



## Equity Research

Financial Services | U.S. Insurance/Non-Life  
6 August 2021

Allstate Corp.

## 2Q21 Review: Margin “Maintenance” Not Repair; Growth Still in Play

**The Key Takeaways:** ALL lagged filing rate decreases relative to the industry (Figure 1) since the start of the pandemic, therefore its baseline pricing may be in a better spot to contend with deteriorating loss trend. ALL can selectively target rate increases with less force since it is focusing on maintaining rather than improving margins (Figure 2 & Figure 3). With margin maintenance in mind, we think ALL's growth objectives are less elusive. We also learned by speaking with CFO Mario Rizzo that under the revamped captive agent compensation plan (phase 2), ALL will be grandfathering the 2020 structure for its current inforce; the renewal commission step down will only apply to business that comes on board after 2023. Grandfathering the inforce commission structure may dis-incentivize agent defections, a vital consideration as this business tends to show higher margins.

**Positives in 2Q:** Returns on performance based assets increased \$759mn y/y to \$649mn (vs. \$110mn loss in prior year quarter). ALL crystallized its capital return strategy that we thought was stale heading into the quarter by announcing a new \$5bn repurchase program to be completed by 3/31/23. We estimate the buyback to be accretive to 2021E EPS (~+\$0.05), 2022E EPS (~+\$0.25) and 2023E EPS (\$+0.50).

**Items to Monitor:** 1.) Allstate Brand Auto PIF growth was down -0.3% y/y, we are still constructive about future growth prospects as its transformative plan comes together 2.) Relative to historical levels the loss ratio is attractive, nonetheless, underlying loss ratio of 61.7% was a steep increase from recent trend in 1Q21 (54%), 4Q20 (54.5%) and 3Q20 (54.8%).

**Estimates & Valuation:** We maintain our Overweight Rating and Increase PT to \$147 (from \$144). We increase our price target to \$147 (from \$144) on ALL, reflecting a 50/50 weighting of ~11x P/E multiple on our '22E EPS of \$13.31 (vs. \$13.06 prior) and 1.6x P/BV on our '22E BVPS of \$95.2 (vs. \$92.5 prior). The primary driver of our increased EPS is ALL's new buyback program.

### ALL: Quarterly and Annual EPS (USD)

	2020		2021		2022		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2021	2022
Q1	3.54A	6.11A	6.11A	6.11A	3.81E	3.78E	3.68E	73%	-38%
Q2	2.46A	3.07E	3.79A	3.79A	2.84E	3.01E	2.49E	54%	-21%
Q3	2.94A	2.92E	2.87E	2.85E	2.71E	2.79E	2.83E	-2%	-3%
Q4	5.87A	3.67E	3.80E	3.51E	3.69E	3.72E	3.72E	-35%	-2%
Year	14.73A	15.77E	16.57E	15.98E	13.06E	13.31E	13.13E	12%	-20%
P/E	8.7		7.7			9.6			

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 05-Aug-2021; 12:50 GMT

Stock Rating **OVERWEIGHT**

Unchanged

Industry View **POSITIVE**

Unchanged

Price Target **USD 147.00**

raised 2% from USD 144.00

Price (05-Aug-2021) **USD 127.93**

Potential Upside/Downside **+14.9%**

Tickers **ALL**

Market Cap (USD mn) **37827**

Shares Outstanding (mn) **295.68**

Free Float (%) **97.56**

52 Wk Avg Daily Volume (mn) **1.9**

Dividend Yield (%) **2.53**

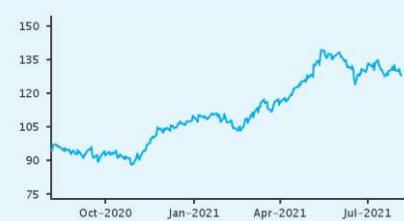
Return on Equity TTM (%) **15.29**

Current BVPS (USD) **88.16**

Source: Bloomberg

Price Performance **Exchange-NYSE**

52 Week range **USD 140.00-86.51**



Source: IDC; [Link to Barclays Live for interactive charting](#)

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## U.S. Insurance/Non-Life

Industry View: POSITIVE

## Allstate Corp. (ALL)

Stock Rating: OVERWEIGHT

Income statement (\$mn)	2020A	2021E	2022E	2023E	CAGR	Price (05-Aug-2021)	USD 127.93
Net premiums earned	35,580	40,242	41,590	42,884	6.4%	Price Target	USD 147.00
Net investment income (NII)	2,852	2,654	2,066	2,536	-3.8%	Why Overweight? Allstate is revolutionizing its op. structure with its push into the independent agency channel - a move we think will be positive despite defying orthodoxies within its coveted captive agency force. PIF growth should be driven by the company's ability to pass along expense savings from its transformational plan. Valuation upside from life sales.	
Underwriting income	4,424	3,633	2,663	2,480	-17.6%		
Operating income	4,650	4,985	3,710	3,763	-6.8%		
Net income	5,463	2,152	3,710	3,763	-11.7%		
Effective tax rate (%)	22.8	21.0	21.0	21.0	-2.7%		
Combined ratio (%)	87.6	91.0	93.6	94.2	2.5%		
Combined ratio (ex cats & py development) (%)	79.4	82.8	84.9	85.6	2.5%		
Per share data (\$)					CAGR	Upside case	USD 155.00
EPS (adj)	14.73	16.57	13.31	14.37	-0.8%	Successful execution of Allstate's transformational growth plans via efficiency gains that is translated to strong PIF growth, particularly auto. Our upside case of \$155 assumes ~12x our '22 EPS estimates.	
EPS (reported)	17.32	7.18	13.31	14.37	-6.0%		
DPS	2.16	3.24	3.50	3.78	20.5%		
BVPS	91.58	89.08	95.24	103.54	4.2%		
BVPS (ex AOCI)	81.09	80.43	85.95	94.14	5.1%		
Balance sheet and capital return (\$mn)					CAGR	Downside case	USD 110.00
Total investments	94,237	64,154	70,732	77,991	-6.1%	Integration and execution risk of the National General acquisition since it is a bold move to defy longstanding 'channel conflict' orthodoxies within its captive agency force. Miles driven growth pressures ALL's margins. Our downside case of \$110 assumes ~8.5x our '22 EPS estimates	
Common shareholders' equity (ex AOCI)	24,943	23,447	23,326	24,262	-0.9%		
Share buybacks	1,700	2,948	2,857	1,839	2.7%		
Dividends paid	675	970	974	975	13.0%		
Balance sheet and capital return metrics					Average	Upside/Downside scenarios	
Debt leverage (%)	20.4	22.2	22.3	20.1	21.3	Price History	
Financial leverage (%)	26.3	28.5	28.6	26.3	27.4	Prior 12 months	
Total capital return as a % of op. earnings	51.1	78.6	103.3	74.8	76.9	High	
Valuation metrics					Average	Price Target	
P/BV (ex AOCI) (x)	1.58	1.59	1.49	1.36	1.50	Next 12 months	
P/E (adj) (x)	8.7	7.7	9.6	8.9	8.7	Upside	
Dividend yield (%)	1.7	2.5	2.7	3.0	2.5		
ROE (%)	19.9	20.6	15.9	15.8	18.0		

The chart illustrates the price target range for Allstate Corp. (ALL). It features a horizontal axis with numerical values 140.00, Current 127.93, 155.00, Target 147.00, 110.00, and 86.51. The values 140.00, 155.00, Target 147.00, and 110.00 are represented by vertical bars of increasing height from left to right. The value 86.51 is shown at the bottom left. The value Current 127.93 is positioned between the 140.00 bar and the 155.00 bar.

Source: Company data, Bloomberg, Barclays Research

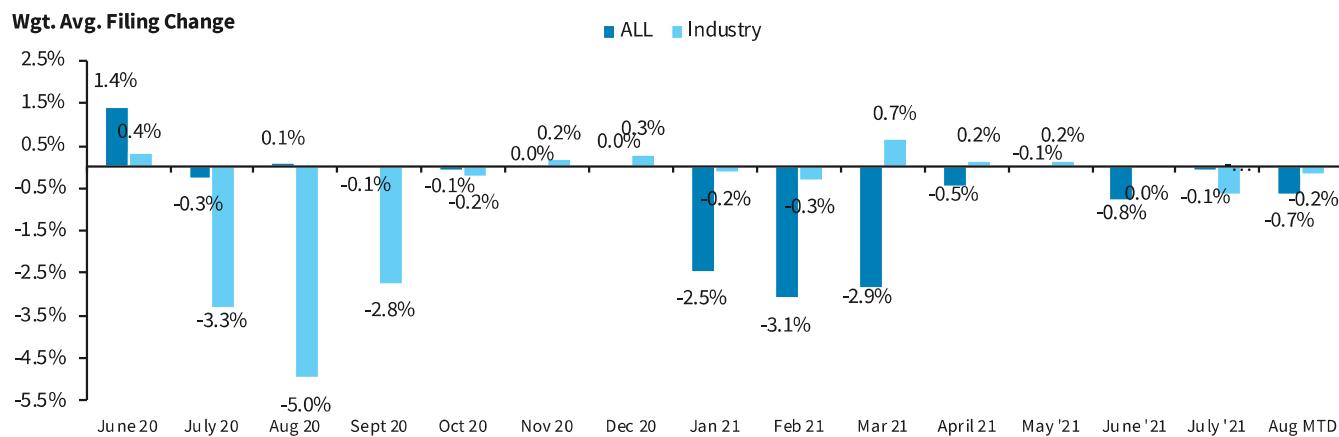
Note: FY End Dec

## ALL's auto baseline pricing better than the industry

ALL lagged filing rate decreases relative to the industry (Figure 1) since the start of the pandemic, therefore its baseline pricing may be in a better spot to contend with deteriorating loss trend. ALL can selectively target rate increases with less force since it is focusing on maintaining rather than improving margins. With margin maintenance in mind, we think ALL's growth objectives are less elusive.

FIGURE 1

Since June '20, ALL has filed for ~1.3pts less of cumulative rate decreases vs. the industry



Source: Barclays Research, SNL Global Market Intelligence.

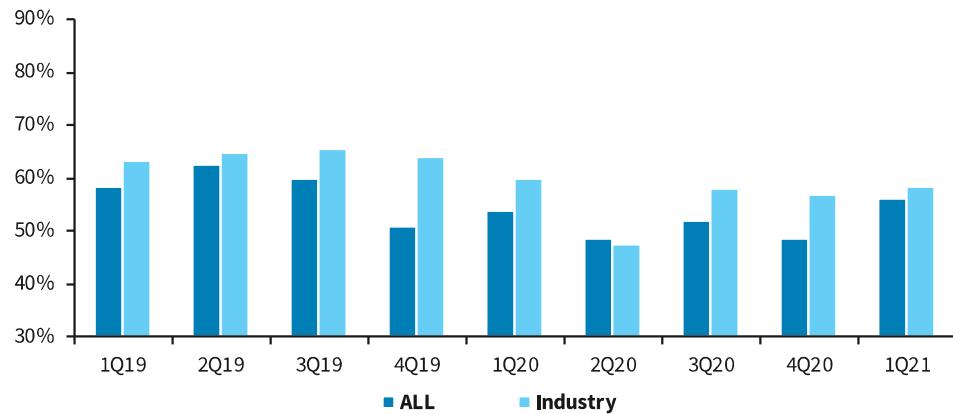
Note: August MTD as of August 4, 2021.

## Margin Maintenance Rather Than Repair

Allstate outperforms the industry and PGR on the auto only loss ratio side. Please note, Figure 2 is on a statutory direct incurred basis, Figure 3 on a GAAP basis.

FIGURE 2

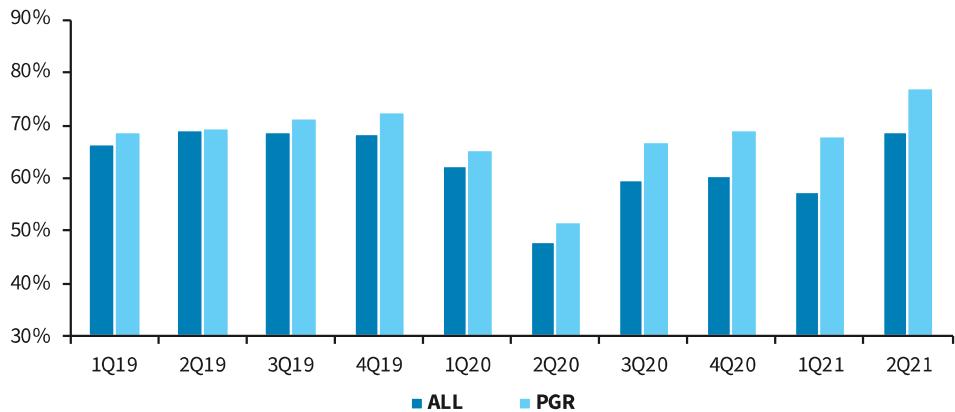
ALL trending better than industry – Auto Direct Incurred Loss Ratio



Source: Barclays Research, S&P Global Market Intelligence.

Note: Based on statutory data. Personal Auto only (liability and physical damage)

**FIGURE 3**  
**ALL outperforms PGR - GAAP Auto Loss Ratio Comparison**



Source: Barclays Research, Company Data.

Note: ALL loss ratio based on Property-Liability Auto and PGR based on Personal Lines (Agent and Direct).

## 2Q Review

Operating EPS of \$3.79 beat our \$3.07 estimate and beat the \$3.19 Street estimate driven by returns on the performance based investments, which increased \$759mn y/y to \$649mn (vs. \$110mn loss in prior year quarter) as ALL still holds sizable performance based assets. Total net investment income of \$976mn was above our \$553mn estimate.

**Underwriting deterioration worse than expected:** ALL delivered a 2Q Property-Liability underlying combined ratio of 85.7% (vs. our estimate of 81.9%). ALL's underlying loss ratio of 61.7% (vs. our estimate of 58.9%) was a steep increase from recent trend in 1Q21 (54%), 4Q20 (54.5%) and 3Q20 (54.8%). As we have seen with PGR, TRV and HIG, auto frequency benefits continued to normalize but remains below pre-pandemic levels (ALL's property damage gross claim frequency was +47.3% in 2Q (vs. -18.8% in 1Q vs. -28.7% in 4Q, -28.6% in 3Q and -46.4% in 2Q). ALL is also seeing auto severity. While ALL mentioned competitive pricing enhancements, it is now turning to targeted price increases. ALL's 2Q expense ratio of 24.7% decreased 7.1pts y/y due to unusual items the same quarter last year. Ex Shelter-in-Place payments and increased bad debt from billing flexibility options in 2Q20, ALL's expense ratio decreased 0.4pts y/y on lower operating expenses.

**No surprises on cat losses:** ALL announced 2Q21 cat losses in July (*2Q21 Cat Losses Beat Expectations*) so no surprise on the \$952mn of pre-tax cat losses posted today.

## Breadcrumbs...Forward Looking Commentary from 2Q

- Restructuring expenses related to future work environment and transformative growth:** Expect to incur ~\$110mn and \$290mn restructuring costs (majority targeted for completion in FY21). Remaining program charges are \$31mn (future work) and \$13mn (transformative growth). The estimated remaining costs under transformative growth was reduced by ~\$40mn as of 2Q due to lower severance costs from attrition.
- Capital deployment:** ALL crystallized its capital return strategy that we thought was stale heading into the quarter by announcing a new \$5bn repurchase program to be completed by 3/31/23. We estimate the buyback to be accretive to 2021E EPS (~+\$0.05), 2022E EPS (~+\$0.25) and 2023E EPS (\$+0.50).

**FIGURE 4**  
**ALL 2Q21 Variance Analysis**

<b>Summary (In \$mn, except per share)</b>	<b>2Q21E</b>	<b>Q/Q</b>		<b>Y/Y</b>		<b>Barclays Est.</b>	
		<b>1Q21</b>	<b>% Change</b>	<b>2Q20</b>	<b>% Change</b>	<b>2Q21</b>	<b>% Var.</b>
Consolidated revenues	12,646	12,451	1.6%	10,403	21.6%	12,091	-4.6%
Net income applicable to common	1,595	(1,408)	213.3%	1,222	30.5%	925	-72.5%
Net income applicable to common per dil common share	\$5.26	(\$4.59)	214.5%	\$3.85	36.4%	3	-71.4%
Adjusted net income	1,149	1,871	-38.6%	778	47.7%	925	24.3%
Adjusted net income per diluted common share	\$3.79	\$6.11	-38.0%	\$2.46	53.7%	3	23.5%
ROE - adjusted net income	23.8%	23.2%	64 bps	18.0%	581 bps	24.4%	(63 bps)
Book value per common share	\$86.33	\$81.08	6.5%	\$79.21	9.0%	\$82.46	4.7%
<b>P-L Combined Ratio</b>							
Recorded	95.7%	83.3%	1246 bps	89.8%	589 bps	91.4%	431 bps
Underlying	85.7%	77.1%	863 bps	76.8%	892 bps	81.9%	379 bps
P-L insurance premiums earned	10,009	9,896	1.1%	8,863	12.9%	10,049	-0.4%
Cat losses	946	590	60.4%	1,186	-20.2%	952	-0.6%
<b>Segment Details (In \$mn, except per share)</b>		<b>Q/Q</b>		<b>Y/Y</b>		<b>Barclays Est.</b>	
<b>Property-Liability Results</b>		<b>2Q21E</b>	<b>1Q21</b>	<b>% Change</b>	<b>2Q20</b>	<b>% Change</b>	<b>2Q21</b>
Premiums written	10,323	9,768	5.7%	9,172	12.5%	10,470	(1.4%)
Underwriting income	429	1,657	-74.1%	902	-52.4%	864	(50.3%)
<b>Recorded Combined Ratio</b>	<b>95.7%</b>	<b>83.3%</b>	<b>1246 bps</b>	<b>89.8%</b>	<b>589 bps</b>	<b>91.4%</b>	<b>431 bps</b>
Auto	94.3%	80.5%	1380 bps	83.8%	1047 bps	90.3%	401 bps
Home	100.3%	88.8%	1150 bps	106.8%	(647 bps)	93.5%	676 bps
<b>Underlying Combined Ratio</b>	<b>85.7%</b>	<b>77.1%</b>	<b>863 bps</b>	<b>76.8%</b>	<b>892 bps</b>	<b>81.9%</b>	<b>379 bps</b>
Auto	91.8%	80.1%	1174 bps	82.4%	936 bps	88.7%	310 bps
Home	69.5%	67.7%	180 bps	60.6%	889 bps	60.0%	946 bps
<b>Allstate Health and Benefits</b>							
Premiums and contract charges	447	455	-1.8%	263	70.0%	487	-8.1%
Adjusted Net Income (Loss)	62	65	-4.6%	5	1140.0%	65	-4.2%
<b>Allstate Protection Services</b>							
Revenues	581	552	5.3%	476	22.1%	579	0.4%
Adjusted Net Income (Loss)	56	49	14.3%	38	47.4%	47	19.8%

Source: Barclays Research, Company Data.

**FIGURE 5**  
**Model Summary (pg. 1)**

<i>(\$ In Mil, except per share)</i>	2019	2020	2021E	2022E	2023E
<b>Property-Liability line items:</b>					
Net Premiums written	\$35,419	\$35,768	\$40,895	\$42,437	\$43,928
Net Premiums earned	34,843	35,580	40,242	41,590	42,884
Other revenue	741	857	1,379	1,388	1,443
Claims and claim expense	23,622	21,626	27,158	29,216	30,408
Operating costs and expenses	9,067	10,151	10,701	11,100	11,440
Restructuring and related charges	91	235	129	-	-
<b>Underwriting income</b>	<b>2,804</b>	<b>4,424</b>	<b>3,633</b>	<b>2,663</b>	<b>2,480</b>
Property-Liability NII	1,533	1,421	2,511	1,953	2,156
<b>Operating income before taxes</b>	<b>4,337</b>	<b>5,845</b>	<b>6,144</b>	<b>4,616</b>	<b>4,636</b>
Income tax	887	1,258	1,071	969	973
Realized capital gains	1,161	866	-	-	-
<b>Prop-Liab Net Income</b>	<b>4,611</b>	<b>5,453</b>	<b>5,073</b>	<b>3,647</b>	<b>3,662</b>
Adjustments	(1,120)	(765)			
<b>Prop-Liab Adj Net Income</b>	<b>3,491</b>	<b>4,688</b>			
<b>Net premiums written (y/y % growth)</b>	<b>5.6%</b>	<b>1.0%</b>	<b>14.3%</b>	<b>3.8%</b>	<b>3.5%</b>
<b>Net premiums earned (y/y% change)</b>	<b>5.7%</b>	<b>2.1%</b>	<b>13.1%</b>	<b>3.3%</b>	<b>3.1%</b>
Protection Services adjusted net income	38	153	225	255	277
Allstate Life adjusted net income	261	194	-	-	-
Allstate Benefits adjusted net income	115	95	253	254	256
Allstate Annuities adjusted net income	10	(52)	-	-	-
Corporate and other	(438)	(428)	(439)	(446)	(431)
<b>Consolidated Adjusted net income</b>	<b>3,477</b>	<b>4,650</b>	<b>4,985</b>	<b>3,710</b>	<b>3,763</b>
Effective tax rate	20.1%	22.8%	21.0%	21.0%	21.0%
<b>Per share earnings data</b>					
<b>Adjusted net income per diluted common share</b>	<b>\$10.43</b>	<b>\$14.73</b>	<b>\$16.57</b>	<b>\$13.31</b>	<b>\$14.37</b>
<b>Share information</b>					
Actual shares outstanding	324.8	308.7	288.4	268.5	255.9
Fully diluted shares outstanding	330.0	311.4	288.8	269.0	256.4
Average diluted shares outstanding	333.5	315.5	299.8	278.8	261.8

Source: Barclays Research, Company Data.

**FIGURE 6**  
**Model Summary (pg. 2)**

<i>(\$ In Mil, except per share)</i>	2019	2020	2021E	2022E	2023E
<b><u>Underwriting ratios</u></b>					
Claims and claims expense ratio	67.8%	60.8%	67.5%	70.2%	70.9%
Expense ratio	24.2%	26.8%	23.5%	23.4%	23.3%
<b>Combined ratio</b>	<b>92.0%</b>	<b>87.6%</b>	<b>91.0%</b>	<b>93.6%</b>	<b>94.2%</b>
Underlying loss ratio	60.9%	52.7%	59.3%	61.6%	62.2%
Pre-tax cat. losses	2,557	2,804	3,332	3,613	3,716
Catastrophe points	7.3%	7.9%	8.3%	8.7%	8.7%
Pre-tax prior year development	(165)	60	(26)	-	-
<b>Underlying combined ratio</b>	<b>85.0%</b>	<b>79.4%</b>	<b>82.8%</b>	<b>84.9%</b>	<b>85.6%</b>
<b><u>Shareholders' equity and returns</u></b>					
Ending Common Shareholders' equity	23,750	28,247	25,737	25,616	26,552
Fully diluted book value per share	\$71.9	\$91.6	\$89.1	\$95.2	\$103.5
<b>Adjusted net income return on equity</b>	<b>16.9%</b>	<b>19.9%</b>	<b>20.6%</b>	<b>15.9%</b>	<b>15.8%</b>
<b><u>Capital deployment</u></b>					
Assumed Repurchase Price Per Share	\$104	\$98	\$129	\$143	\$147
# of shares repurchased (in mn)	16.9	17.4	22.8	20.0	12.5
Shares Repurchases	\$1,760	\$1,700	\$2,948	\$2,857	\$1,839
Dividends per share	\$2.00	\$2.16	\$3.24	\$3.50	\$3.78
Total \$ Amount of Dividends	\$657	\$675	\$970	\$974	\$975
Total capital return	\$2,417	\$2,375	\$3,918	\$3,831	\$2,814
Total capital return, % op. earnings	69%	51%	79%	103%	75%
<b><u>Investment income</u></b>					
Net investment income	\$3,159	\$2,852	\$2,654	\$2,066	\$2,536
Total Investments	\$88,362	\$94,237	\$64,154	\$70,732	\$77,991

Source: Barclays Research, Company Data.

**ANALYST(S) CERTIFICATION(S):**

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Allstate Corp. (ALL, 05-Aug-2021, USD 127.93), Overweight/Positive, CD/CE/J/K/M/N

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Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

#### Stock Rating

**Overweight** - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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

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Allstate Corp. (ALL)

Chubb Limited (CB)

Lemonade Inc (LMND)

Palomar Holdings, Inc. (PLMR)

Progressive Corp. (PGR)

ProSight Global, Inc. (PROS)

Root Inc. (ROOT)

The Hartford Financial Services Group, Inc.  
(HIG)

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The Travelers Companies, Inc. (TRV)

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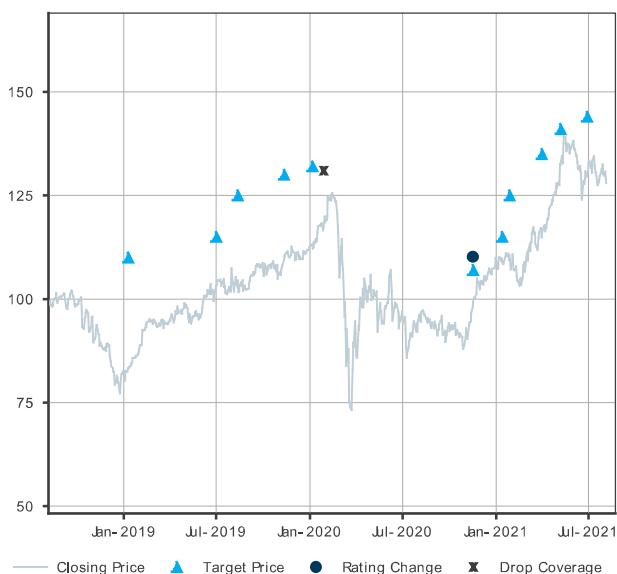
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**IMPORTANT DISCLOSURES****Allstate Corp. (ALL / ALL)**

USD 127.93 (05-Aug-2021)

**Rating and Price Target Chart - USD (as of 05-Aug-2021)**

Stock Rating

**OVERWEIGHT**

Industry View

**POSITIVE****Currency=USD**

Publication Date	Closing Price	Rating	Adjusted Price Target
28-Jun-2021	129.75		144.00
07-May-2021	132.26		141.00
31-Mar-2021	114.90		135.00
27-Jan-2021	110.51		125.00
12-Jan-2021	109.78		115.00
16-Nov-2020	98.06	Overweight	107.00
22-Jan-2020	117.65	Coverage Dropped	
06-Jan-2020	112.83		132.00
11-Nov-2019	108.19		130.00
12-Aug-2019	102.85		125.00
01-Jul-2019	103.15		115.00
09-Jan-2019	83.16		110.00

On 06-Aug-2018, prior to any intra-day change that may have been published, the rating for this security was Equal Weight, and the adjusted price target was 119.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Source: IDC, Barclays Research

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

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**Valuation Methodology:** Our Overweight rating and \$147 price target are based on a 50/50 weighted average of ~11x our 2022 EPS estimate of \$13.13 and 1.6x YE22 estimated book value per share of \$95.2.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Allstate's continuing growth in miles driven could lead to increased auto accident frequency, which would pressure the company's margins. A prolonged period of low interest rates will likely pressure net investment income. Allstate has substantial exposure to natural catastrophe losses, stemming from its large homeowners insurance business. Despite the acquisition being relatively small, integration of National General could be challenging and lead to execution risk in combining business units under one operational model.

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