

Equity Research

WELLS FARGO

Price Target Change — April 20, 2021

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: A Consistent Message from Travelers; Conference Call Round-Up

Our Call

Summary. TRV hosted a conference call on 4/20 to discuss Q1 results. The call focused on the impact from the pandemic, pricing, capital and its view surrounding potential M&A. Our 2021 EPS estimate rises to \$10.10 (from \$9.80), our 2022 estimate is unchanged (at \$11.95) while 2023 goes to \$12.95 (from \$12.80) reflecting better Bond & Specialty margins. Our price target rises to \$155 (from \$150) and is based on 1.25x our 2022E book value and we continue to have an Equal Weight rating on the shares. TRV modestly outperformed owing to the earnings beat. The company's message surrounding pricing and margins was consistent with last quarter.

- TRV is the first P&C insurer leaving many tea leaves for the rest of earnings season** - including: **(1)** pricing was stable with the strong Q4 levels with the company expecting its margins to improve during 2021 (as rates continue to exceed loss trend), **(2)** it was a strong investment income quarter driven by alternative investments, **(3)** within their personal auto book they are starting to see driving return toward pre-pandemic levels, and **(4)** M&A commentary was high level and did not necessarily remove them from a potential HIG transaction (although we continue to think it is less likely). See inside our note for more details on the [literals](#) from TRV's quarter.
- Consistent pricing and margin color.** TRV expects pricing to remain in excess of loss trend which could lead a bit more than the just under 200 basis points they saw in the quarter, although it sounds like they are close to the peak of the underlying margin improvement they might see. TRV did not want to prognosticate on where pricing levels might go from here except to say that they think they will continue to see earned rate in excess of loss trend. Away from workers' comp., TRV said that pricing in every other product lines were near or above recent record highs.
- Workers' comp thoughts.** TRV continues to see workers' comp rates that are negative, but close to bottoming. Further, they did say that workers' comp results have been a little better than expected during the Covid-19 downturn, which could also have an impact on pricing from here.
- Buyback and M&A thoughts are top of mind for investors.** TRV added \$5 billion to its authorization reflective of the fact that they only had \$800 million left under their prior authorization. They were asked several questions on M&A and said there was no change to their M&A approach, and they continue to evaluate transactions through a three prong approach - a transaction would have to **(1)** improve their long-term return profile, **(2)** reduce volatility and/or **(3)** create shareholder value through some other strategic benefit.
- CVA reserve thoughts.** TRV took a charge related to the Child Victims Act in Q1 2019 and continues to be comfortable with their loss reserves. They did not want to comment on whether they would consider settling with the Boy Scouts, similar to what HIG announced last week.
- Net investment income guidance unchanged.** Investment income guidance for fixed income portfolio was unchanged for the balance of 2021. While new money yields are now around 90-100 basis points off of the expiring portfolio yield (down from a gap of 150 basis points last quarter) that did not have a material impact given the duration of the portfolio combined with the \$10 million range in the investment income guidance.

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$155.00 / \$150.00
Upside/(Downside) to Target	0.4%
Price (04/19/2021)	\$154.38
52 Week Range	\$85.10 - 161.18
Shares Outstanding	251,460,946
Market Cap (MM)	\$38,821
Enterprise Value (MM)	\$44,708
Average Daily Volume	1,477,540
Average Daily Value (MM)	\$228
Dividend (NTM)	\$3.49
Dividend Yield	2.3%
Net Debt (MM) - last reported	\$5,887
ROIC - Current year est.	9%
3 Yr EPS CAGR from current year (unless otherwise noted)	7%

\$ EPS	2020A	2021E	2021E	2022E	2022E
	Curr.	Prior	Curr.	Curr.	Prior
Q1 (Mar)	2.62 A	2.73 A	2.44E	3.51 E	3.49E
Q2 (Jun)	(0.20) A	1.67 E	1.64E	1.93 E	1.89E
Q3 (Sep)	3.12 A	1.82 E	1.83E	2.34 E	2.37E
Q4 (Dec)	4.91 A	3.89 E	3.91E	4.19 E	4.22E
FY	10.48 A	10.10 E	9.80E	11.95 E	NC
P/E	14.7x	15.3x		12.9x	

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 4/20 to discuss Q1 results. The call focused on the impact from the ongoing pandemic, pricing, capital and its view surrounding potential M&A. Our 2021 EPS estimate rises to \$10.10 (from \$9.80), our 2022 estimate is unchanged (at \$11.95) while 2023 goes to \$12.95 (from \$12.80) reflecting better Bond & Specialty margins. Our price target rises to \$155 (from \$150) and is based on 1.25x our 2022E book value.

The Quarter In A Nutshell. This morning (4/20), TRV [reported](#) Q1 core EPS of \$2.73, beating both our \$2.44 estimate and the \$2.37 consensus estimate. TRV's results beat on higher favorable reserve development and stronger investment income, which more than offset higher catastrophe losses. The underlying combined ratio of 89.5% was in-line with our estimate with Bond & Specialty beating us, Personal Lines just below us, and Business Insurance about in-line with us. NPW rose by 2.2%, versus our 2.8% estimate. NII was \$701 million, better than our \$660 million estimate with the upside all due to other investments. Cats were \$835 million, higher than our \$615 million estimate. TRV repurchased \$397 million shares, ahead of our \$375 million estimate. Book value per share fell by 2.8% and the core ROE was 11.1%.

Exhibit 1 - Consolidated Results Versus Wells Fargo Securities Estimates

	Q1 2021 Actual	Q1 2021 Estimate
Net premiums written (in millions)	\$7,505	\$7,552
Growth in net premiums written	2.2%	2.8%
Growth in net premiums earned	2.2%	2.2%
Investment income (in millions)	\$701	\$660
Combined ratio	96.6%	97.6%
Catastrophe losses (in millions)	\$835	\$615
Reserve releases (in millions)	(\$317)	(\$16)
Underlying Loss Ratio	59.7%	59.7%
Expense Ratio	29.9%	29.8%
Underlying combined ratio	89.5%	89.5%
Tax rate	17.5%	16.5%
Operating EPS	\$2.73	\$2.44
Growth in operating EPS	4.2%	(6.9%)
Book value per share	\$112.42	\$116.98
Segment Underwriting Income (in millions):		
Business Insurance	(\$204)	(\$134)
Bond & Specialty Insurance	\$105	\$92
Personal Insurance	\$252	\$132
Operating ROE	11.1%	8.4%

Source: Wells Fargo Securities, LLC estimates and Company reports

2021 Outlook

2021 outlook unchanged. Exhibit 2 below highlights TRV's commentary and expectations for 2021. TRV did not provide specific 2021 guidance, which is consistent with previous quarters in 2020 after TRV pulled its outlook in Q1 2020 for renewal premium change and its underlying margins as a result of the uncertainty associated with the potential impacts associated with Covid-19. TRV did provide an outlook for net investment income, and also provided helpful color around other line items in the model. TRV still expects 2021 **fixed income NII** to be in the \$420-430 million range per quarter on an after-tax basis during the remaining three quarters of 2021. TRV did not call out any **alternative investment income** trends. For **catastrophe losses**, TRV highlighted that as of the Q1 it has incurred \$915 million towards the \$1.9 billion retention under its aggregate program. TRV did not point to a specific level of **share repurchases** and they pointed to adding to their authorization (by \$5 billion) as the program was down to \$800 million after the Q1 repurchases (which is typically around the level when they add to their buyback program). In **Business Insurance**, TRV did not call out the direct level of Covid-19 losses in the quarter (and pointed to the frequency benefit as more than offsetting the losses) and pointed to being able to continue to expand margins this year as rate remains in excess of loss trend. Rate exceeded loss trend by a little less than 2 points in the quarter (picking up from over 1.5 points in Q4). **Bond and Specialty** did not have a specific guidance for the year (last quarter TRV said they expected the underlying margin to be better than the 87% in H2 2020 during 2021) but they did call out continuing to see a Covid-19 impact. **Personal lines** results benefited from favorable frequency but TRV pointed to starting to see miles driven move back to pre-pandemic levels. In homeowners' results were impacted by elevated fire losses. On the **expense ratio**, TRV highlighted that the quarter was impacted by volume-related costs (ie, commissions).

Exhibit 2 - TRV Summary Of Guidance

	2020 Outlook	2020 And 2021 Outlook					
	Provided With Q3 2019 Earnings	Provided With Q4 2019 Earnings	Provided With Q1 2020 Earnings	Provided With Q2 2020 Earnings	Provided With Q3 2020 Earnings	Provided With Q4 2020 Earnings	Provided With Q1 2021 Earnings
Underlying Margins							
Business Insurance	Margins higher y-o-y for the first three quarters of 2020	Margins higher for 2020, but weaker in Q1 due to the adjustments taken in Q2-Q4 2019					TRV expects to expand margins this year as rate remains in excess of loss trend.
Bond and Specialty Insurance	Margins broadly consistent y-o-y for the first three quarters of 2020	Margins broadly consistent over all quarters of 2020					Did not provide specific guidance, but did say last quarter they expected the underlying margin to be better than the 87% in H2 2020 during 2021.
Personal Insurance	Margins higher y-o-y for the first three quarters of 2020	Underlying combined ratio better in 2020 (in Q2-Q4 due to low non-cat weather)	TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19.				Consistent with previous quarters during the pandemic, TRV provided guidance for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2021.
Personal auto	Margins broadly consistent y-o-y for the first three quarters of 2020	Broadly consistent underlying combined ratio					Q1 results benefited from favorable frequency, but TRV pointed to seeing miles driven returning to pre-pandemic levels.
Homeowners'	Margins higher y-o-y for the first three quarters of 2020	Underlying combined ratio better in 2020 (in Q2-Q4 due to low non-cat weather)					
Renewal Premium Growth							
Business Insurance	Positive and higher on average y-o-y for first three quarters of 2020	Positive and higher on average y-o-y for all of 2020					TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic.
Bond and Specialty Insurance	Management liability: Positive and higher on average y-o-y for first three quarters of 2020	Management liability: Positive and higher on average y-o-y for all of 2020	The company expects the decreased economic activity to weigh on premium volumes for 2020. TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19.				TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic.
Personal auto	Positive but lower on average y-o-y for first three quarters of 2020	Positive but lower on average y-o-y for all of 2020					
Homeowners'	Positive and higher on average y-o-y for first three quarters of 2020	Positive and higher on average y-o-y for all of 2020					
Investment Income (Fixed Income And Short-Term Investments)							
	\$10-\$15 million lower per quarter for the first three quarters of 2020	\$5-\$10 million lower per quarter for all quarters of 2020	Approx. \$20 million lower per quarter for the remainder of 2020 and "significantly negative" in Q2 2020.	Approx. \$35-40 million lower per quarter for the remainder of 2020.	Approx. \$35-40 million lower per quarter for the remainder of 2020. For 2021, NII to be between \$420-430 million per quarter	TRV still expects 2021 fixed income NII to be in the \$420-430 million range on an after-tax basis in 2021. TRV also noted that new money yields are coming on at 90-100bps (versus 100-110bps in 2020), although it did not have an impact on Q1 results given the duration of the portfolio.	TRV still expects 2021 fixed income NII to be in the \$420-430 million range on an after-tax basis in 2021. TRV also noted that new money yields are coming on at 90-100bps (versus 100-110bps in 2020), although it did not have an impact on Q1 results given the duration of the portfolio.

Source: Company reports and Wells Fargo Securities, LLC

Pricing momentum in commercial lines. Business Insurance renewal rate change was +8.4%, just below +8.5% in Q4, but up when compared to +8.2% in Q3, +7.3% in Q2, and 5.9% last Q1. We had expected slight improvement in the quarter. Exposure growth was +0.8%, versus the -0.5% last quarter. TRV also noted that it achieved rates that were near or above record highs in all lines away from workers' compensation.

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 take is the stable pricing environment and the expectation that they continue to expect to see underlying margin improvement throughout 2021.

Commercial lines pricing remains firm in Q1 with renewal rates up 8.4% in business insurance, just below 8.5% in Q4 and higher than the 8.2% in Q3. TRV said that it continues to see rates that are at or near record highs in all lines but workers' comp. This continued rate firming is 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.

1. *Underlying margin in Business Insurance benefited from rate exceeding trend.* TRV said that earned rate exceeded loss trend by a little less than 2.0 points in Business Insurance, which is better than the above 1.5 points they pointed to in the Q4. TRV also said that it expects the favorable rate environment to persist and result in expanding margins in Business Insurance. To us, this points to strong underlying margins for the group in the Q1, with the potential for greater improvement in 2021 as higher rates are earned in. **This would be a positive as well for the commercial lines insurers, including AIG, CB, HIG and WRB.**
2. *Covid-19 losses were not specifically called out.* There were some pushes and pulls within the segments - it sounded like Covid-19 was a wash in Business Insurance (with losses offset by frequency benefits), a negative to Bond & Specialty and a benefit to personal auto (although this should wane as driving picks up). **This ties to our overall thought that Covid-19 related losses should slow for P&C insurers in the Q1 relative to other quarters of 2020.**
3. *Personal auto continues to see favorable benefits from the ongoing pandemic, but that should subside.* TRV's Personal Auto book saw continued benefits to its margin from lower claims frequency as a result of fewer miles driven. The Personal Auto segment's underlying margin came in at 86.6%, which was better than the 87.4% in Q4, and better than last Q1 (at 90.9% although last Q1 only benefited from the low driving due to the pandemic for part of March). TRV did point to driving returning toward pre-pandemic levels as restrictions have eased and economic activity is picking up. **In general, we remain cautious on the personal auto insurers (ALL and PGR) due to the lack of pricing in the market, combined with the potential for frequency to return to more normalized levels as driving picks up (something which TRV alluded to on its conference call).**
4. *Net investment income guide is unchanged.* TRV once again maintained its 2021 quarterly fixed income related NII guidance and still expects to report between \$420-430 million per quarter on an after-tax basis, which to us shows that the decline in interest rates is largely captured within numbers right now.
5. *Strong alternative investment quarter.* Alternative related investment income totaled \$218 million in Q1, up from \$182 million in Q4 2020 and \$173 million in Q3 2020. **We think alternative related investment income could surprise to the upside, for both P&C and life insurers, based on TRV's strong results.**
6. *Repurchases picked up in the Q1.* TRV repurchased \$397 million shares in Q1, picking up from \$201 million shares in Q4 after not repurchasing any in both Q3 or Q2. **We expect all insurers, P&C and life, to pick up their level of buyback activity in the Q1, especially given the still attractive valuations across both the P&C and life insurance sectors.**

Highlights Of Our Estimate Changes

Overview of our estimate changes. Exhibit 4 highlights the changes we made to our earnings model following Q1 2021 earnings. Our 2021 EPS estimate rises to \$10.10 (from \$9.80) mostly to reflect the earnings beat, our 2022 estimate is unchanged at \$11.95 and our 2023 estimate goes to \$12.95 from \$12.80 to reflect better Bond & Specialty margins.

Exhibit 3 - TRV Summary of Estimate Changes

Income Statement (\$M, except per share data)	Current			Prior Estimates			Delta (Absolute)		
	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Gross premiums written	33,066	34,552	36,116	32,830	34,308	35,865	236	244	251
% growth (yr/yr)	4.1%	4.5%	4.5%	3.4%	4.5%	4.5%	0.7%	(0.0%)	(0.0%)
Net premiums written	31,041	32,532	34,223	31,100	32,708	34,413	(59)	(176)	(189)
% growth (yr/yr)	4.4%	4.8%	5.2%	4.6%	5.2%	5.2%	(0.2%)	(0.4%)	(0.0%)
Increase in unearned premiums	(1,020.1)	(906.1)	(1,024.7)	(1,040.9)	(984.7)	(1,037.5)	20.8	78.6	12.7
Net premiums earned	30,021	31,626	33,199	30,059	31,724	33,375	(38)	(97)	(177)
% growth (yr/yr)	3.4%	5.3%	5.0%	3.5%	5.5%	5.2%	(0.1%)	(0.2%)	(0.2%)
Net investment income	2,358	2,200	2,217	2,323	2,200	2,219	34	0	(2)
Fee income	422	422	422	429	429	429	(7)	(7)	(7)
Other income	337	348	356	327	335	343	10	13	13
Total revenue	33,138	34,597	36,194	33,138	34,688	36,366	(1)	(91)	(173)
Losses and loss adjustment expenses	20,189	20,778	21,759	20,312	20,871	21,969	(123)	(93)	(210)
Amortization of deferred acquisition costs	4,888	5,139	5,394	4,888	5,155	5,422	1	(16)	(27)
General and administrative expenses	4,674	4,882	5,101	4,674	4,892	5,111	(1)	(10)	(10)
Interest expense	328	334	337	328	334	337	0	0	0
Total expenses	30,079	31,133	32,591	30,202	31,251	32,838	(123)	(119)	(248)
Pretax operating income	3,059	3,464	3,603	2,937	3,437	3,528	122	27	75
% growth (yr/yr)	(5.4%)	13.2%	4.0%	(9.2%)	17.0%	2.7%	3.8%	(3.8%)	1.3%
<u>Income tax expense/(benefit)</u>	<u>513</u>	<u>572</u>	<u>594</u>	<u>485</u>	<u>567</u>	<u>582</u>	<u>28</u>	<u>5</u>	<u>12</u>
After-tax core income	2,546	2,892	3,008	2,452	2,870	2,946	94	23	63
% growth (yr/yr)	(5.2%)	13.6%	4.0%	(8.7%)	17.0%	2.7%	3.5%	(3.4%)	1.3%
Company income tax rate (%)	16.8%	16.5%	16.5%	16.5%	16.5%	16.5%	0.3%	0.0%	0.0%
Weighted average number of diluted shares	250	241	231	249	239	229	2	2	2
Participating share-based awards - allocated income	17	16	16	16	16	16	1	0	0
After-tax core income	\$10.10	\$11.95	\$12.95	\$9.80	\$11.95	\$12.80	\$0.30	(\$0.01)	\$0.15
Profitability Metrics									
Loss and loss adjustment expense ratio	66.7%	65.1%	65.0%	67.1%	65.2%	65.3%	-0.3%	-0.1%	-0.3%
<u>Underwriting expense ratio</u>	<u>29.7%</u>	<u>29.5%</u>	<u>29.4%</u>	<u>29.6%</u>	<u>29.5%</u>	<u>29.4%</u>	<u>0.1%</u>	<u>0.0%</u>	<u>0.1%</u>
Combined ratio	96.4%	94.6%	94.4%	96.7%	94.7%	94.7%	-0.3%	-0.1%	-0.2%
Points on the combined ratio	6.4%	4.6%	4.6%	5.7%	4.6%	4.5%	0.7%	0.0%	0.0%
Points on the combined ratio	-0.8%	0.0%	0.0%	0.2%	0.1%	0.1%	-1.0%	-0.1%	-0.1%
Current accident year combined ratio	90.8%	90.0%	89.8%	90.8%	90.0%	90.1%	0.0%	0.0%	-0.2%
Underlying loss ratio	61.1%	60.5%	60.4%	61.2%	60.5%	60.7%	-0.1%	0.0%	-0.3%
Segment Underwriting Income (in millions):									
Business Insurance	(\$336)	\$113	\$409	(\$266)	\$113	\$416	(\$70)	(\$1)	(\$7)
Bond & Specialty Insurance	\$468	\$597	\$620	\$447	\$588	\$537	\$21	\$10	\$83
Personal Insurance	\$591	\$573	\$373	\$467	\$568	\$384	\$124	\$5	(\$12)
Book value per share	\$116.03	\$123.05	\$131.15	\$120.78	\$128.06	\$136.27	(\$4.76)	(\$5.01)	(\$5.12)
ROE	8.7%	10.0%	10.2%	8.3%	9.6%	9.7%	0.4%	0.4%	0.5%

Source: Company reports and Wells Fargo Securities, LLC estimates

Pricing Accelerating In Commercial Lines

Business Insurance Rating Environment –TRV Rates Were Stable, While Exposure Inflected Positively

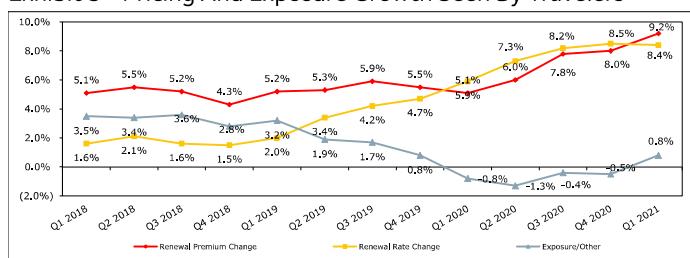
- In the Q1, the *Business Insurance* renewal rate change was +8.4%, just below +8.5% (revised higher) in Q4, but up when compared to +8.2% (revised higher) in Q3, +7.3% (revised lower) in Q2, and 5.9% (revised lower) last Q1. Exposure growth was +0.8% versus -0.5% in the Q4 2020 (revised up from -1.1%), -0.4% in Q3 2020 (revised up from -1.1%) and better than the -1.3% in Q2 2020 (revised up from -1.9%) and the -0.8% in Q1 (revised down from -0.4%). See Exhibits 4 and 5 below, which shows the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change.
- TRV stopped providing forward guidance on its RPC (last summer) as the company was unsure of how the economy would be impacted from 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 the Q2.

Exhibit 4 - Domestic Business Insurance Renewal Pricing Results By Quarter

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
RPC	5.1%	5.5%	5.2%	4.3%	5.2%	5.3%	5.9%	5.5%	5.1%	6.0%	7.8%	8.4%	9.2%
RNC	1.6%	2.1%	1.6%	1.5%	2.0%	3.4%	4.2%	4.2%	5.3%	7.3%	6.2%	8.5%	8.4%
Exposure/other	3.5%	3.4%	3.6%	2.8%	3.2%	3.8%	1.8%	1.7%	0.8%	-0.8%	-1.3%	-0.4%	0.8%
% of BI NPW in Workers' Comp	29.8%	24.7%	24.3%	23.4%	28.6%	23.1%	23.3%	22.1%	26.2%	20.7%	20.2%	19.3%	23.0%

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 Auto - TRV Continues To Secure Rate, Although The Level Is Slowing

- Within *Personal Insurance*, TRV saw a deceleration in rate in personal auto in the quarter. The RPC in auto was +0.2% in the Q1 versus 0.7% in the Q4, 1.5% in the Q3, 1.6% in Q2, and 2.3% in Q1. On the auto side, TRV said that they have started to see driving move back toward pre-pandemic levels and they are monitoring trends and incorporating them into their state-specific pricing decisions. Homeowners' pricing decelerated modestly but still remained in the high-single digits at 7.7% versus 8.2% in the Q4, 8.1% in the Q3, 7.6% in Q2, and 7.4% in Q1 of 2020.
- Travelers saw its new business in auto grow in the Q1, with auto new business premiums totaling \$278 million versus \$269 million in the Q4, \$276 million in the Q3, \$251 million in Q2, and \$244 million in Q1.

Exhibit 6 - Personal Insurance Business Statistics

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Automobile					
Retention	84%	84%	84%	84%	84%
Renewal Premium Change	2.3%	1.6%	1.5%	0.7%	0.2%
Policies-In-Force (PIF, in thousands)	2,700	2,732	2,761	2,779	2,807
PIF Yearly Change	1%	2%	3%	3%	4%
PIF Sequential Change	-	1%	1%	1%	1%
New Business (\$ in millions)	\$244	\$251	\$276	\$269	\$278
Homeowners & Other					
Retention	85%	85%	84%	85%	85%
Renewal Premium Change	7.4%	7.6%	8.1%	8.2%	7.7%
Policies-In-Force (PIF, in thousands)	5,286	5,435	5,549	5,617	5,703
PIF Yearly Change	8%	9%	9%	8%	8%
PIF Sequential Change	2%	3%	2%	1%	2%
New Business (\$ in millions)	\$218	\$261	\$298	\$272	\$263

Source: Company data and Wells Fargo Securities, LLC

Margins Benefited From Favorable PYD

Underlying Results In-Line With Us

- The consolidated combined ratio was 96.6%, beating our 97.6% estimate largely reflective of a higher level of favorable reserve releases which more than offset higher cat losses. Cats of \$835 million (of which \$703 million were related to the Texas winter storms) were above our \$615 million estimate, while favorable reserve development of \$317 million were significantly above our \$16 million estimate due to higher releases in Business Insurance and Personal Lines. The underlying combined ratio of 89.5% was in-line with our estimate, and improved 1.9 points from last year. Underlying results beat us in Bond & Specialty, while Personal Lines was just below us, and Business Insurance was about in-line with us.
- Catastrophe losses totaled \$835 million with \$703 million related to the Texas winter storm. TRV noted that the \$835 million in cat losses was a record level for the first quarter. Through the end of the Q1 TRV has \$915 million of cat losses counting towards its aggregate retention (due to TRV's cat definition some losses count towards the aggregate retention that the company does not consider cat).
- Reserve releases were \$317 million, significantly better than our \$16 million estimate due to higher releases in Business Insurance and Personal Lines. Business Insurance which saw favorable development of \$134 million (significantly better than our \$2.5 million and the highest quarterly level for the segment in three years) as releases in workers' comp were only partially offset by strengthening for environmental reserves and Personal Lines saw \$168 million (higher than our \$13 million) which included \$62 million subrogation benefit from the Woolsey fire. There was also \$10 million of subrogation from the Woolsey fire within Business Insurance.

Exhibit 7 - Underlying Combined Ratio – Deterioration In Loss Ratio, But Improvement In Expense Ratio

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Reported Combined Ratio	95.5%	98.1%	96.6%	97.5%	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%	94.9%	86.7%	96.6%
Catastrophe Losses, net of reinsurance	5.4%	7.3%	3.8%	8.8%	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%	5.3%	0.4%	11.3%
Prior Year Reserve Development (Favorable)/Unfavorable	(2.3%)	(2.8%)	(0.2%)	(2.4%)	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)
Underlying Combined Ratio	92.4%	93.6%	93.0%	91.1%	91.6%	94.9%	94.1%	92.1%	91.3%	91.4%	91.5%	88.7%	89.5%
Underlying (improvement) deterioration	0.7%	0.1%	0.2%	(1.3%)	(0.8%)	1.3%	1.1%	0.9%	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)
Underlying Loss Ratio	61.8%	62.9%	63.3%	61.6%	61.9%	64.7%	64.5%	63.0%	61.3%	60.4%	62.2%	59.3%	59.7%
Change from last year	0.8%	0.5%	0.9%	(0.1%)	0.1%	1.8%	1.3%	1.3%	(0.7%)	(4.3%)	(2.3%)	(3.6%)	(1.6%)
Underlying Expense Ratio	30.6%	30.7%	29.7%	29.5%	29.7%	30.2%	29.5%	29.1%	30.0%	31.0%	29.3%	29.4%	29.9%
Change from last year	(0.1%)	(0.4%)	(0.7%)	(1.2%)	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%	0.8%	(0.2%)	0.3%	(0.0%)

Source: Company data and Wells Fargo Securities, LLC

Exhibit 8 - Underlying Combined Ratio By Segment – Deterioration In All Segments

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
Business Insurance	97.3%	97.0%	94.0%	93.6%	93.7%
Underlying (improvement) deterioration	2.3%	(0.4%)	(1.8%)	(2.8%)	(3.6%)
Bond & Specialty	85.7%	88.1%	89.0%	85.0%	84.2%
Underlying (improvement) deterioration	4.6%	7.1%	5.5%	3.7%	(1.5%)
Personal Insurance	84.0%	84.0%	88.7%	83.1%	85.4%
Underlying (improvement) deterioration	(5.1%)	(10.7%)	(5.3%)	(5.3%)	1.4%
Personal Insurance:					
Automobile	90.9%	86.1%	81.5%	87.4%	86.6%
Underlying (improvement) deterioration	(1.2%)	(7.7%)	(11.2%)	(12.2%)	(4.3%)
Homeowners & Other	75.7%	82.0%	96.8%	78.5%	84.1%
Underlying (improvement) deterioration	(6.9%)	(10.9%)	3.3%	5.0%	8.4%

Source: Company data and Wells Fargo Securities, LLC

Investment Income And Other

Investment Income Beats Us; 2021 Guidance Unchanged

- Net investment income was \$701 million pre-tax, better than our \$660 million estimate. Travelers' after-tax book yield on its investment portfolio was 2.9%, modestly above the 2.8% yield for Q4 2020. Fixed income investments added \$491 million pre-tax, lower than our \$494 million estimate, while alts were \$218 million, higher than our \$172 million estimate and benefited from higher private equity returns. Short-term investments added \$3 million, below our \$4 million estimate.
- TRV continues to expect its fixed income investment income to total \$420-430 million after-tax for each quarter of 2021 as it is forecasting the benefit of higher average levels of invested assets to be more than offset by a lower average yield given the lower interest rate environment. TRV also noted that new money yields are coming on at 90-100bps (versus 150bps last quarter) although it did not have an impact on Q1 results given the duration of the portfolio.

Capital Management – Announces New Repurchase Authorization

- TRV repurchased \$397 million for 2.7 shares in the Q1, better than our estimate for \$375 million of share repurchases. Of the \$397 million repurchased, around \$41 million (or 0.3 million shares) were related to shares retained to cover payroll withholding taxes in connection with the vesting of restricted stock unit awards and performance share awards, and shares used by TRV employees to cover the price of certain stock options that were exercised. Dividends were \$204 million, bringing total capital return to \$625 million, compared to the \$755 million of core earnings. Total capital return to shareholders was 82.8% of core earnings in Q1 2021 and we are currently forecasting 94.1% and 81.9% in 2021 and 2022, respectively.
- In conjunction with earnings, TRV added \$5 billion to its buyback program. The program had \$805 million remaining on it after the Q1 repurchases. TRV said that the announcement of this authorization did not have any impact on its M&A strategy, but instead was authorized given the low level of remaining authorization under its existing plan.
- In terms of M&A, TRV said its approach to M&A has not changed and would be open to transactions that would reduce volatility, or add new product lines/geographies/scale. The company did say that it can still continue to be successful without pursuing M&A.

Premium Growth Just Below Us

- Net premiums written rose 2.2%, just below our 2.8% estimate and the +2.7% in the Q4 2020. Results were ahead of us Bond & Specialty, but missed us in Business Insurance and Personal Lines. Gross premiums written growth of 3.1% was ahead of our 2.0% estimate, but was slightly lower than 3.2% last quarter.
- Business insurance net premiums written were down 1.6% versus our down 0.5% estimate and down 1.9% in the Q4. Bond & Specialty new premiums written were +9.0% versus our +4.7% estimate and the +12.0% last quarter. Personal Insurance net premiums written were +6.6% versus our +7.8% estimate and +7.6% last quarter. Within Personal Insurance, auto net premiums written of +2.3% missed our +6.2% estimate and were modestly above +1.8% last quarter, while home net premiums written growth of +12.4 was ahead of our 10.0% estimate but was modestly lower relative to 12.6% last quarter.

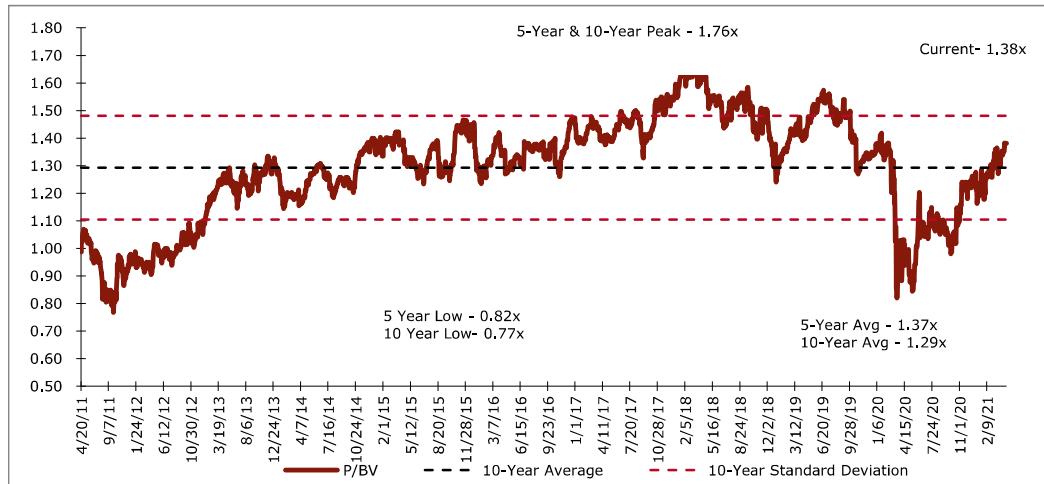
CVA Reserves

- TRV noted that they took a charge related to the Child Victims Act (CVA) in Q1 2019 and is comfortable with their loss reserves at the moment. TRV did not want to comment on whether they would consider settling with the Boy Scouts, similar to what HIG announced last week.

Valuation

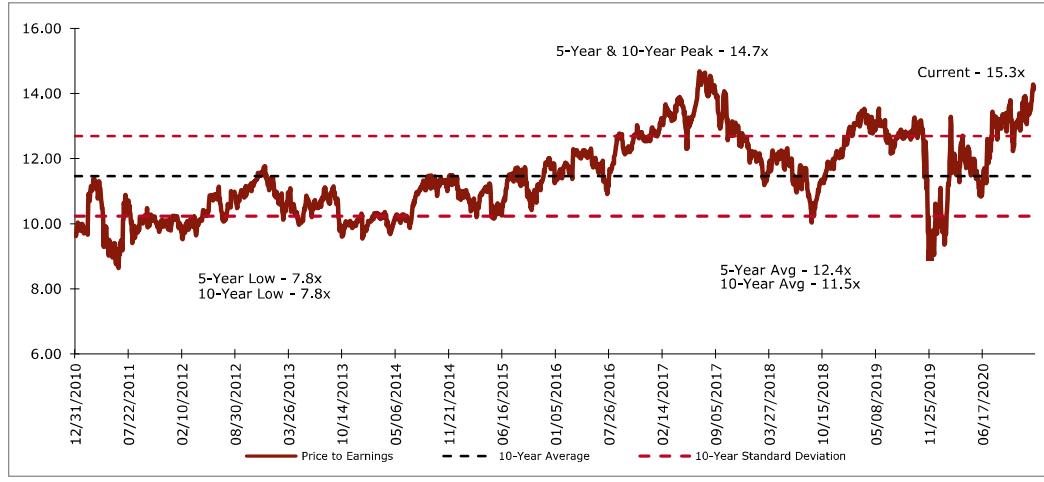
Current Valuation. The TRV shares are now trading at 1.38x book value, just above its 5-year (1.37x) average and its 10-year (1.29x) average multiple. The shares are trading well below peak levels of 1.76x. On a price-to-earnings basis, the shares are trading at 15.3x our 2021 EPS estimate and 12.9x our 2022 EPS estimate versus the 10-year average of 11.5x and 10-year peak of 14.7x

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 Companies, Inc.
Earnings Projections and Operating Results
(\$ in millions, except per share data)

Consolidated Income Statement	2018	2019	2020	Q1	Q2E	Q3E	Q4E	2021E	Q1E	Q2E	Q3E	Q4E	2022E	Q1E	Q2E	Q3E	Q4E	2023E
Gross premiums written	29,252.0	31,063.0	31,763.0	8,407.0	8,071.7	8,632.6	8,019.7	33,068.4	8,771.1	8,369.5	9,029.0	8,382.1	34,551.7	9,153.9	8,751.3	9,446.8	8,763.9	36,116.0
% growth (y/y)	5.8%	6.2%	2.3%	3.1%	3.3%	4.7%	5.3%	4.1%	4.3%	4.5%	4.6%	4.5%	4.5%	4.4%	4.6%	4.6%	4.5%	
% retained	94.7%	93.8%	93.6%	89.3%	95.1%	94.8%	96.4%	93.9%	89.7%	95.3%	95.0%	96.7%	94.2%	90.5%	95.6%	95.6%	97.3%	
Net premiums written	27,690.0	29,151.0	29,732.0	7,505.0	7,617.1	8,184.8	7,734.0	31,040.9	7,869.2	7,977.6	8,580.1	8,105.3	32,532.3	8,282.7	8,384.2	9,029.7	8,526.7	34,223.4
% growth (y/y)	5.6%	5.3%	2.0%	2.2%	3.7%	5.3%	6.4%	4.4%	4.9%	4.7%	4.8%	4.8%	4.8%	5.3%	5.1%	5.2%	5.2%	
Increase in unearned premiums	(631.0)	(879.0)	(688.0)	(119.0)	(350.6)	(594.6)	(44.2)	(1,020.1)	(99.8)	(324.0)	(552.1)	(69.9)	(906.1)	(135.0)	(359.0)	(597.1)	(60.0)	(1,024.7)
Net premiums earned	27,059.0	28,272.0	29,044.0	7,386.0	7,266.5	7,590.2	7,778.1	30,020.9	7,769.4	7,653.7	8,028.0	8,175.2	31,626.2	8,147.1	8,026.2	8,432.7	8,592.7	33,198.6
% growth (y/y)	5.4%	4.5%	2.7%	2.2%	4.5%	2.8%	4.0%	3.4%	5.2%	5.3%	5.8%	5.1%	5.3%	4.9%	4.9%	5.0%	5.1%	
Net investment income	2,474.0	2,468.0	2,277.0	701.0	553.3	552.3	551.3	2,357.9	550.8	549.8	549.8	549.8	2,200.4	551.3	553.3	555.3	557.2	2,217.1
% growth (y/y)	3.2%	(0.2%)	(9.8%)	14.7%	106.5%	(17.7%)	(16.6%)	5.8%	(21.4%)	(0.6%)	(0.4%)	(0.3%)	(0.7%)	0.1%	0.6%	1.0%	1.3%	
Fee income	432.0	450.0	429.0	101.0	114.0	101.0	106.0	422.0	101.0	114.0	106.0	422.0	101.0	114.0	101.0	106.0	422.0	
% growth (y/y)	(3.4%)	6.3%	(6.5%)	(6.5%)	0.0%	0.0%	0.0%	(1.6%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other income	203.0	261.0	279.0	81.0	83.0	84.0	85.0	337.0	86.0	85.0	86.0	85.0	348.0	82.0	86.0	86.0	92.0	
% growth (y/y)	27.7%	32.5%	7.8%	8.7%	62.7%	(2.8%)	8.0%	20.8%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.3%	
Total premiums	50,168.0	51,459.0	51,970.0	8,800.0	8,800.0	8,800.0	8,800.0	51,197.8	8,800.5	8,800.5	8,800.5	8,800.5	51,550.6	8,764.3	8,764.3	9,175.9	9,149.9	51,833.7
% growth (y/y)	5.2%	1.6%	1.6%	0.3%	8.8%	8.8%	8.8%	1.1%	2.1%	3.6%	2.0%	4.8%	5.3%	4.4%	4.5%	4.5%	4.5%	
Losses and loss adjustment expenses	18,291.0	19,133.0	19,123.0	4,970.0	5,011.0	5,298.8	4,841.2	20,189.1	4,920.4	5,304.3	5,477.9	5,075.3	20,777.8	5,172.5	5,545.4	5,695.3	5,345.5	21,758.8
% growth (y/y)	4.7%	4.6%	(0.1%)	3.8%	(0.5%)	8.4%	11.5%	5.6%	(1.0%)	4.4%	3.4%	4.8%	2.9%	5.1%	4.5%	4.0%	5.3%	
Amortization of deferred acquisition costs	4,381.0	4,610.0	4,773.0	1,207.0	1,191.1	1,233.4	1,266.7	4,888.3	1,262.7	1,242.5	1,303.4	1,330.2	5,138.8	1,324.0	1,303.5	1,368.9	1,397.8	5,394.2
% growth (y/y)	5.2%	5.0%	3.7%	2.5%	0.7%	2.2%	4.3%	24.4%	4.8%	5.2%	5.0%	5.1%	4.9%	4.9%	5.0%	5.1%	5.0%	
General and administrative expenses	4,297.0	4,365.0	4,503.0	1,163.0	1,163.5	1,168.5	1,178.5	4,673.5	1,208.5	1,209.5	1,224.5	1,239.5	4,882.0	1,282.0	1,264.5	1,279.5	1,294.5	5,100.5
% growth (y/y)	3.0%	1.6%	3.3%	2.3%	3.8%	5.4%	3.2%	3.6%	3.9%	4.0%	4.8%	5.2%	4.5%	4.4%	4.5%	4.4%	4.5%	
Interest expense	352.0	344.0	339.0	82.0	82.0	82.0	82.0	328.0	83.5	83.5	83.5	83.5	334.0	84.3	84.3	84.3	84.3	337.3
% growth (y/y)	(4.6%)	(2.3%)	(1.5%)	(2.4%)	(3.6%)	(5.7%)	(1.2%)	(3.2%)	1.8%	1.8%	1.8%	1.8%	1.0%	1.0%	1.0%	1.0%	1.0%	
Total expenses	27,321.0	28,443.0	28,744.0	7,422.0	7,507.0	7,780.8	7,368.5	30,079.0	7,475.1	7,839.8	8,088.2	7,728.4	31,132.6	7,842.8	8,197.8	8,428.0	8,122.1	32,590.7
% growth (y/y)	4.4%	4.1%	1.1%	3.3%	0.3%	6.7%	8.7%	4.6%	0.7%	4.4%	4.0%	4.9%	3.5%	4.9%	4.6%	5.1%	4.7%	
Underwriting income	522.0	622.0	1,068.0	147.0	147.0	(45.2)	(7.6)	597.7	691.9	478.8	114.4	123.2	636.2	1,249.6	489.5	26.7	190.0	669.0
add back: general and expense in Other	154.0	196.0	228.0	66.0	63.5	63.5	63.5	265.6	63.5	63.5	63.5	63.5	254.0	63.5	63.5	63.5	63.5	254.0
Net Underwriting income	676.0	828.0	1,296.0	213.0	183	55.9	661.2	948.4	542.3	74.9	186.7	699.7	1,503.6	553.0	90.2	253.5	724.4	1,621.1
Pretax operating income	2,847.0	3,025.0	3,235.0	847.0	509.1	546.7	1,156.0	3,058.8	1,032.1	562.7	675.6	1,193.6	3,484.0	1,044.6	582.7	748.9	1,226.8	3,603.0
% growth (y/y)	13.2%	6.3%	6.9%	3.5%	(61.9%)	(42.4%)	(5.4%)	21.9%	10.5%	23.6%	3.3%	13.2%	1.2%	3.6%	10.9%	2.8%	4.0%	
Income tax expense/(benefit)	417.0	488.0	549.0	145.0	84.0	90.2	190.7	512.9	170.3	92.8	111.5	196.9	571.6	172.4	96.1	123.6	202.4	594.5
After-tax core income	2,430.0	2,537.0	2,686.0	699.0	425.1	456.5	965.3	2,545.0	661.8	469.9	564.1	996.6	2,692.4	872.2	486.6	625.3	1,024.4	3,008.5
% growth (y/y)	18.9%	4.4%	5.9%	3.4%	(95.0%)	(42.8%)	(5.2%)	23.3%	10.5%	23.6%	3.3%	13.6%	1.2%	3.6%	10.9%	2.8%	4.0%	
Realized gains/(losses) on investments and other, after-tax	93.0	85.0	11.0	0.0	0.0	0.0	0.0	34.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net income	2,528.0	2,622.0	2,697.0	733.0	425.1	456.5	965.3	2,579.8	861.8	469.9	564.1	996.6	2,692.4	872.2	486.6	625.3	1,024.4	3,008.5
% growth (y/y)	22.7%	3.8%	2.9%	22.2%	(1,162.7%)	(44.8%)	(26.3%)	(4.3%)	17.8%	15.5%	23.6%	3.3%	12.1%	1.2%	3.6%	10.9%	2.8%	4.0%
Company income tax rate (%)	14.6%	16.1%	17.0%	17.5%	16.5%	16.5%	16.5%	16.8%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	
Weighted average number of diluted shares	269.8	262.4	254.1	251.7	249.3	246.8	260.5	244.4	242.0	239.6	237.2	240.8	234.7	232.3	229.9	227.5	231.1	
% growth (y/y)	(3.2%)	(2.8%)	(3.1%)	(0.7%)	0.0%	(2.0%)	(3.1%)	(1.4%)	(3.8%)	(3.8%)	(3.9%)	(3.9%)	(4.0%)	(4.0%)	(4.1%)	(4.1%)	(4.0%)	
Participating share-based awards - allocated income	1,900%	19.0	21.8	5.0	4.0	4.0	4.0	17.0	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	4.0	16.0
Per share:																		
After-tax core income	\$8.94	\$9.60	\$10.48	\$2.73	\$1.67	\$1.82	\$3.89	\$10.10	\$3.51	\$1.93	\$2.34	\$4.19	\$11.95	\$3.70	\$2.08	\$2.70	\$4.49	\$12.95
% growth (y/y)	22.8%	7.4%	9.2%	4.2%	NM	(41.7%)	(20.7%)	(3.7%)	28.5%	15.1%	28.8%	7.5%	18.3%	5.4%	7.9%	15.6%	7.2%	8.4%
Net income	\$9.27	\$9.92	\$10.52															
% growth (y/y)	27.0%	7.0%	6.0%															
GAAP ratios:	2018	2019	2020	Q1	Q2E	Q3E	Q4E	2021E	Q1E	Q2E	Q3E	Q4E	2022E	Q1E	Q2E	Q3E	Q4E	2023E
less: Fee income - Underwriting expenses	278.0	285.0	268.0	65.0	64.3	68.9	69.2	267.5	73.1	71.4	76.6	76.6	297.7	76.5	74.6	80.3	80.2	311.7
less: Billing and policy fees	93.0	108.0	97.0	27.0	34.6	35.1	35.7	132.4	36.3	36.5	37.3	37.7	147.8	38.0	38.3	39.2	39.7	155.3
less: Fee income - Loss and loss adjustment expenses	154.0	174.0	161.0	38.0	36.5	39.3	39.5	153.3	43.4	42.3	45.7	45.7	177.1	45.6	44.4	46.1	46.0	186.1
Combined Ratio	66.8%	66.9%	65.1%	66.7%	69.4%	69.3%	67.7%	66.7%	62.8%	66.8%	67.7%	61.5%	65.1%	62.8%	66.5%	67.0%	61.7%	65.0%
loss: loss and loss adjustment expense ratio	30.1%	29.6%	29.2%	30.0%	29.4%	29.3%	29.7%	29.7%	29.6%	29.3%	29.3%	29.5%	29.5%	29.6%	29.8%	29.2%	29.2%	29.4%
Combined ratio	96.9%	96.5%	95.0%	96.8%	99.2%	98.7%	91.0%	96.4%	92.4%	95.9%	96.9%	98.0%	94.8%	92.5%	95.2%	98.8%	94.4%	
Shareholders' equity	\$22,894.0	\$25,943.0	\$28,201.0	\$28,269.0	\$28,097.8	\$27,960.2	\$28,334.4	\$28,334.4	\$28,605.3	\$28,480.2	\$28,451.5	\$28,857.5	\$28,857.5	\$29,131.9	\$29,022.9	\$29,055.1	\$29,488.6	
Book value per share	\$98.84	\$101.55	\$115.68	\$112.42	\$112.82	\$113.37	\$116.03	\$116.03	\$118.31	\$118.98	\$120.08	\$123.05	\$123.05	\$125.51	\$126.36	\$127.65	\$131.15	
Common shares outstanding	263.6	255.5	252.4	251.5	249.0	246.6	244.2	244.2	241.8	239.4	234.5	234.5	234.5	232.1	229.7	227.3	224.8	
Operating ROE	10.3%	10.2%	9.7%	9.6%	5.9%	6.4%	13.8%	6.7%	12.0%	6.5%	7.8%	13.8%	10.0%	11.9%	6.8%	8.5%	13.9%	10.2%

Price Target Basis and Risk

Price Target for TRV: \$155.00 from \$150.00

Our price target of \$155 is based on around a ~1.25x multiple of our projected 2022 book value estimate of around \$123 and 13.0x our 2022 EPS estimate of \$11.95.

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

TRV

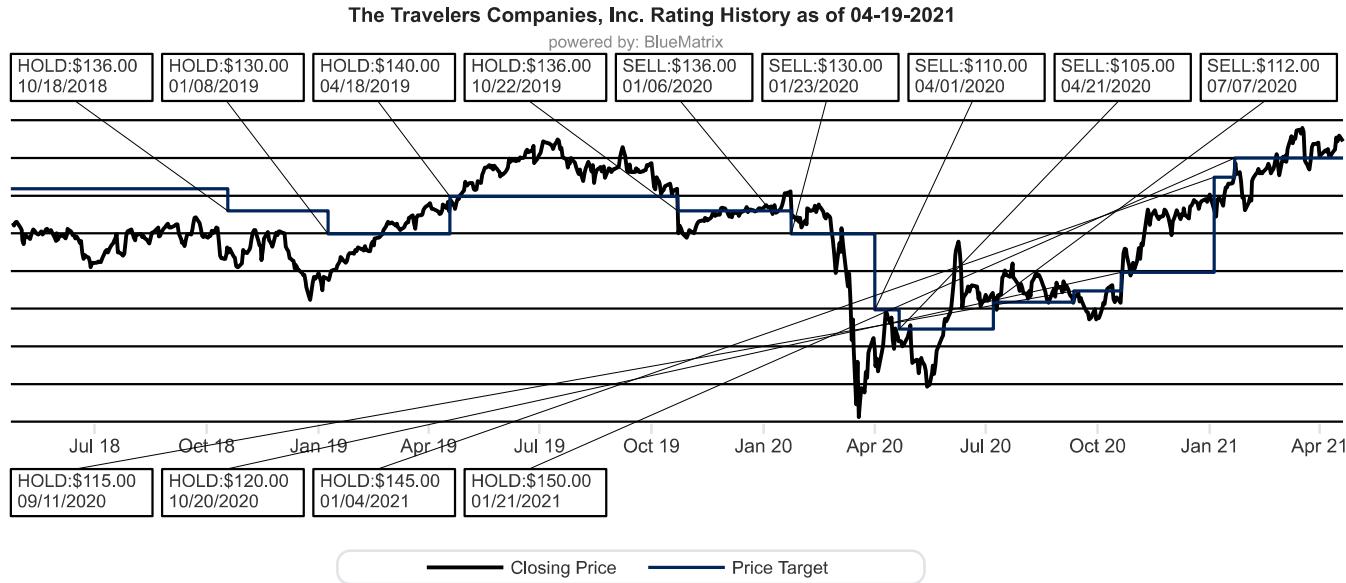
We believe that TRV will benefit from one of the hardest commercial pricing environment since 2003. Although we are positive on the commercial lines space as a whole, we are more cautious on TRV relative to peers due to its smaller account exposure and higher workers' comp focus as both are getting less 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 as Equal Weight as a result.

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- 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.

Additional Information Available Upon Request



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TRV:

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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 0-10% 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 April 19, 2021

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