Yale SCHOOL of MANAGEMENT
135 Prospect Street, New Haven, CT 06511

Progressive Corporation: Upside Remaining

The Progressive Corporation (PGR)

October 6, 2003

Current Price
72.62

Target Price
87.04

Time Frame
12-24 Months

Recommendation
BUY

Recommendations:
Buy: >20% Undervalued
Hold: Fair Market Value
Sell: >20% Overvalued

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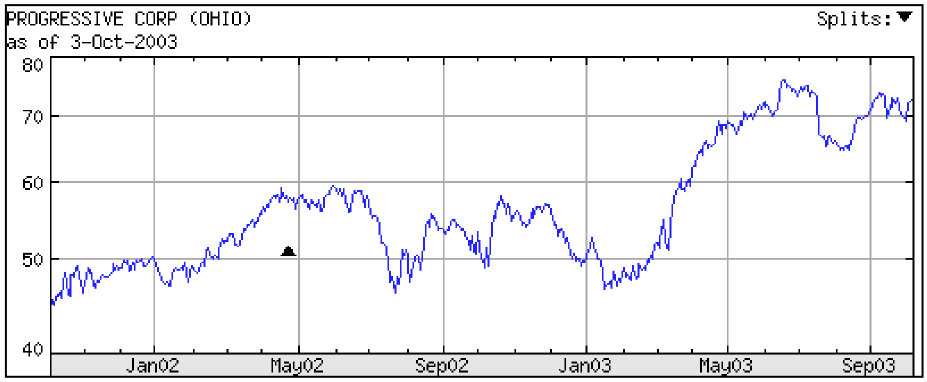


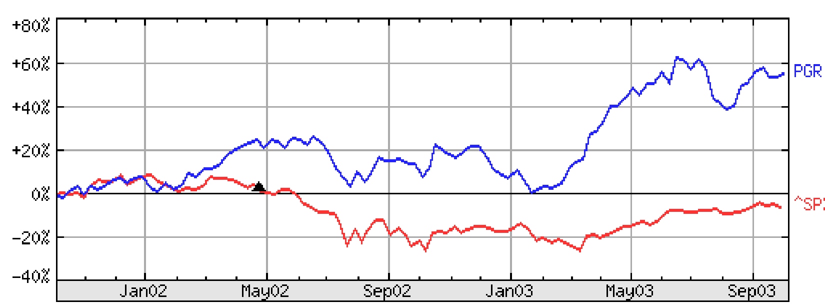
Highlights

- **Market valuation neglects the long term upside for PGR.** We believe that the market has tended to be nearsighted about the earnings prospects of PGR. Our analysis dodges this pitfall by projecting cash flows through the next full underwriting cycle and using DCF analysis. Near-term multiple analysis is avoided .
- **Above industry average net premium growth expected to continue, although below historical levels, driving an increase in** market share.
- **Net investment yields, dependent on interest rate recovery, likely to expand over long term.** Net investment income growth will benefit from higher rates and a larger investment portfolio.
- **PGR's huge underwriting advantage is not gone, but is fading as loss ratios will approach industry averages in the long term.**
- **PGR is taking full advantage of economies of scale as underwriting expense has hit its floor.**

% Returns Over the Last 12 Months

(Prices are as of October 6, 2003)

PGR :	**57.00%**
S&P 500:	**(5.60)%**



Introduction – Not just non-standard

Based in Mayfield Village, Ohio, the Progressive Corporation is the third largest provider of auto insurance in the United States. Almost 90% of Progessive's $9.5 billion in net written premiums are for personal lines (PL) auto insurance and the remainder is primarily commercial auto insurance. Most of the company's premiums are sold through independent agents, but it also sells about a third of its premiums directly to consumers.

Figure 1. Top 20 U.S. P/C Personal Lines Insurers

($ in millions) Source: AM Best

		Direct Premiums Written	Growth Year-Over-Year				Market Share				
	Insurance Group	2002	2002	2001	2000	1999	2002	2001	2000	1999	1998
1	State Farm Group	28,492	12.2%	14.7%	-3.6%	-3.4%	19.6%	19.2%	18.1%	19.0%	19.9%
2	Allstate Insurance Group	15,315	4.0%	3.1%	-1.7%	-0.2%	10.5%	11.1%	11.7%	12.0%	12.2%
3	Progressive Insurance Group	8,301	30.1%	12.1%	-0.3%	16.6%	5.7%	4.8%	4.6%	4.7%	4.1%
4	Zurich/Farmers Group	7,883	6.1%	6.2%	-4.9%	-2.0%	5.4%	5.6%	5.7%	6.1%	6.3%
5	Berkshire Hathaway Ins Group	6,786	12.6%	7.1%	16.7%	18.6%	4.7%	4.5%	4.6%	4.0%	3.4%
6	Nationwide Group	6,616	7.7%	10.1%	6.2%	2.7%	4.5%	4.6%	4.6%	4.3%	4.3%
7	USAA Group	5,189	13.7%	10.7%	8.8%	6.0%	3.6%	3.4%	3.4%	3.1%	3.0%
8	American International Grp Inc	3,470	0.0%	10.4%	15.2%	22.4%	2.4%	2.6%	2.6%	2.3%	1.9%
9	Liberty Mutual Insurance Cos	3,460	12.4%	5.5%	5.6%	-0.3%	2.4%	2.3%	2.4%	2.3%	2.3%
10	American Family Insurance Grp	3,112	16.0%	8.2%	3.5%	6.5%	2.1%	2.0%	2.0%	2.0%	1.9%
11	Travelers Prop Cas Group	2,826	7.4%	8.4%	1.5%	3.8%	1.9%	2.0%	2.0%	2.0%	1.9%
12	Hartford Insurance Group	2,318	5.9%	9.1%	7.4%	11.1%	1.6%	1.7%	1.6%	1.5%	1.4%
13	MetLife Auto & Home Group	2,142	13.1%	17.2%	9.9%	0.4%	1.5%	1.4%	1.3%	1.2%	1.2%
14	SAFECO Insurance Companies	2,022	13.1%	3.6%	-0.1%	-1.2%	1.4%	1.3%	1.4%	1.4%	1.5%
15	Erie Insurance Group	1,658	19.6%	10.4%	2.7%	-2.6%	1.1%	1.0%	1.0%	1.0%	1.1%
16	Mercury General Group	1,649	28.5%	12.9%	-2.2%	3.6%	1.1%	1.0%	0.9%	1.0%	0.9%
17	California State Auto Group	1,631	7.5%	3.8%	2.0%	-2.4%	1.1%	1.1%	1.2%	1.2%	1.2%
18	Prudential of America Group	1,563	9.3%	10.6%	0.9%	-9.4%	1.1%	1.1%	1.1%	1.1%	1.2%
19	Automobile Club of S. Calif Gr	1,526	15.9%	5.3%	9.1%	7.0%	1.0%	1.0%	1.0%	0.9%	0.9%
20	GMAC Insurance Group	1,309	10.6%	3.2%	3.1%	-6.0%	0.9%	0.9%	0.9%	0.9%	1.0%
	Top 5	**66,777**	**11.4%**	**9.5%**	**-1.1%**	**1.1%**	**45.9%**	**45.2%**	**44.7%**	**45.8%**	**46.0%**
	top 20	**107,267**	**11.1%**	**9.3%**	**1.4%**	**2.0%**	**73.7%**	**72.8%**	**72.0%**	**72.1%**	**71.7%**
	Industry	**145,631**	**9.8%**	**8.2%**	**1.5%**	**1.3%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: U.S. market includes U.S. territories. Source: A.M. Best State Line Database

History – 66 years and still going strong

Progressive has focused on personal auto insurance since it was founded in 1937 by Joe Lewis and Jack Green. The company was the first to allow payment of premiums in installments and the first to offer drive-in claims service. In 1950s, the company became the first insurer to profitably write insurance for high-risk drivers. In 1955 Joe Lewis died and his son Peter joined the company. Ten years later, in 1965, Peter Lewis became CEO, a post he would keep until 2000. The current CEO, Glen Renwick, was hand picked in 2000, but Peter Lewis, still continues to be a prominent shareholder and figure in the company as Chairman. The company had its IPO in 1971, was listed on the NYSE in 1987, and is a part of the S&P 500 index . Overall, the core values and goals of the company remain intact going forward with Renwick. Moreover, the primary underwriting goal of a 96% combined ratio (4% operating profit) seems entirely doable considering Renwick has a team of senior Lewis-trained "Progressivites" on hand.

Progressive has grown tremendously over time, spurred on by underwriting results that are usually far better than competitors' results. This strong operating performance has made the company extremely popular with investors, and the stock has substantially outperformed the Dow Jones Property and Casualty Index over the past two years. Thus nine months ago would have been a more attractive entry point, but the stock remains undervalued.

Revenue Growth –Top line superiority vs. the industry

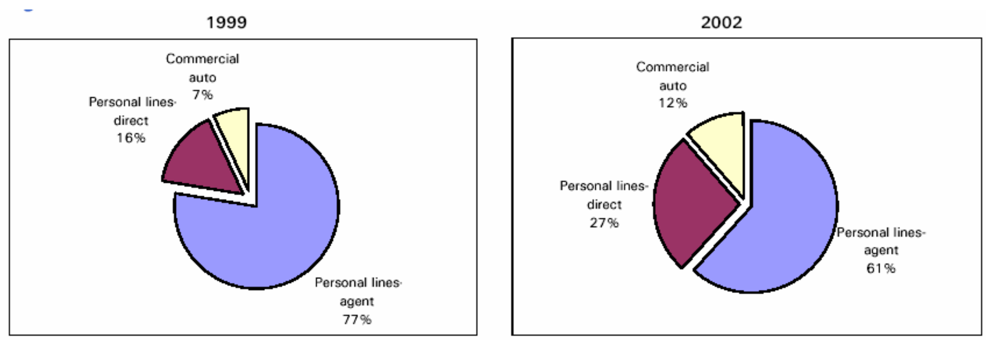
Premium Revenue – Progressive's results have been better than the industry

Premium revenue is the all important top-line for operating revenue and feeds the company's investment portfolio.

The company's major business is personal auto, which accounts for 88% of premiums, 61% are sold through agents and 27% are sold directly via telephone or over the internet. The outstanding premiums are from commercial vehicle insurance which has been expanded in recent years. In the 1990s Progressive extended into the non-standard market, and is currently aggressively looking for commercial auto insurance contracts.

Figure 2. Business Mix Shift

Source: Prudential Equity Group



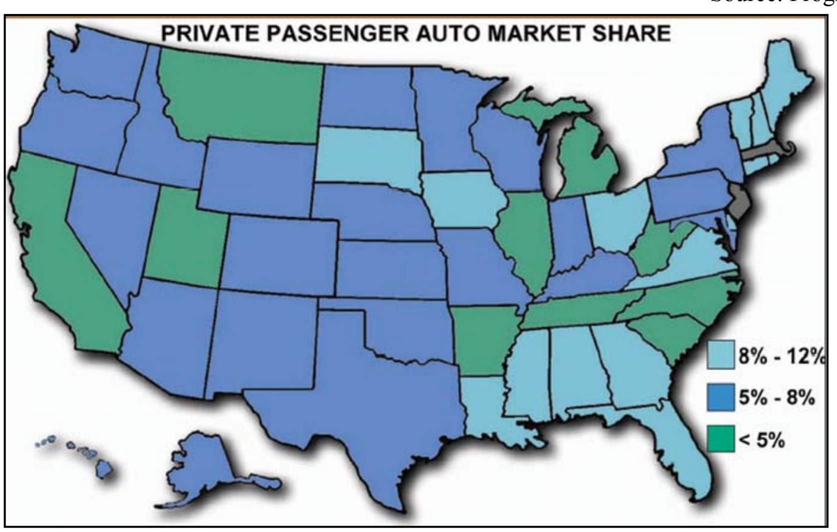
Source: Company data, Prudential Equity Group, Inc.

Progressive has been expanding their direct business by increasing advertising. Geico has historically been the leader in this market. In addition Progressive is using their auto underwriting know-how to attract and retain good customers in their commercial auto segments, where Farmers and Travelers are key competitors.

Premiums are concentrated in a few states, 58% of total written premiums are done in ten states. This is important as regulation, the way in which premium rate changes are agreed upon and the degree of congestion on the roads differ across states. Progressive is growing their business in the states that offer the most attractive returns, including: Florida, Ohio, New York and Texas. Progressive is constantly opening new offices throughout the country. **Figure 3** gives a breakdown of Progressive's market share across the U.S.

Figure 3. Current market position presents opportunity

Source: Progressive Corporation

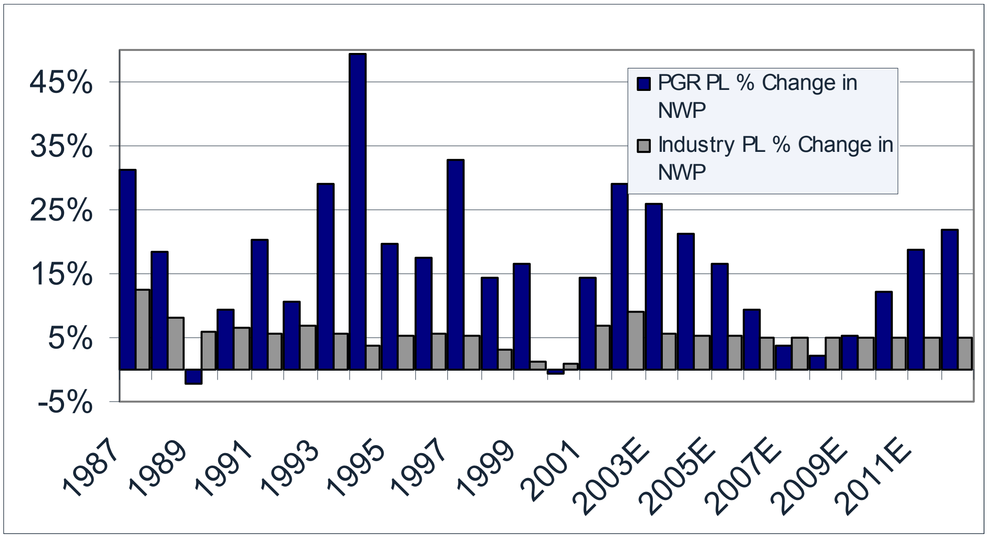


To insure that pricing is set appropriately (given the state of the underwriting cycle – see below), Progressive has historically offered a successful tiered pricing model. The multi-factor model built for Progressive's non-standard business a number of years ago, has catapulted Progressive's profits in the less volatile standard market. This skill at underwriting and calculating risk is a major competitive advantage compared to industry competitors, who are currently making the change to more graduated pricing. We believe this pricing advantage will allow Progressive to price business and manage risk well in the marketplace in the foreseeable future.

When comparing Progressive's PL business to the personal lines industry, the average annual written premium growth rate from 1987-2002 was 19% versus 6% for the industry. We project that Progressive will see an average of 13.7% growth for the next 8.6 years (estimated length of this underwriting cycle), while the industry will stay at par (on average) for the same period.

Figure 4. Written Premium Growth – Allstate versus Progressive

Source: AM Best & PGR Annual Reports

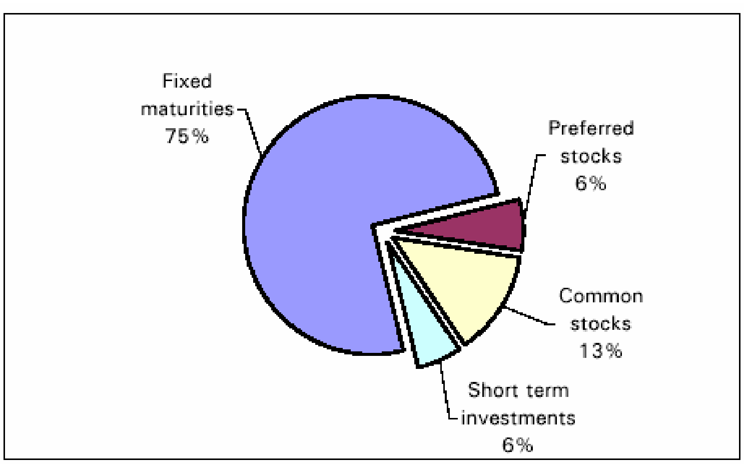


Investment Income

Investment income consists of interest and dividend income produced by the insurance company's investment portfolio. Invested assets are based upon underwriting cash flow not needed to pay expenses. Progressive's asset allocation mix goal is 85% fixed income and 15% equities. Their current investment portfolio is 75% fixed maturities, 13% common stocks, 6% preferred stocks and 6% short term investments.

Figure 5. Investment Portfolio, 2002

Source: PGR Annual Reports (Graph from Prudential Securities)



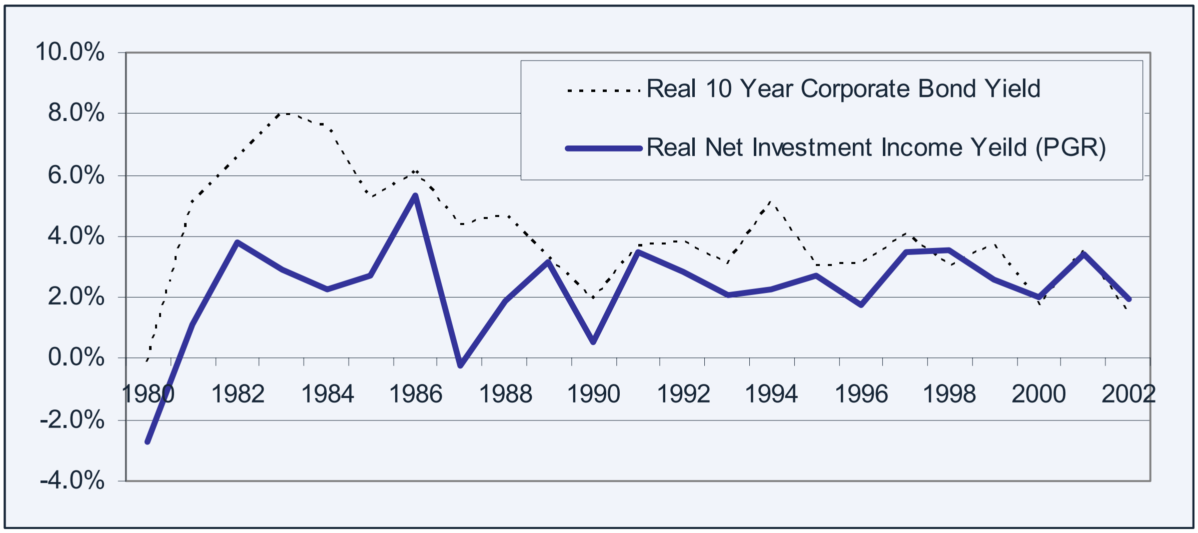
Source: Company data.

The net investment income generated from investments is important to Progressive's operating income. With the development of a hard market, premium revenue has constituted a greater proportion of operating income.

Invested assets will continued to grow as net profit from operating activities grows. Both historical data and management goals verify this. As invested assets grow, the net investment income from these assets will tend to grow with interest rates, as it has in the past [**Figure 6**]. It is estimated that 80% of cash flows will continue to be invested in bonds. Furthermore, we modestly project the average investment yield to be 5.5% over the next 10 years.

Figure 6. Net Investment Income Yield vs. Interest

Source: PGR Annual Reports

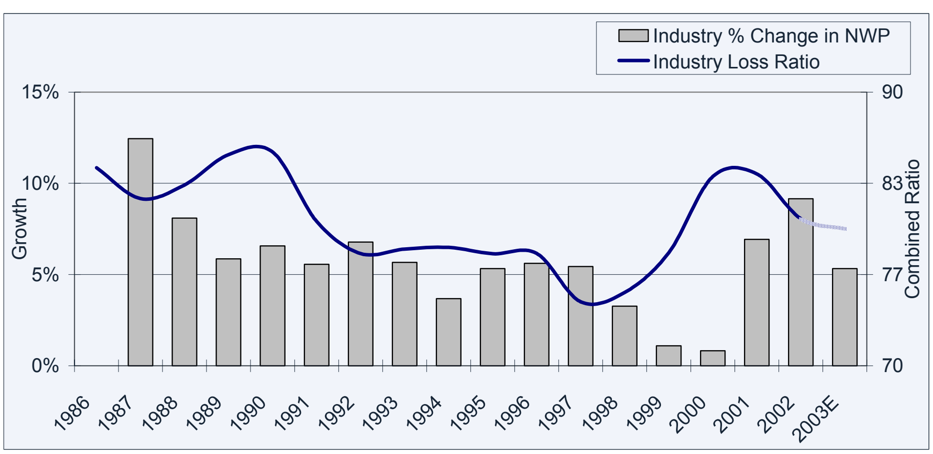


Projections

For a well-functioning P/C insurer, revenue growth is a function of the underwriting (and profitability) cycle. As **Figure 7** illustrates, companies wish to add business when prices are higher, and policies written are profitable. Hence the Loss Ratios that drive the underwriting cycle correlate negatively to the earnings growth cycle.

Figure 7 – Industry Loss Ratios and Corresponding Growth in NWP

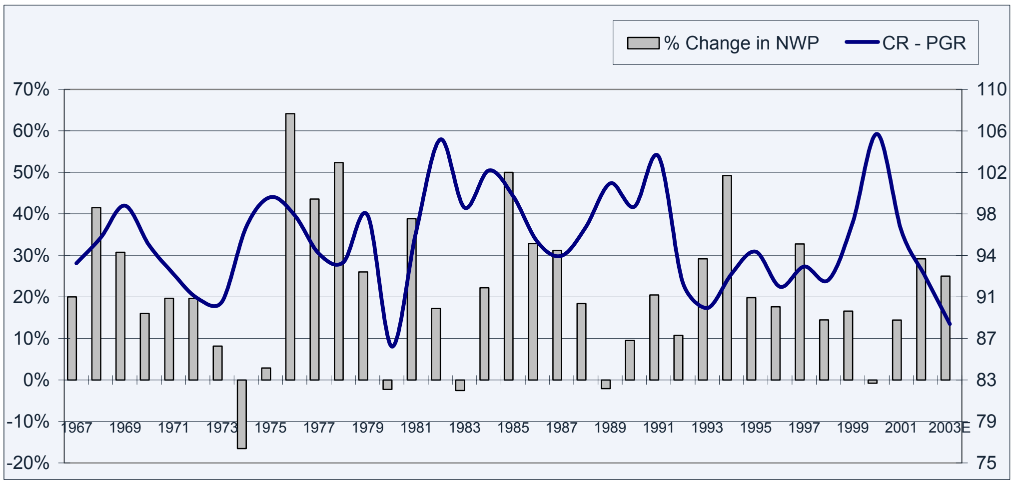
Source: AM Best



Progressive has historically been successful at understanding the importance of "making hay while the sun shines," and writing profitable business in "hard" insurance markets. However, the real agility of this company is revealed in its uncanny ability to slow growth in unprofitable underwriting cycles. Progressive, has skillfully capitalized on P/C underwriting cycles for decades, and should continue to beat its peers at this for at least another cycle of 9 years. Indeed, Progressive's increased scale and market share do not seem to have an effect on its ability to remain nimble in this regard.

Figure 8 – Progressive's control over NWP and the underwriting cycle

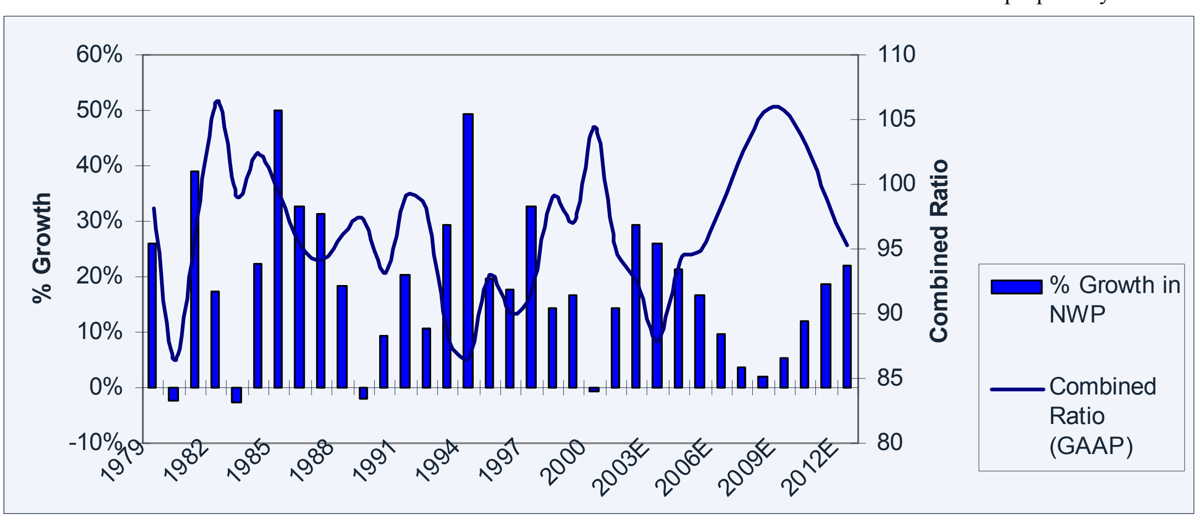
Source: AM Best



By forecasting the next underwriting cycle (see Loss projections below), premium revenue (NWP) can be projected as well. Indeed, as **Figure 8** displays, NWP works in cycles as well with an average around 20% growth, with amplitudes adding another 2000bps to this average. For the purposes of this analysis, we have used a more modest average and amplitude (12% and 1000bps) that heavily discounts Progressive's stellar record in this area [**Figure 9**].

Figure 9 – Projections for growth of NWP

Source: AM Best and proprietary estimates



Costs – Winning the loser's game

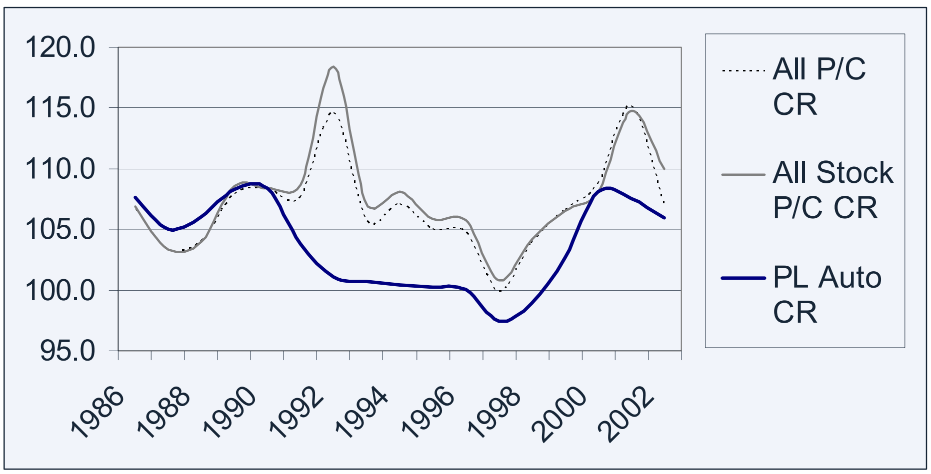
Loss and Loss Adjusted Expenses (LAE)

The primary driver of costs for Progressive, as for any insurance business, is losses. As we have stated, the business of auto insurance is largely commodity-like, and every player in the industry is subject to the same profitability cycles. However, these pricing cycles are a result of the underlying underwriting cycles that control them. This section will focus on the cyclicality involved in the expense of the insurance product.

Although personal lines auto insurance – Progressive's staple product – differs greatly from other P/C products (i.e. home or commercial insurance), the underwriting cycles for these products have striking similarities. Most notably, personal auto insurance experiences soft and hard markets at generally the same time as the industry experiences the same cycle. **Figure 10** diagrams the resemblance. It is important to note here this for the last 30 years, these cycles average around 8.5 years between Loss Ratio (and corresponding Combined Ratio) peaks.

Figure 10 – Industry, Stock Insurers, and Personal Auto experience similar cycles

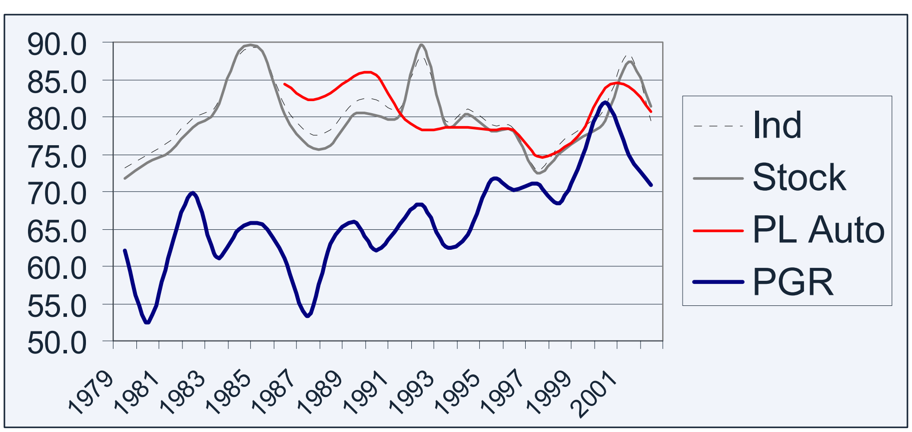
Source: AM Best



Since Progressive is primarily a personal auto insurer, it experiences the same loss trends and cycles that the market experiences. **Figure 11** verifies this fact.

Figure 11 – All markets experience similar cycles – Loss & LAE

Source: AM Best and Progressive Corp. Annuals



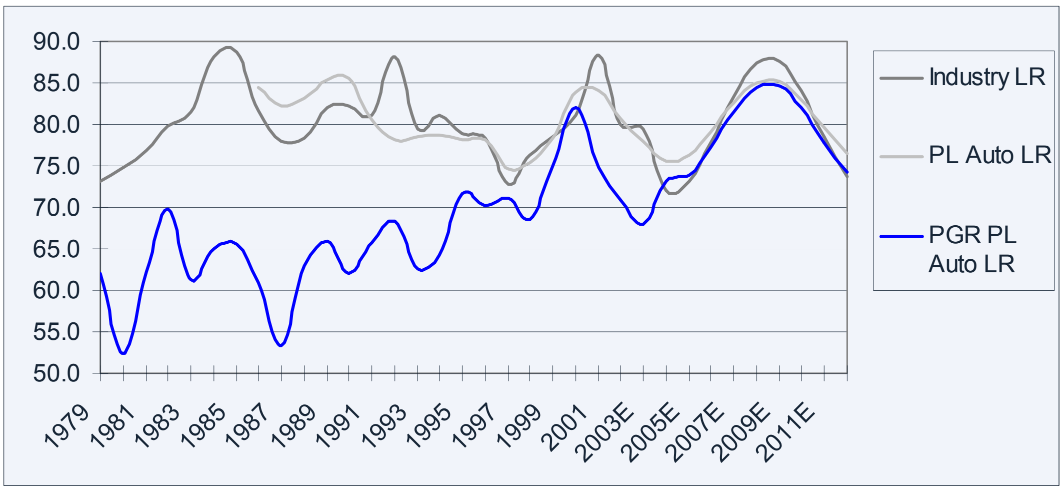
Although Progressive's historical loss ratios are much lower than industry averages[1], as they grow to represent a larger percent of the market, this is unlikely to continue. Although we believe that Progressive will continue to underwrite auto business at lower average Loss Ratios than the industry, we believe that this benefit will vary only up to 5 points in Progressives favor. We therefore project that Progressive will maintain an average Loss Ratio that is 5 points lower than the industry average for stock companies in the personal auto business.

Projections

Using historical averages, we have forecasted industry and company Loss & LAE Ratios for the next full underwriting cycle[2] (8.5 years). These projections comprise the most important (and volatile) expense factor included in our valuation model [**Figure 12**].

Figure 12 – Industry and Company projections: Loss & LAE

Source: AM Best and Progressive Corp. Annuals



What about LAE?

We have failed to delve into the relationship between Loss and LAE. Although LAE includes a number of interesting factors, such as change in loss reserves and efficiency in Unallocated Loss Adjustment Expense (ULAE), it is generally a simple function of Loss. For the purposes of this model we group these highly correlated expenses together into a single projection.

Underwriting Expenses

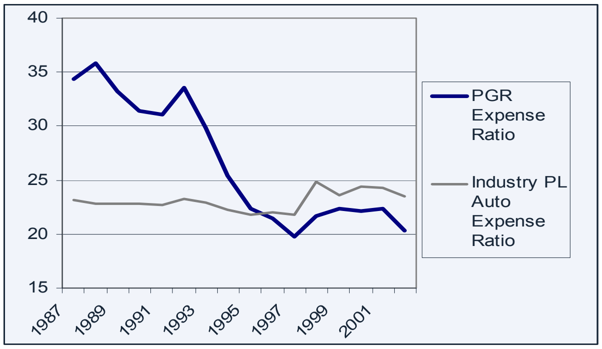
Though revenues tend to move with industry underwriting cycles, underwriting costs (denoted by the Expense Ratio) are instead a function of scale and efficiency. Although Progressive had a history of being inefficient on this front, premium growth has given the company the advantage of economies of scale [**Figure 13**]. Heavy investments in technology and operations in the early to mid-nineties have even catapulted Progressive into a position of industry leadership in this area.

[1] This is primarily due to the fact that its underwriting was done in a highly specialized niche of non-standard auto in Middle-America.

[2] The method here is most easily explained as sinusoidal function that takes into account historical averages and volatility. For instance, the P/C industry Loss & LAE Ratio was projected using a variation of this equation: LR = Amplitude $\cdot$ $\cos(\omega \cdot t)$ + Period Shift – where $2\pi/\omega$ is the period in years.

Figure 13 – Economies of scale in PL Auto Expense Ratios

Source: AM Best and Progressive Corp. Annuals



Projections

We project that Progressive can perhaps maintain an advantage over the industry in regard to underwriting expenses for the next 5-10 years. However, we believe this advantage will not total more than 1-1½ % over this time period.

Balance Sheet Risks – Par for the course

Progressive is subject to risk in a number of different areas. We have factored all of these risks into our valuation, and believe that the stock is still undervalued.

Asbestos Risk

Many analysts have noted[3] that many Property/Casualty stocks should trade at a discount due to insufficient asbestos reserves. Because of Progressive's focus on personal auto insurance, it has no exposure to this industry peril, and should trade at a slight premium to the industry.

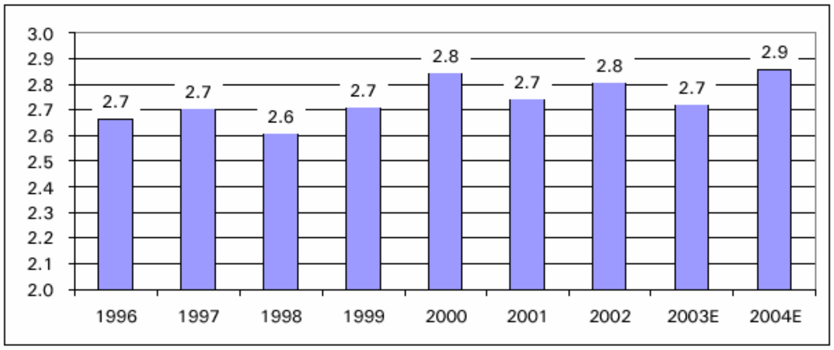
Operating leverage

Progressive's operating leverage is extremely high compared to the rest of the industry. Its premium to surplus ratio reached 3.10 in mid 2002 and is now about 2.65,[4] compared to the industry average of 1.3. However, this differential is mitigated by the fact Progressive focuses on the more predictable and profitable personal auto insurance market, rather than more volatile commercial lines. This leverage means that Progressive's return on equity could deteriorate substantially if the auto insurance market sours. However our valuation section forecasts a difficult auto insurance market for several years and Progressive still appears undervalued. This creates a "margin of safety" for our recommendation.

[3] Including Yale School of Management – P/C Industry 9/13/2003 (BAILEY-HUANG, BAKER, BURKE-HIRSCHMANN, LACHANCE).

[4] Prudential Financial Equity Research, September 22, 2003.

Figure 14. Operating Leverage (Premiums to Surplus Ratio)[5]



Source: Company data, Prudential Equity Group, Inc. estimates.

Regulatory Risk

Progressive's superior ability to assess the risk of its customers is a key reason for its above-average underwriting results. An important tool in that risk assessment process is credit-scoring. However, for a number of reasons, regulators are considering prohibiting the use of credit-scores by insurers. Legislation disallowing the use of credit-scoring was defeated in California in July 2003, but the threat is likely to reemerge. This could create headline risk for the industry, but we believe Progressive would not under-perform in such a scenario. The company has developed formulas that closely replicate credit-scoring and would remain highly profitable in such a scenario.

In New York and Florida, auto insurance underwriting performance has been sub-par due to alleged no-fault fraud.[6] According to some experts, one in four no-fault auto insurance claims in New York is fraudulent and amounts to $1.2 million fraudulent claims per day.[7] Legislative relief would be beneficial but it is uncertain when it will arrive, if at all. If the legislation is enacted, Progressive's equity will likely rally. But Progressive has remained more profitable than its competitors despite this fraud, and we expect it to remain so even if legislation is not passed to alleviate the problem.

Financial leverage

Progessive's debt to capital ratio is about 25% which is within range of management's 20% to 30% target. Instead most of the recent growth in Progessive's capital base has been due to increases shareholder's equity driven by retained earnings. Overall we feel Progressive's financial leverage is acceptable as evidenced by its AA+ rating from Fitch.

Prior-year Reserves

Progressive, along with most auto insurers, struggled with reserves in 1999 and 2000. Declines in underwriting standards and low rates caused severe problems. In 1998, positive reserve development of $184 million reduced the loss ratio by 3.7%, but in 1999-2000, the company suffered adverse loss development totaling $46 million. However, management rapidly implemented a turnaround plan and loss ratios improved quickly. We feel that pendulum has now swung the other way. In the current hard-market, loss frequency has declined dramatically due to unusually low loss severity. Thus, our valuation forecasts a significant short-term decline in operating performance from adverse reserve developments. Despite this forecast, Progressive still looks cheap. As an added bonus Progressive recently became the first company to publish monthly reserve updates; this should help to ease market concerns about reserve levels.

[5] Prudential Financial Equity Research, September 22, 2003.
[6] Prudential Financial Equity Research, September 22, 2003.
[7] Insurance Information Institute, March 25 2003.

Catastrophe Risk

As the recent hurricane on the eastern seaboard illustrates, natural catastrophe losses are always a risk for personal lines insurers. While auto insurance makes up almost all of Progessive's business, it has a tiny amount of homeowner's insurance exposure in Florida. Further, Progressive recently announced it would no longer write homeowner's insurance. Thus a hurricane or tropical storm would be detrimental, but would not impact earnings significantly.

Business Diversification

While Progressive has performed extremely well in the personal auto insurance sector, it has no other major businesses to cushion its fall if the auto insurance market weakens. To guard against this risk, our valuation forecasts a significant decline in auto insurance underwriting conditions.

Working Capital Forecasts

Working capital is almost always negative for insurance companies due to the way that new premiums are booked. In order to forecast working capital for our model, we analyzed Progressive's historical working capital trends. We found that working capital is highly correlated with changes in net written premiums and hence "hard" markets and "soft" markets. During a hard market, when premium growth is high and combined ratios are low, working capital is about negative 60% of sales. During a soft market, when premium growth is low and combined ratios are high, working capital is closer to negative 80% of sales. We then built these assumptions into our DCF model.

Valuation – Significant Upside Exists

We employed a discounted cash flow analysis to determine PGR's current value. Based on the trends in fundamentals described above, an income statement and summary balance sheet and cash flow statement (see Appendix A and B for detailed projections) were projected out to the year 2012, or 9.25 years, through the next cycle.

Free Cash Flow Analysis

	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Operating Income	$1,694	$1,225	$1,381	$833	$103	($335)	($379)	$189	$1,285	$2,500
Taxes	(542)	(392)	(442)	(266)	(33)	107	121	(61)	(411)	(800)
D&A	106	128	149	164	170	173	183	205	243	297
Increase in WC	(1,169)	(617)	(2,164)	(2,290)	(797)	(262)	(699)	(555)	(1,350)	(878)
CapEx	(112)	(136)	(158)	(173)	(180)	(184)	(194)	(217)	(257)	(314)
Free Cash Flow	$2,314	$1,442	$3,094	$2,846	$857	$24	$431	$671	$2,209	$2,560

The projected cash flows were discounted at a WACC of 6.7% yielding a present value per share for the free cash flows of $50. We assumed the business was sold in year 2012 based on a book value multiple of 1.6x, the historical industry average[8], which generates a present value of $37 per share. Therefore, we estimated the current share price of PGR to be $87, a premium of 20% to current trading levels.

PGR Estimated Share Price

	Terminal P/B Multiple				
Discount Rate	**1.0x**	**1.6x**	**2.0x**	**3.0x**	**4.0x**
5.0%	$80	$96	$107	$133	$160
6.0%	$76	$91	$100	$125	$149
6.7%	$73	$87	$96	$119	$142
7.0%	$72	$85	$94	$117	$139
8.0%	$68	$80	$89	$109	$130

[8] Morgan Stanley Equity Research, Vinay Saqi, June 26, 2003.

Above, we can see that a one point change in the discount rate moves the share price by $4-$11, while the terminal multiple impact is even greater at about a $20-$27 per share price change for each multiple turn. From the table below, we see our valuation implies a hefty current price to book multiple of 4.0x, which is above the historical median of 3.2x, but below the peak of 5.1x, over the past ten year trading history.[9]

Implied Current (2003E) P/B Multiple

	Terminal P/B Multiple				
Discount Rate	**1.0x**	**1.6x**	**2.0x**	**3.0x**	**4.0x**
5.0%	3.7x	4.4x	4.9x	6.1x	7.3x
6.0%	3.5x	4.1x	4.6x	5.7x	6.8x
6.7%	3.3x	4.0x	4.4x	5.4x	6.5x
7.0%	3.3x	3.9x	4.3x	5.3x	6.3x
8.0%	3.1x	3.7x	4.0x	5.0x	5.9x

PGR's sensitivity to changes in operating conditions is outlined in the table below:

		Change	Per Share Impact
Loss Ratio	+/-	1.0%	$9
Net Investment Yield	+/-	0.5%	$4
Net Premium Growth	+/-	1.0%	$5

Loss ratio, net investment yield and net premium growth are three of the most important value drivers. Should PGR undergo a structural change in losses, positive or negative, the valuation could be impacted significantly. We forecast PGR moving to loss ratios just below the industry average, although historically PGR has performed considerably better than average. If PGR can maintain its stellar loss ratio going forward, significant upside in the share price exists.

PGR's valuation is also highly dependent on interest rate movements. If an increase in interest rates does not materialize, PGR's share price would be negatively impacted, all other things held constant. For example, 10 year bond rates are currently just over 4% and our forecast calls for an average over the cycle of 5.5%. If rates remained at current levels, our valuation estimate would decline by nearly $12 per share, moving the estimated share price to $75, or just under 5% above current levels.

Finally, and most importantly, PGR has exhibited above industry average net premium growth historically and we project that trend continuing over the next nine years. In addition to strong growth, PGR has demonstrated an ability to slow grow when underwriting margins come under pressure, which makes managing net premium growth all that more important. We continue to forecast strong growth for PGR, albeit below historical levels. If PGR could maintain growth closer to historical levels, upside in the share price exists. For example, if PGR's growth expanded above our forecast by an average of 200 basis points per year over the next nine years, our valuation would rise by $10, and our estimated stock price would be $97, a premium of 34% to current trading levels.

[9] Prudential Equity Group, Inc. Research, Jay H. Gelb, September 22, 2003.

Appendix A
PGR Income Statement

	Six Months Ended:															
	J-03	**J-02**	**LTM**	**2000**	**2001**	**2002**	**2003E**	**2004E**	**2005E**	**2006E**	**2007E**	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**
Revenues																
Premiums Earned	$5,373	$4,104	$10,153	$6,348	$7,162	$8,884	$11,193	$13,579	$15,827	$17,332	$17,976	$18,351	$19,350	$21,692	$25,750	$31,399
Investment Income	229	225	459	385	414	455	514	650	831	837	897	1,025	1,075	1,201	1,351	1,404
Net Realized Gains/(Losses)	20	(18)	(41)	17	(112)	(79)	(118)	(138)	(152)	(179)	(205)	(215)	(218)	(225)	(234)	(256)
Service Revenues	19	17	37	21	25	34	36	38	40	42	44	46	48	51	53	56
Total	$5,641	$4,327	$10,608	$6,771	$7,488	$9,294	$11,625	$14,128	$16,546	$18,032	$18,712	$19,207	$20,255	$22,718	$26,919	$32,603
Expenses																
Losses and LAE	$3,654	$2,877	$7,076	$5,279	$5,264	$6,299	7,611	9,924	11,697	13,395	14,656	15,507	16,391	17,796	20,045	23,308
Underwriting Expenses	1,063	901	2,068	1,347	1,552	1,906	2,216	2,852	3,324	3,640	3,775	3,854	4,064	4,555	5,407	6,594
Investment Expenses	6	5	12	9	13	12	18	21	23	27	31	32	33	34	35	38
Service Expenses	13	11	24	21	20	22	23	24	25	27	28	29	31	33	34	36
Interest Expense	48	36	86	78	52	75	63	82	95	110	119	120	116	111	113	127
Non-recurring item				4												
Total	$4,783	$3,829	$9,267	$6,739	$6,901	$8,313	$9,931	$12,903	$15,164	$17,199	$18,609	$19,542	$20,634	$22,529	$25,635	$30,103
Income before Taxes	$858	$498	$1,341	$32	$588	$981	$1,694	$1,225	$1,381	$833	$103	($335)	($379)	$189	$1,285	$2,500
Taxes	280	162	433	(14)	176	314	542	392	442	267	33	(107)	(121)	61	411	800
Net Income	$578	$337	$908	$46	$411	$667	$1,152	$833	$939	$566	$70	($228)	($258)	$129	$874	$1,700
EPS	$2.61	$1.50	$4.10	$0.21	$1.83	$2.99	$5.16	$3.73	$4.21	$2.54	$0.31	($1.02)	($1.15)	$0.58	$3.91	$7.62
Net Premiums Earned (Growth)					14%	29%	26%	21%	17%	10%	4%	2%	5%	12%	19%	22%
Loss Ratio	68%	70%		83%	74%	71%	68%	73%	74%	77%	82%	85%	85%	82%	78%	74%
Underwriting Expense Ratio	20%	22%		21%	22%	21%	20%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Combined Ratio	88%	92%		104%	95%	92%	88%	94%	95%	98%	103%	106%	106%	103%	99%	95%

Appendix B
PGR Summary Balance Sheet and Cash Flow Statement

	2000	2001	2002	2003E	2004E	2005E	2006E	2007E	2008E	2009E	2010E	2011E	2012E
Summary Balance Sheet													
Invested Assets	$6,983	$8,226	$10,284	$11,814	$13,849	$15,223	$17,947	$20,506	$21,500	$21,838	$22,512	$23,403	$25,564
Net Investment Yield	5.5%	5.0%	4.4%	5.0%	5.5%	6.0%	5.5%	5.0%	5.0%	5.0%	5.5%	6.0%	6.0%
Shareholder's Equity			$3,768	$4,906	$5,719	$6,616	$7,155	$7,205	$6,956	$6,678	$6,786	$7,639	$9,318
Summary Cash Flow Statement													
Working Capital, net	($3,878)	($4,389)	($5,547)	($6,716)	($7,333)	($9,496)	($11,786)	($12,583)	($12,846)	($13,545)	($14,100)	($15,450)	($16,327)
Change in WC		(511)	(1,158)	(1,169)	(617)	(2,164)	(2,290)	(797)	(262)	(699)	(555)	(1,350)	(878)
Net WC, % of Premiums	-61%	-61%	-62%	-60%	-54%	-60%	-68%	-70%	-70%	-70%	-65%	-60%	-52%
Depreciation	$78	$81	$84	$106	$128	$149	$164	$170	$173	$183	$205	$243	$297
D&A, % Premiums	1.2%	1.1%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Capital Expenditures	$130	$75	$90	$112	$136	$158	$173	$180	$184	$194	$217	$257	$314
CapEx, % Premiums	2.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

Appendix C – WACC Calculation

WACC - PGR		
Rf	4.2%	10 Yr Treasury
E(Rm)	8.5%	S&P Composite Returns, 1994-02
D/V	25.0%	Company Target
D/E	33.3%	
Tax Rate	33.0%	Effective Company Rate
Spread to Treasury	0.5%	S&P AA (PGR is moody's aa2)
Ba	0.71	Industry unlevered beta
Bd	0.12	
Be	0.84	
Re	7.8%	
Rd (post-tax)	3.1%	
WACC	6.7%	

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