

Equity Research

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Price Target Change — January 20, 2022

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Pricing Discussion Sends Shares Higher; Conference Call Round-Up

Our Call

Summary. TRV hosted a conference call on 1/20 to discuss Q4 results. The call focused on pricing, underlying trends within its businesses, and its expectations for taking price within personal auto. Our 2022 EPS is unchanged at \$12.20, while 2023 goes to \$13.65 (from \$13.00), reflecting adjustments to our NII, premium, margin, and tax rate assumptions. 2022 stayed unchanged as we modeled weaker margins in personal auto following the Q4 result. We are also rolling out an initial \$15.10 EPS estimate for 2024. Our price target rises to \$172 (from \$161) and is based on 1.28x our 2023E book value. TRV [\$165.18] got a lift from earnings coming in above expectations, as well as the company pointing to earned price continuing to exceed loss trend for some time. We had perhaps expected the slowdown in earned rate versus loss trend (which went to 1.5 points from 2.0 points this quarter) to temper the price performance, but that didn't seem to be the case.

- TRV leaves many tea leaves for the rest of earnings**—including: **(1)** commercial lines pricing slowed (as shown within its renewal rate within BI), which was expected, but TRV still expects earned rate to stay on top of loss trend for some time; **(2)** exposure growth was 4.0%, which was the strongest levels TRV has seen as serves as a good sign for the insurance brokers (on top of the good print from [TFC earlier this week](#)); **(3)** within its personal auto book TRV will continue look to take rate over the coming quarters, and saw the weakest margin that it has seen since Q4 2017, which is a negative lateral for the other auto insurers; and **(4)** it was a strong investment income quarter, driven by alt investments.
- Pricing and loss trend discussion.** TRV was positive on commercial lines pricing and pointed to price remaining above loss trend for some time. In making this comment, TRV is looking at price through the RPC, which consists of RRC (+5.2% in Q4) and exposure (+4%). Travelers saw 150bps of rate over loss trend earn into its margins in the Q4, which decelerated from 200bps over the other three quarters of 2021, and our expectation is that it will continue to decelerate from here even as rate exceeds loss trend. TRV continues to assume around 5% loss trend within BI, which has not changed since Q2 2020.
- Personal lines color unchanged.** TRV said it will look to continue to take rate in personal auto (with 11 rate increases effective since August, and another 25 earmarked for Q1), while Q4 was a strong result in homeowners' that would not necessarily expect to continue (especially as it deals with elevated weather and non-weather losses, and realize that Q4 is seasonally the best quarter for property business). The RPC in auto was only 1.2% in Q4 as TRV has only taken rate in about 20% of its book.
- Aggregate color.** TRV placed its aggregate reinsurance cover for 2022 at January 1. The company took up the per event deductible and is also ceding fewer losses to the reinsurers — it placed 45% of the coverage layer (as compared to 70% in 2022) of \$500 million of losses above a \$2 billion retention. We believe the changes in the treaty do point to price increases that the market saw during the recent renewal season.
- Other guidance.** TRV upped its investment income guide by \$10 million a quarter in 2022 as growth in its invested assets will be partially offset by a lower average yield on the portfolio given the low interest rate environment. The company also pointed to an expense ratio in the mid-29s in the near term and then trending down to around 29% (prior estimates for expense ratios was 29.2% in 2022 and 2023).

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$172.00/\$161.00
Upside/(Downside) to Target	4.1%
Price (01/20/2022)	\$165.18
52 Week Range	\$135.87 - 168.31
Shares Outstanding	246,008,687
Market Cap (MM)	\$40,636
Enterprise Value (MM)	\$47,108
Average Daily Volume	1,354,638
Average Daily Value (MM)	\$224
Dividend (NTM)	\$3.61
Dividend Yield	2.2%
Net Debt (MM) - last reported	\$6,472
ROIC - Current year est.	10%
3 Yr EPS CAGR from current year (unless otherwise noted)	3%

\$ EPS	2020A	2021A Curr.	2021A Prior	2022E Curr.	2022E Prior
Q1 (Mar)	2.62 A	2.73 A	NC	3.40 E	3.41E
Q2 (Jun)	(0.20) A	3.45 A	NC	1.91 E	2.16E
Q3 (Sep)	3.12 A	2.60 A	NC	2.53 E	2.61E
Q4 (Dec)	4.91 A	5.20 A	3.98E	4.38 E	4.03E
FY	10.48 A	13.94 A	12.74E	12.20 E	NC
P/E	15.8x	11.8x		13.5x	

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 Refinitiv. NA = Not Available, Volatility = Historical trading volatility

Summary. TRV hosted a conference call on 1/20 to discuss Q4 results. The call focused on pricing trends (with commercial and personal lines), underlying trends within its businesses (including the drivers of the underlying margin improvement within Business Insurance), and its expectations for taking price within personal auto. Our 2022 EPS estimate is unchanged at \$12.20, while 2023 goes to \$13.65 (from \$13.00), reflecting adjustments to our investment income, premium, margin, and tax rate assumptions. 2022 stayed unchanged as we modeled weaker margins in personal auto following the Q4 result. We are also rolling out an initial \$15.10 EPS estimate for 2024. Our price target rises to \$172 (from \$161) and is based on 1.28x our 2022E book value.

The quarter in a nutshell. This morning (1/20), TRV [reported](#) Q4 core EPS of \$5.20, beating both our \$3.98 estimate and the \$3.86 consensus estimate. TRV beat on many items including: **(1)** better underlying results, **(2)** lower cat losses (due to recoveries under its aggregate reinsurance cover), **(3)** better reserve development, and **(4)** stronger investment income (principally from its other investments). This more than offset a higher tax rate, which came in at 19%, higher than our 16.5% estimate. The underlying combined ratio of 88.7%, beat our 90.2% estimate, with Business Insurance beating us (Business Insurance saw 1.5 points of earned rate over loss trend, 1.5 points from the combination of lower property losses and the favorable impact from the pandemic, and around 25bps from the impact of aggregate recoveries), while Bond & Specialty missed us. Personal Lines was just above us due to a better expense ratio, while the underlying loss ratio missed us as weaker results in auto more than offset a strong quarter from the homeowners' business. Net premiums written rose by 10.1%, beating our 6.7% estimate driven by stronger growth in Business Insurance and Bond & Specialty, whereas Personal Insurance was pretty close to us. Net investment was \$743 million, better than our \$556 million estimate with the majority of the upside due to other investments (the fixed income investment income was modestly above the guided range for the quarter). Cats were only \$36 million (due to \$221 million of recoveries under its aggregate reinsurance cover), lower than our \$90 million. Repurchases were \$600 million, ahead of our \$400 million. Book value per share rose by 3.5% and the core ROE was 19.8%. TRV should get a lift from earnings exceeding expectations.

[Exhibit 1](#) below shows TRV's actual results versus our expectations.

Exhibit 1 - Consolidated Results Versus Wells Fargo Securities Estimates

	Q4 2021 Actual	Q4 2021 Estimate	Variance
Net premiums written (in millions)	\$8,002	\$7,756	\$246
Y/Y Growth in net premiums written	10.1%	6.7%	3.4%
Y/Y Growth in net premiums earned	7.3%	5.2%	2.1%
Investment income (in millions)	\$743	\$556	\$187
Combined ratio	88.0%	90.6%	(2.6%)
Catastrophe losses (in millions)	\$36	\$90	(\$54)
Reserve development (in millions)	(\$95)	(\$59)	(\$36)
Underlying Loss Ratio	60.2%	61.0%	(0.8%)
Expense Ratio	28.5%	29.2%	(0.7%)
Underlying combined ratio	88.7%	90.2%	(1.5%)
Tax rate	19.0%	16.5%	2.5%
Operating EPS	\$5.20	\$3.98	\$1.22
Growth in operating EPS	5.8%	(19.0%)	24.8%
Book value per share	\$119.77	\$118.49	\$1.28
Share Repurchases	\$800	\$400	\$400
Segment Underwriting Income (in millions):			
Business Insurance	\$460	\$234	\$226
Bond & Specialty Insurance	\$145	\$142	\$3
Personal Insurance	\$253	\$259	(\$6)
Operating ROE	17.7%	13.6%	4.1%

Source: Wells Fargo Securities, LLC estimates and company reports

Takeaways for the Non-Life Insurance Group

The main takes that stand out from TRV to us, and the laterals for the rest of the group are below. Net-net, the biggest takes are that TRV pointed to pricing remaining strong within commercial lines and that personal auto is being affected by frequency trends that are at pre-pandemic levels and elevated severity (as vehicle replacement and repair costs remain at high levels; see our [most recent CPI note](#)). Highlights of the laterals that we see for the group follow below:

1. *Commercial lines pricing remains strong, but is decelerating*, with renewal rates up 5.2% in Q4 in Business Insurance, slowing from 6.3% in Q3, 7.1% in Q2 and rates that were around 8.0% in the three previous quarters before that. TRV is still getting positive rates in all lines, except workers' comp, with rates up nearly 7% excluding workers' comp. **Rates staying above loss trend is a positive for the commercial insurers (AIG, CB, HIG, and WRB) and specifically, AIG and CB, where workers' comp represent a smaller portion of their book, in our view.**
2. *Underlying margin in Business Insurance benefited from rate exceeding trend, and the favorable impact of non-cat property losses and the pandemic*. TRV said that earned rate exceeded loss trend by around 1.5 points, which slowed from around 2% over the other three quarters of 2021. **This would be a positive as well for the commercial lines insurers, including AIG, CB, HIG, and WRB.**
3. *Strong exposure growth*. Exposure growth was 4.0%, which was higher than 3.8% in Q3, and is a bullish sign for the insurance brokers. This adds to the strong lateral we already have from the strong organic growth quarter from [Truist](#). **This appears to be a good sign for all insurance brokers—given that TRV is more of a small-middle market insurer, it is the best take for AJG and BRO, but does point to a strong quarter for the group in general.**
4. *No Covid-19 direct losses were called out*. This was the case over the past few quarters as well, and ties to our overall thought that Covid-19 related losses have largely subsided for the P&C sector. Travelers did not see direct losses, but did see favorable frequency trends within commercial auto (which it also highlighted in the Q3 as well). **We do not expect to see many, if any, Covid-19 losses from P&C insurers in Q4.**
5. *Personal auto frequency trends remain at pre-pandemic levels*. TRV's Personal Auto book was affected by frequency trends that remain at pre-pandemic levels. The Personal Auto segment's underlying margin came in at 103.8%, which was the worst quarter since Q4 2017. The weaker auto results at TRV point to a weak quarter for the group. **We remain cautious on the personal auto insurers (ALL [Underweight, \$119.49] and PGR [Underweight, \$107.17]), due to the lack of pricing in the market and elevated/frequency and severity trends.** TRV is looking to take to continue to take rate in personal auto, and does expect its RPC to rise from the 1.2% in the Q4.
6. *Net investment income guide was raised*. The company raised its guidance for fixed income investment income of \$430-440 million after-tax on a quarterly basis, up from the prior \$420-430 million **This is a good lateral for most (if not all) insurers, in our view.**
7. *Strong alternative investment quarter*. Alternative-related investment income totaled \$243 million in Q4, down from \$281 million in Q3, but well above our \$69 million estimate. **We think alternative-related investment income could surprise to the upside, for both P&C and life insurers, based on TRV's strong results.**
8. *Repurchases picked up in Q4*. TRV repurchased \$800 million in Q4, higher than \$600 million in Q3, and exceeding our \$400 million estimate. **We expect most insurers, P&C and life, to pick up their level of buyback activity in the Q4, especially given the attractive valuations across both the P&C and life insurance sectors.**

2022 Soundbites

Highlights of its updated outlook for 2022. [Exhibit 2](#) below highlights TRV's commentary and expectations for 2022. TRV did not provide much specific 2022 guidance other than fixed income NII, expense ratio, and general pricing expectations.

- TRV raised its 2022 quarterly **fixed income NII** to be in the \$430-\$440 million range on an after-tax basis, which is up from the \$425-\$435 million guidance provided in the Q3 earnings call as the benefit of expected growth in invested assets will be partially offset by lower average yield.
- On the **reinsurance side**, TRV provided color following renewing its program. TRV highlighted that its excess of loss reinsurance cover 2022 providing coverage for the \$2 billion layer above the unchanged \$3 billion retention. TRV increased its coverage in the \$2 billion layer from 75% to 90%, thus increasing the amount of coverage available from \$1.5 billion to \$1.8 billion. TRV also provided details on the renewal of its Property Aggregate Catastrophe XOL Treaty. With its aggregate cover TRV placed 45% of the coverage layer (as compared to 70% in 2021). The treaty

provides aggregate coverage of \$225 million for the \$500 million of losses above TRV's aggregate retention of \$2 billion. The per event deductible has increased from \$5 million in 2021 to \$10 million for 2022. Hurricane, wildfire and earthquake events once again have a \$250 million per occurrence cap under its aggregate reinsurance cover.

- In **Business Insurance**, TRV saw 3.8 points of improvement Y/Y on the underlying combined ratio where a little more than 1.5 points came from higher earned pricing that continues to exceed loss cost, 0.5 points from a lower expense ratio, 1.5 from a combination of lower property losses and a favorable impact associated with the pandemic, and the remainder (25bps) from recoveries under its aggregate reinsurance cover. With inflation continuing to persist, TRV mentioned it will continue to take price, and as a result, expects earned pricing to exceed loss trend for some time. Within BI, rate exceeded loss trend by 1.5 points, which is down from around 2.0 points in Q3, and compared to 2.0 points in Q2, a little less than 2.0 points in Q1, and over 1.5 points in Q4 2020. We are modeling for that 1.5 points of earned rate over loss trend to continue to decline from here as we move through 2022.
- In **Bond and Specialty** TRV did not lay out specific guidance for the year.
- In **Personal lines** mentioned that frequency and miles driven are at pre-pandemic levels and that it will be seeking additional increases in about 25 states throughout the first quarter of 2022 with more actions planned in subsequent quarters. Travelers has taken rate increases in 11 states, representing around 20% of its auto business, since August 2021.
- TRV laid out an initial **expense ratio** target of mid-29s in the near term, essentially flat to 29.4% 2021, while also laying out expectations that the ratio should move down to around 29% over the next couple of years. We had previously been looking for a 29.2% expense ratio in both 2022 and 2023, and are now looking for expense ratios of 29.4% in 2022, 29.1% in 2023, and 29.0% in 2024.

Exhibit 2 - TRV 2022 Guidance Summary

	2022 Outlook	
	Provided With Q3 2021 Earnings	Provided With Q4 2021 Earnings
Expense Ratio		
Total Company		TRV expects their expense ratio to remain in the mid-29% range in the near term and then gradually move down to around 29% over the next couple of years.
Underlying Margins		
Business Insurance		Given social and other inflation, frequency and persisting low rate environment, they will continue to see pricing gains to improve profitability.
Bond and Specialty Insurance		
Personal Insurance		
Personal auto	Property and casualty insurance market conditions are expected to remain competitive in 2022 for new business.	They anticipate additional increases in about 25 states throughout the first quarter, with more actions planned in subsequent quarters.
Homeowners'		Homeowners will continue to experience elevated weather and non-weather loss activity and they will seek rate in response while also taking into account labor and materials inflation.
Renewal Premium Growth		
Business Insurance	TRV did not provide specific guidance for premium volumes for 2022, as expected. They did note they expect retention levels to remain strong by historical standards into 2022.	
Bond and Specialty Insurance		
Personal Insurance		
Personal auto		TRV expects higher renewal premium changes going into 2022.
Homeowners'		
Investment Income (Fixed Income And Short-Term Investments)		
Total Company	Expects the after-tax investment income from the fixed income portfolio will be approximately \$420 to \$430 million for each quarter of 2022.	Expects the after-tax investment income from the fixed income portfolio will be approximately \$430 to \$440 million (up \$10M versus last quarter guidance) for each quarter of 2022.
Capital Management		
Total Company	Company expects that over time the combination of dividends and share repurchases will likely not exceed net income.	

Source: Company reports and Wells Fargo Securities, LLC

Highlights of Our Estimate Changes

Overview of our estimate changes. [Exhibit 3](#) highlights the changes we made to our earnings model following Q4 2021 earnings. Our 2022 EPS estimate is unchanged at \$12.20 as we modeled weaker auto margins offsetting the Q4 quarter, while 2023 goes to \$13.65 (from \$13.00), and introduce a 2024 EPS estimate of \$15.10, reflecting adjustments to our investment income, premium, margin, and tax rate assumptions. Our price target rises to \$172 (from \$161) based off 1.28x our 2023E book value.

Exhibit 3 - TRV Summary of Estimate Changes

Income Statement (\$M, except per share data)	Current				Prior Estimates				Delta (Absolute)			
	2021A	2022E	2023E	2024E	2021E	2022E	2023E	2024E	2021E	2022E	2023E	2024E
Gross premiums written	34,244	36,567	38,588	40,728	33,982	35,933	37,921	NE	262	634	667	NA
% growth (yr/yr)	7.8%	6.8%	5.5%	5.5%	7.0%	5.7%	5.5%	NE	0.8%	1.0%	(0.0%)	NA
Net premiums written	31,966	33,491	35,230	37,072	31,720	33,241	34,969	NE	246	250	261	NA
% growth (yr/yr)	7.5%	4.8%	5.2%	5.2%	6.7%	4.8%	5.2%	NE	0.8%	(0.0%)	(0.0%)	NA
Increase in unearned premiums	(1,111.0)	(973.9)	(1,097.8)	(1,156.1)	(1,022.4)	(859.5)	(977.5)	NE	(88.6)	(114.4)	(120.2)	NA
Net premiums earned	30,855	32,517	34,132	35,916	30,697	32,382	33,991	NE	158	135	141	NA
% growth (yr/yr)	6.2%	5.4%	5.0%	5.2%	5.7%	5.5%	5.0%	NE	0.5%	(0.1%)	(0.0%)	NA
Net investment income	3,033	2,465	2,504	2,545	2,846	2,223	2,233	NE	187	242	271	NA
Fee income	402	402	402	402	408	408	408	NE	(6)	(6)	(6)	NA
Other income	355	348	356	356	357	351	359	NE	(2)	(3)	(3)	NA
Total revenue	34,645	35,733	37,394	39,219	34,309	35,364	36,991	NE	336	369	403	NA
Losses and loss adjustment expenses	20,298	21,598	22,548	23,627	20,351	21,279	22,339	NE	(53)	319	209	NA
Amortization of deferred acquisition costs	5,043	5,336	5,567	5,856	5,027	5,281	5,543	NE	16	54	23	NA
General and administrative expenses	4,677	4,888	5,120	5,335	4,712	4,907	5,139	NE	(35)	(19)	(19)	NA
Interest expense	340	352	337	337	339	348	337	NE	1	4	0	NA
Total expenses	30,358	32,174	33,571	35,155	30,429	31,815	33,358	NE	(71)	359	213	NA
Pretax operating income	4,287	3,559	3,823	4,064	3,880	3,549	3,633	NE	407	10	189	NA
% growth (yr/yr)	32.5%	(17.0%)	7.4%	6.3%	19.9%	(8.5%)	2.4%	NE	12.6%	(8.4%)	5.0%	NA
Income tax expense/(benefit)	765	613	669	721	658	586	599	NE	107	27	70	NA
After-tax core income	3,522	2,946	3,153	3,343	3,222	2,963	3,034	NE	300	(17)	119	NA
% growth (yr/yr)	31.1%	(16.4%)	7.0%	6.0%	20.0%	(8.0%)	2.4%	NE	11.2%	(8.3%)	4.6%	NA
Company income tax rate (%)	17.8%	17.2%	17.5%	17.7%	16.9%	16.5%	16.5%	NE	0.9%	0.7%	1.0%	NA
Weighted average number of diluted shares	251	240	230	220	251	242	232	NE	(0)	(1)	(2)	NA
Participating share-based awards - allocated income	27	16	16	16	21	16	16	NE	6	0	0	NA
After-tax core income	\$13.94	\$12.20	\$13.65	\$15.10	\$12.74	\$12.20	\$13.00	NE	\$1.20	\$0.00	\$0.64	NA
Profitability Metrics												
Loss and loss adjustment expense ratio	65.1%	65.9%	65.5%	65.2%	65.8%	65.2%	65.2%	NE	-0.7%	0.8%	0.3%	NA
Underwriting expense ratio	29.4%	29.4%	29.1%	29.0%	29.5%	29.2%	29.2%	NE	-0.2%	0.2%	-0.1%	NA
Combined ratio	94.5%	95.3%	94.6%	94.2%	95.3%	94.4%	94.4%	NE	-0.9%	0.9%	0.2%	NA
Points on the combined ratio	6.0%	4.8%	4.8%	4.8%	6.2%	4.5%	4.5%	NE	-0.2%	0.3%	0.3%	NA
Points on the combined ratio	-1.7%	-0.6%	-0.3%	-0.2%	-1.6%	-0.4%	-0.2%	NE	-0.1%	-0.2%	-0.1%	NA
Current accident year combined ratio	90.2%	91.1%	90.2%	89.6%	90.8%	90.2%	90.1%	NE	-0.6%	0.8%	0.1%	NA
Underlying loss ratio	60.9%	61.7%	61.1%	60.7%	61.2%	61.0%	60.9%	NE	-0.4%	0.7%	0.2%	NA
Segment Underwriting Income (in millions):												
Business Insurance	\$384	\$389	\$467	\$445	\$158	\$355	\$375	NE	\$226	\$34	\$93	NA
Bond & Specialty Insurance	\$563	\$659	\$666	\$653	\$560	\$660	\$660	NE	\$3	(\$0)	\$6	NA
Personal Insurance	\$321	\$83	\$200	\$436	\$327	\$342	\$378	NE	(\$6)	(\$259)	(\$178)	NA
Book value per share	\$119.77	\$126.75	\$134.71	\$143.85	\$118.49	\$125.87	\$134.15	NE	\$1.28	\$0.88	\$0.56	NA
ROE	11.8%	9.9%	10.4%	10.8%	10.9%	10.0%	10.0%	NE	1.0%	-0.1%	0.4%	NA

Source: Company reports and Wells Fargo Securities, LLC estimates

Pricing Accelerating in Commercial Lines

Business Insurance Rating Environment—TRV Rates Taper Down, but Remain Above Loss Trend

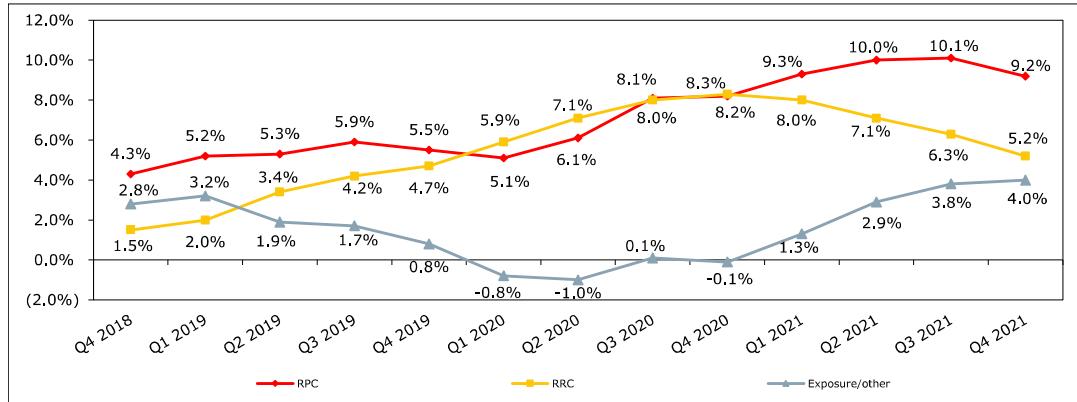
- In Q4, the *Business Insurance* renewal rate change was +5.2%, decelerating from +6.3% last quarter, and below the +7.1% in Q2 2021, +8.0% in Q1, and +8.3% in Q4 2020. Exposure growth was +4.0%, versus +3.8 last quarter, +2.9% in Q2 2021, +1.3% in Q1, and -0.1% in the Q4 2020. [Exhibits 4 and 5](#), below, show the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change. Travelers, for its part, seemed positive on the forward pricing outlook and said that some part of the RPC acts as rate. This is why TRV expects earned pricing to exceed loss trend within Business Insurance for some time.
- TRV stopped providing forward guidance on its RPC (in the summer of 2020), as the company was unsure of how the economy would be affected by Covid-19. The company has yet to bring back RPC forward guidance, but has pointed to margin improvement, as Business Insurance earned rate remains in excess of loss trend. Our assumption is the exposure bucket of the RPC remains positive in Q1 2022 with some flattening as we navigate through 2022, especially as we come up against some tough comps when the economy started to improve post the pandemic lows.

Exhibit 4 - Domestic Business Insurance Renewal Pricing Results by Quarter

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
RPC	4.3%	5.2%	5.3%	5.9%	5.5%	5.1%	6.1%	8.1%	8.2%	9.3%	10.0%	10.1%	9.2%
RRC	1.5%	2.0%	3.4%	4.2%	4.7%	5.9%	7.1%	8.0%	8.3%	8.0%	7.1%	6.3%	5.2%
Exposure/other	2.8%	3.2%	1.9%	1.7%	0.8%	-0.8%	-1.0%	0.1%	-0.1%	1.3%	2.9%	3.8%	4.0%
% of BI NPW in Workers' Comp	23.4%	28.6%	23.1%	23.3%	22.1%	26.2%	20.7%	20.2%	19.3%	23.0%	18.9%	18.7%	18.2%

Source: Company data and Wells Fargo Securities, LLC

Exhibit 5 - Pricing And Exposure Growth Seen By Travelers



Source: Company data and Wells Fargo Securities, LLC

Personal Lines—TRV Continues To Take Price in Auto and Home

- Within *Personal Insurance*, TRV saw a modest acceleration in rate in personal auto in the quarter, as pushes for price. The RPC in auto was +1.2% in Q4, versus flat last quarter, +0.5% in Q2, +0.6% in Q1, and +0.8% in Q4. On the auto side, TRV said that auto driving frequency remains at pre-pandemic levels and that it is anticipating rate increases in 25 different states in the Q1 (following taking rate in 11 states since August 2021) with more actions planned in the subsequent quarters. The company did note that it has been successful so far in getting the rates it needs approved with a few states being anomalies such as California. The RPC however was modest at 1.2% as TRV only got rate in about 20% of states that it is writing business in so far. This ties into our theme that we need to see more rate going through more of the personal auto premium base, not just for Travelers, but across the auto insurance industry. See our [recent note on personal auto pricing trends](#).
- Homeowners' pricing was relatively flat sequentially and up Y/Y at 8.7% in the Q4, compared to 8.8% last quarter, 8.1% in Q2, 7.5% in Q1, and 8.1% in Q4. On the home side, TRV said it will look to take rate as homeowners product lines continue to experience elevated weather and non-weather loss activity as well as taking into account labor and material-related inflation.
- Travelers' new business in auto decreased 6.1% sequentially, but was slightly up when compared to last year, with auto new business premiums totaling \$279 million, versus \$297 million in Q3, \$299 million in Q2, \$278 million in Q1, and \$269 million in Q4 2020. New business was down sequentially and flat Y/Y in home in the quarter at \$273M, versus \$312 million last quarter, and \$272 million last Q4.

Exhibit 6 - Personal Insurance Business Statistics

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Automobile					
Retention	84%	84%	85%	86%	85%
Renewal Premium Change	0.8%	0.6%	0.5%	-	1.2%
Policies-In-Force (PIF, in thousands)	2,779	2,807	2,852	2,898	2,937
PIF Sequential Change	1%	1%	2%	2%	1%
PIF Yearly Change	3%	4%	4%	5%	6%
New Business (\$ in millions)	\$269	\$278	\$299	\$297	\$279
Homeowners & Other					
Retention	85%	85%	85%	85%	85%
Renewal Premium Change	8.1%	7.5%	8.1%	8.8%	8.7%
Policies-In-Force (PIF, in thousands)	5,617	5,703	5,836	5,931	5,995
PIF Sequential Change	1%	2%	2%	2%	1%
PIF Yearly Change	8%	8%	7%	7%	7%
New Business (\$ in millions)	\$272	\$263	\$335	\$312	\$273

Source: Company data and Wells Fargo Securities, LLC

Profitability Benefited from Better Underlying Results and Higher PYD Away from Asbestos

Underlying Results Came in Better than Expected

- The consolidated combined ratio was 88.0%, beating our 90.6% estimate, largely reflective of a higher level of favorable reserve development, lower cats, and better underlying results. Cats of

\$36 million were better than our \$90 million estimate, while favorable reserve development of \$95 million was better than our estimate for favorable development \$59 million, due to better-than-expected PYD in Business Insurance (from workers' compensation) and Bonds & Specialty. The underlying combined ratio of 88.7% was favorable to our estimate of 90.2%, and in line with last year. Underlying results beat us in Business Insurance (due to earned pricing exceeding loss cost trends, a favorable impact associated with the pandemic as well as favorable impact of non-cat weather, and a lower expense ratio) and Personal Insurance (due to a lower expense ratio), while Bond & Specialty was above us due to a higher than expected PYD. Within auto, the underlying combined ratio rose by 5.6 points due to higher losses due to comparison to a lower level of loss activity in the prior year quarter as a result of the pandemic and to a lesser extent, elevated severity.

- Catastrophe losses totaled \$36 million, well below our \$90 million estimate as losses were reduced by \$255 million under its aggregate reinsurance treaty. TRV did note that catastrophe losses primarily resulted from tornado activity in Kentucky, windstorms in multiple states and a wildfire in Colorado.
- Prior year favorable reserve development came in at \$95 million, better than our estimate of \$59 million, due to higher releases in Business Insurance and Bond & Specialty. Business Insurance saw favorable development of \$74 million, better than our estimate for a release of \$44 million, which was driven by better than expected loss experience in domestic operations in workers' comp product for multiple accident years. Bond & Specialty saw a release of \$24 million (better than our estimate for no development), due to better-than-expected loss experience in fidelity and surety for recent accident years. Personal Lines saw unfavorable development of \$3 million (worse than our estimate for reserve releases of \$14 million) due to adverse development within auto.

Exhibit 7 - Underlying Combined Ratio—Improvement in Loss Ratio, Flat Expense Ratio

	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Reported Combined Ratio	97.5%	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%	88.0%
Catastrophe Losses, net of reinsurance	8.8%	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%	0.4%
Prior Year Reserve Development (Favorable)/Unfavorable	(2.4%)	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)	(2.4%)	0.8%	(1.2%)
Underlying Combined Ratio	91.1%	91.6%	94.9%	94.1%	92.1%	91.3%	91.4%	91.5%	88.7%	89.5%	91.4%	91.4%	88.7%
Underlying (improvement) deterioration	(1.3%)	(0.8%)	1.3%	1.1%	0.9%	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	(0.1%)	0.0%
Underlying Loss Ratio	61.6%	61.9%	64.7%	64.5%	63.0%	61.3%	60.4%	62.2%	59.3%	59.7%	61.7%	62.0%	60.2%
Change from last year	(0.1%)	0.1%	1.8%	1.3%	1.3%	(0.7%)	(4.3%)	(2.3%)	(3.6%)	(1.6%)	1.2%	(0.2%)	0.9%
Underlying Expense Ratio	29.5%	29.7%	30.2%	29.5%	29.1%	30.0%	31.0%	29.3%	29.4%	29.9%	29.7%	29.4%	28.5%
Change from last year	(1.2%)	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%	0.8%	(0.2%)	0.3%	(0.0%)	(1.3%)	0.1%	(0.9%)

Source: Company data and Wells Fargo Securities, LLC

Exhibit 8 - Personal Insurance Business Statistics

	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Business Insurance	93.6%	93.7%	93.4%	90.2%	89.9%
Underlying (improvement) deterioration	(2.8%)	(3.6%)	(3.6%)	(3.8%)	(3.8%)
Bond & Specialty	85.0%	84.2%	83.4%	83.4%	83.3%
Underlying (improvement) deterioration	3.7%	(1.5%)	(4.7%)	(5.6%)	(1.7%)
Personal Insurance	83.1%	85.4%	91.0%	95.2%	88.8%
Underlying (improvement) deterioration	(5.3%)	1.4%	7.0%	6.5%	5.7%
Personal Insurance:					
Automobile	87.4%	86.6%	92.0%	97.0%	103.8%
Underlying (improvement) deterioration	(12.2%)	(4.3%)	5.9%	15.5%	16.4%
Homeowners & Other	78.5%	84.1%	89.9%	93.3%	73.4%
Underlying (improvement) deterioration	5.0%	8.4%	7.9%	(3.5%)	(5.1%)

Source: Company data and Wells Fargo Securities, LLC

Investment Income and Other

Investment Income Beats Us; Raises 2022 Guidance

- Net investment income was \$743 million pre-tax, better than our \$556 million estimate. Travelers' after-tax book yield on its investment portfolio was 2.9%, slightly below the 3.0% yield in Q3 2021. Fixed income investments added \$508 million pre-tax, above our \$493 million estimate, while alts were \$243 million, higher than our \$61 million estimate and benefited from higher private equity returns. Short-term investments added \$1 million, below our \$3 million estimate.

- TRV now expects fixed income net investment income per quarter to be in the \$430-440 million range in 2022, which was up from the previous guidance given last earnings call at \$420-430 million.

Capital Management Ahead Of Expectations On Better Buyback Level

- TRV repurchased \$800 million for 5.1 million shares in Q4, better than our estimate for \$400 million of share repurchases, and higher than the \$601 million in Q3 2021. Dividends were \$216 million, bringing total capital return to \$1,016 million, compared to the \$1,289 million of core earnings. Total capital return to shareholders was 78.8% of core earnings in Q4 2021, 87.3% for all of 2021, and we are currently forecasting 86.8% and 84.5% in 2022 and 2023, respectively.

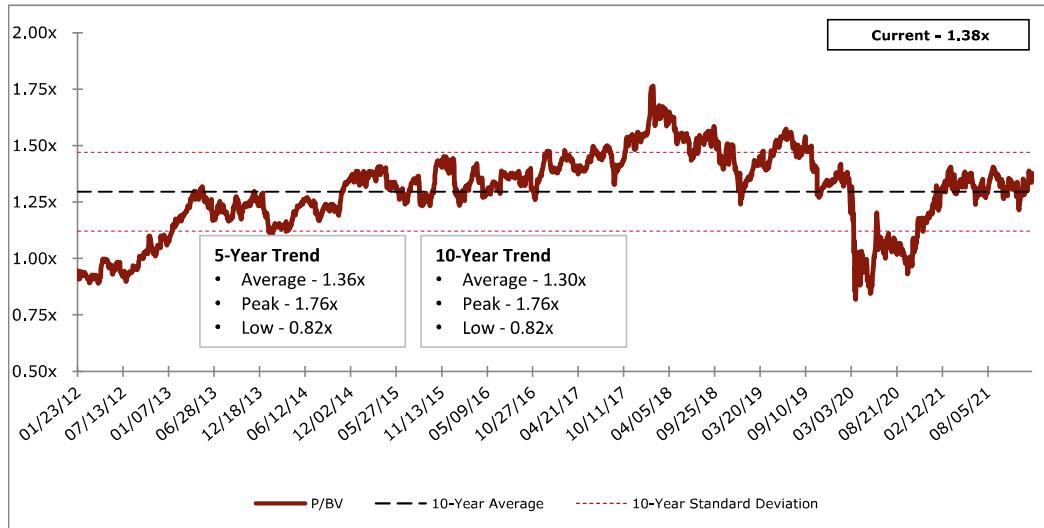
Premium Growth Benefited from Exposure Growth And Healthy Retention Levels

- Net premiums written rose 10.1%, well above our 6.7% estimate, and accelerating from the +7.1% in Q3 2021. Results were ahead of us in all three segments (BI, Bonds & Specialty, and Personal). Gross premiums written growth of 9.8% was ahead of our 6.4% estimate, and accelerated from 7.7% last quarter.
- Business insurance net premiums written were up 9.4%, beating our +3.9% estimate, and almost double the +4.9% in the Q3. Bond & Specialty net premiums written were +13.1%, also beating our +9.8% estimate, but decelerated from the elevated +18.6% last quarter. Personal Insurance net premiums written were +10.1%, beating our +9.4% estimate and above the +7.1% last quarter. Within Personal Insurance, auto net premiums written of +7.5% was in line with our +7.4% estimate and accelerating from the +2.9% last quarter, while home net premiums written growth of +12.8% was slightly above our +11.6% estimate, and also up when compared to +11.3% last quarter.

Valuation

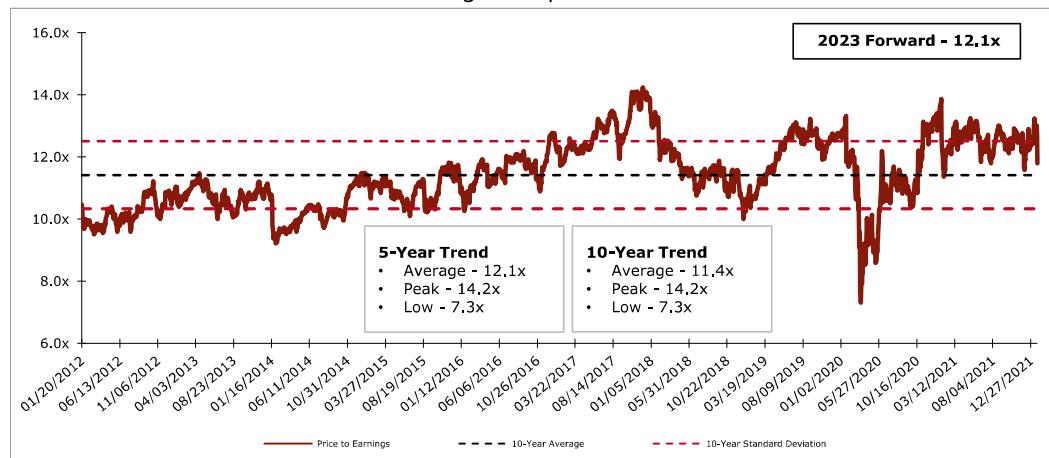
Current valuation. The TRV shares are now trading at 1.38x book value, just above its 5-year (1.36x) average, and its 10-year (1.30x) average multiple. The shares are trading well below peak levels of 1.76x in 2018. On a price-to-earnings basis, the shares are trading at 13.5x our 2022 EPS estimate and 12.1x our 2023 EPS estimate versus the 5-year average of 12.1x, 10-year average of 11.4x and the 5-year and 10-year peak of 14.2x.

Exhibit 9 - TRV Historical Price-to-Book Multiples



Source: FactSet and Wells Fargo Securities, LLC

Exhibit 10 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

Consolidated Earnings Model

Exhibit 11 - Travelers Model—Consolidated

The Travelers Corporation Inc.
Earnings Projections and Operating Results

	2020	Q1	Q2	Q3	Q4	2021	Q1	Q2	Q3	Q4	2022	Q1	Q2	Q3	Q4	2023	Q1	Q2	Q3	Q4	2024	Q1	Q2	Q3	Q4
Group: Consolidation & Strategic Initiatives																									
% growth (y/y)	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	
% growth (y/y) net	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	
% retained	90.0%	94.4%	95.2%	96.3%	97.0%	97.6%	98.0%	98.3%	98.6%	98.9%	99.2%	99.5%	99.8%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	99.9%	
Net premium written	7,667.0	7,450.0	7,360.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0		
% growth (y/y)	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	
Increase in insured premiums	(202.0)	(462.0)	(320.0)	(172.0)	(88.0)	(40.0)	(21.0)	(10.0)	(5.0)	(2.5)	(1.25)	(0.625)	(0.312)	(0.156)	(0.078)	(0.039)	(0.019)	(0.009)	(0.004)	(0.002)	(0.001)	(0.0005)	(0.00025)		
Net premiums earned	6,665.0	6,868.0	7,120.0	7,250.0	7,280.0	7,320.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	7,340.0	
% growth (y/y)	4.9%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
Net investment income	98.0	64.0	42.0	23.0	12.0	6.0	3.0	1.5	0.75	0.375	0.1875	0.09375	0.046875	0.0234375	0.01171875	0.005859375	0.0029296875	0.00146478125	0.000732390625	0.0003661953125	0.00018309765625	0.000091548828125	0.0000457744140625		
% growth (y/y)	(3.9%)	(8.7%)	(2.0%)	(0.2%)	(0.1%)	(0.05%)	(0.025%)	(0.0125%)	(0.00625%)	(0.003125%)	(0.0015625%)	(0.00078125%)	(0.000390625%)	(0.0001953125%)	(0.00009765625%)	(0.000048828125%)	(0.0000244140625%)	(0.00001220703125%)	(0.000006103515625%)	(0.0000030517578125%)	(0.00000152587890625%)	(0.000000762939453125%)	(0.0000003814697265625%)		
Fee income	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0		
% growth (y/y)	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	
Other income	86.0	72.0	57.0	42.0	27.0	12.0	6.0	3.0	1.5	0.75	0.375	0.1875	0.09375	0.046875	0.0234375	0.01171875	0.005859375	0.0029296875	0.00146478125	0.000732390625	0.0003661953125	0.00018309765625	0.000091548828125		
% growth (y/y)	7.2%	5.7%	5.3%	4.7%	4.2%	3.7%	3.2%	2.7%	2.2%	1.7%	1.25%	0.75%	0.625%	0.50%	0.40%	0.30%	0.20%	0.15%	0.10%	0.05%	0.025%	0.0125%	0.00625%	0.003125%	
Total revenue	7,616.0	7,089.0	6,951.0	6,806.0	6,846.0	6,820.0	6,800.0	6,780.0	6,760.0	6,740.0	6,720.0	6,700.0	6,680.0	6,660.0	6,640.0	6,620.0	6,600.0	6,580.0	6,560.0	6,540.0	6,520.0	6,500.0	6,480.0	6,460.0	
% growth (y/y)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
Loses and bad debts	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
General and administrative expenses	1,120.0	1,070.0	1,020.0	970.0	920.0	870.0	820.0	770.0	720.0	670.0	620.0	570.0	520.0	470.0	420.0	370.0	320.0	270.0	220.0	170.0	120.0	70.0	20.0		
% growth (y/y)	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	
Interest expense	86.0	85.0	84.0	83.0	82.0	81.0	80.0	79.0	78.0	77.0	76.0	75.0	74.0	73.0	72.0	71.0	70.0	69.0	68.0	67.0	66.0	65.0	64.0		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Total expenses	6,704.0	6,180.0	5,660.0	5,240.0	4,820.0	4,400.0	4,080.0	3,760.0	3,440.0	3,120.0	2,800.0	2,480.0	2,160.0	1,840.0	1,520.0	1,200.0	880.0	560.0	240.0	120.0	60.0	30.0	10.0		
% growth (y/y)	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
Net operating income	6,512.0	6,019.0	5,580.0	5,210.0	4,840.0	4,470.0	4,100.0	3,730.0	3,360.0	2,990.0	2,620.0	2,250.0	1,880.0	1,510.0	1,140.0	770.0	400.0	160.0	60.0	30.0	10.0	5.0	2.5		
% growth (y/y)	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	
Operating income	6,422.0	5,930.0	5,498.0	5,138.0	4,778.0	4,418.0	4,056.0	3,696.0	3,336.0	2,976.0	2,616.0	2,256.0	1,896.0	1,536.0	1,176.0	806.0	436.0	166.0	66.0	33.0	16.5	8.25	4.125		
% growth (y/y)	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	
Participating shareholders' allocated income	5.0	3.0	2.0	1.5	1.0	0.5	0.3	0.2	0.1	0.05	0.025	0.0125	0.00625	0.003125	0.0015625	0.00078125	0.000390625	0.0001953125	0.00009765625	0.000048828125	0.0000244140625	0.00001220703125	0.000006103515625		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Common stockholders' allocated income	5.0	3.0	2.0	1.5	1.0	0.5	0.3	0.2	0.1	0.05	0.025	0.0125	0.00625	0.003125	0.0015625	0.00078125	0.000390625	0.0001953125	0.00009765625	0.000048828125	0.0000244140625	0.00001220703125	0.000006103515625		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Participating shareholders' unallocated income	5.0	3.0	2.0	1.5	1.0	0.5	0.3	0.2	0.1	0.05	0.025	0.0125	0.00625	0.003125	0.0015625	0.00078125	0.000390625	0.0001953125	0.00009765625	0.000048828125	0.0000244140625	0.00001220703125	0.000006103515625		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Participating shareholders' undesignated income	5.0	3.0	2.0	1.5	1.0	0.5	0.3	0.2	0.1	0.05	0.025	0.0125	0.00625	0.003125	0.0015625	0.00078125	0.000390625	0.0001953125	0.00009765625	0.000048828125	0.0000244140625	0.00001220703125	0.000006103515625		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Participating shareholders' undesignated income	5.0	3.0	2.0	1.5	1.0	0.5	0.3	0.2	0.1	0.05	0.025	0.0125	0.00625	0.003125	0.0015625	0.00078125	0.000390625	0.0001953125	0.00009765625	0.000048828125	0.0000244140625	0.00001220703125	0.000006103515625		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Common stockholders' undesignated income	5.0	3.0	2.0	1.5	1.0	0.5	0.3	0.2	0.1	0.05	0.025	0.0125	0.00625	0.003125	0.0015625	0.00078125	0.000390625	0.0001953125	0.00009765625	0.000048828125	0.0000244140625	0.00001220703125	0.000006103515625		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Common stockholders' undesignated income	5.0	3.0	2.0	1.5	1.0	0.5	0.3	0.2	0.1	0.05	0.025	0.0125	0.00625	0.003125	0.0015625	0.00078125	0.000390625	0.0001953125	0.00009765625	0.000048828125	0.0000244140625	0.00001220703125	0.000006103515625		
% growth (y/y)	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	
Common stockholders' undesignated income	5.0	3.0	2.0	1.5	1.0	0.5</																			

Price Target Basis and Risk

Price Target for ALL: \$105.00

Our price target of \$105 represents around a 1.03x multiple on our 2023 book value per share estimate of approximately \$102.

Risk for ALL

Risks to the upside include margins coming in above expectations if severity and/or frequency trends are better-than-expected, if the elevated severity trends abate much quicker than expected, and if policy and premium growth coming in above expectations.

Price Target for PGR: \$85.00

Our \$85 price target is based on **(1)** about a 2.1x multiple of our 2023 GAAP book value estimate of around \$40.50 per share and **(2)** just above 14.7x our 2023 EPS estimate.

Risk for PGR

Risks to the upside include continued favorable frequency trends, an improvement in severity trends, and stronger-than-anticipated premium and policy growth.

Price Target for TRV: \$172.00 from \$161.00

Our price target of \$172 is based on around a ~1.28x multiple of our projected 2023 book value estimate of around \$135 and 12.6x our 2023 EPS estimate of \$13.65.

Risk 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 margins coming in better than expected.

Investment Thesis

ALL

We believe ALL's margins have peaked and the company should be impacted by elevated severity trends and a spike in frequency as driving picks up, both of which should pressure its margins. As margins are constrained by the higher loss trends, we believe valuation could contract and thus have an Underweight rating on the shares.

PGR

We have an Underweight rating on the shares. As Covid-19 vaccines are rolled out and driving picks up, frequency should revert back to more normalized levels, which combined with elevated severity trends, should cause pressure margins for PGR over the remainder of 2021 and into 2022, in our view. Further, PGR's policy growth should slow as there is less shopping in the market as most players advertise less and look to lower top-line growth in response to the higher loss trend. The combination of weaker margins and slowing top-line growth should cause the PGR shares to underperform the insurance sector.

TRV

We believe that TRV will benefit from one of the hardest commercial pricing environment since 2003. Although we are positive on the commercial lines space as a whole, we are more cautious on TRV relative to peers due to its smaller account exposure and higher workers' comp focus as both are getting less rate than other lines/account sizes. We still believe that risk remains around social inflation, lower reserve releases, and Covid-19, but we believe that these risks are adequately reflected in shares with the risk/reward now more neutral and rate its shares Equal Weight as a result.

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.

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Additional Information Available Upon Request

The Travelers Companies, Inc. Rating History as of 01-19-2022

powered by BlueMatrix



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

The Allstate Corporation Rating History as of 01-19-2022

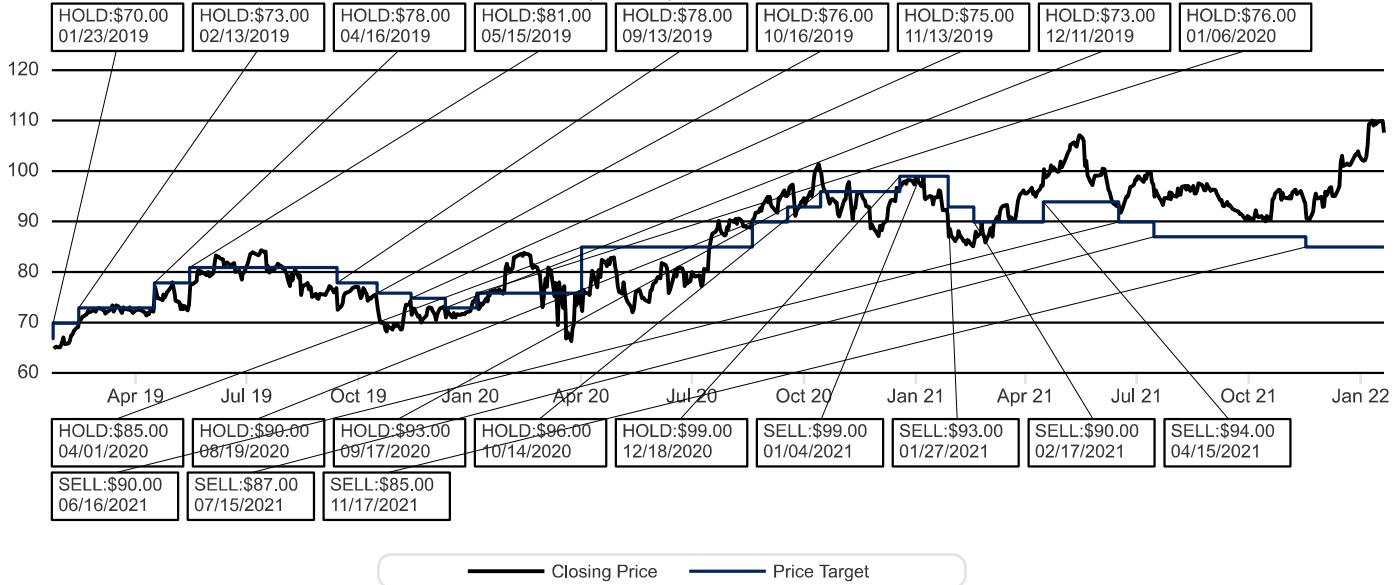
powered by: BlueMatrix



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

The Progressive Corporation Rating History as of 01-19-2022

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

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

3=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

As of January 19, 2022

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