

Allstate Corp.

2Q22 Review: Rising Loss Trends

ALL is committed to accelerating rate increases, not only to remediate, but to offset future loss cost increases by undertaking underwriting restrictions in underperforming states and reducing advertising spend. Geography matters.

ALL is foreshadowing higher loss costs on the horizon, inclusion of inflationary impacts on severity or higher frequency. As such, ALL anticipates future cost trends will pressure the combined ratio, increasing the urgency of prospective rate increases exceeding expected loss cost trend.

We think personal auto is becoming more of a medium tail line from short tail. ALL's personal auto \$275mn of adverse PYD in 2Q22 reflected the lag period between claims reported in 2021 and settled in 2022. One year later, when claims were settled, ALL saw higher claims costs from increased vehicle values, parts and labor costs. ALL is emphatic that it is adequately staffed in its claims department, despite organizational updates per its transformative growth plan. Earlier in the week, when we asked PGR a question on combating claims delays from subrogation, the company cited its claims staff capabilities as a mitigant.

ALL is leveraging its economies of scale to reduce inflationary costs, including becoming one of the industry's largest buyers of materials across auto (i.e. parts) and homeowners (i.e. roofing).

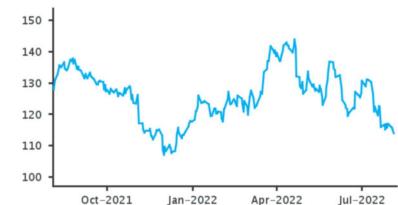
Geography matters; we compare ALL's pricing achievements and severity trends by state (later in note). Bottom line, we think despite best efforts the challenge to revert back to 2019 profitability will depend to some degree on the political landscape in certain states like CA. Reducing or even stopping writing new business in CA, as an example, may not be enough. We recognize that insurers cannot non-renew >10% of inforce in CA per year. CA represents 12% of ALL's insurance premiums.

| CORE

ALL	EQUAL WEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 120.00
	lowered -2% from USD 123.00
Price (04-Aug-22)	USD 113.92
Potential Upside/Downside	+5.3%
Market Cap (USD mn)	30792
Shares Outstanding (mn)	270.30
Free Float (%)	97.96
52 Wk Avg Daily Volume (mn)	2.0
Dividend Yield (%)	2.98
Return on Equity TTM (%)	4.00
Current BVPS (USD)	66.75

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 144.46-106.11



Source: IDC

[Link to Barclays Live for interactive charting](#)

U.S. Insurance/Non-Life

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ALL: Quarterly and Annual EPS (USD)

	2021	2022			2023			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2022	2023
Q1	6.11A	2.58A	2.58A	2.58A	2.95E	2.96E	3.31E	-58%	15%
Q2	3.79A	-0.56E	-0.76E	-1.29E	1.43E	1.42E	1.76E	N/A	287%
Q3	0.73A	1.03E	0.95E	0.83E	2.28E	2.27E	2.55E	30%	139%
Q4	2.75A	2.89E	2.88E	2.95E	3.95E	3.94E	4.24E	5%	37%
Year	13.48A	5.90E	5.66E	5.72E	10.59E	10.57E	12.11E	-58%	87%
P/E	8.4		20.1			10.8			

Consensus numbers are from Bloomberg received on 04-Aug-2022; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Allstate Corp. (ALL)						EQUAL WEIGHT	
Income statement (\$mn)	2021A	2022E	2023E	2024E	CAGR	Price (04-Aug-2022)	USD 113.92
Net premiums earned	42,218	44,790	46,631	48,446	4.7%	Price Target	USD 120.00
Net investment income (NII)	3,293	2,402	2,391	2,444	-9.5%	Why EQUAL WEIGHT?	
Underwriting income	1,665	-666	666	1,754	1.8%	ALL's fundamentals are strong and we look forward to seeing progress on its transformative growth plan. However, pricing correction actions may stall ALL's progress in actualizing stronger PIF growth.	
Operating income	4,033	1,559	2,752	3,686	-3.0%		
Net income	1,485	460	2,461	3,460	32.6%		
Effective tax rate (%)	20.0	16.2	21.0	21.0	1.7%		
Combined ratio (%)	95.9	101.6	98.5	96.1	0.1%		
Combined ratio (ex cats & py development) (%)	86.4	93.0	89.4	87.0	0.2%		
Per share data (\$)	2021A	2022E	2023E	2024E	CAGR	Upside case	USD 135.00
EPS (adj)	13.48	5.66	10.57	14.85	3.3%	Loss cost trends abate, returning to 2019 baseline levels. Successful execution of Allstate's transformational growth plans via efficiency gains that is translated to strong PIF growth, particularly in auto. Our upside case of \$135 assumes ~1.8x our '23 BVPS ex AOCI estimate.	
EPS (reported)	4.96	1.67	9.46	13.94	41.1%		
DPS	3.24	3.40	3.57	3.75	5.0%		
BVPS	80.39	64.59	67.31	74.86	-2.3%		
BVPS (ex AOCI)	78.24	71.90	75.29	83.18	2.1%		
Balance sheet and capital return (\$mn)	2021A	2022E	2023E	2024E	CAGR	Downside case	USD 100.00
Total investments	64,701	69,369	74,782	76,779	5.9%	Steeper acceleration of loss cost trends, particularly on the severity side. Prolonged period of achieving approvals from regulators with respect to requested rate increases. Our downside case of \$100 assumes ~10x our '23 EPS estimates	
Common shareholders' equity (ex AOCI)	22,611	19,448	19,243	20,286	-3.6%		
Share buybacks	3,260	2,727	1,750	1,500	-22.8%		
Dividends paid	955	927	916	917	-1.4%		
Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average	Upside/Downside scenarios	
Debt leverage (%)	23.9	29.0	27.2	26.1	26.5		
Financial leverage (%)	30.6	37.1	35.6	34.3	34.4		
Total capital return as a % of op. earnings	104.5	234.3	96.9	65.6	125.3		
Valuation metrics	2021A	2022E	2023E	2024E	Average		
P/BV (ex AOCI) (x)	1.46	1.58	1.51	1.37	1.48		
P/E (adj) (x)	8.4	20.1	10.8	7.7	11.8		
Dividend yield (%)	2.8	3.0	3.1	3.3	3.1		
ROE (%)	16.9	7.4	14.2	18.6	14.3		

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

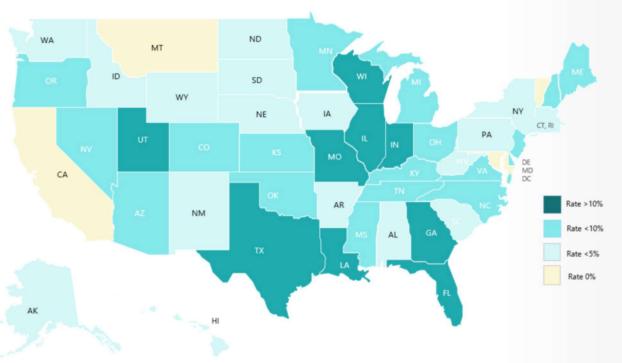


Pricing Trend vs. Severity Trend by State

States ALL achieved >10% rate increases include: FL, TX, UT, LA, GA, MO, IL, WI, and IN. ALL called out NY, as that state represents 9% of premiums, while it achieved <5% rate increases in the state, it needs more. CA also appears worrisome.

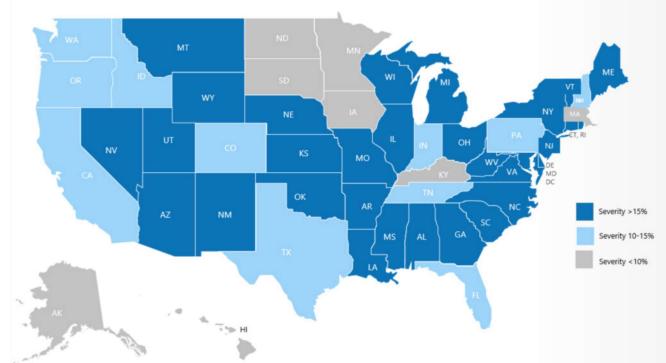
We are comparing ALL's rate achievement by state to severity by state (ALL shared in 1Q22) to put rate adequacy into perspective. For instance, NY severity trends are >15% yet ALL has not had a lot of traction pushing rate increases, with <5% from Q1 2022 through Q2 2022. NY represents 9% of ALL's premiums. ALL plans to take additional rate actions to offset loss cost trends, including expectations of future loss costs.

FIGURE 1. Implemented rate increases by State



Allstate brand auto implemented rate from Q1 2022 through Q2 2022
Source: Company Reports, Barclays Research

FIGURE 2. Auto property damage (incurred severity) 2022 report year



Allstate brand excluding Esurance and Canada
Source: Company Reports, Barclays Research

ALL's Geographic Focus: Slight Bias to Higher Severity States

ALL's premium orientation is slightly more dominant in states seeing >15% severity (53% of premiums vs. industry 50%), followed by states seeing 10-15% severity (44% of premiums vs. industry 43%).

FIGURE 3. ALL vs. Industry Geographic Focus - Sorted by High, Medium and Lower Severity States

2021 Auto DPW	Allstate	Industry
States Severity >15%	53%	50%
States Severity 10-15%	44%	43%
States Severity <10%	3%	7%

LOBS Rollup: Personal Auto Liability, Personal Auto Physical Damage by state. See Figure 1 for allocation of high, medium and lower severity states. Note, BARC comared all ALL auto premiums (FY 2021); not limited to Allstate brand.
Source: Barclays Research, S&P Capital IQ Pro

Auto Loss trends:

- Incurred severity for collision, property damage and bodily injury coverages increases of 22%, 22% and 16%, respectively, Q2 year over year.
- Higher physical damage loss development for months 13-18.
- While frequency remains below pre-pandemic levels, on a y/y basis property damage and collision gross claim frequency is up by 7.1% and 5.1%, respectively. No mention of higher gas prices on miles driven.

2Q22 Highlights

Key Results

ALL's 2Q22 Operating EPS of (\$0.76) was worse than our (\$0.56) estimate but better than the (\$1.29) consensus street estimate. We had expected higher NII. Buybacks of \$683mn beat our estimate of \$625mn.

PIF Growth

- ALL auto brand PIF flattish
- NatGen auto PIF +14%

Underwriting details: ALL delivered a 2Q Property-Liability underlying combined ratio of 93.4%. **ALL's underlying loss ratio of 70.9% increased relative to 1Q22 of 67.4%.** ALL's 2Q underlying expense ratio of 22.5% was down q/q from 23.5% in 1Q22.

Prior year reserve strengthening of \$411mn most evident within personal auto insurance. ALL's reported 107.9% auto combined ratio was impacted by 3.8 pts of adverse PYD. Auto underlying loss ratio rose to 79.6% in 2Q22 vs. 74.9% in 1Q22 .

2Q Variance

FIGURE 4. 2Q22 Variance

Summary (In \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	2Q22A	1Q22	% Change	2Q21	% Change	2Q22E	% Var.
Consolidated revenues	\$12,220	\$12,337	-0.9%	\$12,646	-3.4%	\$12,916	-5.4%
Net Investment Income	\$562	\$594	-5.4%	\$974	-42.3%	\$572	-1.8%
Net income applicable to common	(1,042)	630	-265.4%	1,595	165.3%	(242)	329.7%
Net income applicable to common per dil common share	(\$0.76)	\$2.24	-134.0%	\$5.26	114.5%	(\$0.86)	-11.9%
Adjusted net income	(209)	726	-128.8%	1,149	-118.2%	(157)	32.7%
Adjusted net income per diluted common share	(\$0.76)	\$2.58	-129.5%	\$3.79	-120.1%	(\$0.56)	35.6%
Book value per common share	\$66.15	\$75.95	-12.9%	\$86.33	-23.4%	\$73.26	-9.7%
Share repurchases	\$683	\$794	-14.0%	\$559	22.2%	\$625	9.3%
P-L Combined Ratio							
Recorded	107.9%	97.3%	1057 bps	95.7%	1219 bps	107.9%	(3 bps)
Underlying	93.4%	90.4%	301 bps	85.7%	770 bps	93.4%	1 bps
P-L insurance premiums earned	\$10,874	\$10,498	3.6%	\$10,009	8.6%	\$10,742	1.2%
Cat losses	1,108	528	109.8%	952	16.4%	1,110	-0.2%

Source: Barclays Research, Company Reports

FIGURE 5. 2Q22 Variance Con't

Segment Details (In \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	2Q22A	1Q22	% Change	2Q21	% Change	2Q22E	% Var.
Property-Liability Results							
Premiums written	\$11,509	\$10,761	7.0%	\$10,323	11.5%	\$10,899	5.6%
Underwriting income	(864)	280	-408.6%	429	-301.4%	(852)	1.5%
Recorded Combined Ratio	107.9%	97.3%	1057 bps	95.7%	1219 bps	107.9%	(3 bps)
Auto	107.9%	102.1%	580 bps	94.3%	1360 bps	107.9%	(1 bps)
Home	106.9%	84.2%	2270 bps	100.3%	660 bps	106.9%	2 bps
Underlying Combined Ratio	93.4%	90.4%	301 bps	85.7%	770 bps	93.4%	1 bps
Auto	102.1%	98.8%	330 bps	91.8%	1030 bps	102.1%	0 bps
Home	70.3%	69.0%	130 bps	69.5%	80 bps	70.0%	33 bps
Allstate Health and Benefits							
Premiums and contract charges	\$466	\$469	-0.6%	\$447	4.3%	\$474	-1.7%
Adjusted Net Income (Loss)	\$65	45	44.4%	62	4.8%	\$56	16.5%
Allstate Protection Services							
Revenues	\$629	627	0.3%	581	8.3%	\$656	-4.1%
Adjusted Net Income (Loss)	\$43	53	-18.9%	56	-23.2%	\$56	-22.6%

Source: Barclays Research, Company Reports

Valuation

Our Equal Weight rating and \$120 price target (down from \$123) are based on a 50/50 weighted average of ~12x our 2023 EPS estimates of \$10.57 (from \$10.59) and 1.5x our YE23 book value per share ex AOCI estimates of \$75.3 (from \$78.9). We look forward to seeing progress on ALL's transformative growth plan. We would be more constructive on the stock when ALL shows signs of PIF growth while returning to mid 90% auto combined ratio. We think that scenario is more likely when adverse loss cost trends meaningfully abate.

Model Summary

FIGURE 6. Model Summary

(\$ In Mil, except per share)	2020	2021	2022E	2023E	2024E
P&C insurance premiums	\$37,073	\$42,218	\$44,790	\$46,631	\$48,446
A&H premiums and contract charges	\$1,094	\$1,821	\$1,886	\$1,962	\$2,031
Other revenue	\$1,065	\$2,172	\$2,241	\$2,316	\$2,364
Net investment income	\$1,590	\$3,293	\$2,402	\$2,391	\$2,444
Realized capital gains (losses)	\$1,087	\$1,084	(\$1,000)	\$0	\$0
Total revenues	\$41,909	\$50,588	\$50,319	\$53,300	\$55,286
P&C insurance claims and expenses	22,001	29,318	33,712	33,847	34,105
Shelter in Place payback expense	948	29	-	-	-
A&H policy benefits	516	1,015	1,061	997	1,024
Interest credited to contractholder funds	33	34	-	-	-
Operating costs/expenses & amortization of DAC	10,971	13,512	14,190	14,603	15,114
Pension and other post retirement remeasurement (gains) losses	(51)	(644)	12	-	-
Restructuring and related charges	253	170	13	-	-
Amortization of purchased intangibles	118	376	344	291	226
Interest expense	318	330	332	310	300
Total costs and expenses	35,107	44,140	49,664	50,048	50,769
Consolidated Adjusted net income	4,510	4,033	1,559	2,752	3,686
Effective tax rate	20.2%	20.0%	16.2%	21.0%	21.0%
Per share earnings data					
Adjusted net income per diluted common share	\$14.29	\$13.48	\$5.66	\$10.57	\$14.85

Share information

Average diluted shares outstanding	315.5	299.2	275.4	260.3	248.3
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Source: Barclays Research, Company Reports

FIGURE 7. Model Summary Con't

(\$ In Mil, except per share)	2020	2021	2022E	2023E	2024E
Net premiums written (y/y % growth)	0.9%	15.7%	7.7%	3.2%	3.0%
Net premiums earned (y/y% change)	2.8%	13.9%	6.1%	4.1%	3.9%
<u>Underwriting ratios</u>					
Claims and claims expense ratio	60.8%	71.4%	77.8%	75.5%	73.6%
Expense ratio	26.8%	24.5%	23.8%	23.0%	22.6%
Combined ratio	87.6%	95.9%	101.6%	98.5%	96.1%
Underlying loss ratio	52.7%	62.5%	69.7%	66.8%	64.9%
Pre-tax cat. losses	2,811	3,339	2,764	3,704	3,817
Catastrophe points	7.9%	8.3%	6.5%	8.4%	8.4%
Pre-tax prior year development	60	267	679	128	133
Underlying combined ratio	79.4%	86.4%	93.0%	89.4%	87.0%
<u>Shareholders' equity and returns</u>					
Ending Common Shareholders' equity	28,247	23,209	17,310	17,105	18,148
Fully diluted book value per share	\$90.5	\$80.4	\$64.6	\$67.3	\$74.9
Adjusted net income return on equity	19.2%	16.9%	7.4%	14.2%	18.6%
<u>Capital deployment</u>					
Assumed Repurchase Price Per Share	\$98	\$124	\$124	\$126	\$128
# of shares repurchased (in mn)	17.4	26.3	21.9	13.9	11.7
Shares Repurchases	1,700	3,260	2,727	1,750	1,500
Dividends per share	\$2.16	\$3.24	\$3.40	\$3.57	\$3.75
Total \$ Amount of Dividends	\$673	\$955	\$927	\$916	\$917
Total capital return	\$2,373	\$4,215	\$3,654	\$2,666	\$2,417
Total capital return, % op. earnings	53%	105%	234%	97%	66%
<u>Investment income</u>					
Net investment income	\$2,322	\$3,293	\$2,366	\$2,319	\$2,372
Total Investments	\$94,237	\$64,701	\$69,369	\$74,782	\$76,779

Source: Barclays Research, Company Reports

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

Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

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

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

U.S. Insurance/Non-Life

AIG, Inc. (AIG)	Allstate Corp. (ALL)	Arch Capital Group Ltd. (ACGL)
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Palomar Holdings, Inc. (PLMR)	Progressive Corp. (PGR)	Root Inc. (ROOT)
Ryan Specialty Group Holdings (RYAN)	The Hartford Financial Services Group, Inc. (HIG)	The Travelers Companies, Inc. (TRV)

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To see a list of companies that comprise a particular industry coverage universe, please go to <https://publicresearch.barclays.com>.

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Allstate Corp. (ALL / ALL)

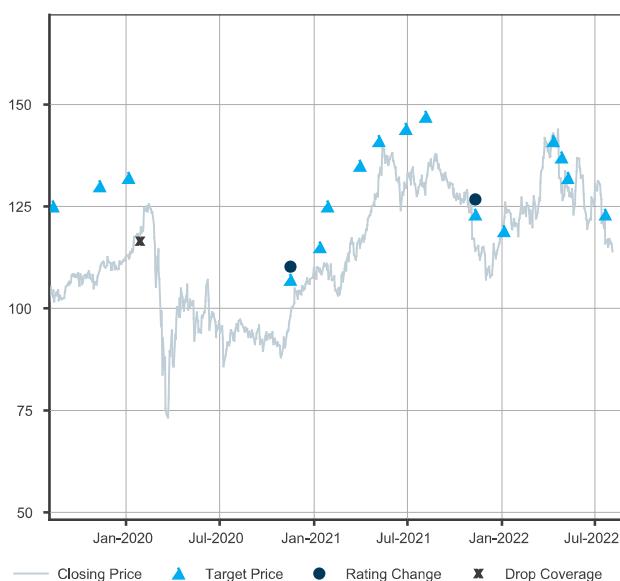
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

USD 113.92 (04-Aug-2022)

Rating and Price Target Chart - USD (as of 04-Aug-2022)

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
21-Jul-2022	122.34		123.00
09-May-2022	130.56		132.00
27-Apr-2022	128.98		137.00
11-Apr-2022	141.93		141.00
05-Jan-2022	121.13		119.00
10-Nov-2021	114.11	Equal Weight	123.00
06-Aug-2021	130.82		147.00
28-Jun-2021	129.75		144.00
07-May-2021	132.26		141.00
31-Mar-2021	114.90		135.00
27-Jan-2021	110.51		125.00
12-Jan-2021	109.78		115.00
16-Nov-2020	98.06	Overweight	107.00
22-Jan-2020	117.65	Coverage Dropped	
06-Jan-2020	112.83		132.00
11-Nov-2019	108.19		130.00
12-Aug-2019	102.85		125.00

On 05-Aug-2019, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 115.00.

Source: Bloomberg, Barclays Research

*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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Valuation Methodology: Our \$120 price target is based on a 50/50 weighted average of ~12x our 2023 EPS and 1.5x our YE23 book value per share ex AOCI.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Steeper acceleration of loss cost trends, particularly on the severity side, which would pressure the company's margins. A prolonged period of low interest rates will likely pressure net investment income. Allstate has substantial exposure to natural catastrophe losses, stemming from its large homeowners insurance business. Despite the acquisition being relatively small, integration of National General could be challenging and lead to execution risk in combining business units under one operational model.

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