

# Equity Research

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Earnings Revised — October 19, 2022

## Commercial Lines Insurance

# The Travelers Companies, Inc. (TRV)

## TRV: A Good Pricing View; Conference Call Round-Up

### Our Call

**Summary.** TRV hosted a conference call on 10/19 to discuss Q3 results. The call focused on the pricing environment and expected impact of Hurricane Ian, the reinsurance environment, and updated guidance around investment income and its expense ratio. Our 2022, 2023 and 2024 EPS estimates are now \$13.27, \$15.35 and \$17.85 (from \$12.66, \$15.40 and \$17.35). Our [estimates](#) reflect weaker personal auto results in 2023 and stronger investment income. Our price target is unchanged at \$180. TRV traded up (4.4%) versus the S&P 500 (down 0.7%) as the earnings beat and positive commercial lines pricing view more than overshadowed pretty weak personal auto results.

- **Commercial pricing should benefit from Hurricane Ian.** TRV sees the most upside in property, while they expect workers' comp to remain muted given their strong profitability in the line. They expect other commercial lines to see price increases in the middle of the two (property and workers' comp). While TRV did see less cat loss than others (and what we expect for others in the Q3) and is less impacted by higher reinsurance costs, their commentary on the state of the P&C commercial lines market should be a positive for all.
- **Guidance updated for stronger NII.** TRV raised their after-tax fixed income NII guidance to \$500 million for the fourth quarter of this year and provided a quarterly estimate for 2023 with a range of \$515 - \$570 million. They said through a portion of October with rates continuing to rise, new money yields are 200 bps higher than their current embedded yields. Other guides included **(1)** an expense ratio less than 29% for FY 2022 (previous guide was 29%) and **(2)** lower alternatives performance in the fourth quarter relative to last year (which saw a 17% annualized return).
- **Personal auto crashed the Q3 party.** TRV saw an underlying combined ratio of 103.8% in personal auto, which was the highest since Q4 2017. The underlying loss ratio of 81.6% was the worst since Q4 2016 and deteriorated by 870 bps year-over-year. TRV highlighted they expect their RPC to hit double-digits in the fourth quarter of this year, be in the mid-teens throughout 2023 and should reach written rate adequacy in most states (that make up the majority of their business) between now and mid-2023. In addition, they plan to tighten underwriting criteria, restrict binding authority for certain agents and remove auto product from comparative raters in California and Florida (which makes up about 16% of their auto book). Interesting to us is that TRV looks to be growing through the loss spike as shown in the PIF and new business growth in the quarter.
- **Reinsurance prices should rise.** TRV said they expect upward pressure on reinsurance pricing going into 1/1 renewals as well as capital constraints. They mentioned they would be less impacted than others in terms of pricing pressure as they **(1)** do not buy as much reinsurance as others and **(2)** have a strong track record of underwriting performance, which should allow them to obtain the reinsurance coverage they need at acceptable rates.
- **Capital color unchanged.** TRV returned over 100% of operating earnings in the quarter, which they said is not something that they would expect to continue. They have been able to return more capital this year due to the robust capital position they had at the end of 2021. They ended the quarter with more than \$1.4 billion of holding company liquidity and debt-to-total capital ratio of 21.8% (26.8% including after-tax unrealized investments losses), which remains within their target of 15% to 25%.

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$180.00/NC
Upside/(Downside) to Target	3.3%
Price (10/19/2022)	\$174.17
52 Week Range	\$145.40 - 187.98
Shares Outstanding	237,313,119
Market Cap (MM)	\$41,333
Enterprise Value (MM)	\$47,850
Average Daily Volume	1,229,798
Average Daily Value (MM)	\$214
Dividend (NTM)	\$3.67
Dividend Yield	2.1%
Net Debt (MM) - last reported	\$6,517
ROIC - Current year est.	13%
3 Yr EPS CAGR from current year (unless otherwise noted)	9%

\$	2021A	2022E	2022E	2023E	2023E
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar)	2.73 A	4.22 A	NC	3.85 E	4.05E
Q2 (Jun)	3.45 A	2.56 A	2.57A	2.82 E	2.91E
Q3 (Sep)	2.60 A	2.20 A	1.41E	3.47 E	3.30E
Q4 (Dec)	5.20 A	4.27 E	4.45E	5.23 E	5.16E
FY	13.94 A	13.27 E	12.66E	15.35 E	15.40E
P/E	12.5x	13.1x		11.3x	

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

## Beat Versus The Street as BI Outperformance Makes Up For Personal Insurance Struggles

**The quarter in a nutshell.** This morning (10/19), TRV [reported](#) Q3 core EPS of \$2.20, beating our \$1.41 estimate, ad consensus of \$1.54. TRV beat us on better other investments results as we expected a (12%) return (TRV saw +2.5%), higher earned premium, and favorable PYD offset by higher cats and a higher tax rate versus us. The tax rate was 15.3% vs. our 12.2%. The underlying combined ratio of 92.5%, just beat our 92.6%, with Business Insurance (BI) and Bond & Specialty beating, while Personal Lines (extremely poor results in both auto and home) missed. NPW rose by 10.5%, beating our 4.8% due to stronger growth in all lines (strongest in personal lines). Repurchases were \$500 million, ahead of our \$450 million. Book value per share declined by 11.8% (due mostly to the mark to market on the investment portfolio), and the core ROE was 7.9%.

[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: Q3 Beats on NII; Better BI Results Overshadow Weak Personal Lines Results.](#)

Exhibit 1 - Actual Results Versus Wells Fargo Securities Estimates and Prior Year Quarter

( <b>\$ in millions, except as noted</b> )	<b>Q3 2022 Actual</b>	<b>Q3 2022 Estimate</b>	<b>Delta</b>	<b>Q3 2021 Actual</b>	<b>YoY Delta</b>
Net Premiums Written	\$9,198	\$8,725	\$473	\$8,324	10.5%
<i>YoY Growth in Net Premiums Written</i>	10.5%	4.8%	5.7%	7.1%	3.4%
Net Premiums Earned	\$8,615	\$8,350	\$265	\$7,829	10.0%
<i>YoY Growth in Net Premiums Earned</i>	10.0%	6.7%	3.4%	6.1%	4.0%
Net Investment Income (Pre-Tax)	\$593	\$369	\$224	\$771	(23.1%)
Combined Ratio	98.2%	98.4%	(0.2%)	98.6%	(0.4%)
Catastrophe Losses	\$512	\$450	\$62	\$501	2.2%
<i>Points of Cats</i>	5.9%	5.4%	0.6%	6.4%	(0.5%)
Reserve Development (Favorable)	(\$20)	\$31	(\$51)	\$56	(135.7%)
Underlying Loss Ratio	64.4%	63.6%	0.8%	62.0%	2.4%
Expense Ratio	28.1%	29.0%	(0.9%)	29.4%	(1.3%)
<b>Underlying Combined Ratio</b>	<b>92.5%</b>	<b>92.6%</b>	<b>(0.1%)</b>	<b>91.4%</b>	<b>1.1%</b>
Tax rate	15.3%	12.2%	3.1%	15.8%	(0.5%)
<b>Operating EPS</b>	<b>\$2.20</b>	<b>\$1.41</b>	<b>\$0.79</b>	<b>\$2.60</b>	<b>(15.2%)</b>
<i>YoY Growth in Operating EPS</i>	NM	(45.7%)	NM	(16.6%)	NM
Consensus EPS	\$1.54	NM	NM	NM	NM
Book value Per Share	\$84.94	\$82.92	\$2.02	\$115.74	(26.6%)
Share Repurchases	\$500	\$450	\$50	\$600	(16.7%)
<b>Segment Underwriting Income:</b>					
Business Insurance	\$78	(\$109)	\$187	\$20	290%
Bond & Specialty Insurance	\$233	\$154	\$79	\$149	56%
<u>Personal Insurance</u>	(\$271)	(\$18)	(\$253)	(\$167)	62%
Total Underwriting Income	\$40	\$27	\$13	\$2	1900%
Operating ROE	7.9%	5.8%	2.1%	10.1%	(2.2%)

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 not seeing any change in its loss trend assumption and pointed to the market hardening following Hurricane Ian. Further, Travelers is also seeing high frequency and severity trends within Personal Insurance. On the investment income side TRV continues to see a benefit of the move up in interest rates (as shown in its higher investment income guide) and for the Q4 they pointed to other investments showing a lower return than last Q4 and given the strong results this quarter (especially given that the S&P was down 16% in Q2) we expect alternatives could again exceed expectations in the Q4 (we are looking for an 8% return in Q4).

Highlights of the laterals that we see for the group follow below:

- **Commercial lines pricing remains strong with Hurricane Ian adding to the momentum.** TRV said that its renewal rates in BI were up 5.0% in the third quarter, modestly up from 4.9% in Q2, and higher than the 4.4% in Q1. **Rates staying above loss trend is a positive for the commercial insurers.**
- **Personal lines continue to struggle.** TRV showed a 99.3% underlying combined ratio in personal insurance, which was well above our 96.3%, as personal auto saw an underlying combined ratio just below 104%, which was also above our 101% estimate and the highest underlying combined ratio since Q4 2017 and highest third quarter ratio since 2016. **This highlights personal auto carriers are still struggling to get enough rate to offset the elevated severity loss trends.**
- **Rate continues to exceed loss trends in BI and there is some upward momentum from Hurricane Ian.** TRV said earned pricing was less than a point versus a point in the prior two quarters. TRV also said that it did not move off of its loss-trend assumption in the quarter and seemed to point to the potential for the RRC to improve sequentially in the Q4. **TRV seeing earned rate over loss trend implies that all commercial-lines underwriters (including CB and HIG) should see underlying margin improvement this quarter.**
- **Exposure growth remains strong.** Exposure growth remained at strong levels seeing an uptick of 5.2% in Q3, modestly down from the 5.3% last quarter and up from the 4.2% in Q1, which 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.**
- **Personal auto severity pressures results.** TRV's Personal Auto book was affected by elevated severity trends and to a lesser extent rising frequency trends. Further, TRV pointed to not seeing rate adequacy in most states until the middle of 2023 (this would be on a written basis with earned rate still needing to catch up with written). The Personal Auto underlying margin came in at 103.8%, which was the highest since Q4 2017 and the highest Q3 since at least 2014. **The weaker auto results at TRV (as well as PGR's September results) point to a tough quarter and rest of 2022 for the group.**
- **After-tax fixed Income NII revised up....yet again.** The company raised its guidance for fixed income investment income of \$500 million in Q4 (up from \$495 million) and introduced a quarterly range guide of \$515 - \$570 million for 2023 with expectations that Q1 is \$515 million and gradually increases to \$570 million by Q4. **This is a good lateral for most (if not all) insurers, in our view.**
- **Stronger-than-expected alternative investment quarter.** Alternative-related investment income totaled \$46 million, down from \$197 million in Q2 and \$281 million in the prior year quarter. We assumed a loss of \$174 million (12% negative return) had thought the weaker S&P performance (down 16% in Q2) would lead to weaker alternative results given the one quarter lag on private equity returns (see [Exhibit 2](#) below for a breakdown of alternative portfolio by insurer). **Given TRV beat us, we could potentially see other insurers beat our alternative investment assumptions as we built in a (12%) return into our models.** Further, the Q4 could also be another good quarter (we assume 8% annualized return) as TRV said that results would be weaker than last year (when they saw an 17% annualized return in Q4).

## Exhibit 2 - Alternatives Correlation to S&amp;P 500 and Portfolio Allocations (Q1 2020 - Q2 2022)

	Correl to S&P 500	RSQ to S&P	Std Dev of Return	Private Equity	Hedge Fund	Real Estate	Credit/ Other
<b>Life Insurers</b>							
Athene	64.9%	42.2%	12.0%	14.5%	0.0%	27.1%	58.4%
BHF	76.6%	58.6%	21.1%	88.6%	0.0%	11.4%	0.0%
CRBG	NA	NA	NA	82.7%	17.3%	0.0%	0.0%
EQH	70.5%	49.6%	12.5%	NA	NA	NA	NA
LNC	78.0%	60.8%	19.8%	90.8%	9.2%	0.0%	0.0%
MET	78.0%	60.8%	18.2%	95.5%	4.5%	0.0%	0.0%
PRU (Est. VII Yield)	45.0%	20.3%	8.4%	57.5%	28.6%	13.9%	0.0%
VOYA	79.9%	63.9%	20.9%	75.0%	12.5%	12.5%	0.0%
<b>P&amp;C Underwriters</b>							
AIG	56.6%	32.0%	14.6%	67.5%	21.7%	10.7%	0.0%
ALL (Performance Based)	49.6%	24.6%	15.0%	78.0%	0.0%	22.0%	0.0%
HIG	65.9%	43.4%	13.4%	37.5%	8.2%	39.2%	15.2%
TRV	70.8%	50.1%	11.9%	69.3%	6.0%	19.9%	4.8%
Average	<b>66.9%</b>	<b>46.0%</b>	<b>15.3%</b>	<b>68.8%</b>	<b>9.8%</b>	<b>14.2%</b>	<b>7.1%</b>
Median	<b>70.5%</b>	<b>49.6%</b>	<b>14.6%</b>	<b>75.0%</b>	<b>8.2%</b>	<b>12.5%</b>	<b>0.0%</b>

Source: Company reports and Wells Fargo Securities, LLC

Correlation / R-Squared / Std. Deviation does not include Q3 2022 for TRV (or others that have yet to report this quarter).

## Guidance Soundbites

**Highlights of its guidance for 2022/2023.** Exhibit 4 below highlights TRV's commentary and expectations for 2022/2023. TRV revised its NII forecast up for Q4 and provided estimates for 2023. In addition, they guided expense ratio to be below 29% (revised down from 29%) and also expect their non-fixed book performance to be weaker than last year given the downturn in markets in the Q3 (reported on a one-quarter lag).

- **Fixed income NII raised for Q4 and 2023.** TRV raised its after-tax quarterly fixed income NII (including short term securities) to be \$500 million in Q4, which is up from the previous guide of \$495 million. They also provided a 2023 guide range of \$515 - \$570 million with expectations Q1 is around \$515 million and gradually increases to \$570 million by Q4 as the book turns over. New money rates through mid October are about 200 bps higher than what is embedded in the portfolio currently, so NII should continue to improve as the portfolio gradually turns over.
- **Business Insurance pricing.** During the Q&A, TRV mentioned that BI pricing exceed loss trends by less than a point, which was down from the prior two quarters that saw a full point above loss trends. They did not comment on any further projections but highlighted that despite the moderation, rates and exposure has been stable in the last couple of quarters.
- **Personal lines frequency/pricing.** TRV mentioned that frequency continues to return towards pre-pandemic driving and claim frequency levels. They expect RPC for the auto book to be in the double-digits by Q4 this year with expectations for RPC to be in the mid-teens throughout 2023. They expect to achieve written rate adequacy in most states (that make up the majority of their business) between now and mid-2023.
- **Aggregate reinsurance cover update.** TRV has accumulated \$1.4 billion toward the retention as of the end of the Q3. With the aggregate cover, TRV gets \$225 million of protection as part of \$500 million of coverage above a \$2 billion retention.
- **Expense ratio revised down for 2022.** TRV lowered expense ratio expectations for 2022 to under 29%, which is favorable to the previous guide of 29% for 2022. They mentioned they feel comfortable with the expense ratio around 29% but do not want to provide guidance for outer years as it may shift around given business priorities.

### Exhibit 3 - TRV 2022 Guidance Tracker

	2022 Guidance Tracker	Provided With Q4 2021 Earnings	Provided With Q1 2022 Earnings	2022 Outlook	Provided With Q2 2022 Earnings	Provided With Q3 2022 Earnings
<b>Expense Ratio</b>						
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.	TRV has seen their expense ratio drop quicker than expected so they are expecting 29% for FY22; did not issue guidance for outer years	Expect FY 22 expense ratio to be under 29%, given YTD is around 28.7%	Expect FY 22 expense ratio to be under 29%, given YTD is around 28.7%	Expect FY 22 expense ratio to be under 29%, given YTD is around 28.7%
<b>Underlying Margins</b>						
Business Insurance	Given social and other inflation, frequency and persisting low rate environment, they will continue to see pricing gains to improve profitability.					Mentioned inflation is the bigger margin contributor via exposure over unit growth
Bond and Specialty Insurance						
Personal Insurance	They anticipate additional increases in about 25 states throughout the first quarter, with more actions planned in subsequent quarters.	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.	Their primary response to inflation deteriorating margins is Rate actions in additional states are scheduled to take effect in the coming months and quarters (no mention of numbers).	Expect to reach written rate adequacy in most states (that make up the majority of their business) between now and mid-2023	Expect to reach written rate adequacy in most states (that make up the majority of their business) between now and mid-2023	Expect to reach written rate adequacy in most states (that make up the majority of their business) between now and mid-2023
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 losses levels.				
<b>Renewal Premium Growth</b>						
Business Insurance						
Homeowners'						
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.	TRV expects renewal premium changes to reach double-digits by the end of the year.	Expect Auto RPC in double-digits for Q4 2022 and mid-teens throughout 2023	Expect Auto RPC in double-digits for Q4 2022 and mid-teens throughout 2023	Expect Auto RPC in double-digits for Q4 2022 and mid-teens throughout 2023
Investment Income						
Fixed Income and Short-Term Investments	Expect 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)	Expect 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)	Expect the after-tax investment income from the fixed income portfolio to be up \$470 for 3Q and \$495 million for 4Q 2022.	Raised Q4 estimate for after-tax fixed income to be \$500MM (from \$455MM) and introduced a quarterly range estimate of \$51.5MM to \$570 million for 2023 with expectations Q1 is \$51.5MM and rises to \$570MM by Q4.	Raised Q4 estimate for after-tax fixed income to be \$500MM (from \$455MM) and introduced a quarterly range estimate of \$51.5MM to \$570 million for 2023 with expectations Q1 is \$51.5MM and rises to \$570MM by Q4.	Raised Q4 estimate for after-tax fixed income to be \$500MM (from \$455MM) and introduced a quarterly range estimate of \$51.5MM to \$570 million for 2023 with expectations Q1 is \$51.5MM and rises to \$570MM by Q4.
Alts				Expect their results from Other Investments (PIE, Real Estate, Hedge Funds) that are reported on a quarter lag, which were generally down during the second quarter, to show in weaker alternatives in the second half of this year.	Expect lower returns than last year in their non-fixed income book in the Q4 2022 (last year saw a 17% annualized return)	Expect lower returns than last year in their non-fixed income book in the Q4 2022 (last year saw a 17% annualized return)
<b>Capital Management</b>						
Total Company					Do not expect to continue returning north of 100% (which they have done the last two quarters) of their operating earnings to shareholders	Do not expect to continue returning north of 100% (which they have done the last two quarters) of their operating earnings to shareholders
Other					Expect Reinsurance pricing to be strong going into 1/1	Expect Reinsurance pricing to be strong going into 1/1
Total Company					They mentioned they are not seeing any underlying impacts on their clients that would foreshadow a recession	They mentioned they are not seeing any underlying impacts on their clients that would foreshadow a recession

Source: Company reports and Wells Fargo Securities, LLC

## Highlights of Our Estimate Changes

**Overview of our estimate changes.** The exhibit below highlights the changes we made to our earnings model following 3Q 2022 earnings.

- **2022 EPS** is revised up to \$13.27 (from \$12.66) to reflect higher net investment income and a lower expense ratio, partially offset by a higher underlying loss ratio in personal insurance.
- **2023 EPS** goes down to \$15.35 (from \$15.40) to reflect worse underlying margins in personal insurance (both auto and home), mostly offset by a lower expense ratio, higher fixed investment income, and higher earned premiums.
- **2024 EPS** goes to \$17.85 (from \$17.35) to reflect higher fixed investment income and earned premium, partially offset by weaker margins in auto and home.

Exhibit 4 - TRV Summary of Estimate Changes

(\$ in millions, except as noted)	2022E	Current		Prior Estimates			Delta (Absolute)			Outlook Guidance
		2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E	
Gross premiums written	37,561	40,025	42,243	37,226	39,283	41,459	334	742	784	
% growth (YoY)	9.7%	6.6%	5.5%	8.7%	5.5%	5.5%	1.0%	1.0%	0.0%	
Net premiums written	35,190	37,341	39,244	34,489	36,275	38,167	701	1,066	1,077	
% growth (YoY)	10.1%	6.1%	5.1%	7.9%	5.2%	5.2%	2.2%	0.9%	(0.1%)	
Increase in unearned premiums	(1,574)	(1,271)	(1,325)	(1,303)	(1,201)	(1,265)	(271)	(69)	(60)	
<b>Net premiums earned</b>	<b>33,616</b>	<b>36,071</b>	<b>37,920</b>	<b>33,186</b>	<b>35,074</b>	<b>36,902</b>	<b>430</b>	<b>997</b>	<b>1,017</b>	
% growth (YoY)	8.9%	7.3%	5.1%	7.6%	5.7%	5.2%	1.4%	1.6%	(0.1%)	
Net investment income (pre-tax)	2,625	2,982	3,272	2,392	2,926	3,100	233	56	172	Guided after-tax Fixed Income NII to \$500MM for Q4, \$515-\$570MM for each quarter in 2023
Fee income	407	407	407	400	400	400	7	7	7	
Other income	351	327	336	357	327	336	(6)	0	0	
<b>Total revenue</b>	<b>36,999</b>	<b>39,787</b>	<b>41,935</b>	<b>36,335</b>	<b>38,726</b>	<b>40,738</b>	<b>664</b>	<b>1,060</b>	<b>1,196</b>	
Losses and loss adjustment expenses	22,525	24,175	25,240	22,029	23,250	24,385	496	925	855	
Amortization of deferred acquisition costs	5,498	5,950	6,297	5,430	5,722	6,028	68	228	269	
General and administrative expenses	4,816	5,055	5,300	4,894	5,138	5,375	(78)	(83)	(75)	
Interest expense	351	352	352	351	337	337	0	15	15	
<b>Total expenses</b>	<b>33,190</b>	<b>35,532</b>	<b>37,189</b>	<b>32,705</b>	<b>34,447</b>	<b>36,125</b>	<b>485</b>	<b>1,085</b>	<b>1,064</b>	
<b>Pretax operating income</b>	<b>3,809</b>	<b>4,255</b>	<b>4,746</b>	<b>3,631</b>	<b>4,279</b>	<b>4,613</b>	<b>178</b>	<b>(24)</b>	<b>133</b>	
% growth (YoY)	(11.3%)	11.7%	11.5%	(15.3%)	17.9%	7.8%	4.1%	(6.2%)	3.7%	
Income tax expense/(benefit)	612	726	816	577	735	794	35	(9)	22	
<b>After-tax core income</b>	<b>3,197</b>	<b>3,529</b>	<b>3,930</b>	<b>3,054</b>	<b>3,544</b>	<b>3,819</b>	<b>144</b>	<b>(15)</b>	<b>111</b>	
% growth (YoY)	(9.3%)	10.4%	11.4%	(13.3%)	16.1%	7.8%	3.9%	(5.7%)	3.6%	
Company income tax rate (%)	16.1%	17.1%	17.2%	15.9%	17.2%	17.2%	0.2%	(0.1%)	(0.0%)	
Weighted average number of diluted shares	239	229	219	240	229	219	(0)	(0)	(0)	
Participating share-based awards	19	16	16	19	16	16	0	0	0	
<b>Adjusted Operating EPS</b>	<b>\$13.27</b>	<b>\$15.35</b>	<b>\$17.85</b>	<b>\$12.66</b>	<b>\$15.40</b>	<b>\$17.35</b>	<b>\$0.61</b>	<b>(\$0.05)</b>	<b>\$0.51</b>	
<b>Profitability Metrics</b>										
Loss and loss adjustment expense ratio	66.6%	66.5%	66.1%	65.9%	65.7%	65.5%	0.6%	0.8%	0.5%	
<b>Underwriting expense ratio</b>	<b>28.6%</b>	<b>28.6%</b>	<b>28.7%</b>	<b>29.0%</b>	<b>28.8%</b>	<b>28.8%</b>	<b>(0.4%)</b>	<b>(0.2%)</b>	<b>(0.1%)</b>	Expecting expense ratio under 29% for 2022
<b>Combined ratio</b>	<b>95.1%</b>	<b>95.1%</b>	<b>94.7%</b>	<b>94.9%</b>	<b>94.5%</b>	<b>94.3%</b>	<b>0.2%</b>	<b>0.6%</b>	<b>0.5%</b>	
Cat points on the combined ratio	4.9%	5.0%	5.1%	4.8%	5.0%	5.0%	0.1%	0.0%	0.1%	
PVD points on the combined ratio	(1.6%)	(0.5%)	(0.2%)	(1.4%)	(0.5%)	(0.2%)	(0.1%)	0.0%	(0.0%)	
Current accident year combined ratio	91.8%	90.6%	89.9%	91.6%	90.1%	89.5%	0.2%	0.5%	0.4%	
Underlying loss ratio	63.2%	62.1%	61.2%	62.6%	61.3%	60.8%	0.6%	0.7%	0.5%	
<b>Segment Underwriting Income:</b>										
Business Insurance	\$855	\$794	\$659	\$647	\$624	\$507	\$208	\$170	\$152	
Bond & Specialty Insurance	\$794	\$700	\$656	\$715	\$692	\$673	\$79	\$8	(\$17)	
Personal Insurance	(\$432)	(\$162)	\$211	(\$96)	\$82	\$368	(\$335)	(\$244)	(\$157)	
Book value per share	\$87.38	\$95.30	\$105.54	\$85.55	\$93.50	\$103.21	\$1.84	\$1.79	\$2.33	
ROE	12.8%	16.8%	17.8%	12.3%	17.2%	17.6%	0.5%	(0.4%)	0.1%	

Source: Company reports and Wells Fargo Securities, LLC estimates

## Pricing Highlights - Commercial Lines

### Business Insurance Rating Environment—TRV Rates Rise, Still Above Loss Trend

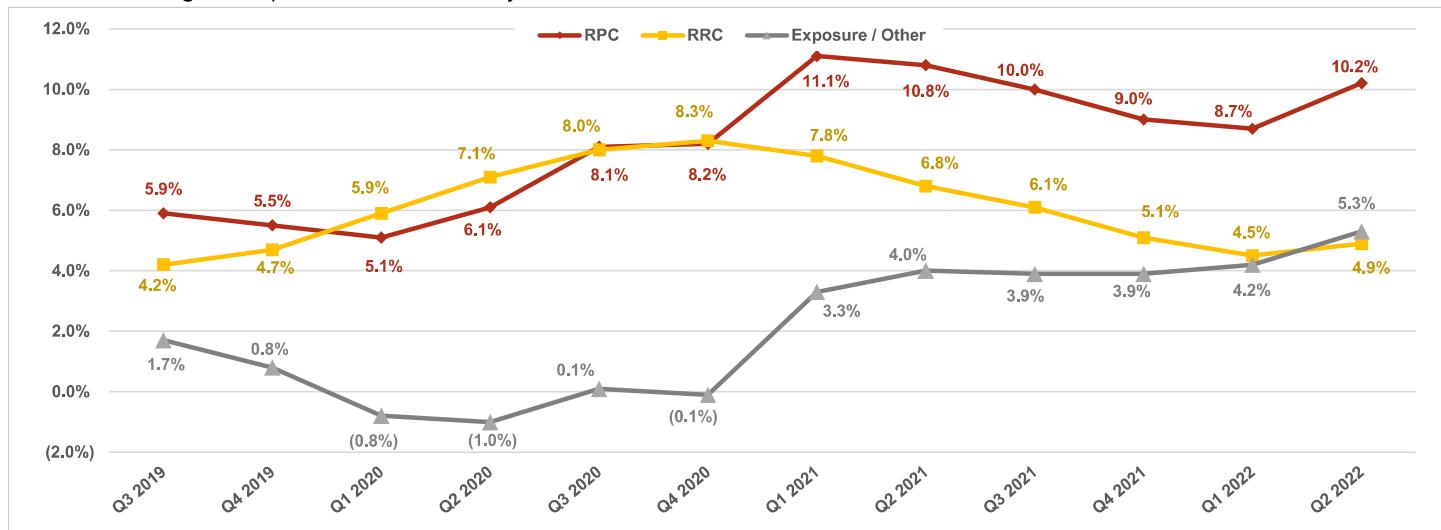
- In Q3, the **Business Insurance** renewal rate change was +5.0%, modestly accelerating from +4.9% in the prior quarter and up from the 4.5% in Q1. Exposure growth was up 5.2%, modestly down from 5.3% last quarter, but up from the 4.2% in Q1. The exhibits below show the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change. On their conference call, they mentioned that overall pricing remains less than a point ahead of loss trends (modestly down from the full point in the prior two quarters). They pointed to loss trends being in the 5.5% to 6.0% range in their previous quarter conference call, which they said on the call they have not changed.
- 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 Q4 2022 with some level of moderation in 2023 as unit growth might slow but inflation should continue to help pricing. On the call, they mentioned that exposure piece of rate is driven by 1) unit growth and 2) inflation and that the inflation aspect is the more meaningful driver of margin improvement.

### Exhibit 5 - Domestic Business Insurance Renewal Pricing Results by Quarter

Rate Trends	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
RPC	5.9%	5.5%	5.1%	6.1%	8.1%	8.2%	11.1%	10.8%	10.0%	9.0%	8.7%	10.2%	10.2%
RRC	4.2%	4.7%	5.9%	7.1%	8.0%	8.3%	7.8%	6.8%	6.1%	5.1%	4.5%	4.9%	5.0%
Exposure / Other	1.7%	0.8%	(0.8%)	(1.0%)	0.1%	(0.1%)	3.3%	4.0%	3.9%	3.9%	4.2%	5.3%	5.2%
% of BI NPW in Workers' Comp	23.3%	22.1%	26.2%	20.7%	20.2%	19.3%	23.0%	18.9%	18.7%	18.2%	22.4%	18.8%	18.0%

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

## Pricing Highlights - Personal Lines

### Personal Lines—TRV Continues Push for Rate as Severity Remains Elevated, But Will Take Time to Earn In

- 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 +8.1%, up from +6.5% last quarter and 4.2% in Q1. On the auto side, they highlighted that margins continue to be impacted by higher severity and to a lesser extent driving continuing to return to pre-pandemic levels. They expect RPC to reach double digits in the fourth quarter and be in the mid-teens throughout 2023. They expect written pricing to reach adequacy in most states (representing the majority of their business) between now and mid-2023.
- Homeowners'** pricing continued its acceleration, jumping a record-high 14.1% YoY, accelerating from 13.5% last quarter and 12.3% in the Q1. They expect RPC to remain at these levels for the remainder of 2022 and expect RPC to increase above these levels in 2023 as they implement additional insured value increases.
- Still growing despite margin concerns.** Travelers' new business in auto increased 12% sequentially, and was up 20% when compared to last year, with auto new business premiums totaling \$356 million, versus \$318 million in the prior quarter. Home new business was up 3% sequentially, and up 5% YoY at \$327 million, versus \$316 million in the prior quarter. Further, TRV still showed PIF growth in auto despite the uptick in loss costs, up 1% sequentially and 5% YoY (see [Exhibit 8](#) 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

Personal Lines RPC & New Business	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
<b>Automobile</b>							
Retention	85%	86%	86%	86%	85%	84%	83%
<b>Renewal Premium Change</b>	<b>0.5%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>2.1%</b>	<b>4.2%</b>	<b>6.5%</b>	<b>8.1%</b>
Policies-In-Force (in thousands)	2,807	2,852	2,898	2,937	2,972	3,008	3,053
PIF Sequential Change	1%	2%	2%	1%	1%	1%	1%
PIF YoY Change	4%	4%	5%	6%	6%	5%	5%
<b>New Business (\$ in millions)</b>	<b>\$278</b>	<b>\$299</b>	<b>\$297</b>	<b>\$279</b>	<b>\$290</b>	<b>\$318</b>	<b>\$356</b>
New Business YoY Change	14%	19%	8%	4%	4%	6%	20%
<b>Homeowners &amp; Other</b>							
Retention	84%	85%	85%	86%	84%	84%	83%
<b>Renewal Premium Change</b>	<b>7.5%</b>	<b>8.0%</b>	<b>8.7%</b>	<b>8.6%</b>	<b>12.1%</b>	<b>13.3%</b>	<b>14.1%</b>
Policies-In-Force (in thousands)	5,703	5,836	5,931	5,995	6,051	6,108	6,142
PIF Sequential Change	2%	2%	2%	1%	1%	1%	1%
PIF YoY Change	8%	7%	7%	7%	6%	5%	4%
<b>New Business (\$ in millions)</b>	<b>\$263</b>	<b>\$335</b>	<b>\$312</b>	<b>\$273</b>	<b>\$258</b>	<b>\$316</b>	<b>\$327</b>
New Business YoY Change	20.6%	28.4%	4.7%	0.4%	(1.9%)	(5.7%)	4.8%

Source: Company data and Wells Fargo Securities, LLC

## Underlying Margin Tables

### Exhibit 8 - Underlying Margin Trends

<b>Underlying Margin Trends</b>	<b>Q1 2020</b>	<b>Q2 2020</b>	<b>Q3 2020</b>	<b>Q4 2020</b>	<b>Q1 2021</b>	<b>Q2 2021</b>	<b>Q3 2021</b>	<b>Q4 2021</b>	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q3 2022</b>
Reported Combined Ratio	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%	88.0%	91.3%	98.3%	98.2%
Catastrophe Losses, net of reinsurance	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%	0.4%	2.0%	9.0%	5.9%
Prior Year Reserve Development (Unfavorable)/Favorable	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)	(2.4%)	0.8%	(1.2%)	(1.9%)	(3.5%)	(0.2%)
<b>Underlying Combined Ratio</b>	<b>91.3%</b>	<b>91.4%</b>	<b>91.5%</b>	<b>88.7%</b>	<b>89.5%</b>	<b>91.4%</b>	<b>91.4%</b>	<b>88.7%</b>	<b>91.2%</b>	<b>92.8%</b>	<b>92.5%</b>
Underlying (improvement)/deterioration	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	(0.1%)	0.0%	1.7%	1.5%	1.1%
<b>Underlying Loss Ratio</b>	<b>61.3%</b>	<b>60.4%</b>	<b>62.2%</b>	<b>59.3%</b>	<b>59.7%</b>	<b>61.7%</b>	<b>62.0%</b>	<b>60.2%</b>	<b>62.2%</b>	<b>63.8%</b>	<b>64.4%</b>
YoY Change	(0.7%)	(4.3%)	(2.3%)	(3.6%)	(1.6%)	1.2%	(0.2%)	0.9%	2.5%	2.1%	2.4%
<b>Underlying Expense Ratio</b>	<b>30.0%</b>	<b>31.0%</b>	<b>29.3%</b>	<b>29.4%</b>	<b>29.9%</b>	<b>29.7%</b>	<b>29.4%</b>	<b>28.5%</b>	<b>29.0%</b>	<b>29.0%</b>	<b>28.1%</b>
YoY Change	0.3%	0.8%	(0.2%)	0.3%	(0.0%)	(1.3%)	0.1%	(0.9%)	(0.9%)	(0.7%)	(1.3%)

Source: Company data and Wells Fargo Securities, LLC

### Exhibit 9 - Underlying Combined Ratio Trends by Segment

<b>Underlying Combined Ratio Trends</b>	<b>Q1 2021</b>	<b>Q2 2021</b>	<b>Q3 2021</b>	<b>Q4 2021</b>	<b>Q1 2022</b>	<b>Q2 2022</b>	<b>Q3 2022</b>
<b>Business Insurance</b>	<b>93.7%</b>	<b>93.4%</b>	<b>90.2%</b>	<b>89.9%</b>	<b>91.7%</b>	<b>92.4%</b>	<b>89.9%</b>
Underlying (improvement) deterioration	(3.6%)	(3.6%)	(3.8%)	(3.8%)	(2.0%)	(0.9%)	(0.3%)
<b>Bond &amp; Specialty</b>	<b>84.2%</b>	<b>83.4%</b>	<b>83.4%</b>	<b>83.3%</b>	<b>82.2%</b>	<b>82.2%</b>	<b>82.2%</b>
Underlying (improvement) deterioration	(1.5%)	(4.7%)	(5.6%)	(1.7%)	(2.0%)	(1.2%)	(1.2%)
<b>Personal Insurance</b>	<b>85.4%</b>	<b>91.0%</b>	<b>95.2%</b>	<b>88.7%</b>	<b>92.8%</b>	<b>96.1%</b>	<b>99.3%</b>
Underlying (improvement) deterioration	1.4%	7.0%	6.5%	5.6%	7.4%	5.0%	4.1%
<i>Personal Insurance Breakdown:</i>							
<b>Automobile</b>	<b>86.6%</b>	<b>92.0%</b>	<b>97.0%</b>	<b>103.8%</b>	<b>98.8%</b>	<b>101.8%</b>	<b>103.8%</b>
Underlying (improvement) deterioration	(4.3%)	5.9%	15.5%	16.4%	12.2%	9.8%	6.8%
<b>Homeowners &amp; Other</b>	<b>84.1%</b>	<b>89.9%</b>	<b>93.3%</b>	<b>73.4%</b>	<b>86.9%</b>	<b>90.3%</b>	<b>94.9%</b>
Underlying (improvement) deterioration	8.4%	7.9%	(3.5%)	(5.1%)	2.8%	0.3%	1.6%

Source: Company data and Wells Fargo Securities, LLC

## Valuation

**Current valuation.** The TRV shares are now trading at 2.05x Q3 book value, which is a 10-year high and well above its 5-year (1.42x) average, and its 10-year (1.36x) average multiple. The P/B multiple has increased as reported book value has seen pressure from unrealized losses on TRV's investment portfolio; when excluding unrealized losses (net), shares are currently trading at 1.56x Q3 adjusted book of \$111.90 (more in line with the 5 and 10 year averages). On a price-to-earnings basis, the shares are trading at 13.1x our updated 2022 EPS estimate and 11.3x our 2023 EPS estimate versus the 5-year average of 11.9x, 10-year average of 11.5x and the 5-year and 10-year peak of 14.2x.

Exhibit 10 - TRV Historical P/BV



Source: Company reports, Factset, and Wells Fargo Securities, LLC estimates

Exhibit 11 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

### Exhibit 12 - TRV Consolidated Earnings Model

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022E	2022E	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E
<b>Summary</b>																				
Business Insurance	372	780	684	1,073	2,889	811	813	560	840	3,024	780	725	789	928	3,223	819	709	828	955	3,311
Bond & Specialty Insurance	169	235	217	212	239	285	304	249	1,077	272	240	272	258	1,041	273	229	228	270	257	1,029
Personal Insurance	394	146	46	407	939	252	(230)	(147)	239	133	94	96	15	355	376	15	99	15	99	794
Other	(31)	(32)	(31)	(35)	(389)	(95)	(97)	(96)	(97)	(385)	(385)	(385)	(385)	(385)	(385)	(385)	(385)	(385)	(385)	(385)
<b>Adjusted Pre-Tax Operating Income</b>	<b>847</b>	<b>1,070</b>	<b>1,587</b>	<b>4,292</b>	<b>1,207</b>	<b>751</b>	<b>621</b>	<b>1,230</b>	<b>1,230</b>	<b>1,089</b>	<b>1,444</b>	<b>4,255</b>	<b>1,238</b>	<b>856</b>	<b>1,100</b>	<b>1,552</b>	<b>4,746</b>	<b>1,552</b>	<b>1,552</b>	<b>4,746</b>
Tax Rate	17.5%	17.9%	15.8%	19.0%	17.8%	15.9%	15.3%	16.9%	16.9%	17.4%	17.4%	16.4%	16.4%	17.1%	17.5%	16.8%	18.2%	17.2%	17.2%	17.2%
Taxes	(148)	(123)	(191)	(122)	(168)	(127)	(95)	(222)	(222)	(189)	(189)	(189)	(189)	(189)	(189)	(189)	(189)	(189)	(189)	(189)
<b>Adjusted After-Tax Operating Income</b>	<b>699</b>	<b>879</b>	<b>5,257</b>	<b>1,294</b>	<b>624</b>	<b>3,039</b>	<b>542</b>	<b>526</b>	<b>1,008</b>	<b>3,197</b>	<b>633</b>	<b>633</b>	<b>1,182</b>	<b>794</b>	<b>1,121</b>	<b>724</b>	<b>916</b>	<b>1,269</b>	<b>1,269</b>	<b>1,269</b>
<b>Adjusted Operating EPS</b>	<b>\$2.73</b>	<b>\$3.45</b>	<b>\$2.60</b>	<b>\$2.22</b>	<b>\$13.96</b>	<b>\$4.22</b>	<b>\$2.56</b>	<b>\$2.20</b>	<b>\$4.27</b>	<b>\$13.27</b>	<b>\$3.85</b>	<b>\$2.82</b>	<b>\$3.27</b>	<b>\$15.35</b>	<b>\$4.57</b>	<b>\$3.27</b>	<b>\$4.18</b>	<b>\$5.86</b>	<b>\$17.85</b>	<b>\$17.85</b>
<i>You Change in Adjusted After-Tax Operating Income</i>																				
Consensus EPS	3.5%	4.2%	(1.191%)	(1.81%)	(16.8%)	6.3%	33.2%	54.7%	(25.7%)	(15.2%)	(18.2%)	(11.3%)	(9.8%)	(10.2%)	(57.5%)	11.7%	15.8%	20.5%	12.0%	16.3%
WFS Estimate Versus Consensus																				
Premiums																				
You Change in Gross Premiums Written	3.1%	10.9%	7.7%	9.8%	7.8%	10.4%	10.9%	10.5%	6.8%	9.7%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Investment Income (Pre-Tax)	2.2%	9.5%	6.1%	7.3%	6.3%	8.5%	8.5%	9.2%	8.0%	8.0%	9.5%	9.5%	7.3%	6.2%	6.4%	5.1%	5.1%	5.1%	5.1%	5.1%
Fixed Maturities Pre-Tax Annualized Yield	491	493	497	508	1,989	505	512	534	581	2,132	602	623	644	666	2,555	678	691	704	716	2,789
Alternatives Pre-Tax Annualized Yield	2.7%	2.6%	2.6%	2.6%	2.6%	2.7%	2.7%	3.1%	3.4%	3.4%	3.5%	3.6%	3.7%	3.8%	3.8%	3.9%	4.0%	4.0%	3.9%	3.9%
Short-Term Securities	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%	17.3%
Investment Expenses	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Total Pre-Tax Net Investment Income	701	818	711	743	3,031	707	593	711	688	2,625	711	734	757	781	2,982	795	810	825	841	3,272
Margins	3.5%	4.0%	3.7%	3.5%	3.7%	3.0%	3.0%	2.7%	3.1%	3.1%	3.2%	3.3%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%	3.4%
Loss Ratio	66.7%	65.6%	69.2%	59.5%	65.1%	62.3%	69.3%	61.1%	64.1%	66.6%	65.4%	69.4%	68.2%	66.5%	65.0%	69.3%	67.1%	62.8%	66.1%	66.1%
Expense Ratio	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Combined Ratio	96.3%	95.3%	98.3%	88.0%	94.5%	91.3%	98.3%	92.3%	98.2%	95.3%	94.3%	98.2%	96.6%	91.4%	95.8%	98.1%	98.1%	98.1%	98.1%	98.1%
Catastrophe Losses	(8.1%)	3.7%	4.7%	5.0%	3.6	1.847	1.60	746	512	230	1.648	360	710	480	250	300	760	500	270	1,320
Points on Combined Ratio	11.3%	6.3%	6.4%	6.0%	0.4%	(95)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)
Reserve Development	(4.3%)	(2.4%)	(2.4%)	(2.4%)	(2.4%)	(1.8%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)	(1.7%)
Adjusting Margins	59.7%	61.1%	62.0%	60.9%	62.2%	63.8%	64.4%	62.1%	63.2%	60.9%	60.9%	62.1%	62.8%	62.1%	61.2%	61.7%	61.7%	60.2%	61.2%	61.2%
Underlying Loss Ratio	88.5%	91.4%	91.4%	88.7%	90.2%	91.2%	92.8%	90.3%	91.8%	91.8%	91.8%	91.8%	91.8%	91.8%	91.8%	91.8%	91.8%	90.6%	88.8%	88.9%
YoY Change in Combined Ratio (Favorable)	(1.6%)	(1.2%)	(0.1%)	(0.1%)	(0.9%)	(0.9%)	(1.7%)	(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%)
Book Value and Return on Equity																				
GAAP Book Value per Share	\$112.42	\$116.86	\$115.74	\$119.77	\$106.40	\$96.39	\$84.94	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38	\$87.38
Operating Return on Equity	9.6%	12.0%	8.9%	17.7%	11.3%	14.9%	10.1%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%	9.7%
Share Count	251.5	249.5	246.0	241.2	240.0	237.3	234.4	231.7	231.7	231.7	229.1	228.5	224.0	221.6	219.2	216.8	214.5	212.2	212.2	212.2
Endng Common Shares	254.1	253.1	250.1	246.4	250.9	243.7	241.1	237.9	235.2	232.6	230.1	227.6	225.1	222.8	220.3	218.0	215.8	215.8	215.8	215.8
Weighted Average Diluted Shares																				
Common Dividends	216	224	220	216	214	225	221	218	218	218	215	215	215	215	215	215	215	215	215	215
Share Repurchases	355	400	600	800	500	500	450	450	450	450	450	450	450	450	450	450	450	450	450	450
Total Capital Returned	572	624	820	1,016	3,032	714	725	668	668	668	668	668	668	668	668	668	668	668	668	668
Total Payout Ratio (% of Operating Income)	81.8%	71.0%	125.2%	78.5%	86.0%	68.7%	116.2%	131.7%	66.2%	88.4%	74.0%	102.2%	83.8%	56.1%	75.4%	64.7%	72.4%	52.0%	67.4%	67.4%
Beginning GAAP Equity	28,201	28,269	29,156	28,474	29,201	28,887	25,531	22,874	19,906	20,466	20,466	20,466	20,466	20,466	20,466	20,466	21,475	21,114	21,114	21,114
Net Income	733	934	662	1,338	3,667	1,020	550	454	1,008	3,032	899	3,032	3,032	3,032	3,032	3,032	3,032	3,032	3,032	3,032
Common Dividends	(216)	(224)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)	(216)
Share Repurchases	(356)	(400)	(600)	(800)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)
Change in AOCI	(1,211)	478	(603)	27	(1,309)	(3,795)	(2,553)	0	(1,901)	0	0	0	0	0	0	0	0	0	0	0
Other	118	99	79	64	380	133	71	52	0	0	0	0	0	0	0	0	0	0	0	0
Ending GAAP Equity	28,269	29,156	28,474	28,887	28,887	28,887	28,887	28,887	28,887	28,887	28,887	28,887	28,887	28,887	28,887	28,887	21,787	21,114	21,114	21,114
Debt/Capital																				
Source: Company Reports, Factset and Wells Fargo Securities, LLC Estimates	18.8%	20.0%	20.4%	20.2%	22.2%	22.2%	24.2%	20.2%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%	26.5%

Source: Company Reports, Factset and Wells Fargo Securities, LLC Estimates

## Investment Thesis, Valuation and Risks

### **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 ~1.9x multiple of our projected 2023 book value estimate of around \$95.30 and 11.7x our 2023 EPS estimate of \$15.35.

#### **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.

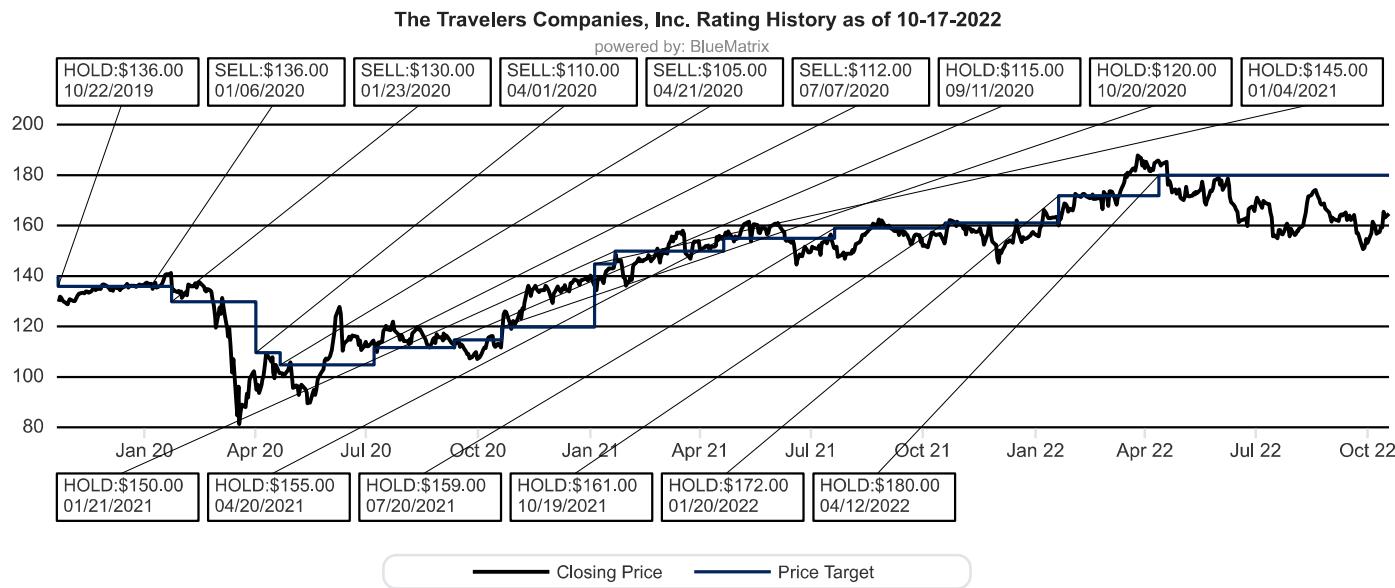
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**3=Underweight:** Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

### As of October 18, 2022

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