

Equity Research

WELLS FARGO

Price Target Change — October 18, 2024

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

Shares Travel Higher Post Clean Print + Model Update

Our Call

A good Q3 with a strong BI underlying margin, no movement in GL reserves, and great personal lines underlying results sent shares higher. We are not sure the 190bps of core margin improvement in BI is run-ratable (no one-off items were highlighted).

The stock from here: TRV shares responded well to earnings; with shares at 12.4x our 2025 EPS we do not see much upside from here. We are not fully convinced the 190 bps of core underlying BI loss ratio improvement is run-ratable, and we assume 90 bps in Q4 and have it tricking off from there. TRV did not call out any one-off items in BI margin and said it was a good starting point, which we find surprising given homeowners' benefited from 10 points of favorable non-cat and non-weather losses.

Estimate and price target changes: Our 2024E EPS estimate goes up to \$19.17 (from \$17.80) to mainly reflect the Q3 upside, partially offset by a higher Q4 cat load as we assume \$152m of Milton losses (within range of their guide of \$75-175m). Our 2025E EPS goes up to \$21.35 (from \$20.65) and 2026E EPS estimate goes to \$22.75 (from \$22.05) reflecting better underlying margin in BI and personal lines and higher NII. Our price target goes to \$256 (from \$207) based on 12.0x our 2025 EPS estimate.

Additional GL color: Travelers hosted a sell side meeting on 10/18 and the company reiterated comments that they had made about their GL reserves 90 days ago. They were proactive and decisive in the reserving action that they took for the GL line in the Q2. The most recent years are very green (85% of the losses have yet to be paid) and will be paid out over the next 7-10 years. TRV did highlight that umbrella (as well as auto) led the way in terms of BI pricing in the quarter.

Read-throughs: **(1)** TRV saw improved commercial lines pricing in the quarter, which should be a positive for other small-to-mid market writers (**HIG + regionals**), **(2)** the 2025 NII guide was close to us (**CB** also guides for NII but only guides one quarter out), **(3)** the company saw favorable current year results (two points in personal auto) which is a positive for other personal auto writers (like **ALL**, which we highlight as our tactical bullish call in the P&C space for the quarter).

Cats, auto frequency + other: Travelers is contemplating guiding around cat losses in 2025, and they also might provide some color around premium-to-surplus goals as well. Within personal lines, auto results benefited from two points from releases on earlier quarters in the year (from favorable frequency) as TRV sees more quarters of beneficial frequency they will become more convinced it will be durable. For more details on earnings, see our first look note [here](#) and conference call takes [here](#).

Equity Analyst(s)

Elyse Greenspan, CFA

Equity Analyst | Wells Fargo Securities, LLC
Elyse.Greenspan@wellsfargo.com | 212-214-8031

Hristian Getsov

Associate Equity Analyst | Wells Fargo Securities, LLC
Hristian.Getsov@wellsfargo.com | 212-214-5309

Nicholas Annitto

Associate Equity Analyst | Wells Fargo Securities, LLC
Nicholas.Annitto@wellsfargo.com | 212-214-5322

Matthew Byrnes, CFA

Associate Equity Analyst | Wells Fargo Securities, LLC
Matthew.Byrnes@wellsfargo.com | 212-214-8903

Westar Zong

Associate Equity Analyst | Wells Fargo Securities, LLC
Westar.Zong@wellsfargo.com | 212-214-8186

Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$256.00/\$207.00
Upside/(Downside) to Target	(3.6)%
Price (10/18/2024)	\$265.45
52 Week Range	\$157.33 - 269.56
Shares Outstanding (MM)	231
Market Cap (MM)	\$61,213
Enterprise Value (MM)	\$68,473
Average Daily Volume	1,212,331
Average Daily Value (MM)	\$322
Dividend (NTM)	\$3.93
Dividend Yield	1.5%
Net Debt (MM) - last reported	\$7,260
ROIC - Current year est.	16%
3 Yr EPS CAGR from current year (unless otherwise noted)	20%

\$ EPS	2023A	2024E Curr.	2024E Prior	2025E Curr.	2025E Prior
Q1 (Mar)	4.11 A	4.69 A	NC	5.62 E	5.31E
Q2 (Jun)	0.06 A	2.51 A	NC	3.54 E	3.16E
Q3 (Sep)	1.95 A	5.24 A	3.85E	4.61 E	4.66E
Q4 (Dec)	7.01 A	6.75 E	6.80E	7.60 E	7.55E
FY	13.13 A	19.17 E	17.82E	21.35 E	20.65E
P/E	20.2x	13.8x		12.4x	

ROIC - Current year est.: Represents return on equity (ROE) 3 Yr EPS CAGR from current year (unless otherwise noted); Using 2019-2022 for CAGR calculation EPS: Operating EPS Source: Company Data, Wells Fargo Securities estimates, and Factset. NA = Not Available, NC = No Change, NE = No Estimate

Wells Fargo Express Takeaways

The Travelers Companies, Inc. (TRV) | Rating: Equal Weight | Price Target: \$256.00

Analyst: Elyse Greenspan

Financials

FY (Dec)	2023A	2024E	2025E
ESTIMATES			
EPS			
Q1	4.11 A	4.69 A	5.62 E
Q2	0.06 A	2.51 A	3.54 E
Q3	1.95 A	5.24 A	4.61 E
Q4	7.01 A	6.75 E	7.60 E
AN	13.13 A	19.17 E	21.35 E
Rev. (MM)	41,469.0 A	46,233.7 E	49,938.8 E
Net Premiums Written (MM)	40,201.0 A	43,369.5 E	46,609.0 E
Underlying Loss Ratio	61.4% A	58.6% E	59.5% E
Underlying Combined Ratio	89.6% A	87.1% E	87.7% E
Book Value/Shre	109.19 A	127.21 E	140.48 E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	13.13 A	18.00 E	20.79 E
Difference from Consensus		6.5%	2.7%

VALUATION

P/E	20.2x	13.8x	12.4x
P/Book Value	2.4x	2.1x	1.9x

EPS: Operating EPS

Rev. (MM): Excludes realized gains/losses

Consensus Estimate: EPS; Source: FactSet

Source: Company Data, Wells Fargo Securities estimates, and Factset.

NA = Not Available, NE = No Estimate

Investment Thesis

We believe that TRV will continue to benefit from the good pricing environment within commercial lines and improving margins within personal auto. With that being said, we think there are questions on their reserves following the increases for liability lines in H1 and as a result, we think the shares could underperform the broader group until they show a lack of movement on the reserve side. We rate the shares Equal Weight

Risk vs. Reward – Upside/Downside Price Target Scenarios



*As of 10/18/24

Source: Wells Fargo Securities, LLC estimates and Factset.

Base Case | \$256.00

- Our price target of \$256 is based on just over 12.0x our 2025 EPS estimate. We come to the 12.0x multiple using an average of the multiples for AIG, CB and HIG.
- Implies around a ~1.8x multiple of our projected 2025 book value estimate of ~\$140.

Upside Scenario | \$280.00

- Our upside scenario is \$280 and assumes a multiple of ~13.1x our 2025 EPS estimate and ~2.0x our 2025 book value estimate of ~\$140.
- A continued firm commercial pricing environment with no material changes to loss cost trends
- No material reserve additions
- Normal cat loads
- Strong level of buybacks

Downside Scenario | \$213.00

- Our downside scenario is \$213 and is based on 10.0x our 2025 EPS estimate and ~1.5x our 2025 book value estimate of ~\$140.
- Material softening in the RRC, particularly in BI
- Loss cost trends rise, and we see further additions to reserves (especially within general liability)
- Personal auto margins reverse course and return to unprofitability

Upcoming Catalysts

- Commercial pricing survey data** from MarketScout and Ivans, which track movement in rate across various commercial lines, including workers' compensation
- Commentary from other peers** around loss cost trends, reserves, and rate adequacy in lines including commercial and personal insurance lines
- Q4 earnings**, which will be reported in January 2025

Company Description

Travelers Companies, Inc. (TRV) is the second-largest writer of commercial lines, the eighth-largest personal insurance writer, and biggest writer of workers' comp in the United States (as of 2023). The company is organized into three business segments: Business Insurance (51% of 2023 net premiums written); Personal Insurance (40%); and Bond & Specialty Insurance (10%). Products are distributed primarily through independent agents and brokers in all 50 states and in select international markets.

Highlights of Our Estimate Changes

Overview of our estimate changes. The exhibit below highlights the changes we made to our earnings model following Q3 2024 earnings.

- **2024 EPS goes up to \$19.17 (from \$17.82)** to primarily reflect the Q3 beat and modestly better underlying margin in BI in the Q4. We assume 40 basis point of BI underlying margin improvement in Q4 with 90 bps of rate over trend and an assumed reversal of the favorable non-cat weather from last year (level wasn't quantified, but we assume it is 50bps).
- **2025 EPS goes up to \$21.35 (from \$20.65)** to reflect modestly higher NII and better underlying margin in BI and personal insurance.
- **2026 EPS goes up to \$22.75 (from \$22.05)** to reflect modestly higher NII and better underlying margin in BI and personal insurance.

Exhibit 1 - TRV Summary of Estimate Changes

(\$ in millions, except as noted)	Current Estimates			Prior Estimates			Delta (Absolute)			Outlook (2024 / 2025)
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	
Gross premiums written	46,582	49,716	52,450	46,388	48,150	50,304	194	1,566	2,146	
% growth (YoY)	8.4%	6.7%	5.5%	8.0%	3.8%	4.5%	0.5%	2.9%	1.0%	
Net premiums written	43,369	46,609	49,201	43,362	45,593	47,641	7	1,016	1,560	
% growth (YoY)	7.9%	7.5%	5.6%	7.9%	5.1%	4.5%	0.0%	2.3%	1.1%	
Increase in unearned premiums	(1,624)	(1,641)	(1,312)	(1,705)	(1,130)	(1,036)	81	(511)	(275)	
Net premiums earned	41,745	44,968	47,890	41,657	44,463	46,605	88	505	1,285	
% growth (YoY)	10.6%	7.7%	6.5%	10.3%	6.7%	4.8%	0.2%	1.0%	1.7%	
Net investment income (pre-tax)	3,603	4,083	4,467	3,591	3,995	4,335	11	89	133	
Fixed (Incl. SI) income (after-tax)	2,661	2,996	3,282	2,627	2,922	3,171	34	74	111	
Fee income	462	498	529	467	510	534	(5)	(13)	(5)	
Other income	424	390	390	410	389	389	14	1	1	
Total revenue	46,234	49,939	53,276	46,125	49,357	51,862	108	581	1,414	
Losses and loss adjustment expenses	27,621	29,925	32,143	27,996	29,699	31,316	(374)	226	827	
Amortization of deferred acquisition costs	6,949	7,439	7,895	6,887	7,294	7,648	63	146	248	
General and administrative expenses	5,774	6,143	6,519	5,768	6,196	6,469	6	(53)	50	
Interest expense	392	392	392	392	392	392	0	0	0	
Total expenses	40,736	43,899	46,950	41,043	43,581	45,824	(306)	319	1,125	
Pretax operating income	5,497	6,040	6,327	5,083	5,777	6,038	415	263	289	
% growth (YoY)	58.2%	9.9%	4.8%	46.2%	13.7%	4.5%	11.9%	(3.8%)	0.2%	
Income tax expense/(benefit)	1,042	1,151	1,197	957	1,091	1,133	85	59	64	
After-tax core income	4,455	4,889	5,130	4,125	4,685	4,905	330	203	225	
% growth (YoY)	45.1%	9.7%	4.9%	34.3%	13.6%	4.7%	10.7%	(3.8%)	0.2%	
Company income tax rate (%)	19.0%	19.1%	18.9%	18.8%	18.9%	18.8%	0.1%	0.2%	0.1%	
Share repurchases	1,144	1,800	1,800	1,241	1,800	1,800	(97)	0	0	
Weighted average number of diluted shares	230.9	227.6	224.0	230.2	225.9	221.5	0.7	1.6	2.5	
Participating share-based awards	28.4	31.0	34.0	22.4	20.0	20.0	6.0	11.0	14.0	
Adjusted Operating EPS	\$19.17	\$21.35	\$22.75	\$17.82	\$20.65	\$22.05	\$1.35	\$0.70	\$0.70	
Profitability Metrics										
Loss and loss adjustment expense ratio	65.8%	66.1%	66.7%	66.8%	66.4%	66.8%	(1.0%)	(0.2%)	(0.1%)	
Underwriting expense ratio	28.5%	28.3%	28.2%	28.4%	28.4%	28.3%	0.1%	(0.1%)	(0.2%)	
Combined ratio	94.3%	94.4%	94.9%	95.2%	94.7%	95.1%	(0.9%)	(0.3%)	(0.2%)	
Cat points on the combined ratio	8.4%	6.7%	6.7%	7.4%	6.4%	6.4%	1.0%	0.3%	0.4%	
PYD points on the combined ratio	(1.2%)	(0.0%)	(0.1%)	(0.5%)	(0.1%)	(0.1%)	(0.7%)	0.0%	0.0%	
Current accident year combined ratio	87.1%	87.7%	88.2%	88.4%	88.4%	88.8%	(1.2%)	(0.7%)	(0.6%)	
Underlying loss ratio	58.6%	59.5%	60.0%	60.0%	60.1%	60.5%	(1.4%)	(0.6%)	(0.4%)	
Catastrophe Losses (\$)	3,495	3,026	3,226	3,067	2,838	2,976	428	187	250	
Reserve Development (\$)	(511)	(21)	(35)	(222)	(28)	(40)	(289)	7	4	
Segment Underwriting Income:										
Business Insurance	\$1,011	\$1,034	\$935	\$885	\$982	\$1,000	\$126	\$52	(\$65)	
Bond & Specialty Insurance	\$594	\$635	\$701	\$606	\$690	\$730	(\$12)	(\$55)	(\$28)	
Personal Insurance	\$299	\$335	\$274	\$24	\$148	\$12	\$275	\$187	\$262	
Book value per share	\$127.21	\$140.48	\$155.22	\$125.96	\$138.90	\$153.29	\$1.26	\$1.58	\$1.92	
ROE	16.2%	15.9%	15.4%	15.2%	15.6%	15.1%	1.1%	0.4%	0.3%	

\$700m in Q4 2024; \$2.9b in 2025 with \$700m in Q1 ~ \$760m in Q4

Expecting expense ratio to remain stable at 28-28.5%

Source: Company reports and Wells Fargo Securities, LLC estimates

Exhibit 2 - 2024 Guidance Tracker

	2024 Guidance Tracker	Provided With Q3 2023 Earnings	Provided With Q4 2023 Earnings	2024 Outlook	Provided With Q1 2024 Earnings	Provided With Q2 2024 Earnings	Provided With Q3 2024 Earnings	2025 Outlook	Provided With Q3 2024 Earnings
Underlying Margin Outlook	Personal Lines: Q4 underlying loss ratio is typically about 6-7 points higher than the other quarters of the year due to winter weather and holiday driving.	Personal Lines: No outlook commentary	Personal Lines: Q1 is seasonally 3 points better than the FY combined ratio (based on historical averages but does not account for higher earned premium). The Q1 also benefited less than a point from favorable frequency trends (which is one-time)	Personal Lines: Auto's underlying combined ratio (of 86.3%) included 2.5 points of Y/Y improvement that is viewed as non-recurring while home and others (77.6%) included 5.0 points of non-recurring Y/Y improvement	Personal Lines: C2 underlying combined ratio (of 89.2%) included one point of favorable non-at weather, which they expect will be non-recurring on a forward basis	Personal Lines: C3 underlying combined ratio (of 87.9%) did not include any one-off items	Personal Lines: Auto's underlying combined ratio (of 91.2%) included 2 points of Y/Y improvement while home (74.3%) included 10 points that was driven by favorable non-cat weather	No guide	No guide
	Expense Ratio Outlook	No change to previous guide	28-28.5% for FY 2024	28-28.5% for FY 2024 (no change vs previous guide)	28-28.5% for FY 2024 (no change vs previous guide)	28-28.5% for FY 2024 (no change vs previous guide)	28-28.5% for FY 2024 (no change vs previous guide)	No guide	No guide
Renewal Premium Growth	Business Insurance: Given the uncertainty in terms of weather volatility, economic and social inflation, hardening reinsurance market and the geopolitical landscape, TRV will continue to push for price increases to achieve its return objectives.	Business Insurance: No outlook commentary	Business Insurance: No outlook commentary	Business Insurance: They expect RPC to continue to be positive and strong and in particular driven by casualty	Business Insurance: They expect RPC to remain strong and positive	Business Insurance: They expect RPC to remain strong and positive	Business Insurance: They expect RPC to remain strong and positive	No guide	No guide
	Personal Lines: Auto RPC should remain in the mid-teens through H1, while homeowners' RPC should begin to move down from here as more of the book reaches rate adequacy on a written basis. Homeowners' RPC (19.4% in Q3) should remain consistent through the end of the year, and then it should moderate into the low double-digits.	Personal Lines: Auto RPC (16.6% in the Q1) should slow from here given improved profitability, while Homeowners' RPC (13.4% in the Q1) should remain consistent through the balance of the year.	Personal Lines: Auto RPC continued to decline gradually in the Q2 (down to 15.8% from 16.7%) and is expected to continue to decline from here while Home RPC is expected to remain near these levels (14.6% in Q3)	Personal Lines: Auto RPC continued to decline gradually in the Q2 (down to 15.8% from 16.7%) and is expected to continue to decline from here while Home RPC is expected to remain near these levels (14.6% in Q3)	Personal Lines: Auto RPC continued to decline gradually in the Q2 (down to 15.8% from 16.7%) and is expected to continue to decline from here while Home RPC is expected to remain near these levels (14.6% in Q3)	Personal Lines: Auto RPC continued to decline gradually in the Q2 (down to 15.8% from 16.7%) and is expected to continue to decline from here while Home RPC is expected to remain near these levels (14.6% in Q3)	Personal Lines: Auto RPC continued to decline gradually in the Q2 (down to 15.8% from 16.7%) and is expected to continue to decline from here while Home RPC is expected to remain near these levels (14.6% in Q3)	No guide	No guide
Investment Income	Fixed Book: Expect 2024 quarterly fixed income investment income to range between \$630-650 million with the full year coming in at more than \$2.6 billion.	Fixed Book: Raised 2024 quarterly fixed income investment income to range between \$640m in Q2, \$655m in Q3 and \$690m in Q4	Fixed Book: Raised 2024 quarterly fixed income guide to be \$675m in Q3 (from \$665m) and \$655m in Q4 (from \$650m)	Fixed Book: Raised 2024 their Q4 fixed income guide to be \$700m in Q4 (from \$695m)	Fixed Book: Raised 2024 their Q4 fixed income guide to be \$700m in Q4 (from \$695m)	Alternatives: No outlook commentary	Alternatives: No outlook commentary	Alternatives: No outlook commentary	Alternatives: No outlook commentary
	Alternatives: No outlook commentary	Alternatives: No outlook commentary	Alternatives: No outlook commentary	Alternatives: No outlook commentary	Alternatives: No outlook commentary	No guide	No guide	No guide	No guide
Capital Management	No guide	No guide	No guide	No guide	No guide	No guide	No guide	No guide	No guide

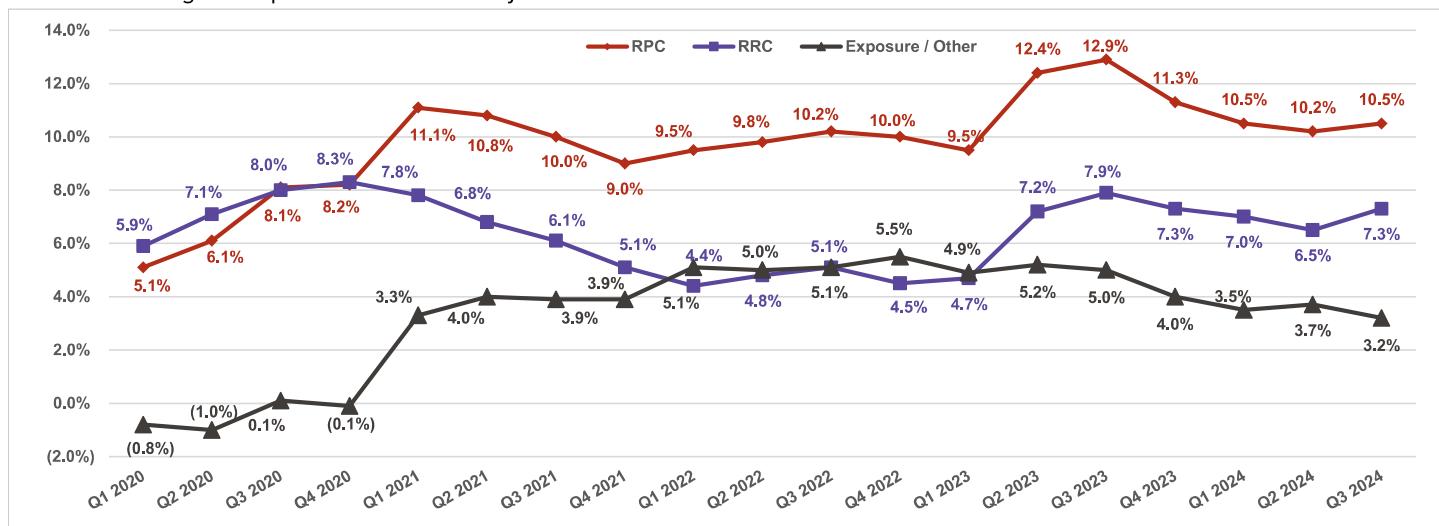
Source: Company reports and Wells Fargo Securities, LLC

Pricing Highlights—Commercial Lines

Business Insurance Rating Environment—RRC up sequentially; exposure slows

- **RRC:** Business Insurance renewal rate change (RRC) was +7.3% in the Q3, an acceleration from +6.5% in Q2. They noted on their conference call that umbrella and auto continue to lead the way with rate increases well into double-digits. In terms of sequential RRC, every line was at or higher than the second quarter. Property accounted for 18.5% of premiums in the Q3 (vs 19.0% in the Q2 and 19.1% in the prior year quarter) while workers' comp accounted for 14.4% of premiums (vs 15.3% in the Q2 and 15.3% in the prior year quarter).
- **Exposure:** Exposure growth was up 3.2%, down from the 3.7% in Q2 and the lowest exposure change since 2020.
- **RPC:** Renewal premium change (RPC) was 10.5% in Q3, up from the 10.2% in Q2. They highlighted on their conference that strong pricing was broad-based with RPC at or close to double digits in every line other than workers' comp. The exhibits below show the trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change since 2020.

Exhibit 3 - Pricing and Exposure Growth Seen By Travelers



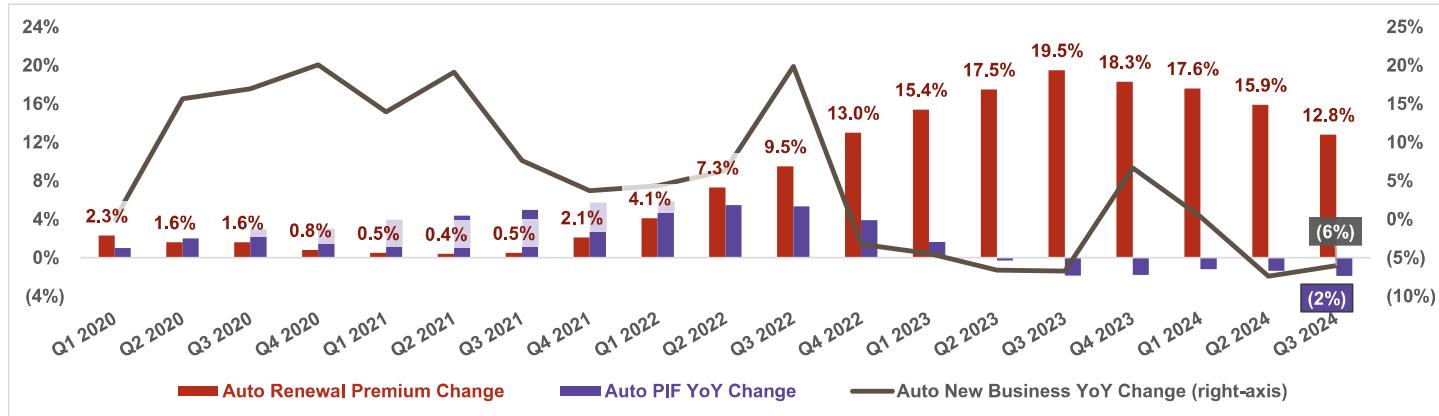
Source: Company data and Wells Fargo Securities, LLC

Pricing Highlights—Personal Lines

Personal Lines—TRV sees rate slow in auto, and relatively flat in home

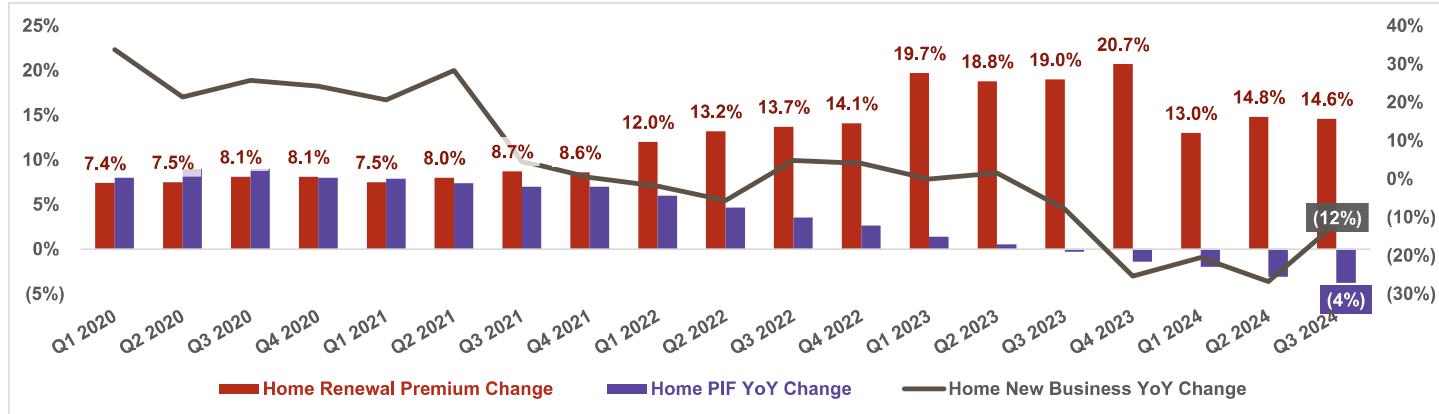
- **Personal Auto** renewal premium change (RPC) decelerated sequentially to 12.8% from 15.9% in Q2 and their auto underlying combined ratio remained below 100% (91.2% in the quarter) after returning to profitability in Q1 2024, with the combined ratio at 93.4%, the best margin since Q2 2021. The underlying margin was down 4.0% sequentially, and down 9.4% Y/Y, although the company noted 2.0 pts of Y/Y improvement was driven by reserve releases on earlier quarters of the year. They expect personal auto RPC to continue to decelerate from here given improved profitability.
- **Homeowners'** RPC decelerated modestly sequentially to 14.6% in Q3 from 14.8% in Q2 with the expectation RPC remains near these levels in the Q4.
- **Auto and home PIFs down sequentially.** Travelers' new business in auto was down 6% Y/Y at \$312 million, after seeing new business down 6% in the Q2. Auto PIFs were down 0.6% sequentially (vs down 0.9% in the Q2). Home new business was down 12% in the quarter (an improvement from the decline of 27% in Q2). From a PIF standpoint, home was down 0.9%, which was modestly better than the 1.1% sequential decline in Q2. TRV noted on their call that the decline in home PIF and new business was as intended as the decline was most significant in high-risk cat geographies as they continue to reduce exposure and mitigate volatility through improved risk selection, restricted binding authority, tightened eligibility requirements and higher deductibles. As for the auto PIF decline, they are working on returning to PIF growth, but they noted the decline in PIF is driven by a few challenging states where they are working on getting the rate needed as well as cross-line impact from their property high-risk cat exposure management actions.

Exhibit 4 - Personal Auto Statistics - RPC, PIF, and New Business Y/Y Change



Source: Company Reports and Wells Fargo Securities, LLC

Exhibit 5 - Homeowners' Statistics - RPC, PIF, and New Business Y/Y Change



Source: Company Reports and Wells Fargo Securities, LLC

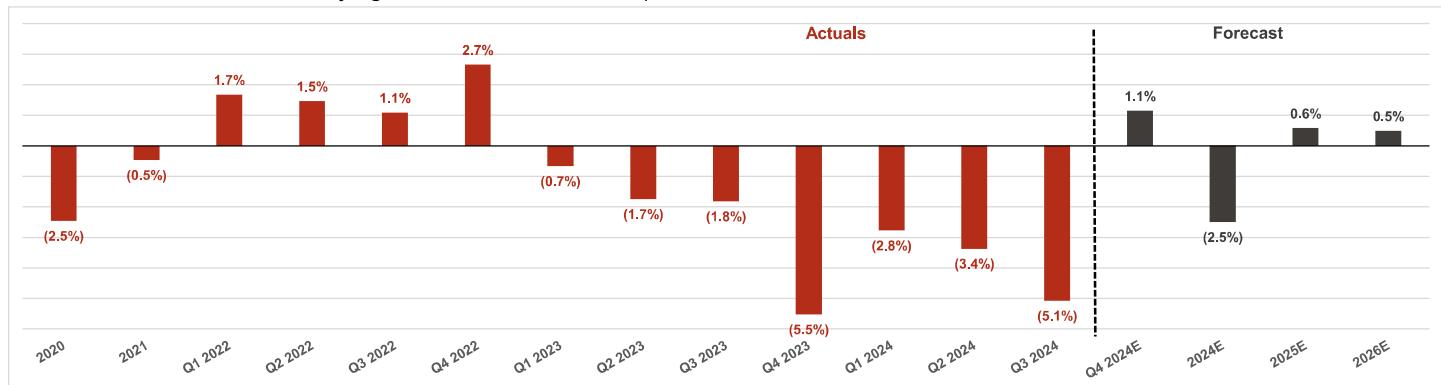
Underlying Margin Tables

Exhibit 6 - Consolidated Underlying Margin Trends

Underlying Margin Trends	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Reported Combined Ratio	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%	88.0%	91.3%	98.3%	98.2%	94.5%	95.4%	106.5%	101.0%	85.8%	93.9%	100.2%	93.2%
Catastrophe Losses, net of reinsurance	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%	0.4%	2.0%	9.0%	5.9%	5.2%	6.0%	16.1%	8.7%	1.3%	7.0%	14.7%	8.8%
Prior Year Reserve Development (Unfavorable)/Favorable	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)	(2.4%)	0.8%	(1.2%)	(1.9%)	(3.5%)	(0.2%)	(2.1%)	(1.2%)	(0.7%)	1.6%	(1.3%)	(0.9%)	(2.2%)	(1.2%)
Underlying Combined Ratio	91.3%	91.4%	91.5%	88.7%	89.5%	91.4%	91.4%	88.7%	91.2%	92.8%	92.5%	91.4%	90.5%	91.1%	90.7%	85.9%	87.8%	87.7%	85.6%
Underlying (improvement)/deterioration	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	0.0%	1.7%	1.5%	1.1%	2.7%	(0.7%)	(1.7%)	(1.8%)	(5.5%)	(2.8%)	(3.4%)	(5.1%)	
Underlying Loss Ratio	61.3%	60.4%	62.2%	59.3%	59.7%	61.7%	62.0%	60.2%	62.2%	63.8%	64.4%	63.5%	61.8%	62.5%	62.7%	58.5%	59.1%	58.9%	57.2%
YoY Change	(0.7%)	(4.3%)	(2.3%)	(3.6%)	(1.6%)	1.2%	(0.2%)	0.9%	2.5%	2.1%	2.4%	3.3%	(0.4%)	(1.3%)	(1.7%)	(5.0%)	(2.8%)	(3.6%)	(5.5%)
Underlying Expense Ratio	30.0%	31.0%	29.3%	29.4%	29.9%	29.7%	29.4%	28.5%	29.0%	29.0%	28.1%	27.9%	28.7%	28.6%	28.0%	27.4%	28.7%	28.8%	28.4%
YoY Change	0.3%	0.8%	(0.2%)	0.3%	(0.0%)	(1.3%)	0.1%	(0.9%)	(0.9%)	(0.7%)	(1.3%)	(0.6%)	(0.3%)	(0.4%)	(0.1%)	(0.5%)	0.0%	0.2%	0.4%

Source: Company reports and Wells Fargo Securities, LLC

Exhibit 7 - Consolidated Underlying Combined Ratio Y/Y (Improvement)/Deterioration



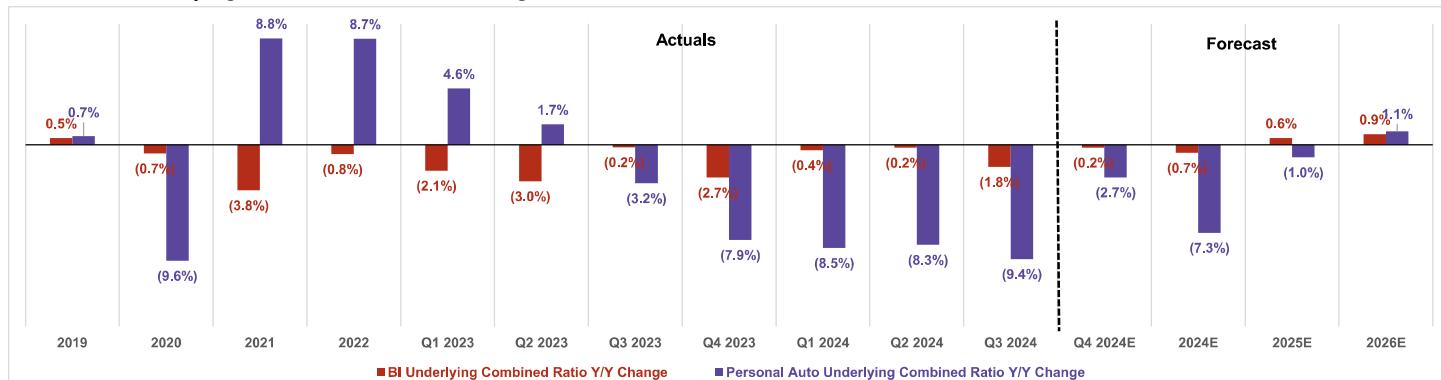
Source: Company Reports and Wells Fargo Securities, LLC Estimates

Exhibit 8 - Underlying Combined Ratio Trends by Segment

Underlying Combined Ratio Trends	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024
Business Insurance	97.3%	97.0%	94.0%	93.6%	93.7%	93.4%	90.2%	89.9%	91.7%	92.4%	89.9%	89.5%	89.6%	88.4%	89.7%	86.8%	89.2%	89.2%	87.9%
Underlying (improvement) deterioration	2.3% (0.4%)	(1.8%) (2.8%)	(3.6%) (3.8%)	(3.6%) (3.8%)	(3.8%) (3.8%)	(2.0%) (0.9%)	(0.3%) (0.3%)	(0.3%) (0.3%)	(2.1%) (2.0%)	(3.0%) (1.3%)	(2.7%) (4.9%)	(2.7%) (1.5%)	(2.7%) (3.9%)	(2.7%) (5.7%)	(2.7%) (2.2%)	(2.7%) (1.2%)	(0.4%) (0.5%)	(0.2%) (0.6%)	(1.8%) (4.9%)
Bond & Specialty	85.7%	88.1%	89.0%	85.0%	84.2%	83.4%	83.4%	83.3%	82.2%	82.1%	78.5%	81.8%	86.1%	87.8%	80.7%	80.6%	86.6%	86.1%	85.6%
Underlying (improvement) deterioration	4.6% (7.1%)	5.5% (5.3%)	3.7% (5.3%)	(1.5%) (5.3%)	(4.7%) (5.6%)	(1.7%) (5.6%)	(2.0%) (4.9%)	(1.3%) (1.5%)	(2.0%) (8.5%)	(1.3%) (7.5%)	(2.0%) (7.5%)	(1.3%) (7.5%)							
Personal Insurance	84.0%	84.0%	88.7%	83.1%	85.4%	91.0%	95.2%	88.7%	92.8%	96.0%	99.3%	96.2%	92.9%	94.1%	94.2%	85.9%	86.1%	86.3%	82.7%
Underlying (improvement) deterioration	(5.1%) (10.7%)	(5.3%) (10.7%)	(5.3%) (10.7%)	1.4% (12.2%)	7.0% (12.2%)	6.5% (12.2%)	5.6% (12.2%)	7.4% (12.2%)	5.0% (8.5%)	4.2% (8.5%)	4.2% (8.5%)	7.5% (8.5%)	0.1% (4.2%)	(2.0%) (4.2%)	(5.1%) (4.2%)	(10.3%) (5.1%)	(6.7%) (5.1%)	(7.7%) (5.1%)	(11.5%) (7.7%)
Personal Insurance Breakdown:																			
Automobile	90.9%	88.1%	81.5%	87.4%	86.6%	92.0%	97.0%	103.8%	98.8%	101.8%	103.8%	110.5%	103.4%	103.5%	100.6%	102.7%	94.9%	95.2%	91.2%
Underlying (improvement) deterioration	(1.2%) (7.7%)	(11.2%) (7.7%)	(12.2%) (7.7%)	(4.3%) (7.7%)	5.9% (7.7%)	15.5% (7.7%)	16.4% (7.7%)	12.2% (7.7%)	9.8% (7.7%)	6.8% (7.7%)	6.7% (7.7%)	4.6% (7.7%)	1.7% (7.7%)	(1.7%) (7.7%)	(3.2%) (7.7%)	(7.9%) (7.7%)	(8.5%) (7.7%)	(8.3%) (7.7%)	(9.4%) (7.7%)
Homeowners & Other	75.7%	82.0%	96.8%	78.5%	84.1%	89.9%	93.3%	73.4%	86.9%	90.3%	94.9%	82.2%	82.7%	85.2%	88.0%	69.7%	77.6%	77.6%	74.4%
Underlying (improvement) deterioration	(6.9%) (10.9%)	(3.3%) (10.9%)	(5.0%) (10.9%)	8.4% (10.9%)	7.9% (10.9%)	(3.5%) (10.9%)	(5.1%) (10.9%)	2.8% (10.9%)	0.3% (10.9%)	1.6% (10.9%)	8.8% (10.9%)	(4.2%) (10.9%)							

Source: Company data and Wells Fargo Securities, LLC

Exhibit 9 - Underlying Combined Ratio Y/Y Change - BI and Personal Auto



Source: Company Reports and Wells Fargo Securities, LLC

Valuation

Current valuation. As of 10/18 close, TRV shares are now trading at a 10-year peak level of 2.18x Q3 2024 book value, and well above its 5-year (1.56x) average, and its 10-year (1.49x) average multiple. When excluding unrealized losses (net), shares still trade at a high multiple of 1.94x Q3 adjusted book of \$137.12, which is well above the 1.39x 5-year average ex AOCI. On a price-to-earnings basis, the shares are trading at 12.4x our updated 2025 estimate above the 5-year average of 11.4x, 10-year average of 11.6x, but below the 10-year peak of 14.2x. We believe the valuation of the shares is pretty full from here as it is trading above historical averages on both a P/E and P/BV level, and we could still see more movement in general liability reserves in the Q4 (we were not expecting any reserve charge outside of asbestos in the Q3) and should see elevated cats in the Q4 as well with Milton losses.

Exhibit 10 - TRV Historical P/BV



Source: Company reports, Factset, and Wells Fargo Securities, LLC estimates

Exhibit 11 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

This document is being provided for the exclusive use of **EVERY PARK** at HARVARD BUSINESS SCHOOL.

Exhibit 12 - TRV Consolidated Earnings Model

Source: Company Reports, FactSet and Wells Fargo Securities ||| Estimates

Investment Thesis, Valuation and Risks

The Travelers Companies, Inc. (TRV)

Investment Thesis

We believe that TRV will continue to benefit from the good pricing environment within commercial lines and improving margins within personal auto. With that being said, we think there are questions on their reserves following the increases for liability lines in H1 and as a result, we think the shares could underperform the broader group until they show a lack of movement on the reserve side. We rate the shares Equal Weight

Target Price Valuation for TRV: \$256.00 from \$207.00

- Our price target of \$256 is based on just over 12.0x our 2025 EPS estimate. We come to the 12.0x multiple using an average of the multiples for AIG, CB and HIG.
- Implies around a ~1.8x multiple of our projected 2025 book value estimate of ~\$140.

Risks to Our Price Target and Rating for TRV

Risks to the downside include large catastrophe losses, adverse reserve development, increased competition, a deterioration in loss costs, while risks to the upside include stronger premium growth, reported / underlying margins coming in better than expected, and higher-than-expected favorable PYD.

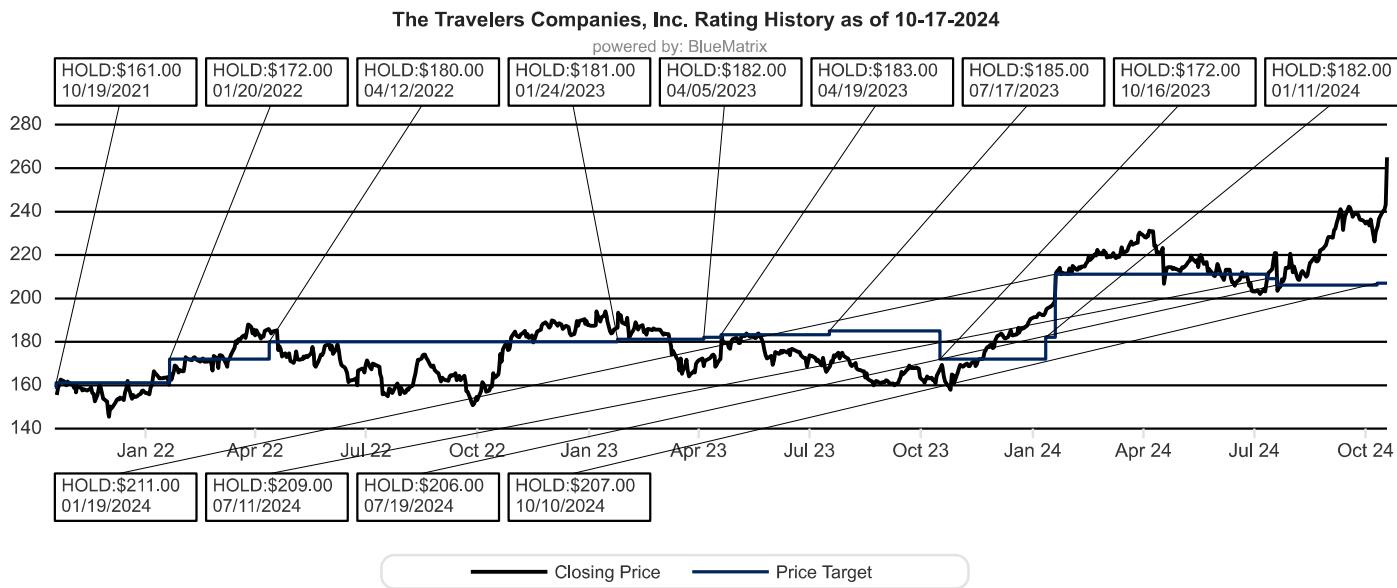
Required Disclosures

I, Elyse Greenspan, certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

Additional Information Available Upon Request



Initiation (I); Drop Coverage (D); Overweight (BUY); Equal Weight (HOLD); Underweight (SELL); Suspended (SR); Not Rated (NR); No Estimate (NE)

Wells Fargo Securities, LLC, maintains a market in the common stock of The Travelers Companies, Inc..

The Travelers Companies, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC, provided non-investment banking securities-related services to The Travelers Companies, Inc..

Wells Fargo Securities, LLC, or any of its affiliates, intends to seek or expects to receive compensation for investment banking services from The Travelers Companies, Inc. in the next three months.

Wells Fargo Securities, LLC, received compensation for products or services other than investment banking services from The Travelers Companies, Inc. in the past 12 months.

Wells Fargo Securities, LLC, or its affiliates has a significant financial interest in The Travelers Companies, Inc..

STOCK RATING

OW=Overweight: Total return on stock expected to be 10%+ over the next 12 months. (BUY)

EW=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. (HOLD)

UW=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. (SELL)

NR=Not Rated: The rating and price target has been removed due to lack of fundamental basis to support the recommendation or due to legal, regulatory or company policy considerations.

FINRA regulation requires member firms to assign ratings to one of three rating categories: Buy, Hold and Sell. In accordance with FINRA regulation and solely to satisfy those disclosure requirements in the ratings distribution table and ratings history chart contained in these Required Disclosures, our rating of Overweight corresponds to a Buy rating; Equal Weight corresponds to a Hold rating; and Underweight corresponds to a Sell rating.

As of October 17, 2024

49.8% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight. (BUY)

40.4% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight. (HOLD)

9.8% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight. (SELL)

Wells Fargo Securities, LLC has provided investment banking services for 40.7% of its Equity Research Overweight-rated companies. (BUY)

Wells Fargo Securities, LLC has provided investment banking services for 39.7% of its Equity Research Equal Weight-rated companies. (HOLD)

Wells Fargo Securities, LLC has provided investment banking services for 24.5% of its Equity Research Underweight-rated companies. (SELL)

Important Disclosure for U.S. Clients

This report was prepared by Wells Fargo Securities Global Research Department ("WFS Research") personnel associated with Wells Fargo Securities, LLC ("Wells Fargo Securities").

WFS Research may, from time to time, provide clients with short-term trading views in its research reports regarding subject companies on which Wells Fargo Securities currently has equity research coverage. A short-term trading view offers a view on how the market price of a subject company's common equity may trend in absolute terms during the 30 days following the date of the short-term trading view. A short-term trading view on a subject company's common equity does not impact our fundamental investment rating or price target for that company, which reflect our view of how the subject company's common equity may perform over a one-year period. A short-term trading view may reach a different conclusion than the firm's fundamental investment rating and price target for a subject company and, therefore, short-term trading views could result in short-term price movements that are contrary to our fundamental investment rating and price target. Short-term trading views are not ratings and the firm does not intend, nor undertakes any obligation, to maintain, update or close out short-term trading views. Short-term trading views may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any short-term trading views discussed in WFS Research reports.

Important Disclosure for International Clients

United Kingdom – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the United Kingdom, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a UK incorporated investment firm authorised and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (the "Act"), the content of this report has been approved by WFSIL, an authorised person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research.

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by WFSIL or Wells Fargo Securities Europe S.A. ("WFSE"). WFSE is a French incorporated investment firm authorized and regulated by the Autorité de contrôle prudentiel et de résolution and the Autorité des marchés financiers. WFSE does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC and Wells Fargo Securities International Limited are exempt from the requirements to hold an Australian financial services license in respect of the financial services they provide to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under the laws of the United States and Wells Fargo Securities International Limited is regulated under laws of the United Kingdom. All such laws differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC or Wells Fargo Securities International Limited in the course of providing the financial services will be prepared in accordance with the laws of the United States or United Kingdom and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Canadian Investment Regulatory Organization (CIRO) and, Member – Canadian Investor Protection Fund (CIPF). Wells Fargo Securities, LLC's research analysts may participate in company events such as site visits but are generally prohibited from accepting payment or reimbursement by the subject companies for associated expenses unless pre-authorized by members of Research Management.

China – Strictly Private and Confidential. For the sole use of the recipient only. Not to be copied or redistributed within the People's Republic of China.

Brazil – This report was not created for distribution to investors resident in Brazil or to the Brazilian public in general. Wells Fargo Securities, LLC is a broker-dealer registered in United States of America with and regulated by the U.S. Securities and Exchange Commission. Wells Fargo Securities, LLC is not registered in Brazil and its products, including this report and the securities mentioned in this report, have not been and will not be publicly issued, placed, distributed, offered or negotiated in the Brazilian capital markets, and, as a result, have not been and will not be registered with the Brazilian Securities Commission (Comissão de Valores Mobiliários, the CVM). The offer of Wells Fargo Securities, LLC's products, including this report and any securities mentioned in this report, is intended only for residents in the countries in which Wells Fargo Securities, LLC is authorized to operate.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in the report. This report, including any ratings it contains, does not constitute a personal recommendation or take into account the particular investment objectives, financial

situations, or needs of individual clients. Clients should seek professional advice, including tax advice, to determine whether any advice or recommendation in the attached research report is suitable for their particular circumstances. The information in this report is provided as of the date of the report and has been obtained or derived from sources believed by WFS Research to be reliable, but WFS Research does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of WFS Research, at the time that the report was published, and are subject to change without notice.

All Wells Fargo Securities research reports published by WFS Research are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Clients may also receive our research via third party vendors. Not all research content is redistributed to our clients or available to third-party aggregators, nor is WFS Research responsible for the redistribution of our research by third-party aggregators.

Equity Strategists focus on investment themes across the equity markets and sectors. Any discussion within an Equity Strategy report of specific securities is not intended to provide a fundamental analysis of any individual company described therein. The information provided in Equity Strategy reports is subject to change without notice, and investors should not expect continuing information or additional reports relating to any security described therein. Wells Fargo Securities' Signature Picks is a product of the Equity Strategy team and represents a portfolio of stocks selected from the Equity Research Department's universe of Overweight rated stocks. Stocks with this designation are selected by the Signature Picks Committee based on factors such as volatility, risks, market cap and liquidity and may not represent the fundamental analysts' top-rated stock in their respective coverage universe. For research or other data available on a particular security, please contact your sales representative or go to <http://research.wellsfargosecurities.com>.

Clients of WFS Research are permitted to store, display, analyze, modify, reformat, copy, duplicate and reproduce this report and the information contained within it for their own internal use and for no other purpose. Without the prior written consent of Wells Fargo Securities, no part of this report may be copied, duplicated or reproduced in any form by any other means. In addition, this report and its contents may not be redistributed or transmitted to any other party in whole or in part, directly or indirectly, including by means of any AI Technologies (defined below) through which this report or any portion thereof may be accessible by any third-party. "AI Technologies" means any deep learning, machine learning, and other artificial intelligence technologies, including without limitation any and all (a) proprietary algorithms, software, or systems that make use of or employ neural networks, statistical learning algorithms (such as linear and logistic regression, support vector machines, random forests or k-means clustering) or reinforcement learning, or curated data sets accessible by any of the foregoing or (b) proprietary embodied artificial intelligence and related hardware or equipment.

In addition, certain text, images, graphics, screenshots and audio or video clips included in this report are protected by copyright law and owned by Wells Fargo Securities, its affiliates or one or more third parties (collectively, "Protected Content"). Protected Content is made available to clients by Wells Fargo under license or otherwise in accordance with applicable law. Any use or publication of Protected Content included in this report for purposes other than fair use requires permission from Wells Fargo Securities or, in the case of content attributed to any third party, the third-party copyright owner. You may not alter, obscure, or remove any copyright, trademark or any other notices attached to or contained within this report. These Conditions of Use are not intended to, and will not, transfer or grant any rights in or to the report or the information contained within it other than those rights that are specifically described herein. All rights not expressly granted herein are reserved by Wells Fargo Securities or the third-party providers from whom Wells Fargo Securities has obtained the applicable information.

Any external website links included in this publication are not maintained, controlled or operated by Wells Fargo Securities. Wells Fargo Securities does not provide the products and services on these websites and the views expressed on these websites do not necessarily represent those of Wells Fargo Securities. Please review the applicable privacy and security policies and terms and conditions for the website you are visiting.

Copyright © 2024 Wells Fargo Securities, LLC

SECURITIES: NOT FDIC-INSURED - MAY LOSE VALUE - NO BANK GUARANTEE