

Equity Research

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Earnings Revised — April 17, 2024

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Reserves Rain on Shares; Conference Call Roundup

Our Call

TRV traded down on the day owing to the adverse development in liability for more recent accident years and the slowdown in releases in workers' comp. Even with estimates going up (on personal lines), we think reserves will be a near-term overhang.

The stock from here: We recognize shares traded down over 7% (S&P down 0.6%) on less than \$100m liability strengthening. But we do think the concern over slowing reserve releases in comp and strengthening within liability will weigh on the shares (even with numbers going up on personal lines), as we do not expect most companies to review their long-tail lines in Q1. TRV also has seen more adverse development than peers on more recent years (based on YE reserve data — see [TRV: Reserves in Focus](#)).

Estimate and price target changes: Our 2024 EPS estimate goes to \$19.52 (from \$19.45), 2025 EPS goes to \$21.10 (from \$20.85), and 2026 EPS estimate goes to \$22.85 (from \$22.55). Our estimates reflect better underlying margins, particularly in PI, higher earned premium and higher investment income, more than offsetting higher cats and lower favorable PYD (we model to no development in BI except for quarters when they do their asbestos review). Our price target is unchanged at \$211.

Read thrus: **(1)** Workers' comp reserve releases were offset by adverse development on liability lines (on more recent years) and runoff, and any movement in long-tail lines will draw intense focus. We expect **WRB** could also see movement within their LT reserves (for more see our [report](#)); **(2)** Personal auto margins are improving as rate increases are earned in and severity is getting better; and **(3)** Commercial rate and exposure continues to moderate modestly but remains at healthy levels.

Personal auto margins turn profitable: The company printed a CR of 94.6% (AY CR of 94.9%), which was the first profitable quarter since Q1 2022. The RPC in Q1 was 16.6% (vs 16.8% in Q4), which should continue to help margins as we move through the year. The quarter benefited less than a point from favorable frequency, but was still strong improvement. The Q1 is about 3 pts lower than the FY CR, although it does not take into account the impact of rate increases being earned in.

Guided items: TRV upped their fixed income NII guidance to \$640m in Q2, \$665m in Q3, and \$690m in Q4 (vs \$630-\$675m previous guide), to which we potentially see some more upside given the 10-year is up ~30bps since the end of Q1. TRV reiterated their expense ratio guide of 28-28.5%, despite some headwinds from Corvus (within BSI) as they have to earn in the premium of the \$200m book, which should take a few quarters.

Other: See inside for highlights of key issues for [TRV](#).

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$211.00/NC
Upside/(Downside) to Target	2.1%
Price (04/17/2024)	\$206.58
52 Week Range	\$157.33 - 232.75
Shares Outstanding (MM)	229
Market Cap (MM)	\$47,333
Enterprise Value (MM)	\$53,851
Average Daily Volume	1,497,135
Average Daily Value (MM)	\$309
Dividend (NTM)	\$3.93
Dividend Yield	1.9%
Net Debt (MM) - last reported	\$6,518
ROIC - Current year est.	17%
3 Yr EPS CAGR from current year (unless otherwise noted)	20%

\$	2023A	2024E	2024E	2025E	2025E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	4.11 A	4.69 A	5.28E	5.46 E	5.45E
Q2 (Jun)	0.06 A	4.21 E	3.92E	4.37 E	4.13E
Q3 (Sep)	1.95 A	4.22 E	4.13E	4.38 E	4.65E
Q4 (Dec)	7.01 A	6.41 E	6.13E	6.90 E	6.63E
FY	13.13 A	19.52 E	19.45E	21.10 E	20.85E
P/E	15.7x	10.6x		9.8x	

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: \$211.00

Analyst: Elyse Greenspan

Financials

FY (Dec) \$	2023A	2024E	2025E
ESTIMATES			
EPS			
Q1	4.11 A	4.69 A	5.46 E
Q2	0.06 A	4.21 E	4.37 E
Q3	1.95 A	4.22 E	4.38 E
Q4	7.01 A	6.41 E	6.90 E
AN	13.13 A	19.52 E	21.10 E
Rev. (MM)	41,469.0 A	46,689.9 E	50,102.2 E
Net Premiums Written (MM)	40,201.0 A	43,667.4 E	46,156.0 E
Underlying Loss Ratio	61.4% A	59.8% E	60.4% E
Underlying Combined Ratio	89.6% A	88.3% E	88.8% E
Book Value/Share	109.19 A	119.63 E	133.13 E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	13.13 A	18.29 E	20.89 E
Difference from Consensus		6.7%	1.0%

VALUATION

P/E	15.7x	10.6x	9.8x
P/Book Value	1.9x	1.7x	1.6x

EPS: Operating EPS

Rev. (MM): Excludes realized gains/losses

Consensus Estimate: Consensus EPS Estimate; Source: FactSet

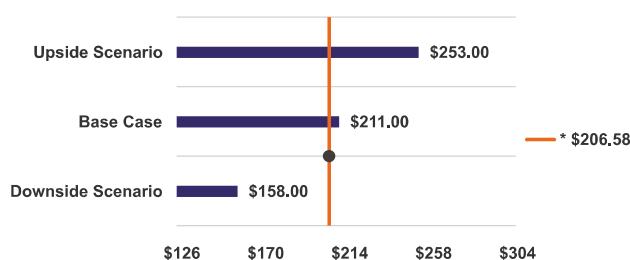
Source: Company Data, Wells Fargo Securities estimates, and Factset.

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 Q1 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 04/17/24

Source: Wells Fargo Securities, LLC estimates and Factset.

Base Case | \$211.00

- Our price target of \$211 is based on just over 10x our 2025 EPS estimate.
- Implies around a ~1.6x multiple of our projected 2025 book value estimate of ~\$133.

Upside Scenario | \$253.00

- Our upside scenario is \$253 and assumes a multiple of ~12x our 2025 EPS estimate and 1.90x our 2025 book value estimate of ~\$133.
- A continued firm commercial pricing environment with no material changes to loss cost trends
- No material reserve builds
- Normal cat loads
- Strong level of buybacks

Downside Scenario | \$158.00

- Our downside scenario is \$158 and is based on 7.5x our 2025 EPS estimate and over 1.19x our 2025 book value estimate of ~\$133.
- Material softening in the RRC, particularly in BI
- Loss cost trends rise, and we see further additions to reserves
- Personal lines margins remain elevated

Upcoming Catalysts

- Commercial pricing survey data** from MarketScout and Ivans to track movement in rate across various commercial lines, including workers' compensation
- Commentary from other peers** around loss cost trends and rate adequacy in lines including commercial and personal insurance lines

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.

What the Companies Are Saying—TRV

Outlook

The company noted that the reserve movements in the quarter, particularly the additions to reserves for their liability lines were pretty small and were to account for uncertainty given the long-tail nature of these lines. They did not want to provide color on which accident years specifically were driving the change (outside of it was limited to the more recent AYs), but they did say they also put a little more IBNR in the current accident year. When asked about the slowing E&S pricing data, the company noted they have a diverse \$2.5b portfolio, and they didn't see any material slowdown in the segments they compete in. The underlying personal auto combined ratio improved 8.5 pts Y/Y in auto due to the benefit of earned pricing and the quarter benefited less than a point from favorable frequency related to the mild winter. The quarter is also typically three points lower than the overall combined ratio for the year but that does not take into account higher earned effective pricing, which should benefit margins as their 12-month policies earn in the higher rates the company has taken.

Highlights of TRV's call included commentary around reserve movements, pricing (in BI and PI), and its underlying margins in auto.

Guidance was given around: (1) fixed income investment income, (2) expense ratio, and (3) personal lines RPC.

Pricing

Within Business Insurance, umbrella, property and auto led the way with RRC in or very close to double-digits. Property was in the double-digits but was down a couple of points sequentially, which they viewed an appropriate move. In workers' comp, RRC was about a 0.5 point more than negative than Q4 2023 although with continued healthy exposure, RPC in comp continues to be positive in the low single-digits. In domestic auto, the RPC of 16.6% was consistent with expectations and given the improving profitability, they expect RPC to moderate through the balance of the year. New business volumes grew in states where they have achieved written rate adequacy. In home, RPC was 13.4%, and they pointed to largely closing the gap in insurance to value, which led to the big sequential decline from the Q4. They expect home RPC to remain at these levels throughout 2024 as they continue to take rate in response to elevated loss costs. The decline in new business and PIF in home is part of their ongoing effort to thoughtfully deploy capacity and manage rate adequacy.

Guidance

Guidance provided by TRV includes:

- **Fixed income/short-term investment guide raised:** TRV updated its guidance for fixed income and short-term investment income for 2024. TRV is now looking for fixed income and short-term investment income to be \$640m in Q2, \$665m in Q3 and \$690m in Q4 vs the previous range of \$630m — \$675m per quarter for 2024.
- **Expense ratio guidance reiterated:** The overall expense ratio should be in the range of 28-28.5% for FY 2024. They did say that the Corvus acquisition should weigh on the expense ratio (within Bond & Specialty) as they have to earn in the premium of the acquired \$200m book.
- **Personal lines RPC guide:** Within **personal auto**, the RPC should decelerate from here as most states are at written price adequacy although they will continue to seek rates on a state-by-state basis. Within **home**, the RPC should remain around these levels for the balance of the year

Investments

Travelers updated its outlook for after-tax investment income from fixed income and short-term investments to range from \$640 million in Q2 2024, \$665m in Q3 and \$690m in Q4. The company reiterated that the change in unrealized investment gains and loss does not impact how they manage their investment portfolio and has little or no impact on their cash flows, statutory surplus or regulatory capital requirements.

Liquidity and Capital

TRV has \$1.6 billion of capital at the holding company (up from \$1.5 billion at the end of 2023) with all of their capital ratios at or better than target levels. TRV has \$5.8B left under its repurchase authorization as of 3/31.

Exhibit 1 - 2024 Guidance Tracker

2024 Guidance Tracker	2024 Outlook		
	Provided With Q3 2023 Earnings	Provided With Q4 2023 Earnings	Provided With Q1 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)
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)
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. Personal Lines: Auto RPC should remain strong but 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.	Business Insurance: No outlook commentary Personal Lines: Auto RPC should remain in the mid-teens through H1, while homeowners' RPC should moderate to the low double-digits in 2024 as their automatic increase in limit factors will return to more normal levels	Business Insurance: No outlook commentary 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.
Investment Income	Fixed Book: Expect 2024 quarterly fixed income investment income to range between \$630-690 million with the full year coming in at more than \$2.6 billion. Alternatives: No outlook commentary	Fixed Book: Expect 2024 quarterly fixed income investment income to range between \$630-675 million Alternatives: No outlook commentary	Fixed Book: Raised 2024 quarterly fixed income investment income to range between \$640m in Q2, \$665m in Q3 and \$690m in Q4 Alternatives: No outlook commentary
Capital Management	No guide	TRV expects buybacks to be around \$250 million in Q1 (vs. VA consensus of \$380m and our previous fcst of \$450m) as the capital strategy is unchanged but balances the need to use capital for growth and the recent Corvus deal.	No guide

Source: Company reports and Wells Fargo Securities, LLC

Highlights of Our Estimate Changes

Overview of our estimate changes. The exhibit below highlights the changes we made to our earnings model following Q1 2024 earnings.

- **2024 EPS goes up to \$19.52 (from \$19.45)** to reflect better underlying margins, particularly in personal lines, higher earned premiums, and higher investment income, mostly offset by a higher cat load and less favorable reserve development.
- **2025 EPS goes up to \$21.10 (from \$20.85)** to reflect better underlying margins, particularly in personal lines, higher earned premiums, and higher investment income, partially offset by a higher cat load and net adverse reserve development.
- **2026 EPS goes up to \$22.85 (from \$22.55)** to reflect better underlying margins, particularly in personal lines, higher earned premiums, and higher investment income, partially offset by a higher cat load and net adverse reserve development.

Exhibit 2 - TRV Summary of Estimate Changes

(\$ in millions, except as noted)	Current Estimates			Prior Estimates		Delta (Absolute)			2024 Outlook Guidance
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	
Gross premiums written	46,497	48,755	51,239	46,038	48,601	51,313	459	154	(75)
% growth (YoY)	8.2%	4.9%	5.1%	7.1%	5.6%	5.6%	1.1%	(0.7%)	(0.5%)
Net premiums written	43,667	46,156	48,519	43,809	46,177	48,682	(141)	(21)	(164)
% growth (YoY)	8.6%	5.7%	5.1%	9.0%	5.4%	5.4%	(0.4%)	0.3%	(0.3%)
Increase in unearned premiums	(1,454)	(959)	(910)	(1,905)	(1,545)	(1,629)	451	586	719
Net premiums earned	42,214	45,197	47,609	41,904	44,632	47,054	310	565	555
% growth (YoY)	11.8%	7.1%	5.3%	11.0%	6.5%	5.4%	0.8%	0.6%	(0.1%)
Net investment income (pre-tax)	3,595	4,000	4,375	3,510	3,913	4,280	85	86	95
Fixed (Incl. SI) income (after-tax)	2,631	2,923	3,202	2,610	2,882	3,156	21	41	46
Fee income	494	544	573	510	539	568	(16)	6	5
Other income	387	361	361	357	357	357	30	4	4
Total revenue	46,690	50,102	52,918	46,281	49,441	52,258	409	661	660
Losses and loss adjustment expenses	27,861	30,052	31,831	27,640	29,718	31,501	220	334	329
Amortization of deferred acquisition costs	7,000	7,481	7,879	6,911	7,382	7,781	90	99	98
General and administrative expenses	5,873	6,283	6,611	5,839	6,185	6,515	34	97	96
Interest expense	392	392	392	392	392	392	0	0	0
Total expenses	41,126	44,208	46,712	40,782	43,677	46,189	344	531	524
Pretax operating income	5,564	5,894	6,206	5,499	5,764	6,069	65	130	136
% growth (YoY)	60.1%	5.9%	5.3%	58.2%	4.8%	5.3%	1.9%	1.1%	(0.0%)
Income tax expense/(benefit)	1,048	1,117	1,168	1,031	1,070	1,119	17	46	49
After-tax core income	4,516	4,777	5,037	4,467	4,694	4,950	49	84	87
% growth (YoY)	47.0%	5.8%	5.4%	45.4%	5.1%	5.5%	1.6%	0.7%	(0.0%)
Company income tax rate (%)	18.8%	18.9%	18.8%	18.8%	18.6%	18.4%	0.1%	0.4%	0.4%
Share repurchases	1,138	1,800	1,800	1,000	1,800	1,800	138	0	0
Weighted average number of diluted shares	230.3	225.4	219.5	228.6	224.2	218.6	1.7	1.3	0.9
Participating share-based awards	21.4	20.0	20.0	20.0	20.0	20.0	1.4	0.0	0.0
Adjusted Operating EPS	\$19.52	\$21.10	\$22.85	\$19.45	\$20.85	\$22.55	\$0.06	\$0.25	\$0.30
Profitability Metrics									
Loss and loss adjustment expense ratio	65.6%	66.0%	66.4%	65.5%	66.1%	66.5%	0.1%	(0.1%)	(0.1%)
Underwriting expense ratio	28.4%	28.4%	28.4%	28.3%	28.3%	28.3%	0.1%	0.1%	0.1%
Combined ratio	94.0%	94.4%	94.8%	93.8%	94.4%	94.8%	0.2%	(0.0%)	(0.0%)
Cat points on the combined ratio	5.8%	5.6%	5.6%	4.9%	5.2%	5.2%	0.9%	0.5%	0.5%
PYD points on the combined ratio	(0.0%)	0.0%	0.0%	(0.1%)	(0.1%)	(0.1%)	0.0%	0.1%	0.1%
Current accident year combined ratio	88.3%	88.8%	89.1%	89.0%	89.4%	89.7%	(0.8%)	(0.6%)	(0.6%)
Underlying loss ratio	59.8%	60.4%	60.8%	60.7%	61.1%	61.4%	(0.9%)	(0.7%)	(0.7%)
Segment Underwriting Income:									
Business Insurance	\$955	\$1,064	\$1,151	\$1,289	\$1,296	\$1,394	(\$334)	(\$232)	(\$243)
Bond & Specialty Insurance	\$662	\$777	\$774	\$667	\$692	\$713	(\$5)	\$85	\$61
Personal Insurance	\$392	\$121	(\$27)	\$104	(\$66)	(\$246)	\$289	\$187	\$219
Book value per share	\$119.63	\$133.13	\$148.40	\$119.82	\$132.73	\$147.48	(\$0.19)	\$0.40	\$0.91
ROE	17.1%	16.7%	16.2%	17.0%	16.5%	16.1%	0.1%	0.2%	0.1%

Source: Company reports and Wells Fargo Securities, LLC estimates

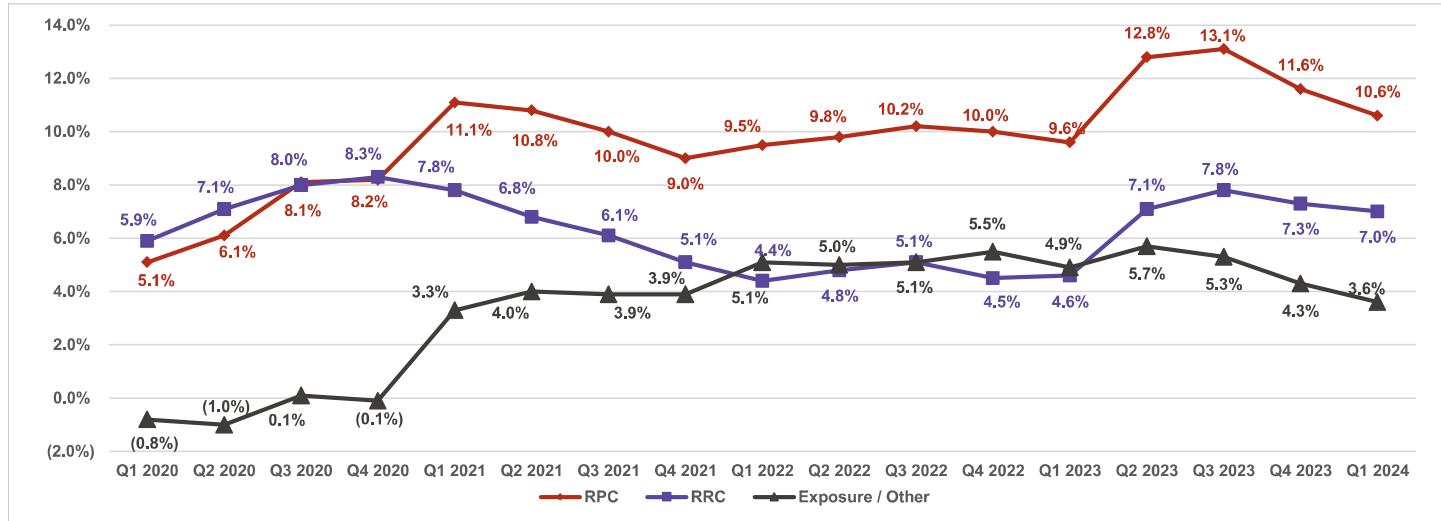
Expecting expense ratio to remain stable at 28-28.5%

Pricing Highlights—Commercial Lines

Business Insurance Rating Environment—RRC Down; Exposure Slows

- In Q1, the **Business Insurance** renewal rate change was +7.0%, a deceleration from the +7.3% in the prior quarter. They did note RRC in their national property book was strong and in the double-digits, but down a couple points sequentially. Umbrella, property and auto all had RRC in or very close to double-digits. Exposure growth was up 3.6%, down from the 4.3% in Q4, but remaining at strong levels. The 10.6% of RPC in Q1 was down from the 11.6% we saw in the prior quarter. 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



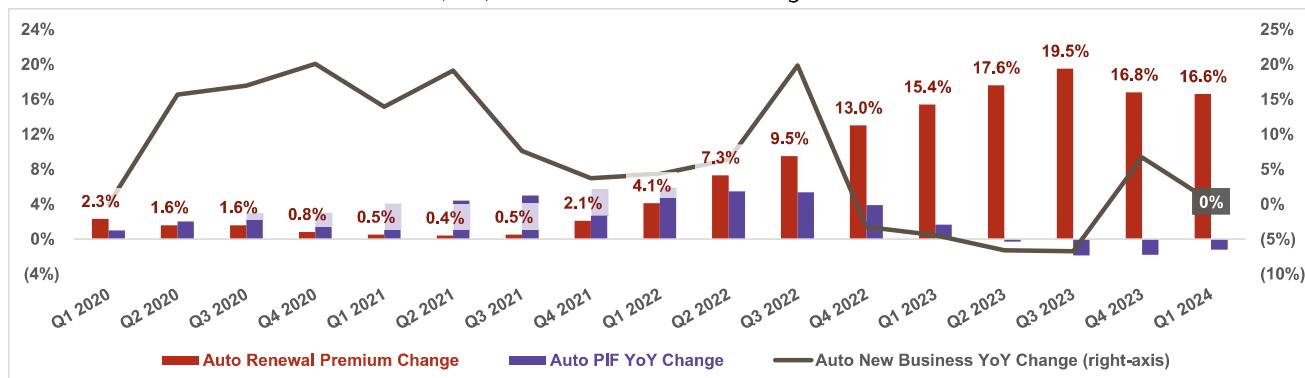
Source: Company data and Wells Fargo Securities, LLC

Pricing Highlights—Personal Lines

Personal Lines—TRV Sees Rate Slow in both Auto and Home as profitability improves

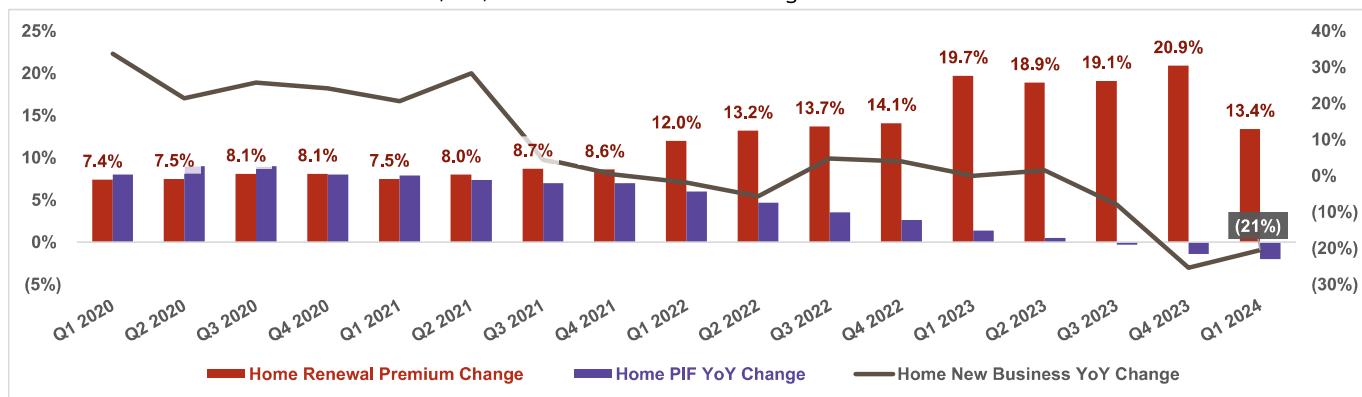
- Within **Personal Auto**, TRV saw renewal premium change decelerate sequentially to 16.6% from 16.8% in the previous quarter and their auto underlying combined ratio dropped below 100% (94.9% in the quarter) for the first time since Q1 2022. The underlying margin was down 7.8% sequentially and down 8.5% Y/Y, but the company noted it did benefit a little under a point from favorable frequency. They expect personal auto RPC to decelerate from here but do not expect a sharp downturn given most of their policies are 12 months. They did point that they have reached written price adequacy in all but a few states.
- Homeowners'** RPC also decelerated sequentially to 13.4% from the record-high 20.9% in Q4. The highlighted the sequential deceleration was mainly driven by less increases on coverage limits on the dwelling (as they saw dramatic increases in property coverage limits in 2022 and 2023 and have now caught up). The underlying combined ratio was 5.1 pts better Y/Y. They expect RPC to remain near these levels for the balance of the year.
- Auto and home PIFs down sequentially.** Travelers' new business in auto was flat Y/Y at \$278 million, after seeing a 7% increase Y/Y last quarter. Auto PIFs were down 40bps sequentially (vs the flat change last quarter). Home new business was down 21% in the quarter (a deceleration from a decline of 25% in Q4). From a PIF standpoint, home was down 90bps, which was a similar sequential change as last quarter.

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

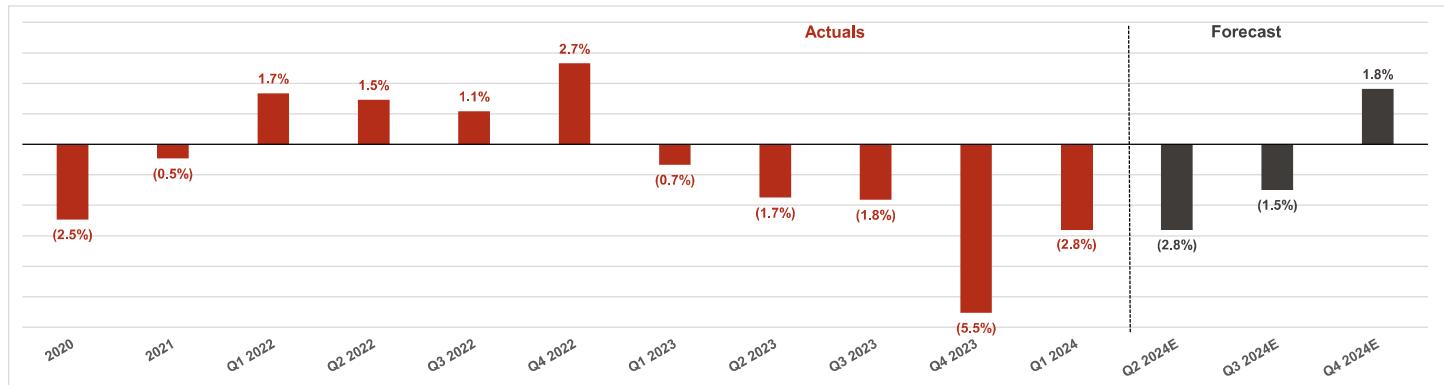
Underlying Margin Tables

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
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%
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%
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%)
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%
Underlying (improvement)/deterioration	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	(0.1%)	0.0%	1.7%	1.5%	1.1%	2.7%	(0.7%)	(1.7%)	(1.8%)	(5.5%)	(2.8%)
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%
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%)
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%
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%

Source: Company reports and Wells Fargo Securities, LLC

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



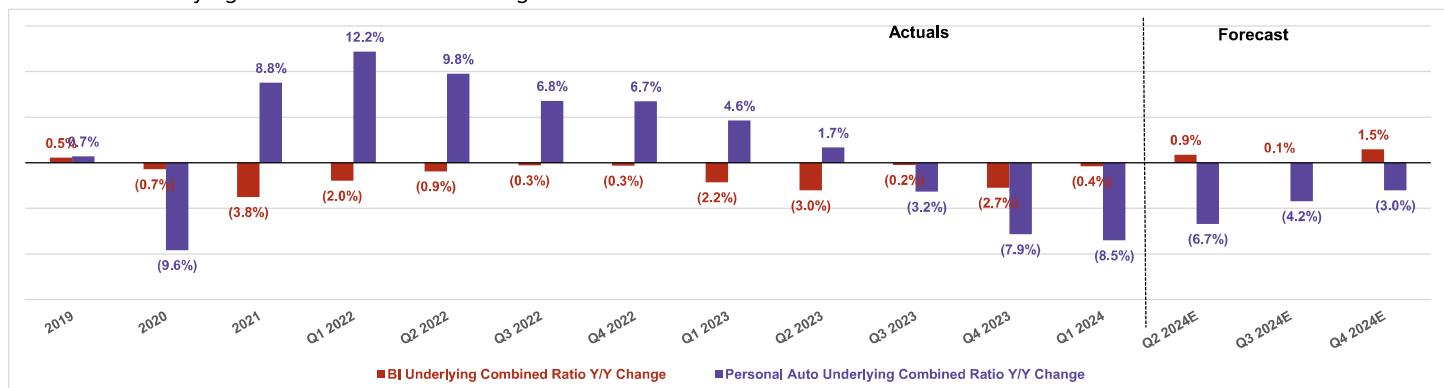
Source: Company Reports and Wells Fargo Securities, LLC Estimates

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
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%	89.4%	89.7%	86.8%	89.2%
Underlying (improvement) deterioration	2.3%	(0.4%)	(1.8%)	(2.8%)	(3.6%)	(3.6%)	(3.8%)	(3.8%)	(2.0%)	(0.9%)	(0.3%)	(0.3%)	(2.2%)	(3.0%)	(0.2%)	(2.7%)	(0.4%)
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%
Underlying (improvement) deterioration	4.6%	7.1%	5.5%	3.7%	(1.5%)	(4.7%)	(5.6%)	(1.7%)	(2.0%)	(1.3%)	(4.9%)	(1.5%)	3.9%	5.7%	2.2%	(1.2%)	0.5%
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%
Underlying (improvement) deterioration	(5.1%)	(10.7%)	(5.3%)	(5.3%)	1.4%	7.0%	6.5%	5.6%	7.4%	5.0%	4.2%	7.5%	0.1%	(2.0%)	(5.1%)	(10.3%)	(6.7%)
<i>Personal Insurance Breakdown:</i>																	
Automobile	90.9%	86.1%	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%
Underlying (improvement) deterioration	(1.2%)	(7.7%)	(11.2%)	(12.2%)	(4.3%)	5.9%	15.5%	16.4%	12.2%	9.8%	6.8%	6.7%	4.6%	1.7%	(3.2%)	(7.9%)	(8.5%)
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%
Underlying (improvement) deterioration	(6.9%)	(10.9%)	3.3%	5.0%	8.4%	7.9%	(3.5%)	(5.1%)	2.8%	0.3%	1.6%	8.8%	(4.2%)	(5.0%)	(6.9%)	(12.5%)	(5.1%)

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. The TRV shares are now trading at 1.88x Q1 2024 book value, which is above its 5-year (1.52x) average, and its 10-year (1.46x) average multiple but below the peak level of 2.11x. The P/B multiple continues to be elevated as reported book value has higher unrealized losses on TRV's investment portfolio vs. historical averages; when excluding unrealized losses (net), shares are currently trading at 1.56x Q1 adjusted book of \$131.67, which is above the 1.38x 5-year average ex AOCI. On a price-to-earnings basis, the shares are trading at 9.8x our 2025 estimate versus the 5-year average and 10-year average of 11.6x and the 5-year and 10-year peak of 14.2x.

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

Exhibit 12 - TRV Consolidated Earnings Model

	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023	Q1 2024	Q2 2024	Q3 2024E	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E
(\$ in millions, except as noted)																					
Summary																					
Business Insurance																					
Bond & Specialty Insurance	3,068	713	485	569	1,184	2,951	934	884	787	1,171	3,776	1,045	958	887	1,124	1,034	996	1,138	1,034	4,493	
Personal Insurance	1,103	248	289	331	1,170	240	233	290	192	267	1,147	306	283	290	1,224	1,250	325	330	304	1,261	
Other	58	58	(265)	652	(231)	267	192	229	192	101	117	315	79	115	448	558	298	20	66	497	
Adjusted Pre-Tax Operating Income	1,382	571	1122	1,098	1,102	1,141	1,053	1,051													
Tax Rate	15.7%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%	
Taxes	(560)	48	28	(83)	15	453	3072	1,096	975	974	1,472	4,416	1,252	994	989	1,544	4,777	1,310	1,045	1,059	5,037
Adjusted After-Tax Operating Income	\$12.42	\$4.11	\$0.06	\$1.95	\$7.01	\$14.13	\$4.69	\$4.21	\$4.22	\$6.11	\$19.52	\$4.46	\$4.37	\$4.38	\$6.90	\$14.10	\$5.86	\$4.62	\$4.76	\$7.61	\$23.95
Adjusted Operating EPS	\$0.12	\$0.04	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
YoY Change in Adjusted After-Tax Operating Income	(10.9%)	(2.8%)	(107.7%)	(115.5%)	(106.3%)	(11.5%)	(107.7%)	(115.5%)	(106.3%)	(107.7%)	(115.5%)										
Consensus EPS																					
WFS Estimate Versus Consensus																					
Premiums																					
YoY Change in Gross Premiums Written																					
Investment Income (Pre-Tax)																					
Fixed Maturities Pre-Tax Annualized Yield	2,113	575	591	631	675	2,472	692	720	748	774	2,934	799	823	847	871	918	941	964	3,717		
Alternatives	2.8%	3.2%	3.5%	3.6%	3.6%	3.2%	3.6%	3.6%	3.6%	3.7%	3.8%	3.6%	3.9%	3.9%	4.1%	4.1%	4.2%	4.2%	4.2%	4.2%	
Alternatives Pre-Tax Annualized Yield	419	53	78	82	40	253	98	120	122	125	484	127	130	132	135	523	137	140	143	146	567
Short-Term Securities	7.3%	3.6%	5.3%	5.6%	7.2%	4.3%	6.5%	8.0%	8.0%	8.0%	7.8%	8.0%	8.0%	8.0%	8.0%	8.2%	8.2%	8.3%	8.3%	8.2%	
Investment Expenses	73	47	55	67	72	241	60	60	60	60	50	50	50	50	50	40	40	40	40	40	
Total Pre-Tax Net Investment Income	2,562	663	712	769	778	2,922	846	886	915	948	3,895	961	987	1,013	1,039	4,000	10,55	1,107	1,132	4,375	
Margins																					
Loss Ratio	67.2%	66.7%	77.9%	73.0%	68.4%	69.0%	65.2%	67.1%	67.7%	67.7%	62.3%	65.6%	64.7%	68.1%	68.6%	66.0%	65.2%	68.7%	68.0%	62.8%	
Expense Ratio	28.5%	28.7%	28.6%	28.0%	28.4%	28.0%	28.2%	28.2%	28.3%	28.3%	28.4%	28.4%	28.4%	28.4%	28.4%	28.5%	28.5%	28.5%	28.5%	28.4%	
Combined Ratio	95.8%	95.4%	106.5%	101.0%	95.8%	97.2%	93.9%	95.7%	96.0%	96.0%	90.4%	93.0%	94.0%	93.0%	93.0%	94.4%	93.8%	97.2%	90.9%	94.8%	
YoY Change in Combined Ratio (Favorable)																					
Catastrophe Losses																					
Points on Combined Ratio	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%	
Reserve Development	5.6%	6.0%	16.1%	8.7%	1.3%	7.9%	7.0%	7.8%	7.8%	7.8%	5.1%	5.4%	8.0%	6.0%	6.0%	5.6%	5.6%	5.6%	5.6%	5.6%	
Adjusted Margins	(549)	(105)	(60)	(12)	(154)	(12)	(12)	(143)	(143)	(143)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	0	
Underlying Loss Ratio	63.6%	61.8%	62.5%	62.7%	58.5%	61.4%	59.1%	59.7%	60.9%	59.5%	56.8%	60.4%	61.3%	60.0%	60.4%	60.2%	61.1%	61.9%	60.9%	60.8%	
Underlying Combined Ratio	92.1%	90.5%	91.1%	90.7%	85.9%	87.8%	88.3%	89.2%	87.1%	87.1%	88.3%	88.3%	88.3%	88.3%	88.3%	88.8%	88.8%	89.6%	89.1%	89.1%	
YoY Change in Loss Ratio (Favorable)	2.7%	(0.4%)	(1.3%)	(1.7%)	(5.5%)	(1.7%)	(2.8%)	(2.8%)	(2.8%)	(2.8%)	(1.8%)	(1.8%)	(1.8%)	(1.8%)	(1.8%)	0.5%	0.5%	0.6%	0.4%	0.4%	
YoY Change in Combined Ratio (Favorable)	1.9%	(0.7%)	(1.7%)	(1.8%)	(2.5%)	(1.8%)	(2.8%)	(2.8%)	(2.8%)	(2.8%)	(1.5%)	(1.5%)	(1.5%)	(1.5%)	(1.5%)	0.4%	0.4%	0.5%	0.4%	0.4%	
Book Value and Return on Equity																					
GAAP Book Value per Share	\$92.90	\$99.80	\$95.46	\$87.47	\$8.5%	\$109.19	\$109.19	\$109.28	\$111.97	\$111.97	\$119.63	\$123.23	\$123.23	\$123.23	\$123.23	\$133.13	\$137.15	\$139.82	\$142.63	\$148.40	
Operating Return on Equity	11.7%	17.1%	0.2%	8.5%	28.5%	13.0%	17.2%	15.2%	14.9%	21.9%	17.1%	18.0%	14.1%	13.8%	14.1%	16.7%	17.4%	13.4%	13.5%	20.9%	
Share Count	232.1	231.0	228.9	228.4	228.2	229.0	227.8	226.6	225.5	225.5	223.5	221.5	219.6	217.7	217.7	214.0	212.2	210.5	210.5		
Funding Common Shares	239.7	234.4	229.7	231.1	232.2	232.0	230.6	230.6	229.7	229.8	227.3	226.3	224.6	223.0	223.4	216.8	216.8	217.3	219.5		
Weighted Average Diluted Shares																					
Capital Return to Shareholders																					
Common Dividends	881	218	232	232	915	232	240	239	238	238	237	246	244	242	242	248	248	246	246		
Share Repurchases	2,051	452	400	101	66	333	288	1,944	620	488	488	687	696	694	692	698	696	696	696		
Total Capital Returned	2,942	680	633	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029	1,029		
Total Payout Ratio (% of Operating Income)	98.1%	70.1%	4,220.0%	73.5%	63.3%	50.3%	56.6%	50.2%	33.2%	46.2%	54.9%	70.1%	44.8%	58.0%	52.7%	68.4%	41.9%	55.3%	55.3%		
Equity Rollforward and Leverage																					
Beginning GAAP Equity	28,887	21,960	23,052	21,855	19,978	21,560	25,022	25,506	25,991	24,921	21,627	21,123	21,252	21,543	21,975	21,933	21,130	1,045	28,983		
Net Income	2,843	975	143	403	(232)	(441)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	5,037		
Common Dividends	(881)	(218)	(233)	(400)	(492)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)		
Share Repurchases	(2,051)	(452)	(400)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)	(101)		
Change in AOCI	(7,638)	(1,059)	(623)	(2,003)	(3,541)	(1,974)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)	(2,584)		
Other	410	138	73	552	24,921	25,022	25,506	25,991	26,975	26,975	26,975	26,975	26,975	26,975	26,975	26,975	26,975	26,975	26,975		
Ending GAAP Equity	21,960	24,052	21,385	19,978	21,921	22,091	22,272	22,311	22,311	22,311	22,311	22,311	22,311	22,311	22,311	22,311	22,311	22,311	22,311		
Debt Capital	25.3%	24.0%	25.0%	26.7%	22.6%	22.6%	22.6%	22.6%	22.6%	22.6%	22.6%	21.3%	21.3%	21.3%	21.3%	21.3%	21.3%	21.3%	21.3%	21.3%	

Source: Company Reports, Factset and Wells Fargo Securities, LLC 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 Q1 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: \$211.00 from NC

- Our price target of \$211 is based on just over 10x our 2025 EPS estimate.
- Implies around a ~1.6x multiple of our projected 2025 book value estimate of ~\$133.

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, and a rise in D&O claims, while risks to the upside include stronger premium growth and reported / underlying margins coming in better than expected.

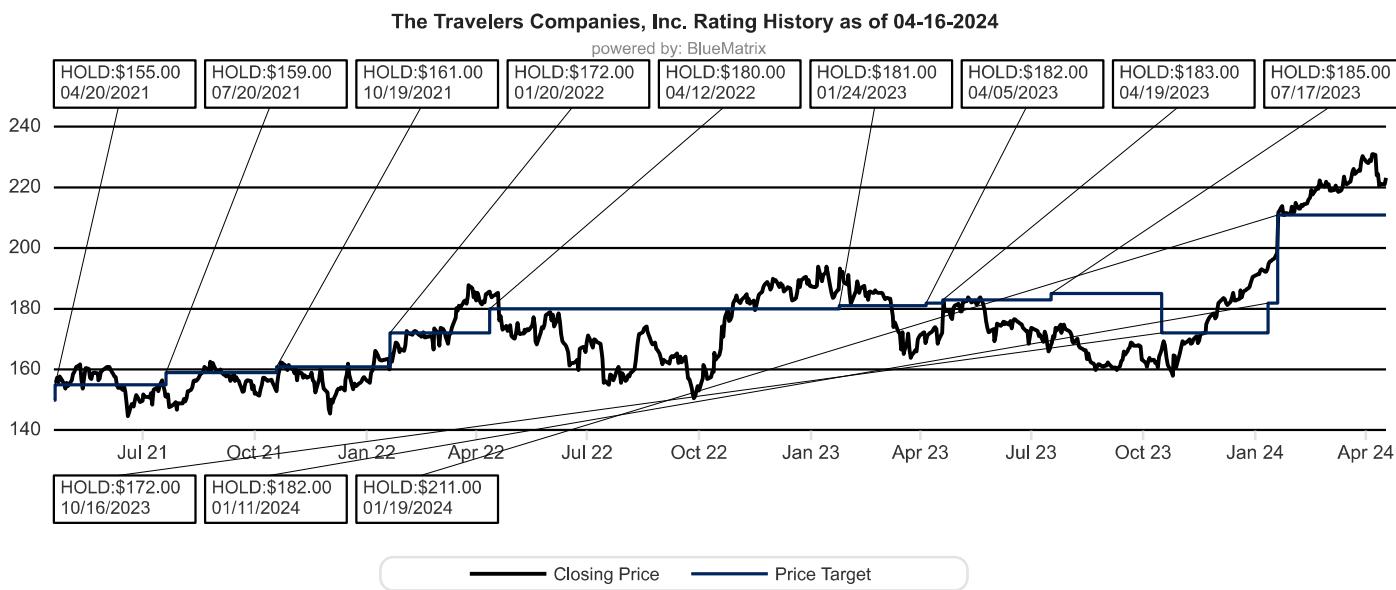
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I, Elyse Greenspan, certify that:

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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.

As of April 16, 2024

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