

Equity Research

WELLS FARGO

Earnings Revised — April 19, 2022

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Higher Loss Trend Spooks the Market; Conference Call Round-Up

Our Call

Summary. TRV hosted a conference call on 4/19 to discuss Q1 results. The call focused on pricing and underlying trends. Our 2022 EPS goes down to \$12.85 (from \$13.35), while our 2023 goes up to \$14.50 (from \$13.65) and 2024 EPS goes up to \$16.20 (from \$15.10). Our 2022 estimate goes down as adjustments to our underlying margins (to reflect higher loss trend within BI) more than offsets higher investment income from the recent rise in yields and TRV's higher quarterly net investment income guide. For 2023 and 2024, our estimates go higher as greater investment income (from higher yields) more than offsets weaker underlying margins. Our price target is unchanged at \$180. TRV traded down (-4.9% versus the S&P which was +1.6%), reflecting underlying loss ratios falling short of expectations and the company adding to its loss trend assumption in the quarter.

- **The biggest take is the higher loss trend assumption.** TRV spoke about elevated severity with the inflationary environment and added to their loss trend assumption in the quarter. Even with the higher loss trend, they do think that written rate continues to exceed this elevated loss trend. While the core rate within Business Insurance (known as the RRC) dropped to 4.4% in the quarter (putting it below loss trend, which is now most likely close to 6%), Travelers said that a portion of its exposure counts as price (they have not wanted to say exactly how much exposure is counting as price), which helps put pricing above loss trend. The company saw around 100 basis points of earned rate over trend in BI in the quarter, and we are modeling for that to decelerate as we move through the year.
- **Is this the end of the hard part of the commercial cycle?** While commercial lines price slowed in the quarter as more lines are adequate, the higher loss picks seen at TRV could lead to higher written pricing from here (and prolong the time period that the market stays above loss trend). Further, while courts are slowly reopening, Travelers is still concerned about social inflation spiking as courts get back to pre-pandemic levels.
- **What about personal auto?** The personal auto results missed us, but were more than overshadowed by the higher loss trend in BI. Within auto, TRV flagged frequency returning to more normal levels and higher severity. They did say that they are aiming to get their price in personal auto close to the double digits on an overall basis by the end of the year. With the RPC at 3.1% in the quarter, they have ways to go to reach this target. We remain cautious on the personal auto sector - for more see our recent personal lines deep dive.
- **Our updated thoughts on the group.** While the slowdown in underlying margin improvement, and higher loss trend assumption, is broadly negative for the group we do think there are some positives to take from it. First of all this can add legs to the harder market (MarketScout for instance saw strong rate increases in March relative to the other months in the Q1 - see [Exhibit 2](#) inside) and all peers may not be affected to the same degree. TRV had been less conservative than peers in letting all the price increases fall to the bottom line. Some of the more conservative underwriters (which would include AIG, CB, and WRB) could still see a good level of margin improvement even if they also increase their loss picks. We continue to remain bullish on the commercial lines sector and think companies being disciplined with loss trend can help to prolong the upturn.

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	Rating	Equal Weight
Ticker		TRV
Price Target/Prior:	\$180.00/NC	
Upside/(Downside) to Target	(2.8)%	
Price (04/18/2022)	\$185.22	
52 Week Range	\$144.44 - 187.98	
Shares Outstanding	239,953,876	
Market Cap (MM)	\$44,444	
Enterprise Value (MM)	\$50,916	
Average Daily Volume	1,460,583	
Average Daily Value (MM)	\$271	
Dividend (NTM)	\$3.67	
Dividend Yield	2.0%	
Net Debt (MM) - last reported	\$6,472	
ROIC - Current year est.	11%	
3 Yr EPS CAGR from current year (unless otherwise noted)		5%

\$	2021A	2022E	2022E	2023E	2023E
EPS	Curr.	Prior	Curr.	Prior	
Q1 (Mar)	2.73 A	4.22 A	4.54E	4.11 E	3.77E
Q2 (Jun)	3.45 A	1.55 E	1.91E	2.46 E	2.26E
Q3 (Sep)	2.60 A	2.54 E	2.52E	3.00 E	2.91E
Q4 (Dec)	5.20 A	4.55 E	4.38E	4.93 E	4.73E
FY	13.94 A	12.85 E	13.35E	14.50 E	13.65E
P/E	13.3x	14.4x			12.8x

ROIC - Current year est.: Represents return on equity (ROE) 3 Yr EPS CAGR from current year (unless otherwise noted): Using 2019-2022 for CAGR calculationEPS: Operating EPS
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Weaker Underlying Loss Ratio Overshadows Beat Versus The Street

Summary. TRV hosted a conference call on 4/19 to discuss Q1 results. The call focused on pricing, and underlying trends. Our 2022 EPS is \$12.85 (from \$13.35), while our 2023 goes to \$14.50 (from \$13.65) and 2024 EPS goes to \$16.20 (from \$15.10). Our 2022 estimate goes down as adjustments to our underlying margins (to reflect higher loss trend within BI) that more than offsets higher investment income from the recent rise in yields and TRV's higher quarterly net investment income guide. For 2023/2024 our estimates go higher as greater investment income (from higher yields) more than offsets weaker underlying margins.

The quarter in a nutshell. This morning (4/19), TRV [reported](#) Q1 core EPS of \$4.22, missing our \$4.54 estimate, but beating consensus of \$3.61 consensus. TRV missed us on weaker results from alternative investments (we had expected a beat given the S&P performance in Q4). Away from other investments, TRV saw a better combined ratio due to lower cats and better prior year reserve development, while the underlying loss ratio fell short of us with weaker loss ratios in all segments. The tax rate was also lower than us, coming in at 13.9%, lower than our 18.4% estimate as TRV benefited from the release of \$47 million of tax accruals (when adjusting for this the tax rate would have been 17.8%). The underlying combined ratio of 91.2%, missed our 90.3% estimate, with Business Insurance beating us (on its expense ratio), while Bond & Specialty and Personal Lines (weak results in both auto and home) missed us. Net premiums rose by 11.4%, beating our 4.9% estimate with all segments seeing growth come in above our expectations. Net investment income was \$637 million, missing our \$853 million due to other investments. Catastrophe losses were only \$79 million, lower than our \$225 million. Favorable reserve development was \$153 million, better than our \$75 million estimate due to a better level in Business Insurance and Bond and Specialty. Business Insurance saw favorable development of \$113 million (better than our \$37 million) with favorable development in workers' compensation being slightly offset by a \$45 million environmental reserve charge. Repurchases were \$559 million (includes \$59MM outside of board of director authorized repurchases), ahead of our \$400 million. Book value per share declined by 11% (due to the mark to market on the investment portfolio), and the core ROE was 15.5%.

[Exhibit 1](#) below shows TRV's actual results versus our expectations and you can go here to see our first look note on the quarter: [TRV: Q1 Misses Us on Alts; Weaker Underlying Loss Ratio Should Weigh on Shares.](#)

Exhibit 1 - Consolidated Results Versus Wells Fargo Securities Estimates

	Q1 2022 Actual	Q1 2022 Estimate	Variance
Net Premiums Written (in millions)	\$8,367	\$7,869	\$498
Y/Y Growth in Net Premiums Written	11.5%	4.9%	6.6%
Y/Y Growth in Net Premiums Earned	8.5%	6.8%	1.8%
Investment Income (in millions)	\$637	\$853	(\$216)
Combined Ratio	91.3%	92.2%	(0.9%)
Catastrophe Losses (in millions)	\$160	\$225	(\$65)
Reserve Development (in millions)	(\$153)	(\$75)	(\$78)
Underlying Loss Ratio	62.2%	60.6%	1.6%
Expense Ratio	29.0%	29.7%	(0.7%)
Underlying Combined Ratio	91.2%	90.3%	0.9%
Tax rate	13.9%	18.4%	(4.5%)
Operating EPS	\$4.22	\$4.54	(\$0.32)
Growth in Operating EPS	54.5%	66.1%	(11.6%)
Book value per share	\$106.40	\$108.46	(\$2.06)
Share Repurchases	\$500	\$400	\$100
Segment Underwriting Income (in millions):			
Business Insurance	\$288	\$177	\$111
Bond & Specialty Insurance	\$176	\$162	\$14
Personal Insurance	\$121	\$182	(\$61)
Operating ROE	14.9%	15.0%	(0.0%)

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 is seeing elevated loss trend within Business Insurance, and is also seeing high frequency and severity trends within Personal Insurance. Highlights of the laterals that we see for the group follow below:

- Commercial lines pricing remains strong, but is decelerating, with renewal rates up 4.4% in Q1 in Business Insurance, slowing from 5.1% in Q4 2021, 6.2% in Q3, and 7.0% in Q2. Further the higher loss trend could potential add legs to the hard market, which could potentially be shown by MarketScout seeing its strongest rates of the quarter in March (see [Exhibit 2](#) below). 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.*

MarketScout Pricing Trends

Exhibit 2 - Pricing Trends—MarketScout Commercial Lines Trends—Monthly

Line	By Month												
	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Commercial Property	10.0%	9.0%	10.0%	10.0%	9.0%	9.0%	9.0%	9.0%	8.0%	8.0%	7.0%	7.0%	9.0%
Inland Marine	4.0%	4.0%	4.0%	5.0%	5.0%	6.0%	6.0%	5.0%	4.0%	4.0%	5.0%	4.0%	5.0%
Business Owners Policy	4.0%	4.0%	4.0%	4.0%	4.0%	5.0%	5.0%	5.0%	6.0%	6.0%	6.0%	6.0%	7.0%
Business Interruption	7.0%	5.0%	8.0%	8.0%	7.0%	7.0%	6.0%	7.0%	6.0%	6.0%	6.0%	6.0%	7.0%
Umbrella Excess	14.0%	12.0%	10.0%	13.0%	11.0%	12.0%	12.0%	13.0%	11.0%	10.0%	9.0%	10.0%	10.0%
General Liability	6.0%	5.0%	7.0%	7.0%	6.0%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	4.0%	6.0%
D&O Liability	14.0%	11.0%	11.0%	11.0%	12.0%	11.0%	11.0%	10.0%	11.0%	10.0%	9.0%	8.0%	9.0%
Professional Liability	8.0%	8.0%	5.0%	8.0%	6.0%	7.0%	7.0%	7.0%	6.0%	6.0%	5.0%	6.0%	6.0%
Employment Practices Liability	7.0%	6.0%	8.0%	7.0%	9.0%	9.0%	9.0%	7.0%	8.0%	7.0%	7.0%	7.0%	7.0%
Commercial Auto	9.0%	8.0%	10.0%	9.0%	9.0%	9.0%	9.0%	8.0%	6.0%	6.0%	6.0%	7.0%	9.0%
Workers' Comp	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	-1.0%	1.0%	1.0%	1.0%	1.0%
Surety	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	1.0%	2.0%
Fiduciary	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%	2.0%	2.0%	2.0%	3.0%
Crime	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%
Average	7.0%	6.3%	7.0%	6.8%	6.7%	6.9%	6.7%	6.4%	5.5%	5.6%	5.9%	5.7%	6.8%

Source: MarketScout and Wells Fargo Securities, LLC

- Underlying margin in Business Insurance benefited from rate exceeding trend. TRV said that earned rate exceeded loss trend by around 1.0 point, which is a slowdown from 1.5 points in Q4 2021 and an even greater slowdown when compared to around 2% over the other three quarters of 2021. While the slowdown in underlying margin improvement, and higher loss trend assumption, is a negative for the group, TRV had been less conservative than peers in letting all the price increases fall to the bottom line. Some of the more conservative underwriters (which would include AIG, CB, and WRB) could still see a good level of margin improvement even if they also increase their loss picks.*
- Strong exposure growth. Exposure growth was a record 4.7%, which was higher than 4.3% in Q4, and is a bullish sign for the insurance brokers. This adds to the good lateral we already have from the good 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 good quarter for the group in general.*
- No Covid-19 or Russia/Ukraine losses were called out. For Covid-19, this was the case over the past year as well, and ties to our overall thought that Covid-19 related losses have largely subsided for the P&C sector. TRV also said it has minimal exposure to Russia/Ukraine, given the majority of its business stems from the U.S. We do not expect to see many, if any, Covid-19 losses from P&C insurers in Q1, but could see some Russia/Ukraine losses for some (re)insurers with greater international exposure.*
- Personal auto frequency and severity trends pressure results. TRV's Personal Auto book was affected by frequency trends that remain at pre-pandemic levels and also saw elevated severity. The Personal Auto segment's underlying margin came in at 98.8%, which was better than the Q4 although the Q1 is seasonally a better quarter, and still puts the company above its pre-pandemic margins. The weaker auto results at TRV (as well as PGR) point to a tough quarter for the group. We remain cautious on the personal auto insurers (ALL [Underweight, \$141.74] and PGR [Underweight, \$111.15]), reflective of neither getting enough price and the 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 and close to the double digits by the end of this year.*

- *Net investment income guide was raised.* The company raised its guidance for fixed income investment income of \$440 million after-tax in Q2, \$460 million in Q3 and \$480 million in Q4., up from the prior \$430-440 million for every quarter of 2022. **This is a good lateral for most (if not all) insurers, in our view.**
- *Slightly above normal alternative investment quarter.* Alternative-related investment income totaled \$142 million in Q1, down from \$243 million in Q4, and below our \$358 million estimate. We had thought the stronger S&P performance (up over 10% in Q4) would lead to outsized alternative results given the one quarter lag on private equity returns. **Given TRV missed us, we could potentially see other insurers miss our alternative investment assumption, but still think it will be a better-than-normal quarter.**

2022 Updated Soundbites

Highlights of its updated outlook for 2022. [Exhibit 3](#) 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 quarterly **fixed income NII** to be \$440 million after-tax in Q2, \$460 million in Q3, and \$480 million in Q4. This is up from its prior guidance for quarterly fixed income investment income to be in the range of \$430-\$440 million range on an after-tax basis for all of 2022.
- In **Business Insurance**, TRV saw 1.9 points of improvement Y/Y on the underlying combined ratio with around 1.0 point coming from earned pricing that continues to exceed loss costs and 1.1 points from a lower expense ratio. TRV said that it adjusted its loss picks to reflect elevated severity trends in the quarter. Within BI, rate exceeded loss trend by around 1.0 point, which is down from 1.5 points in the Q4 and around 2.0 points in Q3 and Q2, a little less than 2.0 points in Q1, and over 1.5 points in Q4 2020. We are modeling for that 1.0 point 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**, TRV mentioned that frequency is returning to more normal levels and that they are seeing elevated severity. TRV saw an average 7% rate in the quarter (in 23 states) with an overall premium change of 3.1% (implying TRV is getting price in 44% of its personal auto book) and that they expect to approach double-digit rate by the end of the year.
- With the **aggregate reinsurance cover**, TRV has accumulated \$175 million toward the retention as of the end of the Q1. With the aggregate cover, TRV gets \$225 million of protection as part of \$500 million of coverage above a \$2 billion retention.
- TRV reaffirmed its **expense ratio** target of mid-29s in the near term, essentially flat to 29.4% 2021, and continues to expect its expense ratio to move down to 29% over the next couple of years. We are now looking for expense ratios of 29.2% in 2022, 28.9% in 2023, and 28.8% in 2024.

Exhibit 3 - TRV 2022 Guidance Tracker

		2022 Outlook	
	Provided With Q3 2021 Earnings	Provided With Q4 2021 Earnings	Provided With Q1 2022 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.	TRV expects their expense ratio to be around 29.5% for FY22 and then gradually move down to around 29% in the next year or two.
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			The change in their cyber underwriting (minimum cybersecurity protocols), which is having a meaningful favorable impact on cyber claim frequency (cyber remains a small portion of the book), is expected to be completed at the end of Q2'22.
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.	Rate actions in additional states are scheduled to take effect in the coming months and quarters (no mention of numbers).
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.	Expect to see increase pricing as higher severity persists. They expect Q2 to be the seasonally higher quarter for weather-related loss levels.
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		TRV expects higher renewal premium changes going into 2022.	TRV expects renewal premium changes to accelerate in each of the next 3 quarters and approach double digits by the end of the year.
Personal auto			
Homeowners'			
Investment Income			
Fixed Income and Short-Term Investments	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.	Expects the after-tax investment income from the fixed income portfolio to be up \$440MM for Q2, \$460MM for Q3, and \$480MM for Q4 (up from the \$430-\$440MM per quarter guidance previously)
Alts			Expect their results from PE, hedge funds and real estate partnerships that are reported on a quarter lag, which were generally down during the first quarter, to show in Q2 results.
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 4](#) highlights the changes we made to our earnings model following Q1 2022 earnings. Our 2022 EPS is \$12.85 (from \$13.35), while our 2023 goes to \$14.50 (from \$13.65) and 2024 EPS goes to \$16.20 (from \$15.10). Our 2022 estimate goes down as adjustments to our underlying margins (to reflect higher loss trend within BI) that more than offsets higher investment income from the recent rise in yields and TRV's higher quarterly net investment income guide. For 2023 and 2024, our estimates go higher as greater investment income (from higher yields) more than offsets weaker underlying margins.

Exhibit 4 - TRV Summary of Estimate Changes

Income Statement (\$M, except per share data)	Current			Prior Estimates			Delta (Absolute)		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Gross premiums written	36,871	38,908	41,063	36,567	38,588	40,728	304	319	335
% growth (yr/yr)	7.7%	5.5%	5.5%	6.8%	5.5%	5.5%	0.9%	(0.0%)	(0.0%)
Net premiums written	33,989	35,750	37,616	33,491	35,230	37,072	498	520	543
% growth (yr/yr)	6.3%	5.2%	5.2%	4.8%	5.2%	5.2%	1.6%	(0.0%)	(0.0%)
Increase in unearned premiums	(1,192.3)	(1,181.3)	(1,243.9)	(973.9)	(1,097.8)	(1,156.1)	(218.4)	(83.5)	(87.8)
Net premiums earned	32,797	34,569	36,372	32,517	34,132	35,916	279	437	456
% growth (yr/yr)	6.3%	5.4%	5.2%	5.4%	5.0%	5.2%	0.9%	0.4%	(0.0%)
Net investment income	2,458	2,758	2,909	2,710	2,533	2,594	(252)	225	315
Fee income	404	404	404	402	402	402	2	2	2
Other income	341	353	353	348	356	356	(7)	(3)	(3)
Total revenue	35,999	38,083	40,038	35,977	37,423	39,268	22	660	770
Losses and loss adjustment expenses	21,714	22,924	24,058	21,490	22,550	23,627	225	374	430
Amortization of deferred acquisition costs	5,376	5,639	5,932	5,336	5,567	5,856	41	73	76
General and administrative expenses	4,874	5,118	5,334	4,888	5,120	5,335	(15)	(2)	(1)
Interest expense	348	337	337	352	337	337	(4)	0	0
Total expenses	32,312	34,019	35,661	32,065	33,574	35,155	247	445	505
Pretax operating income	3,687	4,065	4,377	3,912	3,849	4,113	(225)	216	265
% growth (yr/yr)	(14.0%)	10.2%	7.7%	(8.7%)	(1.6%)	6.8%	(5.2%)	11.8%	0.8%
Income tax expense/(benefit)	583	703	762	684	673	728	(101)	30	34
After-tax core income	3,104	3,362	3,616	3,228	3,176	3,385	(124)	186	231
% growth (yr/yr)	(11.9%)	8.3%	7.5%	(8.3%)	(1.6%)	6.6%	(3.5%)	9.9%	1.0%
Company income tax rate (%)	15.8%	17.3%	17.4%	17.5%	17.5%	17.7%	(1.7%)	(0.2%)	(0.3%)
Weighted average number of diluted shares	240	231	222	241	232	223	(1)	(1)	(1)
Participating share-based awards - allocated income	19	16	16	16	16	16	3	0	0
After-tax core income	\$12.85	\$14.50	\$16.20	\$13.35	\$13.65	\$15.10	(\$0.50)	\$0.85	\$1.10
Profitability Metrics									
Loss and loss adjustment expense ratio	65.7%	65.8%	65.6%	65.6%	65.5%	65.2%	0.1%	0.3%	0.4%
Underwriting expense ratio	29.2%	28.9%	28.8%	29.4%	29.1%	29.0%	-0.2%	-0.2%	-0.2%
Combined ratio	94.9%	94.7%	94.4%	94.9%	94.6%	94.2%	-0.1%	0.1%	0.2%
Points on the combined ratio	4.2%	4.8%	4.8%	4.5%	4.8%	4.8%	-0.2%	0.0%	0.0%
Points on the combined ratio	-0.8%	-0.4%	-0.2%	-0.6%	-0.3%	-0.2%	-0.2%	-0.1%	0.0%
Current accident year combined ratio	91.5%	90.3%	89.8%	91.1%	90.2%	89.6%	0.4%	0.1%	0.2%
Underlying loss ratio	62.3%	61.4%	61.0%	61.7%	61.1%	60.7%	0.6%	0.3%	0.4%
Segment Underwriting Income (in millions):									
Business Insurance	\$522	\$466	\$421	\$431	\$467	\$445	\$91	(\$1)	(\$24)
Bond & Specialty Insurance	\$666	\$695	\$678	\$661	\$664	\$653	\$6	\$31	\$26
Personal Insurance	\$81	\$164	\$387	\$148	\$200	\$436	(\$67)	(\$36)	(\$49)
Book value per share	\$109.94	\$117.45	\$126.40	\$127.24	\$134.56	\$143.03	(\$17.30)	(\$17.11)	(\$16.63)
ROE	11.2%	12.8%	13.3%	10.8%	10.4%	10.9%	0.4%	2.3%	2.4%

Source: Company reports and Wells Fargo Securities, LLC estimates

Pricing Slowing in Commercial Lines

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

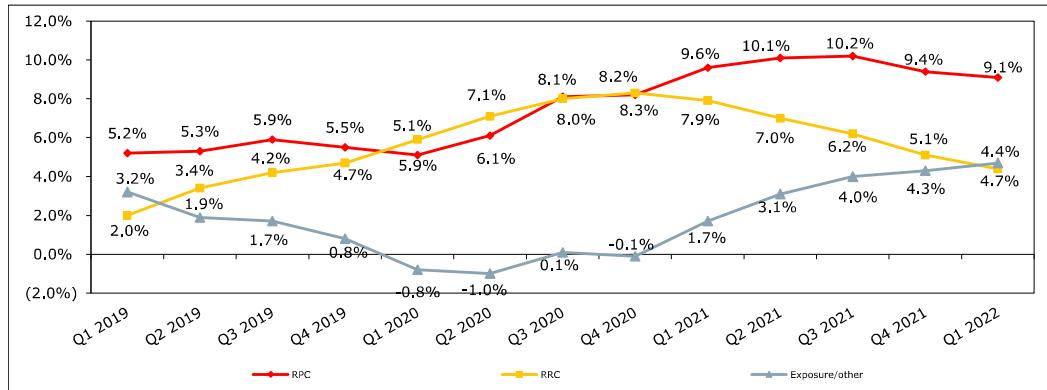
- In Q1, the *Business Insurance* renewal rate change was +4.4%, decelerating from +5.1% last quarter, and below +6.2% in Q3 2021, +7.0% in Q2 2021, and +7.9% in Q1 2021. Exposure growth was +4.7%, versus +4.3 last quarter, +4.0% in Q3 2021, +3.1% in Q2 2021, and +1.7% in Q1. [Exhibits 5 and 6](#), below, show the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change. Travelers continued to point to written rate exceeding loss trend (even with its higher loss trend assumption this quarter) and said that some part of the RPC acts as rate (although they did not want to provide the exact portion of exposure that acts as price as it varies by quarter).
- 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 Q2 2022 with some flattening as we navigate through 2022, especially as we come up against some tougher comps when the economy started to improve post the pandemic lows.

Exhibit 5 - Domestic Business Insurance Renewal Pricing Results by Quarter

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
RPC	5.2%	5.3%	5.9%	5.5%	5.1%	6.1%	8.1%	8.2%	9.6%	10.1%	10.2%	9.4%	9.1%
RRC	2.0%	3.4%	4.2%	4.7%	5.9%	7.1%	8.0%	8.3%	7.9%	7.0%	6.2%	5.1%	4.4%
Exposure/other	3.2%	1.9%	1.7%	0.8%	-0.8%	-1.0%	0.1%	-0.1%	1.7%	3.1%	4.0%	4.3%	4.7%
% of BI NPW in Workers' Comp	28.6%	23.1%	23.3%	22.1%	26.2%	20.7%	20.2%	19.3%	23.0%	18.9%	18.7%	18.2%	22.4%

Source: Company data and Wells Fargo Securities, LLC

Exhibit 6 - 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 As Severity Remains Elevated

- Within **Personal Insurance**, TRV saw an acceleration in rate in personal auto in the quarter, as it pushes for price. The RPC in auto was +3.1%, picking up from +1.2% in Q4, +0.5% in Q2, and +0.6% in Q1. On the auto side, TRV said that auto driving frequency is returning to more normal levels and that it took rate in 23 states in the Q1 for an average rate changes of 7% (which was close to the guidance they provided on the last call that they are anticipating rate in 25 different states) with more actions planned in the subsequent quarters. They did emphasize it will take time for these rate actions to earn into their results. The RPC, even with acceleration, is still modest at 3.1% as severity remains in the double digits and TRV is getting price in only 44% of its personal auto book. They did mention they expect rate to continue accelerating each quarter and reach double-digits by the end of the year. 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 personal lines deep [dive](#).
- Homeowners'** pricing was relatively flat sequentially and up Y/Y at 12.3% in the Q1, compared to 8.6% last quarter, 8.8% in Q3 8.1% in Q2, and 7.5% in Q1. On the home side, TRV said it will look to take more rate as a result of the higher severity in labor and material prices. They did point to the second quarter being seasonally a higher weather-related loss quarter for homeowners' business.
- Travelers' new business in auto increased 4% sequentially, and was up 4% when compared to last year, with auto new business premiums totaling \$290 million, versus \$279 million in Q4, \$297 million in Q3, \$299 million in Q2, and \$278 million in Q1. Home new business was down 5% sequentially and down slightly Y/Y at 2% in the quarter at \$258 million, versus \$273M last quarter, \$312 million in Q3, \$335 million in Q2, and \$263 million last Q1. Further, TRV did show PIF growth in auto (see [Exhibit 7](#) below) which is counter to PGR who has been pulling back as they haven't been able to get enough price.

Exhibit 7 - Personal Insurance Business Statistics

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Automobile					
Retention	85%	86%	86%	85%	84%
Renewal Premium Change	0.5%	0.5%	0.4%	1.2%	3.1%
Policies-In-Force (PIF, in thousands)	2,807	2,852	2,898	2,937	2,972
PIF Sequential Change	1%	2%	2%	1%	1%
PIF Yearly Change	4%	4%	5%	6%	6%
New Business (\$ in millions)	\$278	\$299	\$297	\$279	\$290
Homeowners & Other					
Retention	85%	85%	85%	85%	84%
Renewal Premium Change	7.5%	8.0%	8.8%	8.6%	12.3%
Policies-In-Force (PIF, in thousands)	5,703	5,836	5,931	5,995	6,051
PIF Sequential Change	2%	2%	2%	1%	1%
PIF Yearly Change	8%	7%	7%	7%	6%
New Business (\$ in millions)	\$263	\$335	\$312	\$273	\$258

Source: Company data and Wells Fargo Securities, LLC

Profitability Impacted By Weaker Underlying Results

Underlying Results Came in Worse than Expected

- The consolidated combined ratio was 91.2%, worse than our 90.3% estimate, largely reflective of weaker underlying results partially offset by higher level of favorable reserve development and lower cats. Cats were only \$160 million, better than our \$225 million estimate, while favorable reserve development of \$163 million was better than our estimate for favorable development \$75 million, due to better-than-expected PYD in Business Insurance (from workers' compensation) and Bonds & Specialty. The underlying combined ratio of 91.2% was unfavorable to our estimate of 90.3%, and 1.7 points worse than last year. The Underlying combined ratio missed us in Bond & Specialty and Personal Insurance due to higher underlying losses, while beating us by 70 bps on the BI side (due to a lower expense ratio mainly stemming from higher earned premiums, while BI missed us on the loss side). On the BI side, we were almost a full point above consensus (92.5% versus 91.5% consensus per Visible Alpha) so the underlying combined ratio of 91.7% actually missed from a consensus standpoint. Within personal lines, the underlying combined ratio rose by 7.4 points due to higher losses in both auto (main driver) and homeowners'. Auto was up 12.2 points versus the prior year quarter due to a combination of frequency returning to more normal levels and higher loss severity as vehicle and replacement and repair costs remain elevated.
- Catastrophe losses totaled \$160 million, below our \$225 million estimate. TRV did note that catastrophe losses primarily resulted from wind storms in multiple states. Through March 31, they have accumulated \$175 million of qualifying losses toward the aggregate retention (under its aggregate reinsurance cover TRV gets \$225 million of protection as part of \$500 million of coverage above a \$2 billion retention).
- Prior year favorable reserve development came in at \$153 million, better than our estimate of \$75 million, due to a higher level of reserve releases in Business Insurance and Bond & Specialty. Business Insurance saw favorable development of \$113 million, better than our estimate for a release of \$37 million, which was driven by better than expected loss experience in domestic operations in workers' comp for multiple accident years (which more than offset a modest level of environmental reserve strengthening). Bond & Specialty saw a release of \$35 million (better than our estimate for favorable development of \$16 million), due to better-than-expected loss experience in fidelity and surety for recent accident years, partially offset by higher than expected loss experience in general liability for multiple accident years. Personal Lines saw favorable development of \$5 million (worse than our estimate for reserve releases of \$22 million) with small movements in both auto and home.

Exhibit 8 - Underlying Combined Ratio - Misses On Higher Loss Ratio, Offset by Lower Expense Ratio

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Reported Combined Ratio	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%	88.0%	91.3%
Catastrophe Losses, net of reinsurance	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%	0.4%	2.0%
Prior Year Reserve Development (Favorable)/Unfavorable	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)	(2.4%)	0.8%	(1.2%)	(1.9%)
Underlying Combined Ratio	91.6%	94.9%	94.1%	92.1%	91.3%	91.4%	91.5%	88.7%	89.5%	91.4%	91.4%	88.7%	91.2%
Underlying (Improvement) deterioration	(0.8%)	1.3%	1.1%	0.9%	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	(0.1%)	0.0%	1.7%
Underlying Loss Ratio	61.9%	64.7%	64.5%	63.0%	61.3%	60.4%	62.2%	59.3%	59.7%	61.7%	62.0%	60.2%	62.2%
Change from last year	0.1%	1.8%	1.3%	1.3%	(0.7%)	(4.3%)	(2.3%)	(3.6%)	(1.6%)	1.2%	(0.2%)	0.9%	2.5%
Underlying Expense Ratio	29.7%	30.2%	29.5%	29.1%	30.0%	31.0%	29.3%	29.4%	29.9%	29.7%	29.4%	28.5%	29.0%
Change from last year	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%	0.8%	(0.2%)	0.3%	(0.0%)	(1.3%)	0.1%	(0.9%)	(0.9%)

Source: Company data and Wells Fargo Securities, LLC

Exhibit 9 - Personal Insurance Business Statistics

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022
Business Insurance	93.7% (3.6%)	93.4% (3.6%)	90.2% (3.8%)	89.9% (3.8%)	91.7% (2.0%)
Underlying (improvement) deterioration					
Bond & Specialty	84.2% (1.5%)	83.4% (4.7%)	83.4% (5.6%)	83.3% (1.7%)	82.2% (2.0%)
Underlying (improvement) deterioration					
Personal Insurance	85.4% 1.4%	91.0% 7.0%	95.2% 6.5%	88.7% 5.6%	92.8% 7.4%
Underlying (improvement) deterioration					
Personal Insurance Breakdown:					
Automobile	86.6% (4.3%)	92.0% 5.9%	97.0% 15.5%	103.8% 16.4%	98.8% 12.2%
Underlying (improvement) deterioration					
Homeowners & Other	84.1% 8.4%	89.9% 7.9%	93.3% (3.5%)	73.4% (5.1%)	86.9% 2.8%
Underlying (improvement) deterioration					

Source: Company data and Wells Fargo Securities, LLC

Investment Income, Capital Return And Other

Investment Income Beats Us; Raises 2022 Guidance On Higher Interest Rates

- Net investment income was \$637 million pre-tax, worse than our \$853 million estimate as we assumed a higher alts return (as the S&P was up nearly 10% in the Q4 and alts are reported on a one-quarter lag) while our fixed portfolio was virtually in line. Travelers' after-tax book yield on its investment portfolio was 2.5%, below the 2.9% yield in Q4 2021. Fixed income investments added \$505 million pre-tax, right in line with our estimate, while alts were \$142 million, lower than our \$358 million estimate. Short-term investments added \$2 million, below our \$3 million estimate.
- As a result of the higher trending interest rates, TRV now expects their net investment income from their fixed portfolio to be \$440M million for Q2, \$460 million for Q3 and \$480 million for Q4, which is a revision up from the \$430-440 million range per quarter for 2022 that they provided in the Q4 2021 conference call earlier this year. They also mentioned their average portfolio turnover is about 9% annualized.

Capital Management Ahead Of Expectations On Better Buyback Level; Raise Dividend

- TRV repurchased 2.9 million shares in Q1 for \$500 million (at an average price of \$172), better than our estimate for \$400 million of share repurchases, but lower than the \$800 million in Q4 2021. They bought back an additional 0.4 million shares for \$59MM outside the board of director authorization (which we did not model). Dividends were \$214 million, bringing total capital return to \$714 million (ex repurchases outside of authorization), compared to the \$1,037 million of core earnings. They also announced a 6% dividend increase to \$0.93 (from \$0.88), marking the 18th consecutive year of dividend increases. Total capital return to shareholders was 68.9% of core earnings in Q1 2022, versus 78.8% in Q4 2021 and 86.1% for all of 2021, and we are currently forecasting 86.4% and 76.0% in 2022 and 2023, respectively.

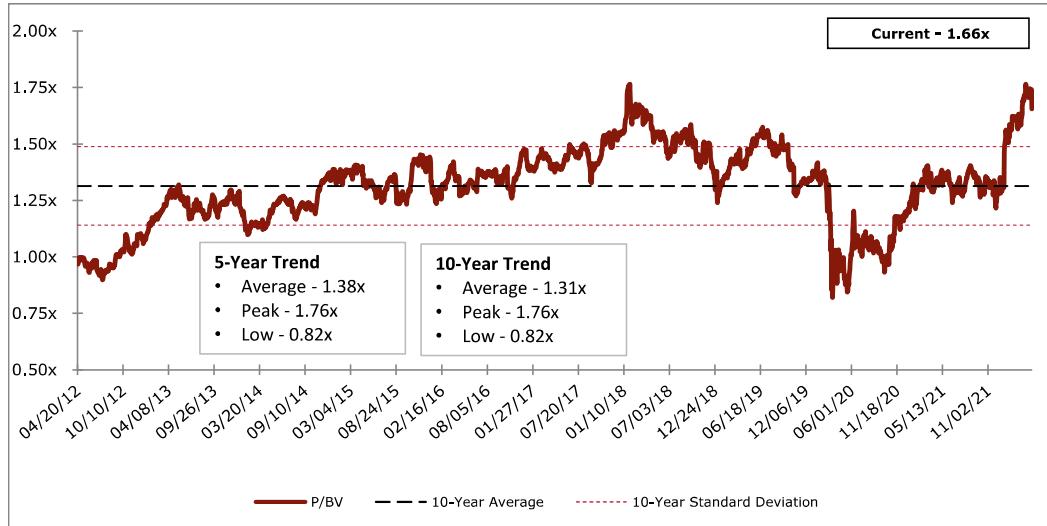
Premium Growth Benefited from Record Exposure Growth And Retention Levels

- Net premiums written rose 11.5%, well above our 4.9% estimate, and accelerating from the +10.1% in Q4 2021. Results were ahead of us in all three segments (BI, Bonds & Specialty, and Personal). Gross premiums written growth of 10.4% was ahead of our 6.8% estimate, and accelerated from 9.8% last quarter.
- Business insurance net premiums written were up 9.1%, beating our +5.1% estimate, and just below +9.4% in the Q4. Bond & Specialty net premiums written were +22.0%, also beating our +3.8% estimate, and accelerating from +13.1% last quarter. Personal Insurance net premiums written were +12.3%, beating our +4.7% estimate and above the +10.1% last quarter. Within Personal Insurance, auto net premiums written of +8.5% was above our +4.6% estimate and accelerating from the +7.5% last quarter, while home net premiums written growth of +16.9% was well above our +4.9% estimate, and also up when compared to +12.8% last quarter.

Valuation

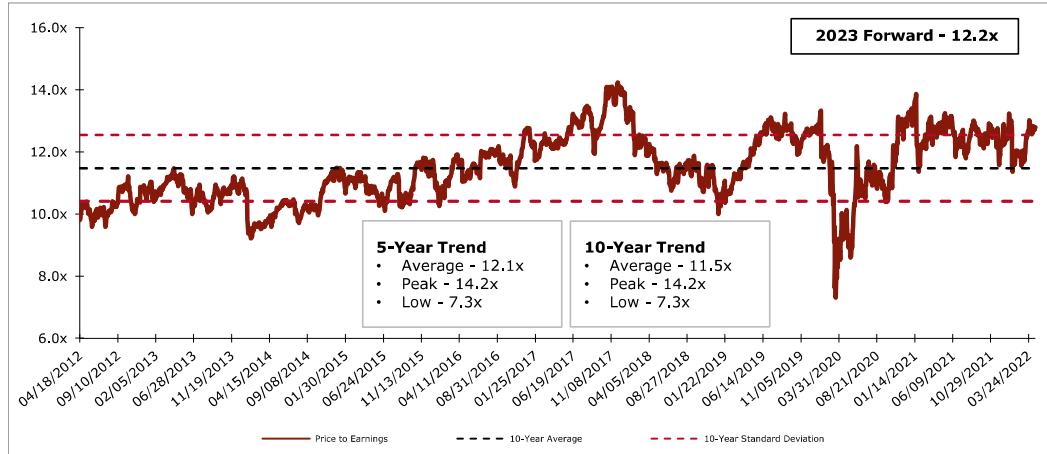
Current valuation. The TRV shares, as of 4/19 close, are now trading at 1.66x book value, above its 5-year (1.38x) average, and its 10-year (1.31x) average multiple. The shares are approaching peak levels of 1.76x from 2018. On a price-to-earnings basis, the shares are trading at 13.7x our 2022 EPS estimate and 12.2x 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 10 - TRV Historical Price-to-Book Multiples



Source: FactSet and Wells Fargo Securities, LLC

Exhibit 11 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

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Consolidated Earnings Model

Exhibit 12 - Travelers (TRV) Earnings Model

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

	2018	2019	2020	Q1	Q2	Q3	Q4	2021	Q1	Q2	Q3	Q4	2022E	Q1	Q2	Q3	Q4	2023E	Q1	Q2	Q3	Q4	2024E
Gross premiums written	29,522.0	31,683.0	31,763.0	8,407.0	8,597.0	8,676.0	8,654.0	9,282.0	9,180.4	9,477.6	9,297.5	9,789.5	9,687.0	10,094.5	9,422.5	38,807.6	10,952.1	10,232.0	10,562.1	9,944.0	41,083.1		
% growth (y/y)	5.6%	6.2%	2.3%	10.9%	7.7%	9.8%	6.8%	6.8%	6.8%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	
% retained	94.7%	93.8%	93.6%	98.3%	94.6%	95.7%	95.3%	90.1%	92.8%	92.1%	92.2%	92.5%	91.8%	93.3%	91.9%	91.9%	92.1%	91.5%	91.5%	91.6%	91.6%	91.6%	
Net premiums written	27,680.0	29,151.0	29,722.0	7,505.0	8,125.0	8,324.0	8,020.0	8,620.0	8,672.0	8,625.1	8,625.1	8,625.1	8,625.1	8,625.1	8,625.1	8,625.1	8,625.1	9,284.7	9,191.3	9,682.3	9,682.3	37,615.5	
% growth (y/y)	5.6%	5.3%	5.3%	4.7%	7.1%	10.7%	7.5%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	
Increase in unearned premiums	639.0	873.0	119.0	519.0	445.0	22.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,111.0	1,124.9	
Net premiums earned	27,059.0	28,372.0	29,442.0	7,386.0	7,516.0	7,623.0	8,024.0	8,085.0	8,014.0	8,065.2	8,271.9	8,447.5	8,456.1	8,688.8	8,877.5	34,968.5	8,984.3	9,145.4	9,340.5	9,540.5	36,377.7		
% growth (y/y)	5.4%	4.5%	2.7%	2.2%	9.5%	7.3%	6.2%	8.5%	6.8%	5.9%	5.7%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	
Net investment income	2,474.0	2,468.0	2,227.0	701.0	717.0	743.0	3,033.0	637.0	637.0	645.4	670.4	2,457.8	676.6	686.0	692.4	693.9	2,157.9	710.3	723.3	73.3	742.0	2,905.4	
% growth (y/y)	3.2%	0.0%	14.7%	20.2%	42.9%	10.1%	10.0%	40.2	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%	
Fee income	432.0	459.0	428.0	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)	6.3%	13.4%	6.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other income	207.0	269.0	279.0	81.0	86.0	100.0	16.0	2.4%	27.2%	78.0	88.0	87.0	94.0	90.0	88.0	88.0	90.0	90.0	90.0	90.0	90.0		
% growth (y/y)	32.5%	3.7%	72.5%	2.2%	9.5%	8.5%	8.5%	6.2%	5.6%	5.9%	5.7%	6.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	
Total revenue	30,168.0	31,468.0	31,797.0	8,269.0	8,262.0	8,397.0	8,535.0	8,632.0	8,760.2	9,102.3	9,304.8	9,412.7	9,588.2	9,766.4	9,888.8	9,812.1	10,065.8	10,271.5	10,403.4	10,534.0			
% growth (y/y)	5.2%	4.3%	1.6%	3.3%	16.8%	8.1%	7.3%	6.3%	6.8%	1.6%	3.5%	3.9%	6.6%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	
Losses and loss adjustment expenses	16,291.0	19,333.0	19,123.0	4,970.0	5,045.0	5,464.0	5,419.0	20,286.0	5,038.0	5,689.3	5,688.7	5,688.7	5,249.2	5,928.2	5,583.2	22,823.9	5,783.9	6,201.1	6,205.7	5,867.5	24,057.5		
% growth (y/y)	4.7%	4.9%	4.7%	2.0%	11.2%	11.0%	6.1%	12.5%	12.5%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%		
Amortization of deferred acquisition costs	4,381.0	4,601.0	4,737.0	1,207.0	1,254.0	1,281.0	1,301.0	5,043.0	1,310.0	1,357.4	1,383.6	1,376.4	1,375.5	1,420.6	1,447.4	1,485.1	1,485.1	1,485.1	1,485.1	1,485.1	1,531.9		
% growth (y/y)	5.2%	5.0%	3.7%	2.5%	6.9%	6.1%	7.1%	5.7%	5.5%	6.0%	5.5%	5.5%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	
General and administrative expenses	4,287.0	4,365.0	4,356.0	1,169.0	1,174.0	1,187.0	1,153.0	4,677.0	1,191.0	1,221.5	1,245.5	1,271.5	1,271.5	1,271.5	1,271.5	1,271.5	1,304.5	1,313.5	1,325.5	1,335.0			
% growth (y/y)	3.0%	1.6%	3.3%	2.3%	4.7%	7.0%	3.7%	2.4%	4.0%	4.8%	4.2%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
Interest expense	352.0	340.0	340.0	82.0	83.0	87.0	87.0	340.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0		
% growth (y/y)	(4.6%)	(2.3%)	(2.3%)	(1.5%)	(1.5%)	(2.4%)	(2.4%)	(0.0%)	6.0%	6.1%	4.8%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	
Total expenses	27,321.0	28,434.0	28,444.0	8,019.0	7,565.0	7,565.0	7,361.0	30,358.0	7,622.0	8,327.3	8,376.5	8,376.5	7,981.3	8,244.4	8,353.5	8,393.6	8,393.6	9,152.6	9,152.6	9,152.6	9,152.6		
% growth (y/y)	4.4%	4.1%	3.3%	2.5%	6.5%	3.7%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	
Unearned premiums	522.0	622.0	1,068.0	147.0	247.0	651.0	1,239.0	577.0	793.0	653.2	723.6	490.0	1,271.5	1,306.5	1,321.2	1,321.2	1,321.2	1,340.5	1,351.5	1,362.5	1,373.0		
% growth (y/y)	30.1%	1.6%	33.3%	4.7%	7.0%	3.3%	3.7%	4.0%	4.8%	4.2%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
Interest expense in Other	676.0	730.0	228.0	66.0	73.0	76.0	70.0	252.0	78.0	68.5	68.5	283.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	68.5	
% growth (y/y)	2.847.0	3,025.0	3,025.0	730.0	320.0	320.0	320.0	921.0	921.0	655.0	655.0	147.8	151.9	151.9	151.9	151.9	151.9	151.9	151.9	151.9	151.9	151.9	
Prefax operating income	93.0	85.0	11.0	34.0	55.0	70.0	44.0	1,070.0	778.0	1,592.0	1,524.0	1,281.0	725.7	1,323.6	1,347.4	1,377.8	1,377.8	1,420.0	1,420.0	1,420.0	1,420.0		
% growth (y/y)	13.2%	6.3%	6.3%	2.3%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	
Income tax expense/(credit)	417.0	522.0	549.0	151.0	232.0	320.0	352.0	3,522.0	1,037.0	371.0	610.4	1,076.7	574.0	693.9	52.5%	1,162.4	1,162.4	1,162.4	1,162.4	1,162.4	1,162.4		
% growth (y/y)	18.5%	4.4%	5.9%	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%	
After-tax core income	2,480.0	2,537.0	2,586.0	699.0	655.0	1,191.0	1,289.0	2,159.0	2,159.0	48.4%	48.4%	48.4%	48.4%	48.4%	48.4%	48.4%	48.4%	48.4%	48.4%	48.4%	48.4%		
% growth (y/y)	18.5%	4.4%	4.4%	3.6%	11.0%	34.0	55.0	70.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0	44.0		
Realized gains/(losses) on investments and other, after-tax	93.0	85.0	11.0	2,622.0	2,622.0	733.0	934.0	622.0	1,333.0	3,682.0	10,150.0	377.0	610.4	1,070.7	3,085.1	986.7	570.0	693.9	1,162.4	1,162.4	1,162.4	1,162.4	
% growth (y/y)	22.7%	3.2%	3.1%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	22.7%	
Net Income	1,900%	19.0%	21.8	5.0	7.0	10.0	27.0	70.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0		
Participating share-based awards - allocated income	Per share:	\$8.94	\$9.60	\$10.48	\$2.73	\$3.45	\$2.60	\$5.20	\$13.84	\$4.22	\$15.45	\$2.54	\$12.85	\$4.11	\$2.46	\$3.00	\$4.93	\$14.50	\$4.49	\$3.43	\$3.43	\$16.20	
After-tax core income - allocated shares	27.0	28.0	65.0	68.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0	66.0		
Less: Fee income - Underwriting expenses	93.0	108.0	97.0	254.2	253.1	250.1	247.0	241.2	241.2	241.2	241.2	241.2	241.2	241.2	241.2	241.2	241.2	241.2	241.2	241.2	241.2		
Less: Billing and safety fees	154.0	174.0	161.0	36.0	39.0	36.0	37.0	153.0	153.0	40.5	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3		
Less: Fee income - Loss and loss adjustment expenses	66.4%	66.1%	66.7%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	29.9%	
Combined Ratio:	30.1%	30.1%	30.1%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	
Loss and loss adjustment expense ratio	Underwriting expense ratio	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	22.8%	
Combined Ratio:	30.1%	30.1%	30.1%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	
Shareholders' equity	\$22,694.0	\$25,943.0	\$29,201.0	\$101.55	\$115.88	\$112.42	\$116.86	\$120.5	\$28,474.0	\$29,156.0	\$28,887.0	\$19,77	\$25,531.0	\$25,174.4	\$25,585.5	\$25,881.1							

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Investment Thesis, Valuation and Risks

The Allstate Corporation (ALL)

Investment Thesis

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.

Target Price Valuation for ALL: \$123.00

Our price target of \$123 represents around a 1.30x multiple on our 2023 book value per share estimate of approximately \$94.

Risks to Our Price Target and Rating for ALL

Risks to the upside include margins coming in above expectations if severity and frequency trends are better-than-expected, elevated severity trends abating much quicker than expected, frequency benefiting from rising gas prices, and policy and premium growth coming in above expectations.

The Progressive Corporation (PGR)

Investment Thesis

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 pressure margins for PGR, in our view. Further, PGR's policy growth should continue to slow as they advertise less and look to lower their 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.

Target Price Valuation for PGR: \$96.00

Our \$96 price target is based on **(1)** about a 2.50x multiple of our 2023 GAAP book value estimate of around \$38.35 per share and **(2)** just above 16x our 2023 EPS estimate.

Risks to Our Price Target and Rating for PGR

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

The Travelers Companies, Inc. (TRV)

Investment Thesis

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.

Target Price Valuation for TRV: \$180.00 from NC

Our price target of \$180 is based on around a ~1.53x multiple of our projected 2023 book value estimate of around \$117 and 12.4x our 2023 EPS estimate of \$14.50.

Risks to Our Price Target and Rating for TRV

Risks to the downside include large catastrophe losses, adverse reserve development, increased competition, a deterioration in loss costs, and a rise in D&O claims, while risks to the upside include stronger premium growth and margins coming in better than expected.

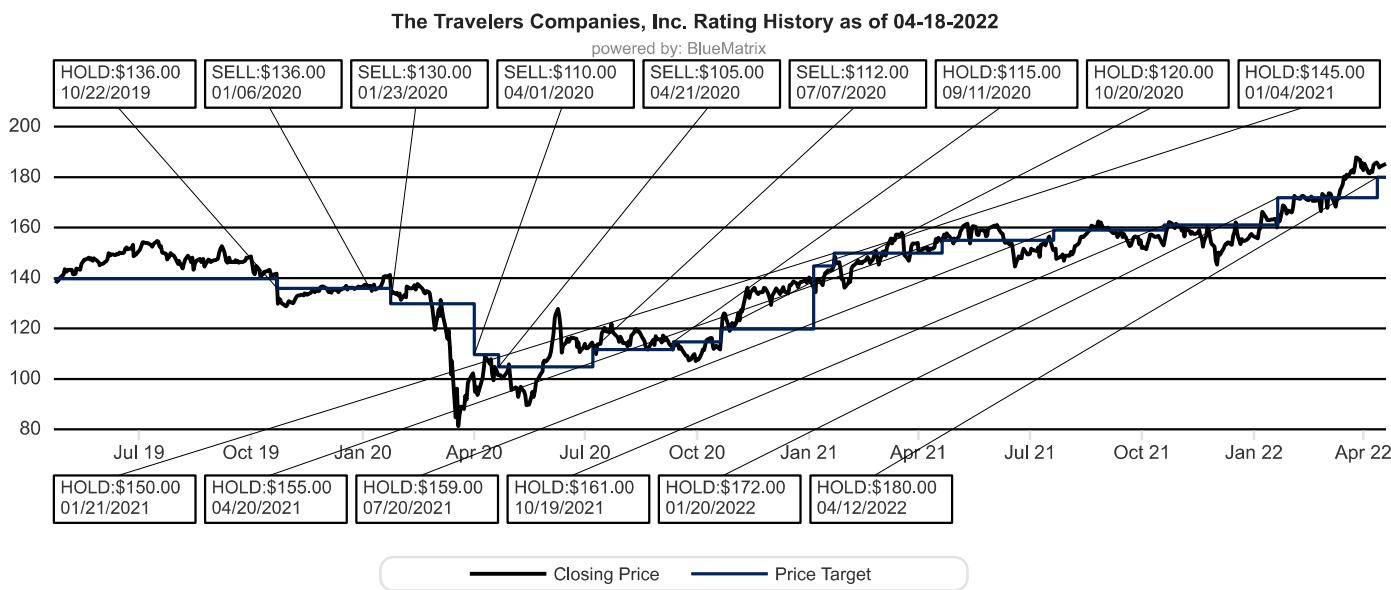
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Additional Information Available Upon Request



The Allstate Corporation Rating History as of 04-18-2022

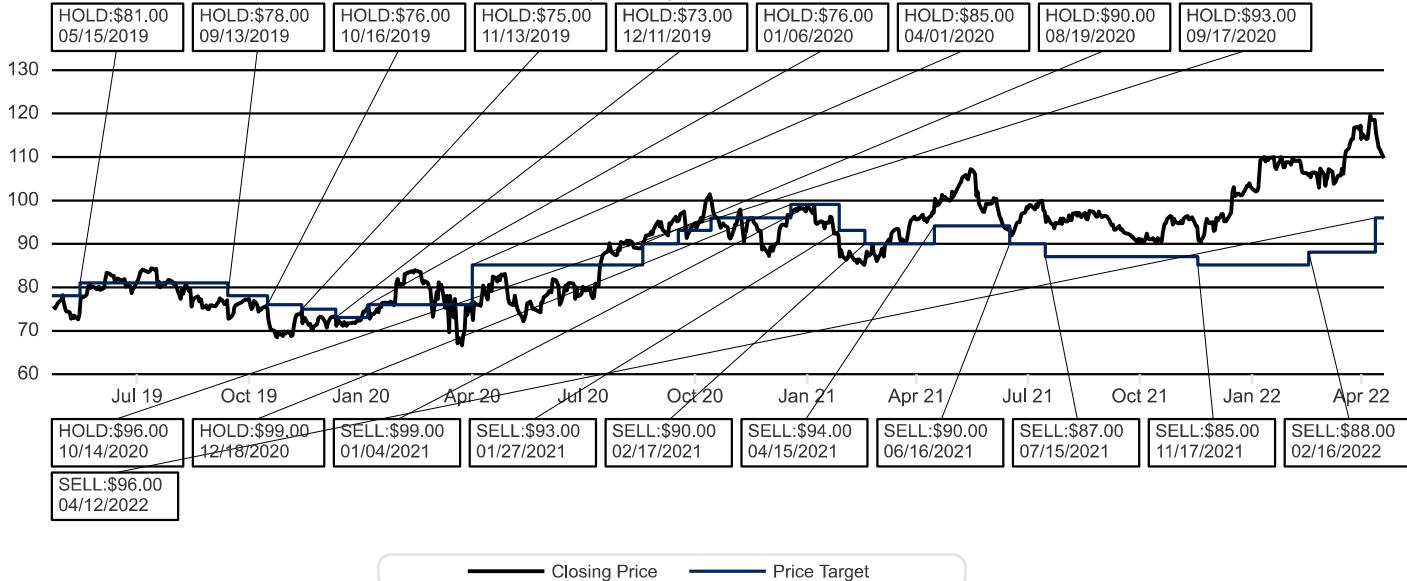
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Initiation (I); Drop Coverage (D); Overweight (BUY); Equal Weight (HOLD); Underweight (SELL); Suspended (SR); Not Rated (NR); No Estimate (NE)

The Progressive Corporation Rating History as of 04-18-2022

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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 April 18, 2022

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