

Allstate Corp.

2Q23 Review: Capital Management Gravity Shift

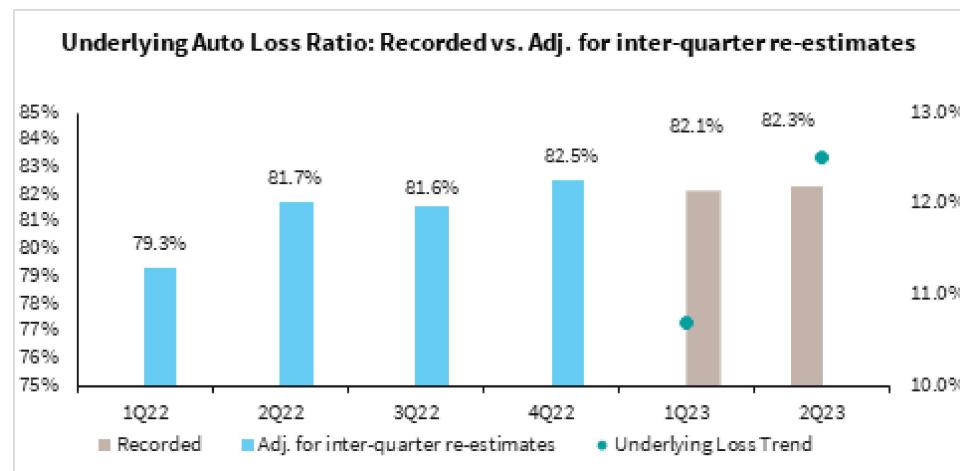
| CORE

ALL recognized \$3.1bn of statutory losses over the last 18 months. In relation to capital adequacy, we sense a posture shift, with a greater sense of urgency now to get back on track, after a relatively more relaxed posture previously. Those efforts do not include an equity raise.

CA, NY and NJ, tougher states to get needed rate approvals, represent 24% of ALL's 2022 auto premiums vs. 21% for the industry. Collectively, new issued applications in these states fell by 62%. ALL's 35% rate request (vs. 46.4% actuarial rate need) in CA is still pending and could drag on for a pro-longed period of time. We venture it could take 12 months. ALL implemented 3 pts of weighted rate increases in June in NY. In NJ it received a 6.9% rate approval and is awaiting a 29% pending rate increase for a requested effective date of Dec. '23 (renewal business).

ALL's reported 82.3% AYLR for auto deteriorated from 82.1% in 1Q23. In Figure 1, we outline ALL's auto underlying loss ratio adjusted for these inter-quarter estimates to better depict its quarterly trend. **ALL's 12.5% 'pure premium' trend is synonymous with 'underlying loss trend' (11 pts severity, 1.5 pts frequency)**. This compares to 10.7% in 1Q. Therefore, underlying loss trends are progressively getting worse. Nonetheless, higher earned in premiums from rating actions are coming through over time, boosting the denominator.

FIGURE 1. Sequential comparisons of ALL's AYLR for auto



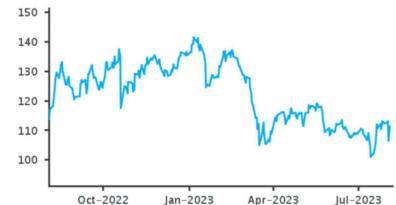
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ALL	EQUAL WEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 113.00
	Unchanged
Price (04-Aug-23)	USD 109.87
Potential Upside/Downside	+2.8%
Market Cap (USD mn)	28739
Shares Outstanding (mn)	261.57
Free Float (%)	98.07
52 Wk Avg Daily Volume (mn)	1.9
Dividend Yield (%)	3.24
Return on Equity TTM (%)	-13.05
Current BVPS (USD)	58.82
Source: Bloomberg	

Price Performance	Exchange-NYSE
52 Week range	USD 142.15-100.57



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

U.S. Insurance/Non-Life

Tracy Benguigui

+1 212 526 1561

tracy.benguigui@barclays.com

BCI, US

Alex Barenklau

+1 212 526 1021

alexander.barenklau@barclays.com

BCI, US

Julia Gul

+1 212 526 9132

julia.gul@barclays.com

BCI, US

Testing the limits to satisfy all stakeholders: Managing capital for efficiency comes at a price. We get the sense that ALL tries to make all of its key stakeholders including regulators, rating agencies, and equity investors, happy. By doing so, ALL just runs capital very efficiently, which in translation means a lesser buffer or even a slight deficiency. **While ALL may have been testing the limits to a degree, we think actions taken to date are sufficient to get capital adequacy back on track.**

Buyback Shareholder Value Creation

**“...when you look ...over a long period of time ...
you don’t really create shareholder value by
doing share buybacks.”**

- Tom Wilson, CEO

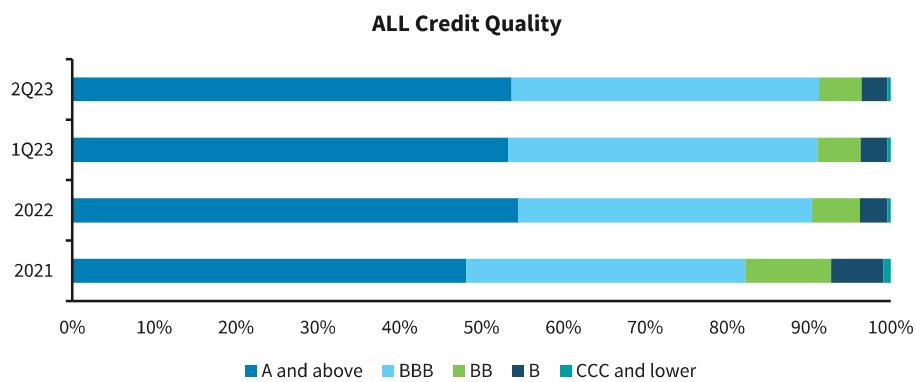
While ALL acknowledges that not doing any buybacks is bad for shareholder value, ALL is more focused on returning profitability. We sense a shift in posture. Before ALL’s July buyback suspension, we have seen more buyback consistency from ALL even in periods when it completed acquisitions or elevated catastrophe activity. We take ALL’s comments to mean that it values capital flexibility more than being consistent over the long term.

Capital Actions

Buyback suspension since July, ALL reiterated it does not feel like it needs to issue equity. The old playbook for ALL when capital got tighter was to raise hybrid debt, that option we think is less available given its current leverage position and expensive pricing. We are modeling nil buybacks in 2H23 and 2024.

ALL reduced its public equities position (that carry higher capital requirements under its internal capital model) in 1H23. This follows its reduction of HY bonds in 2Q22. **We assume asset reallocation from HY/equities to IG bonds yielded ~\$1bn of capital relief** (under S&P’s proposed new capital model proposal).

FIGURE 2. Changes in ALL credit quality



Source: Barclays Research, Co. Reports, S&P Ratings

Evolving auto capital requirements: In light of weaker underwriting performance, ALL raised its internal capital requirements for auto, which we interpret as higher capital needs for auto underwriting and reserving risks.

ALL: Quarterly and Annual EPS (USD)

FY Dec	2022	2023			2024			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2023	2024
Q1	2.59A	-1.30A	-1.30A	-1.30A	3.60E	3.05E	3.21E	N/A	335%
Q2	-0.75A	-4.44E	-4.42A	-4.42A	1.14E	1.13E	1.87E	N/A	126%
Q3	-1.53A	1.18E	1.00E	1.14E	1.96E	2.28E	2.73E	165%	128%
Q4	-1.33A	2.93E	2.77E	2.82E	3.91E	4.07E	4.34E	308%	47%
Year	-0.88A	-1.61E	-1.92E	-1.84E	10.60E	10.52E	12.23E	N/A	648%
P/E	N/A		N/A			10.4			

Consensus numbers are from Bloomberg received on 04-Aug-2023; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Allstate Corp. (ALL)							EQUAL WEIGHT
Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (04-Aug-2023)	USD 109.87
Net premiums earned	45,904	50,716	54,789	58,364	8.3%	Price Target	USD 113.00
Net investment income (NII)	2,403	2,441	2,603	2,890	6.3%	Why EQUAL WEIGHT?	
Underwriting income	-2,911	-3,223	648	2,123	N/A	ALL's fundamentals are strong and we look forward to seeing progress on its transformative growth plan.	
Operating income	-239	-505	2,791	4,221	N/A	However, pricing correction actions may stall ALL's progress in actualizing stronger PIF growth.	
Net income	-1,394	-881	2,565	3,995	N/A		
Effective tax rate (%)	26.7	21.6	21.0	21.0	-7.7%		
Combined ratio (%)	106.6	106.7	98.8	96.1	-3.4%		
Combined ratio (ex cats & py development) (%)	95.1	92.5	90.0	87.6	-2.7%		
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR	Upside case USD 130.00	
EPS (adj)	-0.88	-1.92	10.52	16.13	N/A	Loss cost trends abate, returning to 2019 baseline levels. Successful execution of Allstate's transformational growth plans via efficiency gains that is translated to strong PIF growth, particularly in auto. Our upside case of \$130 assumes ~2x our '24 BVPS ex AOCI estimate.	
EPS (reported)	-5.12	-3.38	9.67	15.27	N/A		
DPS	3.40	3.56	3.74	3.96	5.2%		
BVPS	57.45	52.42	58.37	68.30	5.9%		
BVPS (ex AOCI)	67.22	59.37	65.33	75.20	3.8%		
Diluted shares (mn)	272	264	265	262	-1.3%		
Balance sheet and capital return (\$mn)	2022A	2023E	2024E	2025E	CAGR	Downside case USD 100.00	
Total investments	61,829	66,615	68,351	75,764	7.0%	Steeper acceleration of loss cost trends, particularly on the severity side. Prolonged period of achieving approvals from regulators with respect to requested rate increases. Our downside case of \$100 assumes ~10x our '24 EPS estimates.	
Common shareholders' equity (ex AOCI)	17,773	15,746	17,325	19,491	3.1%		
Share buybacks	2,496	307	0	800	-31.6%		
Dividends paid	922	937	985	1,030	3.7%		
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average	Upside/Downside scenarios	
Debt leverage (%)	31.3	33.3	31.3	28.8	31.2		
Financial leverage (%)	39.0	41.7	39.1	36.1	39.0		
Total capital return as a % of op. earnings	-1,430.2	-246.4	35.3	43.3	-399.5		
Valuation metrics	2022A	2023E	2024E	2025E	Average		
P/BV (ex AOCI) (x)	1.63	1.85	1.68	1.46	1.66		
P/E (adj) (x)	N/A	N/A	10.4	6.8	8.6		
Dividend yield (%)	3.1	3.2	3.4	3.6	3.3		
ROE (%)	-1.2	-3.0	16.9	22.9	8.9		

Note: FY End Dec

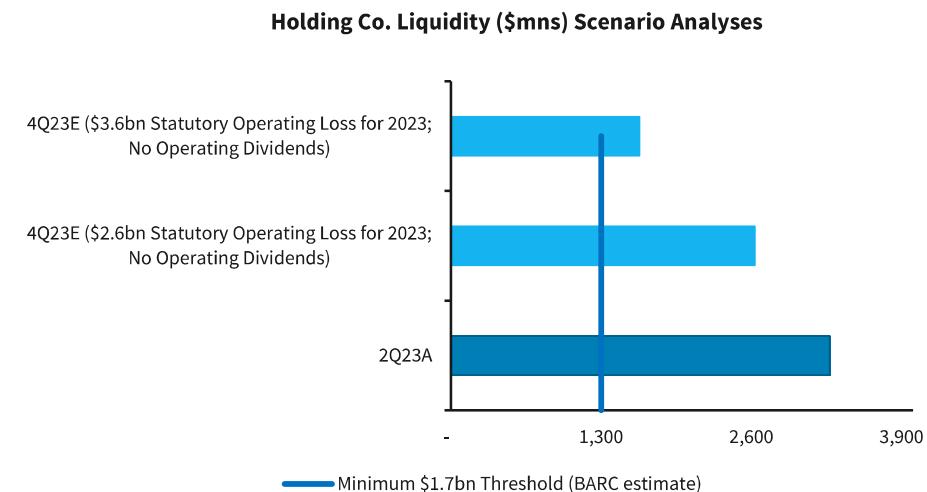
Source: Company data, Bloomberg, Barclays Research



PF Capital: 2H Statutory Losses Illustrative Scenarios

In our downside scenarios we are assuming a continuation of statutory losses in the balance of the year. Scenario #1 - \$1bn of incremental statutory losses and Scenario #2 - \$2bn of incremental statutory losses for 2H23. Consequently, Hold Co liquidity falls to \$2.6bn and \$1.6bn, respectively, from \$3.3bn at 2Q23.

FIGURE 3.



Source: Barclays Research, Company Reports

FIGURE 4. 2H Statutory Losses Illustrative Scenario worksheet

Statutory Operating Loss & No Stat Dividends

P&C Statutory Capital (\$ In Mil)	1Q23	2Q23E	3Q23E	4Q23E
Opening Balance	15,000	15,000	13,600	13,100
Statutory loss & unrealized equity losses	-	(1,600)	(500)	(500)
Dividends Paid				
ALIC Extraordinary Dividend to AIC				
Ending Balance	15,000	13,600	13,100	12,600
	1Q23	2Q23E	3Q23E	4Q23E
RBC	202%	183%	177%	170%

Holding Co. Assets

Opening Balance	4,160	3,280	2,955
Preferred Redemption & Debt Redemption	(250)	(1,075)	
Preferred/Debt Raise	744	600	
Dividend Received	-	-	-
Fixed Charges	(325)	(325)	(325)
Buybacks	(154)		
Ending Balance	4,160	3,280	2,630

Minimum Threshold (BARC estimate)	1,300	1,300	1,300	1,300
ALL Statutory Capital & Hold Co Assets	19,160	16,880	16,055	15,230
Undeployed Dividend Capacity*	1,220	1,220	1,220	1,220

*Rebases every year, unused allowances do not carryover

RBCs are Barclays estimations

Source: Barclays Research, Company Reports

2Q23 Variance

FIGURE 5. 2Q23 Variance

Summary (In \$mn, except per share)	2Q23A	1Q23	Q/Q % Change	2Q22	Y/Y % Change	2Q23E	Barclays Est. % Var.
Consolidated revenues	\$13,979	\$13,786	1.4%	\$12,219	14.4%	\$14,212	-1.6%
Net Investment Income	\$610	\$575	6.1%	\$562	8.5%	\$618	-1.4%
Net income applicable to common	(1,389)	(346)	301.4%	(1,040)	-33.6%	(1,248)	11.3%
Net income applicable to common per dil common share	(\$5.29)	(\$1.31)	302.9%	(\$3.80)	-39.3%	(\$4.67)	13.2%
Adjusted net income	(1,162)	(342)	239.8%	(207)	461.4%	(1,175)	-1.1%
Adjusted net income per diluted common share	(\$4.42)	(\$1.30)	240.5%	(\$0.75)	492.5%	(\$4.44)	-0.5%
Book value per common share	\$51.29	\$58.65	-12.5%	\$65.96	-22.2%	\$52.94	-3.1%
Weighted avg common shares - diluted	262.6	263.5	-0.3%	273.8	-4.1%	267.1	-1.7%
Share repurchases	\$154	\$153	0.7%	\$683	-77.5%	\$50	208.0%
P-L Combined Ratio							
Recorded	117.6%	108.6%	900 bps	107.9%	965 bps	118.2%	(61 bps)
Underlying	92.9%	93.3%	(37 bps)	93.4%	(55 bps)	93.6%	(71 bps)
P-L insurance premiums earned	11,921	11,635	2.5%	10,874	9.6%	\$11,903	0.2%
Cat losses	2,696	1,691	59.4%	1,108	143.3%	2,700	-0.1%

Source: Barclays Research, Company Reports

FIGURE 6. 2Q23 Variance Con't

Segment Details (In \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	2Q23A	1Q23	% Change	2Q22	% Change	2Q23E	% Var.
<u>Property-Liability Results</u>							
Premiums written	\$12,620	\$11,783	7.1%	\$11,509	9.7%	\$12,220	3.3%
Underwriting income	(2,094)	(1,001)	-109.2%	(864)	142.4%	(2,167)	-3.4%
Recorded Combined Ratio	117.6%	108.6%	900 bps	107.9%	965 bps	118.2%	(61 bps)
Auto	108.3%	104.4%	390 bps	107.9%	40 bps	108.9%	(63 bps)
Home	145.3%	119.0%	2630 bps	107.5%	3780 bps	150.1%	(482 bps)
Underlying Combined Ratio	92.9%	93.3%	(37 bps)	93.4%	(55 bps)	93.6%	(71 bps)
Auto	102.2%	102.6%	(40 bps)	102.1%	10 bps	103.3%	(110 bps)
Home	67.6%	67.6%	0 bps	69.5%	(190 bps)	67.9%	(33 bps)
<u>Allstate Health and Benefits</u>							
Premiums and contract charges	\$453	\$463	-2.2%	\$465	-2.6%	\$470	-3.5%
Adjusted Net Income (Loss)	48	48	0.0%	58	-17.2%	\$51	-5.9%
<u>Allstate Protection Services</u>							
Revenues	686	671	2.2%	629	9.1%	718	-4.5%
Adjusted Net Income (Loss)	62	52	19.2%	65	-4.6%	\$49	27.0%

Source: Barclays Research, Company Reports

Valuation

Our Equal Weight rating and \$113 price target (unchanged) are based on a 50/50 weighted average of our blended 10.5x our 2024 EPS and 1.78x our 2024 book value per share ex AOCI. Multiples are unchanged.

Model Summary

FIGURE 7. Model Summary

<i>(\$ In Mil, except per share)</i>	2020	2021	2022	2023E	2024E	2025E
P&C insurance premiums	\$37,073	\$42,218	\$45,904	\$50,716	\$54,789	\$58,364
A&H premiums and contract charges	\$1,094	\$1,821	\$1,832	\$1,824	\$1,842	\$1,861
Other revenue	\$1,065	\$2,172	\$2,344	\$2,392	\$2,529	\$2,672
Net investment income	\$1,590	\$3,293	\$2,403	\$2,441	\$2,603	\$2,890
Realized capital gains (losses)	\$1,087	\$1,084	(\$1,072)	(\$137)	\$0	\$0
Total revenues	\$41,909	\$50,588	\$51,411	\$57,236	\$61,763	\$65,786
P&C insurance claims and expenses	22,001	29,318	37,266	42,062	41,187	42,349
Shelter in Place payback expense	948	29	-	-	-	-
A&H policy benefits	516	1,015	1,042	1,041	1,050	1,061
Interest credited to contractholder funds	33	34	-	-	-	-
Operating costs/expenses & amortization of DAC	10,971	13,512	14,080	14,516	15,577	16,618
Pension and other post retirement remeasurement (gains) losses	(51)	(644)	116	(93)	-	-
Restructuring and related charges	253	170	51	54	-	-
Amortization of purchased intangibles	118	376	353	309	226	226
Interest expense	318	330	333	353	339	339
Total costs and expenses	35,107	44,140	53,241	58,242	58,379	60,592
Consolidated Adjusted net income	4,510	4,033	(239)	(505)	2,791	4,221
Effective tax rate	20.2%	20.0%	26.7%	21.6%	21.0%	21.0%
Per share earnings data						
Adjusted net income per diluted common share	\$14.29	\$13.48	(\$0.88)	(\$1.92)	\$10.52	\$16.13

Share information

Average diluted shares outstanding	315.5	299.2	272.2	264.1	265.2	261.8
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Source: Barclays Research, Company Reports

FIGURE 8. Model Summary Con't

(\$ In Mil, except per share)	2020	2021	2022	2023E	2024E	2025E
Net premiums written (y/y % growth)	0.9%	15.7%	10.7%	8.5%	6.6%	5.7%
Net premiums earned (y/y% change)	2.8%	13.9%	8.7%	10.5%	8.0%	6.5%
<u>Underwriting ratios</u>						
Claims and claims expense ratio	60.8%	71.4%	83.7%	85.8%	78.1%	75.6%
Expense ratio	26.8%	24.5%	23.0%	20.9%	20.7%	20.5%
Combined ratio	87.6%	95.9%	106.6%	106.7%	98.8%	96.1%
Underlying loss ratio	52.7%	62.5%	72.6%	72.1%	69.7%	67.4%
Pre-tax cat. losses	2,811	3,339	3,112	6,254	4,196	4,369
Catastrophe points	7.9%	8.3%	7.1%	12.9%	8.1%	7.9%
Pre-tax prior year development	60	267	1,725	365	147	138
Underlying combined ratio	79.4%	86.4%	95.1%	92.5%	90.0%	87.6%
<u>Shareholders' equity and returns</u>						
Ending Common Shareholders' equity	28,247	23,209	15,518	13,901	15,480	17,646
Fully diluted book value per share	\$90.5	\$80.4	\$57.5	\$52.4	\$58.4	\$68.3
Adjusted net income return on equity	19.2%	16.9%	-1.2%	-3.0%	16.9%	22.9%
<u>Capital deployment</u>						
Assumed Repurchase Price Per Share	\$98	\$124	\$124	\$118		\$117
# of shares repurchased (in mn)	17.4	26.3	20.1	2.6	-	6.9
Shares Repurchases	1,700	3,260	2,496	307	-	800
Dividends per share	\$2.16	\$3.24	\$3.40	\$3.56	\$3.74	\$3.96
Total \$ Amount of Dividends	\$673	\$955	\$922	\$937	\$985	\$1,030
Total capital return	\$2,373	\$4,215	\$3,418	\$1,244	\$985	\$1,830
Total capital return, % op. earnings	53%	105%	(1430%)	(246%)	35%	43%
<u>Investment income</u>						
Net investment income	\$2,322	\$3,293	\$2,403	\$2,407	\$2,535	\$2,812
Total Investments	\$94,237	\$64,701	\$61,829	\$66,615	\$68,351	\$75,764

Source: Barclays Research, Company Reports

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Allstate Corp. (ALL, 04-Aug-2023, USD 109.87), Equal Weight/Positive, CD/CE/E/J/K/L/M

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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.

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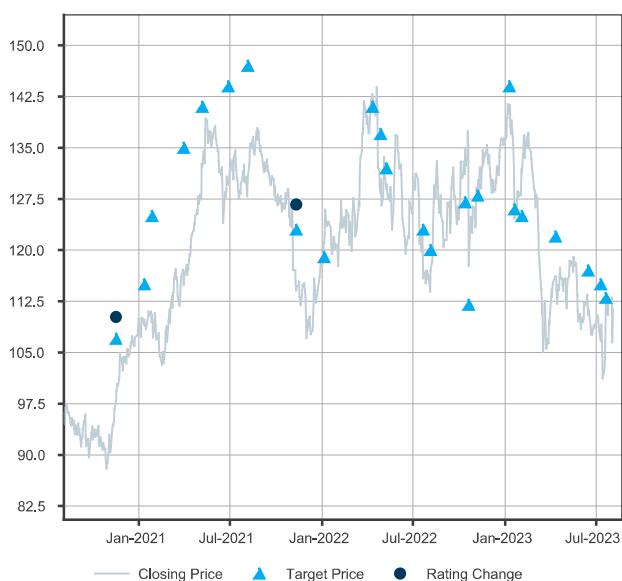
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

Closing Price: **USD 109.87** (04-Aug-2023)

Rating and Price Target Chart - USD (as of 04-Aug-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
20-Jul-2023	105.79		113.00
10-Jul-2023	108.27		115.00
15-Jun-2023	111.40		117.00
11-Apr-2023	116.11		122.00
03-Feb-2023	131.89		125.00
19-Jan-2023	132.43		126.00
09-Jan-2023	141.37		144.00
07-Nov-2022	128.82		128.00
20-Oct-2022	135.15		112.00
13-Oct-2022	131.13		127.00
05-Aug-2022	113.92		120.00
21-Jul-2022	122.34		123.00
09-May-2022	130.56		132.00
27-Apr-2022	128.98		137.00
11-Apr-2022	141.93		141.00
05-Jan-2022	121.13		119.00
10-Nov-2021	114.11	Equal Weight	123.00
06-Aug-2021	130.82		147.00
28-Jun-2021	129.75		144.00
07-May-2021	132.26		141.00
31-Mar-2021	114.90		135.00

27-Jan-2021	110.51	125.00
12-Jan-2021	109.78	115.00
16-Nov-2020	98.06	Overweight 107.00

Source: Bloomberg, Barclays Research

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

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Valuation Methodology: Our \$113 price target is based on a 50/50 weighted average of our blended 10.5x our 2024 EPS and 1.78x our 2024 book value per share ex AOCI.

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

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