investment income	821	1,042	937	865	940	1,009
Total net realized gains (losses) on securities	(406)	1,029	1,630	1,301	-	-
Fees and other revenues	472	564	604	698	744	814
Service revenues	159	195	226	269	259	287
<b>Total revenues</b>	<b>31,979</b>	<b>39,022</b>	<b>42,658</b>	<b>47,241</b>	<b>50,886</b>	<b>56,351</b>
Expenses:						
Losses and loss adjustment expenses	21,721	25,471	25,122	33,591	36,482	39,822
Total underwriting expenses	6,770	7,998	8,843	9,591	10,718	11,874
Policyholder credit expense	-	-	1,077	-	-	-
Investment expenses	24	25	20	26	30	33
Service expenses	134	179	206	248	269	298
Interest expense	167	190	217	218	206	206
<b>Total expenses</b>	<b>28,815</b>	<b>33,862</b>	<b>35,485</b>	<b>43,674</b>	<b>47,705</b>	<b>52,233</b>
Underwriting Income	2,443	2,724	5,297	926	1,743	2,545
Income before income taxes	3,164	5,160	7,173	3,567	3,181	4,118
Provision for income taxes	543	1,180	1,469	737	668	865
Other comp (income) loss att. to NCI	(6)	(10)	-	-	-	-
Net income	2,615	3,970	5,705	2,830	2,513	3,254
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>2,803</b>	<b>2,486</b>	<b>3,227</b>
ATX total net realized gains (losses) on sec	(320)	813	1,288	1,028	-	-
Other	(1)	-	-	-	-	-
<b>Operating income to common shareholders</b>	<b>2,915</b>	<b>3,130</b>	<b>4,390</b>	<b>1,775</b>	<b>2,486</b>	<b>3,227</b>
<b>Operating EPS</b>	<b>\$5.00</b>	<b>\$5.33</b>	<b>\$7.47</b>	<b>\$3.02</b>	<b>\$4.23</b>	<b>\$5.49</b>
<b>Net EPS</b>	<b>\$4.43</b>	<b>\$6.72</b>	<b>\$9.66</b>	<b>\$4.78</b>	<b>\$4.23</b>	<b>\$5.49</b>
Net Written Premiums (y/y %)		15.2%	8.0%	14.4%	9.5%	9.3%
Net Earned Premiums (y/y %)		17.0%	8.5%	12.3%	11.0%	10.8%

Source: Barclays Research, Company Data.

**FIGURE 7**  
**Model Summary (pg. 2)**

(\$ in mn, except per share data)	2018	2019	2020	2021E	2022E	2023E
<b><u>Underwriting Margins</u></b>						
Loss and LAE ratio	70.2%	70.4%	64.0%	76.2%	74.5%	73.4%
Expense ratio	20.4%	20.5%	21.0%	20.2%	20.4%	20.4%
<b>Combined ratio</b>	<b>90.6%</b>	<b>90.9%</b>	<b>85.0%</b>	<b>96.3%</b>	<b>94.9%</b>	<b>93.8%</b>
Catastrophes pretax	567	552	880	1,445	727	800
Cat pts	1.8%	1.5%	2.2%	3.3%	1.5%	1.5%
PYD pretax (negative is unfavorable PYD)	(89)	(232)	(195)	(255)	(245)	(271)
PYD pts	-0.3%	-0.6%	-0.5%	-0.6%	-0.5%	-0.5%
<b>Underlying loss ratio</b>	<b>68.1%</b>	<b>68.2%</b>	<b>61.2%</b>	<b>72.3%</b>	<b>72.6%</b>	<b>71.4%</b>
<b>Underlying combined ratio</b>	<b>88.5%</b>	<b>88.8%</b>	<b>82.2%</b>	<b>92.5%</b>	<b>92.9%</b>	<b>91.8%</b>
<b><u>Share information</u></b>						
Shares beginning period	581.7	583.2	584.6	585.2	585.3	585.3
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	585.3	585.3	585.3
Weighted average shares - basic	582.4	583.8	584.9	585.0	585.3	585.3
Dilution	3.8	3.1	2.5	2.1	2.1	2.1
Weighted average shares - diluted	586.2	586.9	587.4	587.1	587.4	587.4
<b><u>Capital deployment</u></b>						
Assumed Share price for repurchases	\$58	\$73	\$86	\$92	\$85	\$85
# of shares repurchased (in mn)	1.3	1.2	1.3	1.5	1.7	1.7
\$ Repurchased	76	86	112	139	144	144
Dividends per share	\$2.51	\$2.65	\$4.90	\$2.20	\$2.40	\$2.65
\$ amt common dividend	1,465	1,548	2,866	1,288	1,405	1,551
Total capital returned	1,541	1,634	2,978	1,427	1,549	1,695
Total capital returned, % normalized earnings	53%	52%	68%	80%	62%	53%
<b><u>Shareholders' equity and returns</u></b>						
Common shareholders' equity ex AOCI	10,234	12,612	15,613	16,874	17,811	19,342
Average common shareholders' equity ex AOCI	10,234	11,423	14,113	16,243	17,342	18,577
Book Value Per Share to common ex AOCI	\$17.55	\$21.57	\$26.68	\$28.83	\$30.43	\$33.05
Operating return on avg. common SHE ex AOCI	28.5%	27.4%	31.1%	10.9%	14.3%	17.4%
Trailling twelve month average ROCE (as reported)	24.7%	31.3%	35.6%	15.7%	13.6%	16.4%

Source: Barclays Research, Company Data.

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**Progressive Corp. (PGR, 16-Sep-2021, USD 92.99), Underweight/Positive, CD/CE/J/K/M**

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**Rating Suspended** - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

### Industry View

**Positive** - industry coverage universe fundamentals/valuations are improving.

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

**Negative** - industry coverage universe fundamentals/valuations are deteriorating.

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

### U.S. Insurance/Non-Life

AIG, Inc. (AIG)

Allstate Corp. (ALL)

Arch Capital Group Ltd. (ACGL)

## IMPORTANT DISCLOSURES

Chubb Limited (CB)	Lemonade Inc (LMND)	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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To see a list of companies that comprise a particular industry coverage universe, please go to <https://publicresearch.barclays.com>.

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

USD 92.99 (16-Sep-2021)

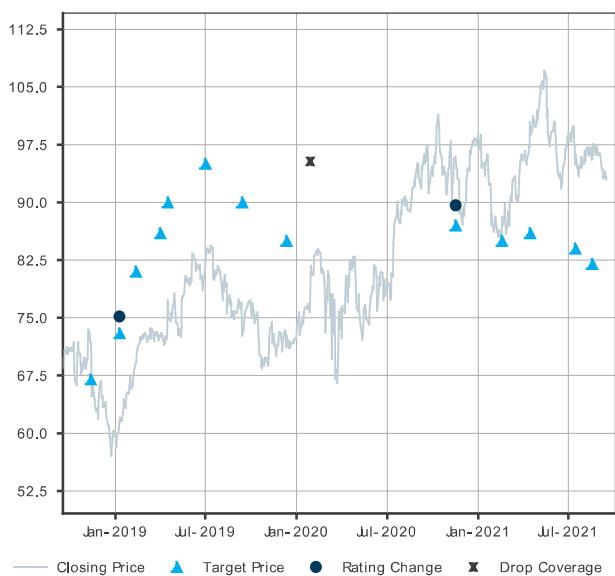
Stock Rating

**UNDERWEIGHT**

Industry View

**POSITIVE****Rating and Price Target Chart - USD (as of 16-Sep-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 17-Sep-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 \$4.23 and \$5.49, respectively. '22E and '23E BVPS (ex AOCI) is \$30.4 and \$33.1, 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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