

Allstate Corp.

4Q Review: Severity Iterations

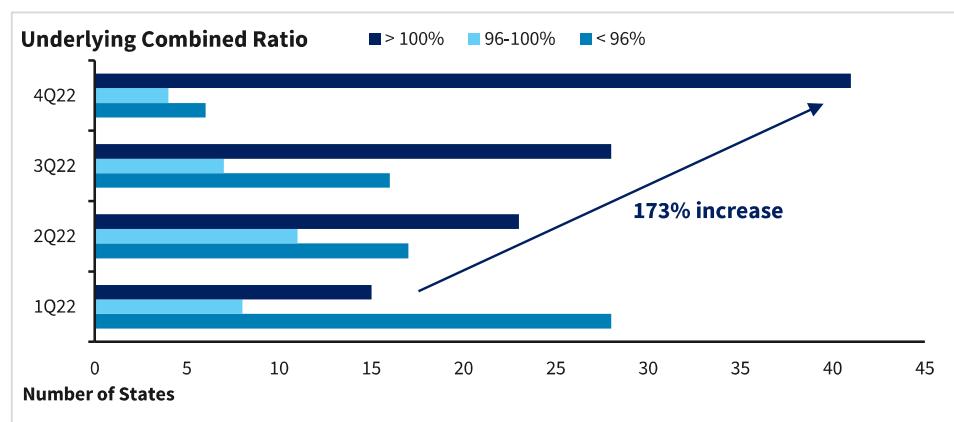
ALL is not only increasing full year severities from claims occurring in prior quarters, it is reshuffling BI PYD by AY.

| CORE

Incremental views on ALL post 4Q earnings. We anticipate ALL's remediation path to be a long one.

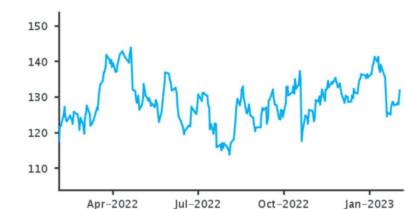
1. Spike in underlying combined ratio is >100% across a number of states (41 states in 4Q22, 28 states in 3Q22, 23 states in 2Q22 and 15 states in 1Q22). According to our conversation with the CFO, part of this spike was in part driven by ALL's inter-quarter re-estimates taken throughout the year. Therefore, we would have like to seen a 2022 vs. 2021 comparison which would normalize some of that noise. ALL is imposing increased underwriting restrictions in 37 states including CA, NY and NJ.

FIGURE 1. 173% rise in Underlying Combined Ratio >100% in number of states since 1Q22



2. Iterations to severity loss trend, especially BI. ALL is talking up bodily injury and attorney representation adverse trends more than others leading to higher bodily injury loss trend commentary vs. peers (see figure 3), from 8% in 1Q22, 9% in YTD 2Q22, 12% in YTD 3Q22 and 14% FY2022. ALL's physical damage (severity) loss trends notably lags PGR during YTD3Q22 (see figure 2). To recap, ALL's inter-year loss picks have also increased reflecting ALL's iterative views on BI (up from 8% in 1Q22 to 14% in YTD3Q22) and physical damage (up from 11% in 1Q22 to 17% in FY2022). ALL increased claim severity in 4Q for bodily injury and physical damage for the full year 2022 to reflect continued increases in loss costs.

ALL	EQUAL WEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 125.00
	lowered -0.79% from USD 126.00
Price (02-Feb-23)	USD 131.89
Potential Upside/Downside	-5.2%
Market Cap (USD mn)	34753
Shares Outstanding (mn)	263.50
Free Float (%)	98.03
52 Wk Avg Daily Volume (mn)	1.9
Dividend Yield (%)	2.58
Return on Equity TTM (%)	-7.34
Current BVPS (USD)	58.75
Source: Bloomberg	
Price Performance	Exchange-NYSE
52 Week range	USD 144.46-111.85



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

U.S. Insurance/Non-Life

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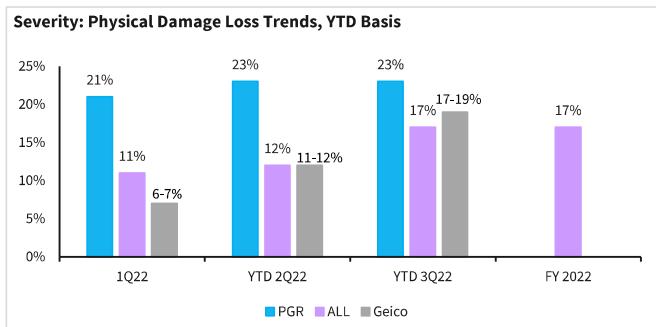
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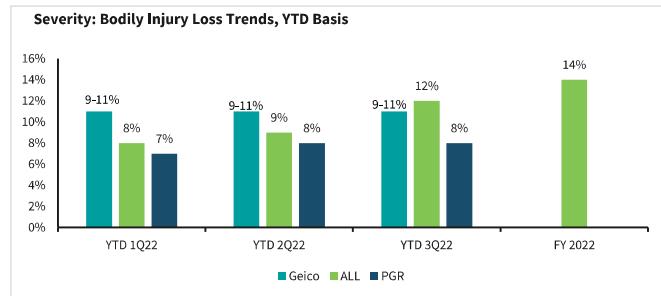
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FIGURE 2. PGR > physical damage loss trends



YTD basis
Source: Barclays Research, Co. Reports

FIGURE 3. ALL BI rising loss trends vs. peers

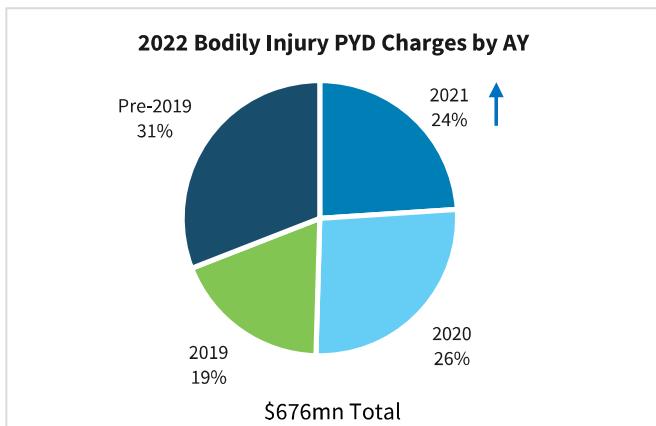


YTD Basis
Source: Barclays Research, Co. Reports

3. Bodily Injury PYD: Evolving Views by Accident Year

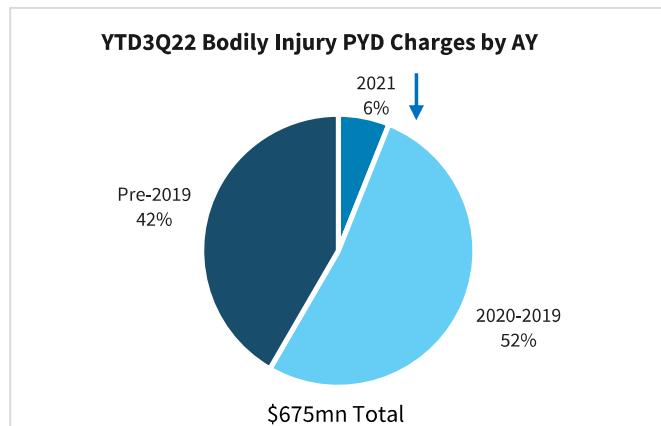
Reshuffling Act: In 4Q22 vs. 3Q22, ALL had reshuffled by AY where to reflect higher BI PYD and did not change the aggregate charge. In doing so AY21 now represents 24% of the BI PYD charges up from 6% in Sept. '22, which we thought was too low to begin with. Still, we are less clear why only one quarter later we are seeing this reshuffling act.

FIGURE 4. 2022 BI PYD by AY ('21 is now higher)...



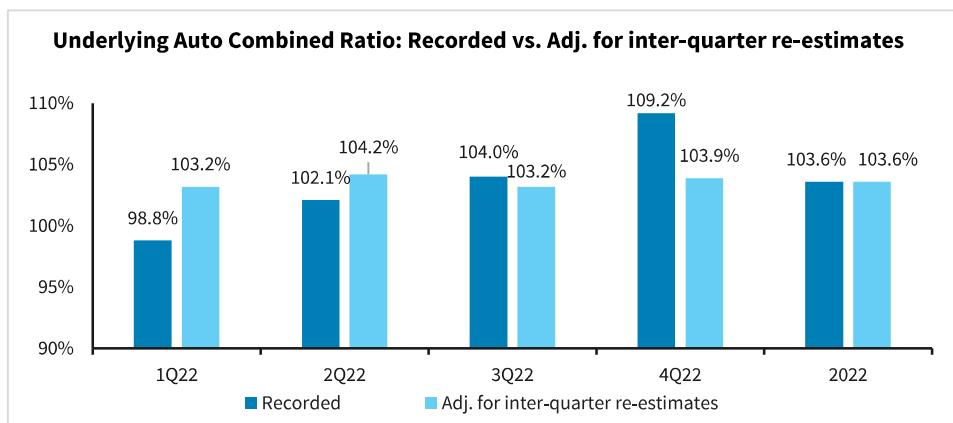
Source: Barclays Research, Co. Reports

FIGURE 5. vs. YTD 3Q22 BI PYD by AY



Source: Barclays Research, Co. Reports

4. 103.9% is the more accurate 4Q22 auto underlying combined ratio, removing the effects of prior quarter re-estimates. During 2022, ALL made several re-estimates to its prior quarter auto underlying loss ratio, obscuring what the true metric in the corresponding reporting period should look like. In figure 6, we outline ALL's auto underlying combined ratio adjusted for these inter quarter estimates to better depict its quarterly trend.

FIGURE 6. Underlying Auto Combined Ratio: Recorded vs. Adj. for inter-quarter re-estimates

Source: Barclays Research, Co. Reports

5. Claims Process Revamp: Reduced the volume of pending bodily injury claims by ~20%. Pending BI claims in aggregate is at its lowest level since pre-2016 as it settling claims quicker to avoid inflationary risk. We understand that previously, ALL required medical documentation for even benign injury claims like \$250. That delay drove up the ultimate claim amount as these claimants just went to more doctor visits. Now ALL just wants to get these claims over with. On the PD side, ALL is reducing cycle time around storage and car rentals.

ALL: Quarterly and Annual EPS (USD)

FY Dec	2022	2023			2024			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2023	2024
Q1	2.58A	1.48E	1.32E	2.11E	3.36E	3.28E	3.67E	-49%	148%
Q2	-0.76A	0.44E	0.20E	0.66E	1.47E	1.50E	2.17E	126%	650%
Q3	-1.56A	1.21E	1.10E	1.57E	2.13E	2.16E	2.81E	171%	96%
Q4	-1.36A	3.35E	2.89E	3.49E	4.46E	4.26E	4.62E	312%	47%
Year	-0.97A	6.47E	5.50E	8.15E	11.42E	11.19E	13.34E	667%	103%
P/E	N/A		24.0			11.8			

Consensus numbers are from Bloomberg received on 02-Feb-2023; 13:50 GMT
Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Allstate Corp. (ALL)							EQUAL WEIGHT
Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (02-Feb-2023)	USD 131.89
Net premiums earned	45,904	50,012	53,246	56,600	7.2%	Price Target	USD 125.00
Net investment income (NII)	2,403	2,487	2,562	2,834	5.7%	Why EQUAL WEIGHT?	
Underwriting income	-2,897	-899	824	2,231	N/A	ALL's fundamentals are strong and we look forward to seeing progress on its transformative growth plan.	
Operating income	-262	1,443	2,875	4,233	N/A	However, pricing correction actions may stall ALL's progress in actualizing stronger PIF growth.	
Net income	-1,416	1,152	2,649	4,007	N/A		
Effective tax rate (%)	26.6	21.0	21.0	21.0	-7.6%		
Combined ratio (%)	106.6	101.9	98.4	95.8	-3.5%		
Combined ratio (ex cats & py development) (%)	95.3	92.6	89.4	0.0	-100.0%		
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR	Upside case USD 150.00	
EPS (adj)	-0.97	5.50	11.19	16.88	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 \$150 assumes ~2.1x our '24 BVPS ex AOCI estimate.	
EPS (reported)	-5.16	4.39	10.31	15.98	N/A		
DPS	3.40	3.57	3.75	3.96	5.2%		
BVPS	57.40	57.37	62.33	72.88	8.3%		
BVPS (ex AOCI)	67.16	66.03	70.99	81.72	6.8%		
Diluted shares (mn)	274	263	257	251	-3.0%		
Balance sheet and capital return (\$mn)	2022A	2023E	2024E	2025E	CAGR	Downside case USD 118.00	
Total investments	61,055	67,038	68,812	76,396	7.8%	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 \$118 assumes ~11x our '24 EPS estimates.	
Common shareholders' equity (ex AOCI)	17,758	17,174	18,071	20,298	4.6%		
Share buybacks	2,496	810	800	800	-31.6%		
Dividends paid	922	926	951	980	2.1%		
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average	Upside/Downside scenarios	
Debt leverage (%)	31.0	29.6	28.5	26.2	28.8		
Financial leverage (%)	39.7	38.8	37.4	34.4	37.6		
Total capital return as a % of op. earnings	-1,304.7	120.3	60.9	42.1	-270.3		
Valuation metrics	2022A	2023E	2024E	2025E	Average		
P/BV (ex AOCI) (x)	1.96	2.00	1.86	1.61	1.86		
P/E (adj) (x)	N/A	24.0	11.8	7.8	14.5		
Dividend yield (%)	2.6	2.7	2.8	3.0	2.8		
ROE (%)	-1.3	8.3	16.3	22.1	11.3		

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research



4Q22 Variance

FIGURE 7. 4Q22 Variance

Summary (In \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	4Q22A	3Q22	% Change	4Q21	% Change	4Q22E	% Var.
Consolidated revenues	\$13,647	\$13,208	3.3%	\$13,011	4.9%	\$13,811	-1.2%
Net Investment Income	\$557	\$690	-19.3%	\$847	-34.2%	\$557	0.0%
Net income applicable to common	(310)	(694)	-55.3%	790	139.2%	(306)	1.2%
Net income applicable to common per dil common share	(\$1.17)	(\$2.58)	-54.7%	\$2.73	142.8%	(\$1.13)	3.5%
Adjusted net income	(359)	(420)	-14.5%	796	-145.1%	(355)	1.1%
Adjusted net income per diluted common share	(\$1.36)	(\$1.56)	-13.0%	\$2.75	-149.4%	(\$1.31)	3.7%
Book value per common share	\$58.07	\$58.35	-0.5%	\$81.52	-28.8%	\$55.73	4.2%
Weighted avg common shares - diluted	264.4	268.7	-1.6%	289.0	-8.5%	270.9	-2.4%
Share repurchases	\$354	\$665	-46.8%	\$870	-59.3%	\$300	18.0%
P-L Combined Ratio							
Recorded	109.1%	111.6%	(248 bps)	98.9%	1019 bps	109.1%	5 bps
Underlying	99.2%	96.7%	254 bps	92.0%	719 bps	99.4%	(17 bps)
P-L insurance premiums earned	\$11,380	\$11,157	2.0%	\$10,390	9.5%	\$11,523	-1.2%
Cat losses	779	763	2.1%	528	47.5%	779	0.0%

Source: Barclays Research, Company Reports

FIGURE 8. 4Q22 Variance Con't

Segment Details (In \$mn, except per share)	Q/Q			Y/Y		Barclays Est.	
	4Q22A	3Q22	% Change	4Q21	% Change	4Q22E	% Var.
Property-Liability Results							
Premiums written	\$11,480	\$12,037	-4.6%	\$10,301	11.4%	\$11,500	-0.2%
Underwriting income	(1,035)	(1,292)	-19.9%	113	-1015.9%	(1,043)	-0.8%
Recorded Combined Ratio	109.1%	111.6%	(248 bps)	98.9%	1019 bps	109.1%	5 bps
Auto	112.6%	117.4%	(480 bps)	104.3%	830 bps	112.6%	0 bps
Home	92.6%	91.2%	140 bps	87.1%	550 bps	92.6%	(3 bps)
Underlying Combined Ratio	99.2%	96.7%	254 bps	92.0%	719 bps	99.4%	(17 bps)
Auto	109.2%	104.0%	520 bps	100.2%	900 bps	107.8%	139 bps
Home	70.3%	74.6%	(430 bps)	69.6%	70 bps	72.8%	(250 bps)
Allstate Health and Benefits							
Premiums and contract charges	\$435	\$463	-6.0%	\$459	-5.2%	\$475	-8.4%
Adjusted Net Income (Loss)	50	46	8.7%	48	4.2%	\$67	-25.1%
Allstate Protection Services							
Revenues	643	640	0.5%	606	6.1%	\$678	-5.1%
Adjusted Net Income (Loss)	39	55	-29.1%	46	-15.2%	\$87	-55.2%

Source: Barclays Research, Company Reports

Valuation

Our Equal Weight rating and \$125 PT (from \$126) is based on a 50/50 weighted average of our ~11.5x (unchanged) our 2024 EPS of \$11.19 (from \$11.42) and 1.7x (unchanged) our 2024 book value per share ex AOCI of \$71.0 (from \$71.27).

Model Summary

FIGURE 9. 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	\$50,012	\$53,246	\$56,600
A&H premiums and contract charges	\$1,094	\$1,821	\$1,833	\$3,412	\$3,532	\$3,655
Other revenue	\$1,065	\$2,172	\$2,344	\$2,493	\$2,579	\$2,714
Net investment income	\$1,590	\$3,293	\$2,403	\$2,487	\$2,562	\$2,834
Realized capital gains (losses)	\$1,087	\$1,084	(\$1,072)	\$0	\$0	\$0
Total revenues	\$41,909	\$50,588	\$51,412	\$58,404	\$61,919	\$65,803
P&C insurance claims and expenses	22,001	29,318	37,266	38,059	38,790	39,720
Shelter in Place payback expense	948	29	-	-	-	-
A&H policy benefits	516	1,015	1,061	1,945	2,013	2,084
Interest credited to contractholder funds	33	34	-	-	-	-
Operating costs/expenses & amortization of DAC	10,971	13,512	14,090	16,206	17,100	18,264
Pension and other post retirement remeasurement (gains) losses	(51)	(644)	116	-	-	-
Restructuring and related charges	253	170	51	-	-	-
Amortization of purchased intangibles	118	376	353	291	226	226
Interest expense	318	330	333	309	300	300
Total costs and expenses	35,107	44,140	53,270	56,810	58,429	60,594
Consolidated Adjusted net income	4,510	4,033	(262)	1,443	2,875	4,233
Effective tax rate	20.2%	20.0%	26.6%	21.0%	21.0%	21.0%
Per share earnings data						
Adjusted net income per diluted common share	\$14.29	\$13.48	(\$0.97)	\$5.50	\$11.19	\$16.88

Share information

Average diluted shares outstanding	315.5	299.2	274.5	262.5	256.9	250.7
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Source: Barclays Research, Company Reports

FIGURE 10. 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%	6.6%	5.9%	5.9%
Net premiums earned (y/y% change)	2.8%	13.9%	8.7%	8.9%	6.5%	6.3%
<u>Underwriting ratios</u>						
Claims and claims expense ratio	60.8%	71.4%	83.7%	78.9%	75.8%	73.3%
Expense ratio	26.8%	24.5%	22.9%	23.0%	22.6%	22.5%
Combined ratio	87.6%	95.9%	106.6%	101.9%	98.4%	95.8%
Underlying loss ratio	52.7%	62.5%	72.9%	70.0%	67.2%	64.8%
Pre-tax cat. losses	2,811	3,339	3,112	3,968	4,169	4,338
Catastrophe points	7.9%	8.3%	7.1%	8.4%	8.3%	8.2%
Pre-tax prior year development	60	267	1,603	276	141	134
Underlying combined ratio	79.4%	86.4%	95.3%	92.6%	89.4%	0.0%
<u>Shareholders' equity and returns</u>						
Ending Common Shareholders' equity	28,247	23,209	15,505	14,921	15,818	18,045
Fully diluted book value per share	\$90.5	\$80.4	\$57.4	\$57.4	\$62.3	\$72.9
Adjusted net income return on equity	19.2%	16.9%	-1.3%	8.3%	16.3%	22.1%
<u>Capital deployment</u>						
Assumed Repurchase Price Per Share	\$98	\$124	\$124	\$125	\$127	\$129
# of shares repurchased (in mn)	17.4	26.3	20.1	6.5	6.3	6.2
Shares Repurchases	1,700	3,260	2,496	810	800	800
Dividends per share	\$2.16	\$3.24	\$3.40	\$3.57	\$3.75	\$3.96
Total \$ Amount of Dividends	\$673	\$955	\$922	\$926	\$951	\$980
Total capital return	\$2,373	\$4,215	\$3,418	\$1,736	\$1,751	\$1,780
Total capital return, % op. earnings	53%	105%	(1305%)	120%	61%	42%
<u>Investment income</u>						
Net investment income	\$2,322	\$3,293	\$2,403	\$2,407	\$2,482	\$2,744
Total Investments	\$94,237	\$64,701	\$61,055	\$67,038	\$68,812	\$76,396

Source: Barclays Research, Company Reports

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Allstate Corp. (ALL, 02-Feb-2023, USD 131.89), Equal Weight/Positive, CD/CE/E/J/K/L/M

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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.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

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Palomar Holdings, Inc. (PLMR)	Progressive Corp. (PGR)	Root Inc. (ROOT)
Ryan Specialty Holdings (RYAN)	The Hartford Financial Services Group, Inc. (HIG)	The Travelers Companies, Inc. (TRV)

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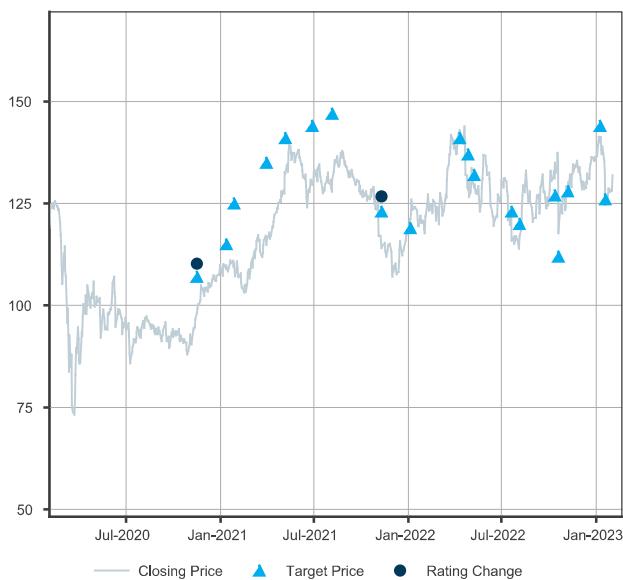
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

USD 131.89 (02-Feb-2023)

Rating and Price Target Chart - USD (as of 02-Feb-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
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 \$125 price target is based on a 50/50 weighted average of our blended ~11.5x our 2024 EPS and 1.7x 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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