



#### Company Description:

Progressive is a leading provider of personal and commercial auto insurance. The company also provides boat, RV, snowmobile, and Segway insurance, in addition to selling homeowners, condo, renters, and other lines of insurance for other companies. Progressive distributes its products through a substantial network of independent insurance agents and via phone/Internet.

Name	Ticker	Yield	Growth	D + G
Progressive Corporation	PGR	0.15%	13.00%	13.15%

#### Highlights:

Progressive has been one of the most successful auto insurance companies in terms of market share growth over the last 20 years, reflecting, in part, evolving consumer purchasing habits where call centers and the internet have become more prevalent. We believe Progressive is one of the best-positioned companies that we have fundamentally researched lately, considering the company's competitive position that includes a more flexible pricing platform and technology solutions that monitor and price for distracted driving.

#### Bull Case:

- **Albeit Flo, PGR is a Great Company** – We believe the position and profitability of Progressive make it a "category killer" in the making, if it isn't one already. The company benefits from size and scale, has a long-standing track record of superior underwriting prowess (evidenced by healthy consistent loss ratio, relatively low expense ratio and excellent loss reserve track record) and a high-tech platform and superior growth rate aided by its dominate brand name and multiple distribution channels. Further, although PGR has a growing homeowner's business, it remains small enough and PGR's catastrophe loss volatility is limited. While PGR trades at a premium multiple, we believe there is still ample upside potential for a company that should dominate the auto insurance market in 10 years.
- **Underwriting Leading to Share Gains** – In addition to policy count switching to negative at the end of last year, Allstate and Travelers (and just about every other Progressive peer) are also operating at an underwriting loss. Raising prices to counter, the frictional gap between Progressive's pricing and that of competitors is poised to only widen. Both price-sensitive customers as well as some high-value, long-term customers who find themselves unfairly penalized in a higher-priced environment will seek a better priced option. This is a driver of accelerating growth into 2023 for PGR, where we anticipate a 12.5% increase in Progressive auto policy count.
- **Better Underwriting Leading to Better Profitability** – We continue to believe PGR should be a leading beneficiary from the dislocations in the auto insurance marketplace as most carriers continue to implement substantial rate increases over the next 12 months. We believe PGR's approach to underwriting / auto insurance loss reserves could position PGR to continue to outperform on an underwriting basis reflecting the company's auto combined ratio ("CR") of 96.0% vs. ALL of 110.1% vs. TRV 107.0%.

#### Bear Case:

- **Slowing Growth Would Hurt Bottom Line Due to Operating Leverage** – Historically Progressive has been quick to resume "pay-in-full" ("PIF") growth as soon as it achieves its underwriting profitability target. That has not happened lately. This is important because an effort to accelerate customer growth usually means both higher expense levels and higher loss ratios. This is due to both the need to spend more on marketing to attract customers and the "new business penalty" that is commonly seen when growth accelerates. New customers are almost always less profitable than existing customers.
- **Valuation Could be Rich** – Progressive currently trades at about 16.5x next year's earnings. That compares to its five-year average price-to-earnings multiple of 14.7x. Historically, PGR has traded at higher valuation multiples. We think it will be hard for PGR to maintain its valuation multiples if the company were to stop executing on its underwriting strategy.
- **Earnings Sensitivity** – Progressive's earnings are very sensitive to modest changes in its underwriting margins. An especially bad hailstorm, a modest change in the claim's inflation trend, or a modest change in the overall frequency of claims can have a dramatic effect on Progressive's earnings. Further, PGR's expansion into the home insurance business has increased its earnings volatility due to the higher catastrophe exposures in this space.

#### Overall Thesis:

Our thesis is based on (1) better positioning relative to peers, which should allow PGR to stand out in margin improvement this quarter and take market share over the next couple of years with limited ad spend increase; (2) accelerating NII; (3) valuation roll-forward, particularly for this year; and (4) potential valuation re-rating due to the early stage of the personal auto cycle and defensive positioning.



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