

# Equity Research

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Price Target Change — October 19, 2021

## Commercial Lines Insurance

# The Travelers Companies, Inc. (TRV)

TRV: Mostly Good Read-Throughs for the Group; Conference Call Round-Up

## Our Call

**Summary.** TRV hosted a conference call on 10/19 to discuss Q3 results. The call focused on pricing, underlying trends within its businesses, and its expectations for taking price within personal auto. Our 2021 EPS estimate rises to \$12.77 (from \$11.33), our 2022 estimate is now \$12.25 (from \$12.10), while 2023 goes to \$13.05 (from \$12.95), reflecting adjustments to our investment income, premium, and margin assumptions. We have lowered our Q4 2021 cat load, as TRV should be able to get recoveries on most of its losses under its aggregate reinsurance cover (which has \$255 million remaining). Our price target rises to \$161 (from \$159) and is based on 1.28x our 2022E book value. TRV got a lift from earnings coming in above expectations and the better-than-expected underlying margin within Business Insurance in the quarter.

- **TRV is the first P&C insurer to report leaving many tea leaves for the rest of earnings season**—including: **(1)** commercial lines pricing slowed (as shown within their renewal rate within BI), which was expected, but TRV sounds as if it still expects rate to stay on top of loss trend; **(2)** exposure growth was 3.6%, which was the strongest level since Q3 2018 and is a strong sign for the insurance brokers (on top of the good print from [TFC last week](#)); **(3)** within its personal auto book it saw frequency trends return to pre-pandemic levels (and is also seeing elevated severity trends), and will look to take rate over the next few quarters; and **(4)** it was a strong investment income quarter, driven by alternative investments.
- **Loss trend view mostly unchanged.** Travelers has not seen a meaningful change in the long-term normalized view of loss trend within commercial lines. Within personal lines it is seeing a slightly increased view of long-term normalized loss trend. TRV last moved its BI loss trend assumption (which sits at 5%) in Q2 2020; and while the RRC now sits at 6.3%, the company alluded to some margin over loss trend (as a portion of the RPC, which was 9.9% counts as rate). From a pricing perspective, TRV sees inflation (social and other inflation), as well as the frequency and severity of weather losses, helping to maintain a strong pricing environment.
- **BI margin discussion.** The business insurance underlying loss ratio improved by 3.8 points from last year, with two points coming from earned rate exceeding loss trend (unchanged from Q2), and the remaining two points about evenly split between favorable non-cat property losses and the impact of the pandemic (favorable frequency within commercial auto). We had been looking for 90 basis points of improvement in the BI underlying loss ratio, as we expected two points of rate versus trend, but did not expect favorability from the pandemic (on top of the 50 basis points the company saw last Q3).
- **Personal lines pricing color.** TRV did not expect to see any price increases in auto this quarter, as it was beginning the process last quarter and had to get approval. Travelers has 40 planned rate increases over the next few quarters, with 2-3 rate increases likely this month and another handful before the end of the year (subject to approval from states), with the remainder expected in H1 2022. In H2, TRV expects that it will take rate increases on about 25-30% of its book, although this does depend on receiving approval from regulators. TRV said that it is back to seeing frequency at pre-pandemic levels and it is also being affected by higher severity trends (elevated vehicle replacement and repair costs).

Equity Analyst(s)

### Elyse Greenspan, CFA

Senior Equity Analyst | Wells Fargo Securities, LLC  
Elyse.Greenspan@wellsfargo.com | 212-214-8031

### Hristian Getsov

Associate Equity Analyst | Wells Fargo Securities, LLC  
Hristian.Getsov@wellsfargo.com | 561-843-4188

Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$161.00/\$159.00
Upside/(Downside) to Target	5.3%
Price (10/18/2021)	\$152.88
52 Week Range	\$111.69 - 163.29
Shares Outstanding	249,492,900
Market Cap (MM)	\$38,142
Enterprise Value (MM)	\$44,609
Average Daily Volume	1,107,969
Average Daily Value (MM)	\$169
Dividend (NTM)	\$3.49
Dividend Yield	2.3%
Net Debt (MM) - last reported	\$6,467
ROIC - Current year est.	11%
3 Yr EPS CAGR from current year (unless otherwise noted)	8%

\$ EPS	2020A	2021E Curr.	2021E Prior	2022E Curr.	2022E Prior
Q1 (Mar)	2.62 A	2.73 A	NC	3.43 E	3.47E
Q2 (Jun)	(0.20) A	3.45 A	NC	2.21 E	2.30E
Q3 (Sep)	3.12 A	2.60 A	1.52E	2.60 E	2.34E
Q4 (Dec)	4.91 A	4.01 E	3.64E	4.02 E	4.00E
FY	10.48 A	12.77 E	11.33E	12.25 E	12.10E
P/E	14.6x	12.0x		12.5x	

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

**Summary.** TRV hosted a conference call on 10/19 to discuss Q3 results. The call focused on pricing trends (with commercial and personal lines), underlying trends within its businesses (including the drivers of the underlying margin improvement within Business Insurance), and its expectations for taking price within personal auto. Our 2021 EPS estimate rises to \$12.77 (from \$11.33), and our 2022 estimate is now \$12.25 (from \$12.10), while 2023 goes to \$13.05 (from \$12.95), reflecting adjustments to our investment income, premium, and margin assumptions. We have lowered our Q4 2021 cat load, as TRV should be able to get recoveries on most of its losses under its aggregate reinsurance cover (which has \$255 million remaining). Our price target rises to \$161 (from \$159) and is based on 1.28x our 2022E book value and 13.1x our 2022E EPS.

**The quarter in a nutshell.** This morning (10/19), TRV [reported](#) Q3 core EPS of \$2.60, beating both our \$1.52 estimate and the \$1.83 consensus estimate. TRV beat on many items, including **(1)** better underlying results within Business Insurance, due to the combination of earned rate exceeding loss trend and a benefit from lower non-property weather losses and commercial auto frequency due to the pandemic (the two points of rate exceeding loss trend was in line with us, whereas the other two points from non-cat property and pandemic-related benefits a delta versus our model) and Bond & Specialty, which more than offset weaker results within Personal Lines; **(2)** better reserve development (away from an asbestos charge), driven by releases within workers' comp; **(3)** stronger investment income (due to another quarter of strong returns from alternative investment income); and **(4)** a lower tax rate. The underlying combined ratio of 91.4% beat our 92.5% estimate, with Business Insurance and Bond & Specialty beating us, while Personal Lines missed us. NPW rose by 7.1%, just beating our 6.9% estimate. NII was \$771 million, better than our \$675 million estimate, with the upside due to other investments. Cats were \$501 million, lower than our \$525 million estimate (cat and non-cat weather benefited from \$95 million of recoveries under its aggregate reinsurance cover), as TRV saw lower hurricane losses than its market share implies as it pulled back from writing business along the coast in Louisiana. Repurchases were \$601 million, ahead of our \$350 million estimate. The tax rate was 15.8%, lower than our 16.5% estimate. Book value per share declined by 1.0% and the core ROE was 10.1%.

[Exhibit 1](#) below shows TRV's actual results versus our expectations.

#### Exhibit 1 - Consolidated Results Versus Wells Fargo Securities Estimates

	Q3 2021 Actual	Q3 2021 Estimate
Net premiums written (in millions)	\$8,324	\$8,307
Growth in net premiums written	7.1%	6.9%
Growth in net premiums earned	6.1%	4.8%
Investment income (in millions)	\$771	\$675
Combined ratio	98.6%	101.3%
Catastrophe losses (in millions)	\$501	\$525
Reserve releases (in millions)	\$56	\$155
Underlying Loss Ratio	62.0%	63.1%
Expense Ratio	29.4%	29.4%
Underlying combined ratio	91.4%	92.5%
Tax rate	15.8%	16.5%
Operating EPS	\$2.60	\$1.52
Growth in operating EPS	(16.6%)	(51.3%)
Book value per share	\$115.74	\$117.18
Segment Underwriting Income (in millions):		
Business Insurance	\$20	(\$179)
Bond & Specialty Insurance	\$149	\$110
Personal Insurance	(\$167)	(\$134)
Operating ROE	8.9%	5.2%

Source: Wells Fargo Securities, LLC estimates and company reports

## 2021 and 2022 Outlook

**2021 outlook unchanged; initial investment income guide for 2022 provided.** [Exhibit 2](#) below highlights TRV's commentary and expectations for 2021. TRV did not provide specific 2021 guidance, which is consistent with previous quarters in 2020 after TRV pulled its outlook in Q1 2020 for renewal premium change and its underlying margins as a result of the uncertainty associated with the potential impacts associated with Covid-19. TRV did provide an outlook for net investment income, and also provided helpful color around other line items in the model. TRV continues to expect Q4 2021 **fixed income NII** to be in the \$425-435 million range on an after-tax basis and the initial quarterly guide for 2022 is \$420-430 million per quarter. On the **alternative investment income** side, TRV said that the results have been unusually strong and that most likely will not continue. For **catastrophe losses**, TRV highlighted that as of Q3, it has incurred \$95 million of recoveries under its aggregate reinsurance cover, leaving \$255 million of recoveries in the Q4 (depending on the level of qualifying losses). In **Business Insurance**, TRV saw 2 points from the combination of the favorable impact of the pandemic (favorable frequency trends within commercial auto) and non-cat weather. Within BI, rate exceeded loss trend by around 2 points in the quarter, stable with the Q2, and compared to a little less than 2 points in Q1 and over 1.5 points in Q4 2020. **Bond and Specialty** did not lay out specific guidance for the year (with Q4 2020 earnings, TRV said it expected the underlying margin to be better than the 87% in H2 2020 during 2021). **Personal lines** results were affected by auto frequency returning to pre-pandemic levels and elevated severity in auto and property, due to higher costs of labor and materials. The **expense ratio** was 29.4%, which was in line with last Q3 and also in line with TRV's expectations.

### Exhibit 2 - TRV Summary of Guidance

		Provided With Q4 2020 Earnings	Provided With Q1 2021 Earnings	2021 Outlook	Provided With Q2 2021 Earnings	Provided With Q3 2021 Earnings
<b>Underlying Margins</b>						
Business Insurance			TRV expects to expand margins this year as rate remains in excess of loss trend.	TRV expects to expand margins due to strong pricing environment and exposure increases	TRV expects further margin expansion as earned pricing continues to exceed loss cost trends.	
Bond and Specialty Insurance			Did not provide specific guidance, but did say last quarter they expected the underlying margin to be better than the 87% in H2 2020 during 2021.	Did not provide specific guidance, but did say in Q4'20 they expected the underlying margin to be better than the 87% in H2 2020 during 2021.		
Personal Insurance	Consistent with previous quarters during the pandemic, TRV did not provide specific guidance for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2021.			TRV pointed to seeing miles driven return to pre-pandemic levels by the end of the quarter, and they will look to implement rates changes in the 2H to taper the frequency unfavorability.	Frequency trends returned to pre-pandemic levels as anticipated. Margins are also being pressured to a lesser degree by increased severity. TRV will continue to file rate increases.	
Personal auto		Q1 results benefited from favorable frequency, but TRV pointed to seeing miles driven returning to pre-pandemic levels.		Severity of fire and non-water losses contributed to higher losses for the quarter. Reiterated Q2 losses are usually the highest.	Severity of non-weather and non-cat weather losses remain elevated including higher labor and material prices. Will continue to pursue rate.	
Homeowners'						
<b>Renewal Premium Growth</b>						
Business Insurance						
Bond and Specialty Insurance	TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic.	TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic.	TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic.	TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic.	TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic.	
Personal auto						
Homeowners'						
<b>Investment Income (Fixed Income And Short-Term Investments)</b>						
	TRV still expects 2021 fixed income NII to be in the \$420-430 million range on an after-tax basis in 2021. TRV also noted that new money yields are coming on at 90-100bps (versus 150bps last quarter) although it did not have an impact on Q1 results given the duration of the portfolio.	TRV still expects 2021 fixed income NII to be in the \$420-430 million range on an after-tax basis in 2021. TRV also noted that new money yields are coming on at 90-100bps (versus 150bps last quarter) although it did not have an impact on Q1 results given the duration of the portfolio.	TRV raised 2021 2H'21 fixed income NII to be in the \$425-435 million range on an after-tax basis per quarter.	4Q21 NII range maintained at \$425-\$435 million after tax. For 2022, TRV expects after-tax NII to be in the \$420-\$430 million range per quarter.		

Source: Company reports and Wells Fargo Securities, LLC

## 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 pointed to pricing remaining strong within commercial lines and that personal auto is being affected by frequency trends that are at pre-pandemic levels and elevated severity (as vehicle replacement and repair costs remain at high levels; see our [most recent CPI note](#)). Highlights of the laterals that we see for the group follow below:

1. *Commercial lines pricing remains strong, but is decelerating*, with renewal rates up 6.3% in Business Insurance, down from 7.1% in Q2 and rates that were around 8% in the three previous quarter. TRV is still getting positive rates in all lines, except workers' comp, with the strongest rates in excess casualty, umbrella, auto, and then property. **Rates staying above loss trend is a positive for the commercial insurers (AIG, CB, HIG, and WRB) and specifically, AIG and CB, where workers' comp represent a smaller portion of their book, in our view.**
2. *Underlying margin in Business Insurance benefited from rate exceeding trend, and the favorable impact of non-cat property losses and the pandemic*. TRV said that earned rate exceeded loss trend by around 2 points, which is in line with the Q2. **This would be a positive as well for the commercial lines insurers, including AIG, CB, HIG, and WRB.**
3. *Strong exposure growth*. Exposure growth was 3.6%, which is higher than the 2.9% in Q2, and is a bullish sign for the insurance brokers. This adds to the strong lateral we already have from the strong 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 strong quarter for the group in general.**
4. *No Covid-19 direct losses were called out*. This was the case last quarter as well, and ties to our overall thought that Covid-19 related losses have largely subsided for the P&C sector. Travelers did not see direct losses, but did see favorable frequency trends within commercial auto (which benefited Business Insurance results by 1 point in the quarter). **We do not expect to see many, if any, Covid-19 losses from P&C insurers in Q3.**
5. *Personal auto frequency trends are back to pre-pandemic levels*. TRV's Personal Auto book was affected by frequency trends returning to pre-pandemic levels. The Personal Auto segment's underlying margin came in at 97.0%, which was the worst quarter since Q4 2019. Furthermore, the weaker auto results at TRV show that this is not just a non-standard issue (PGR, which saw weaker margins throughout the quarter, skews more non-standard than others) and points to a weak quarter for the group (including ALL). **In general, we remain cautious on the personal auto insurers (ALL, \$126.58, Equal Weight) (PGR, \$92.39, Underweight), due to the lack of pricing in the market and elevated/frequency and severity trends.** TRV is looking to take rate in personal auto over the next few quarters, and we expect the company to provide an update on rating level and the regulatory process next quarter.
6. *Net investment income guide unchanged*. TRV did not change its investment income guide for fixed investment income of \$425-435 million after-tax in Q4, as the benefit from higher invested assets is offset by a decline in yields. The company also provided an initial guide for 2022 for fixed income investment income of \$420-430 million after-tax on a quarterly basis, which is only modestly lower than the Q4 guide. **This is a good lateral for most (if not all) insurers, in our view.**
7. *Strong alternative investment quarter*. Alternative-related investment income totaled \$281 million in Q3, down from \$335 million in Q2, but well above our \$190 million estimate. **We think alternative-related investment income could surprise to the upside, for both P&C and life insurers, based on TRV's strong results.**
8. *Repurchases picked up in Q3*. TRV repurchased \$601 million in Q3, higher than \$401 million in Q2, and exceeding our \$350 million estimate. **We expect most insurers, P&C and life, to pick up their level of buyback activity in the Q3, especially given the attractive valuations across both the P&C and life insurance sectors. The only exception could be reinsurers (i.e., RNR) that have a higher exposure to the Q3 cat losses.**

## Highlights of Our Estimate Changes

**Overview of our estimate changes.** [Exhibit 3](#) highlights the changes we made to our earnings model following Q2 2021 earnings. Our 2021 EPS estimate rises to \$12.77 (from \$11.33), our 2022 estimate is now \$12.25 (from \$12.10), while 2023 goes to \$13.05 (from \$12.95), reflecting adjustments to our investment income, premium, and margin assumptions. We have lowered our Q4 2021 cat load, as TRV should be able to get recoveries on most of its losses under its aggregate reinsurance cover (which has \$255 million remaining). Our price target rises to \$161 (from \$159).

Exhibit 3 - TRV Summary of Estimate Changes

<b>Income Statement (\$M, except per share data)</b>	<b>2021E</b>	<b>Current 2022E</b>	<b>2023E</b>	<b>Prior Estimates</b>			<b>Delta (Absolute)</b>		
	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Gross premiums written	33,982	35,933	37,921	33,801	35,671	37,651	181	261	270
% growth (yr/yr)	7.0%	5.7%	5.5%	6.4%	5.5%	5.5%	0.6%	0.2%	(0.0%)
Net premiums written	31,720	33,241	34,969	31,703	33,226	34,956	17	15	12
% growth (yr/yr)	6.7%	4.8%	5.2%	6.6%	4.8%	5.2%	0.1%	(0.0%)	(0.0%)
Increase in unearned premiums	(1,082.2)	(923.0)	(1,044.9)	(1,139.7)	(934.8)	(1,058.4)	57.5	11.8	13.5
<b>Net premiums earned</b>	<b>30,638</b>	<b>32,318</b>	<b>33,924</b>	<b>30,563</b>	<b>32,291</b>	<b>33,898</b>	<b>74</b>	<b>27</b>	<b>26</b>
% growth (yr/yr)	5.5%	5.5%	5.0%	5.2%	5.7%	5.0%	0.3%	(0.2%)	(0.0%)
Net investment income	2,846	2,223	2,233	2,751	2,231	2,233	96	(8)	0
Fee income	408	408	408	412	412	412	(4)	(4)	(4)
Other income	357	351	359	340	348	356	17	3	3
<b>Total revenue</b>	<b>34,249</b>	<b>35,300</b>	<b>36,924</b>	<b>34,066</b>	<b>35,282</b>	<b>36,899</b>	<b>183</b>	<b>18</b>	<b>25</b>
Losses and loss adjustment expenses	20,291	21,204	22,266	20,548	21,259	22,309	(256)	(55)	(44)
Amortization of deferred acquisition costs	5,018	5,277	5,536	5,001	5,270	5,530	17	7	7
General and administrative expenses	4,712	4,907	5,139	4,711	4,874	5,101	1	33	38
Interest expense	339	348	337	340	351	337	(1)	(3)	0
<b>Total expenses</b>	<b>30,360</b>	<b>31,736</b>	<b>33,278</b>	<b>30,600</b>	<b>31,754</b>	<b>33,277</b>	<b>(240)</b>	<b>(18)</b>	<b>1</b>
<b>Pretax operating income</b>	<b>3,889</b>	<b>3,564</b>	<b>3,646</b>	<b>3,466</b>	<b>3,528</b>	<b>3,622</b>	<b>423</b>	<b>36</b>	<b>24</b>
% growth (yr/yr)	20.2%	(8.4%)	2.3%	7.1%	1.8%	2.7%	13.1%	(10.1%)	(0.4%)
Income tax expense/(benefit)	659	588	602	595	582	598	64	6	4
<b>After-tax core income</b>	<b>3,230</b>	<b>2,976</b>	<b>3,044</b>	<b>2,871</b>	<b>2,946</b>	<b>3,024</b>	<b>359</b>	<b>30</b>	<b>20</b>
% growth (yr/yr)	20.2%	(7.9%)	2.3%	6.9%	2.6%	2.7%	13.3%	(10.5%)	(0.4%)
Company income tax rate (%)	16.9%	16.5%	16.5%	17.2%	16.5%	16.5%	(0.2%)	0.0%	(0.0%)
Weighted average number of diluted shares	251	242	232	252	242	232	(0)	(1)	(0)
Participating share-based awards - allocated income	21	16	16	20	16	16	1	0	0
<b>After-tax core income</b>	<b>\$12.77</b>	<b>\$12.25</b>	<b>\$13.05</b>	<b>\$11.33</b>	<b>\$12.10</b>	<b>\$12.95</b>	<b>\$1.44</b>	<b>\$0.15</b>	<b>\$0.11</b>
<b>Profitability Metrics</b>									
Loss and loss adjustment expense ratio	65.7%	65.1%	65.1%	66.7%	65.3%	65.3%	-1.0%	-0.2%	-0.2%
<u>Underwriting expense ratio</u>	<u>29.6%</u>	<u>29.3%</u>	<u>29.3%</u>	<u>29.6%</u>	<u>29.2%</u>	<u>29.1%</u>	<u>0.0%</u>	<u>0.1%</u>	<u>0.1%</u>
<b>Combined ratio</b>	<b>95.3%</b>	<b>94.3%</b>	<b>94.3%</b>	<b>96.3%</b>	<b>94.4%</b>	<b>94.4%</b>	<b>-1.0%</b>	<b>-0.1%</b>	<b>-0.1%</b>
Points on the combined ratio	6.2%	4.5%	4.5%	6.7%	4.5%	4.5%	-0.5%	0.0%	0.0%
Points on the combined ratio	-1.6%	-0.4%	-0.2%	-1.3%	-0.2%	-0.1%	-0.3%	-0.2%	-0.1%
<b>Current accident year combined ratio</b>	<b>90.7%</b>	<b>90.2%</b>	<b>90.1%</b>	<b>90.9%</b>	<b>90.1%</b>	<b>90.0%</b>	<b>-0.2%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Underlying loss ratio</b>	<b>61.2%</b>	<b>60.9%</b>	<b>60.8%</b>	<b>61.4%</b>	<b>61.0%</b>	<b>60.9%</b>	<b>-0.2%</b>	<b>-0.1%</b>	<b>-0.1%</b>
<b>Segment Underwriting Income (in millions):</b>									
Business Insurance	\$137	\$332	\$350	(\$108)	\$299	\$340	\$245	\$32	\$10
Bond & Specialty Insurance	\$575	\$674	\$681	\$535	\$646	\$659	\$40	\$28	\$22
Personal Insurance	\$343	\$366	\$394	\$318	\$388	\$406	\$25	(\$22)	(\$12)
Book value per share	\$118.52	\$125.97	\$134.33	\$119.62	\$127.04	\$135.43	(\$1.10)	(\$1.07)	(\$1.09)
ROE	10.9%	10.0%	10.0%	9.6%	9.8%	9.9%	1.3%	0.2%	0.2%

Source: Company reports and Wells Fargo Securities, LLC estimates

## Pricing Accelerating in Commercial Lines

### Business Insurance Rating Environment—TRV Rates Taper Down, but Still Above Loss Trend

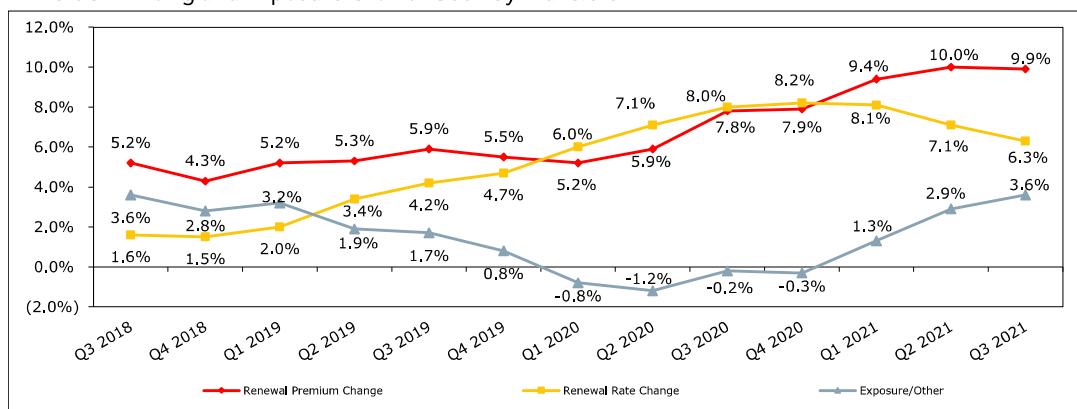
- In Q3, the *Business Insurance* renewal rate change was +6.3%, below +7.1% in Q2 2021, +8.1% (revised lower) in Q1, +8.2% in Q4 2020 (revised up), and +8.0% (revised lower) in Q3 2020. Exposure growth was +3.6% versus +2.9% in Q2 2021 (revised up from 2.4%), +1.3% in Q1 (revised up from 1.2%), -0.3% in the Q4 2020, and -0.2% in Q3 2020. See [Exhibits 4 and 5](#) below, which show the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change. Travelers, for its part, seemed positive on the forward pricing outlook and did highlight that some part of the RPC does act as rate.
- TRV stopped providing forward guidance on its RPC (last summer), 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, although maybe not as strong as in the past two quarters.

### Exhibit 4 - Domestic Business Insurance Renewal Pricing Results by Quarter

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
RPC	5.2%	4.3%	5.2%	5.3%	5.9%	5.5%	5.2%	5.9%	7.8%	7.9%	9.4%	10.0%	9.9%
RRC	1.6%	1.5%	2.0%	3.4%	4.2%	4.7%	6.0%	7.1%	8.0%	8.2%	8.1%	7.1%	6.3%
Exposure/other	3.6%	2.8%	3.2%	1.9%	1.7%	0.8%	-0.8%	-1.2%	-0.2%	-0.3%	1.3%	2.9%	3.6%
% of BI NPW in Workers' Comp	24.3%	23.4%	28.6%	23.1%	23.3%	22.1%	26.2%	20.7%	20.2%	19.3%	23.0%	18.9%	18.7%

Source: Company data and Wells Fargo Securities, LLC

### Exhibit 5 - Pricing and Exposure Growth Seen by Travelers



Source: Company data and Wells Fargo Securities, LLC

### Personal Lines—TRV Pointed to Looking to Take Price in Auto and Home

- Within *Personal Insurance*, TRV saw a further deceleration in rate in personal auto in the quarter, as it has only recently started pushing for price. The RPC in auto was -0.1% in Q3 (TRV did not expect to see price come through in the Q3), versus 0.2% in Q2, 0.5% in the Q1, 0.9% in Q4, and 1.6% in Q3 2020. On the auto side, TRV said that auto driving frequency returned to pre-pandemic levels, in line with expectations, and that it is incorporating that into its pricing actions and it is looking to take price in both Q4 2021 and H1 2022.
- Homeowners' pricing accelerated to 8.8% in the Q3, compared to 8.2% in Q2, 7.6% in Q1, 8.2% in Q4, and 8.1% in Q3 2020. On the home side, TRV said it will look to take price in response to the high level of fire and non-cat weather losses it is seeing.
- Travelers' new business in auto remained roughly flat sequentially, but was up when compared to last year, with auto new business premiums totaling \$297 million, versus \$299 million in Q2, \$278 million in Q1, \$269 million in Q4, and \$276 million in Q3 2020. New business was also up in home in the quarter, growing to \$312 million from \$298 million last Q3.

**Exhibit 6 - Personal Insurance Business Statistics**

	<b>Q3 2020</b>	<b>Q4 2020</b>	<b>Q1 2021</b>	<b>Q2 2021</b>	<b>Q3 2021</b>
<b>Automobile</b>					
Retention	84%	84%	84%	85%	85%
Renewal Premium Change	1.6%	0.9%	0.5%	0.2%	-0.1%
Policies-In-Force (PIF, in thousands)	2,761	2,779	2,807	2,852	2,898
PIF Yearly Change	3%	3%	4%	4%	5%
PIF Sequential Change	1%	1%	1%	2%	2%
New Business (\$ in millions)	\$276	\$269	\$278	\$299	\$297
<b>Homeowners &amp; Other</b>					
Retention	84%	85%	85%	85%	85%
Renewal Premium Change	8.1%	8.2%	7.6%	8.2%	8.8%
Policies-In-Force (PIF, in thousands)	5,549	5,617	5,703	5,836	5,931
PIF Yearly Change	9%	8%	8%	7%	2%
PIF Sequential Change	2%	1%	2%	2%	7%
New Business (\$ in millions)	\$298	\$272	\$263	\$335	\$312

Source: Company data and Wells Fargo Securities, LLC

**Profitability Benefited from Better Underlying Results and Higher PYD Away from Asbestos****Underlying Results Came in Better than Expected**

- The consolidated combined ratio was 98.6%, beating our 101.3% estimate, largely reflective of a higher level of favorable reserve development (away from the asbestos reserve strengthening) and better underlying results. Cats of \$501 million were better than our \$525 million estimate, while adverse reserve development of \$56 million was significantly better than our estimate for adverse development \$155 million, due to better-than-expected PYD across all segments. The underlying combined ratio of 91.4% was favorable to our estimate of 92.5%, and in line with last year. Underlying results beat us in Bond & Specialty (due to a better expense ratio) and Business Insurance (which benefited from rate exceeding loss trend and a combination of favorable impact associated with the pandemic and lower level of property losses), while Personal Lines was below us due to weaker results in both auto and home. Within auto, the underlying combined ratio rose by just over 15 points in the quarter, with three-quarters of the increase due to frequency returning to pre-pandemic levels, and the remainder due to increase severity trends (i.e., repair and replacement costs going up).
- Catastrophe losses totaled \$501 million and came in just below our \$525 million estimate. TRV noted that \$425 million of the \$501 came from Hurricane Ida, with the rest coming from other severe storms. Assuming the industry loss of \$30 billion for Ida, that would give Travelers a market share of about 1.4%, which is below its average hurricane share of 2.6%.
- Travelers recognized a benefit of \$95 million provided from its aggregate reinsurance cover (due to TRV's cat definition, some losses count toward the aggregate retention that the company does not consider cat, with \$83 million benefiting cats and \$12 million non-cats). The company has \$255 million of recoveries left under the aggregate cover, depending on the level of qualifying losses in Q4.
- Adverse reserve development was \$56 million, better than our estimate for adverse development of \$155 million, due to a better level in all segments. Business Insurance saw unfavorable development of \$108 million (better than our estimate for \$180 million of adverse development), as increases for asbestos (\$225 million) were partially offset by releases in workers' comp (\$117 million) for multiple accident years. Bond & Specialty saw a release of \$24 million (better than our estimate for no development), due to better-than-expected loss experience in the fidelity and surety product lines, and Personal Lines saw a favorable release of \$30 million (higher than our \$25 million), due to better-than-expected releases in homeowners.

## Exhibit 7 - Underlying Combined Ratio—Improvement in Loss Ratio, Flat Expense Ratio

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
Reported Combined Ratio	96.6%	97.5%	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%
Catastrophe Losses, net of reinsurance	3.8%	8.8%	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%
Prior Year Reserve Development (Favorable)/Unfavorable	(0.2%)	(2.4%)	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)	(1.0%)	(2.4%)	(4.3%)	(2.4%)	0.83%
<b>Underlying Combined Ratio</b>	<b>93.0%</b>	<b>91.1%</b>	<b>91.6%</b>	<b>94.9%</b>	<b>94.1%</b>	<b>92.1%</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>Underlying (improvement) deterioration</b>	<b>0.2%</b>	<b>(1.3%)</b>	<b>(0.8%)</b>	<b>1.3%</b>	<b>1.1%</b>	<b>0.9%</b>	<b>(0.2%)</b>	<b>(3.5%)</b>	<b>(2.5%)</b>	<b>(3.3%)</b>	<b>(1.8%)</b>	<b>(0.1%)</b>	<b>(0.1%)</b>
<b>Underlying Loss Ratio</b>	<b>63.3%</b>	<b>61.6%</b>	<b>61.9%</b>	<b>64.7%</b>	<b>64.5%</b>	<b>63.0%</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>
Change from last year	0.9%	(0.1%)	0.1%	1.8%	1.3%	1.3%	(0.7%)	(4.3%)	(2.3%)	(3.6%)	(1.6%)	1.2%	(0.2%)
<b>Underlying Expense Ratio</b>	<b>29.7%</b>	<b>29.5%</b>	<b>29.7%</b>	<b>30.2%</b>	<b>29.5%</b>	<b>29.1%</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>
Change from last year	(0.7%)	(1.2%)	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%	0.8%	(0.2%)	0.3%	(0.0%)	(1.3%)	0.1%

Source: Company data and Wells Fargo Securities, LLC

## Exhibit 8 - Underlying Combined Ratio by Segment—Improvement in Business Insurance and Bond &amp; Specialty

	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021
<b>Business Insurance</b>	<b>94.0%</b>	<b>93.6%</b>	<b>93.7%</b>	<b>93.4%</b>	<b>90.2%</b>
Underlying (improvement) deterioration	(1.8%)	(2.8%)	(3.6%)	(3.6%)	(3.8%)
<b>Bond &amp; Specialty</b>	<b>89.0%</b>	<b>85.0%</b>	<b>84.2%</b>	<b>83.4%</b>	<b>83.4%</b>
Underlying (improvement) deterioration	5.5%	3.7%	(1.5%)	(4.7%)	(5.6%)
<b>Personal Insurance</b>	<b>88.7%</b>	<b>83.1%</b>	<b>85.4%</b>	<b>91.0%</b>	<b>95.2%</b>
Underlying (improvement) deterioration	(5.3%)	(5.3%)	1.4%	7.0%	6.5%
Personal Insurance:					
<b>Automobile</b>	<b>81.5%</b>	<b>87.4%</b>	<b>86.6%</b>	<b>92.0%</b>	<b>97.0%</b>
Underlying (improvement) deterioration	(11.2%)	(12.2%)	(4.3%)	5.9%	15.5%
<b>Homeowners &amp; Other</b>	<b>96.8%</b>	<b>78.5%</b>	<b>84.1%</b>	<b>89.9%</b>	<b>93.3%</b>
Underlying (improvement) deterioration	3.3%	5.0%	8.4%	7.9%	(3.5%)

Source: Company data and Wells Fargo Securities, LLC

## Investment Income and Other

## Investment Income Beats Us; Provides Initial 2022 Guidance

- Net investment income was \$771 million pre-tax, better than our \$675 million estimate. Travelers' after-tax book yield on its investment portfolio was 3.0%, slightly below the 3.3% yield in Q2 2021. Fixed income investments added \$497 million pre-tax, in line with our \$493 million estimate, while alts were \$281 million, higher than our \$190 million estimate and benefited from higher private equity returns. Short-term investments added \$2 million, below our \$3 million estimate.
- TRV still expects 2021 fixed income net investment income to be in the \$425-435 million range in Q4 (per its 10Q) and provided an initial view for its quarterly fixed income NII for 2022 to be within a range of \$420-430 million.

## Capital Management

- TRV repurchased \$601 million for 3.8 million shares in Q3, better than our estimate for \$350 million of share repurchases and higher than the \$401 million last quarter. Dividends were \$220 million, bringing total capital return to \$821 million, compared to the \$655 million of core earnings. Total capital return to shareholders was 125.3% of core earnings in Q3 2021, and we are currently forecasting 82.8% and 79.5% in 2021 and 2022, respectively.

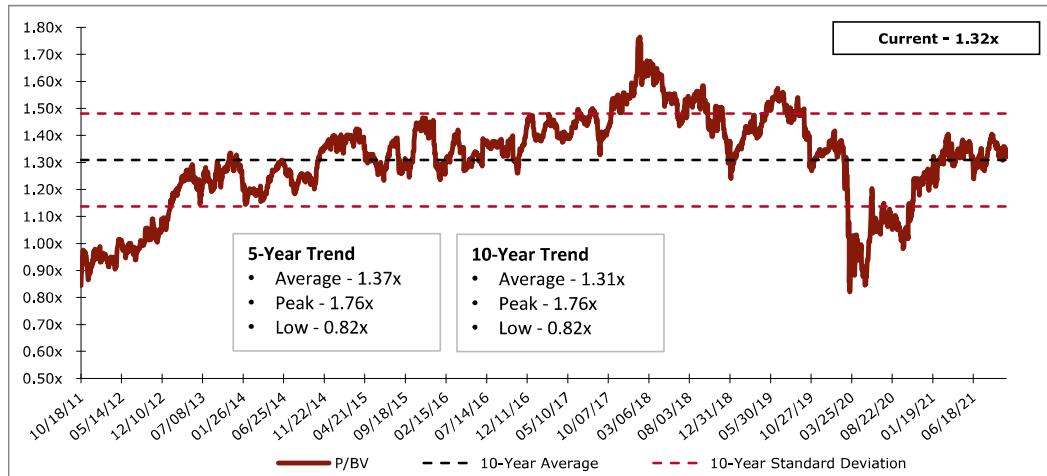
## Premium Growth Benefited from Exposure Growth

- Net premiums written rose 7.1%, just above our 6.9% estimate, but decelerating from the +10.7% in Q2 2021. Results were ahead of us in Business Insurance and Bond & Specialty, but missed us in Personal Lines. Gross premiums written growth of 7.7% was ahead of our 6.0% estimate, but dropped off the 10.9% last quarter.
- Business insurance net premiums written were up 4.9% (second straight positive growth quarter after four straight negative growth quarters), beating our +4.6% estimate, but slightly down from the +5.4% in the Q2. Bond & Specialty net premiums written were +18.6%, smashing our +7.7% estimate and beating the elevated +16.3% last quarter. Personal Insurance net premiums written were +7.1%, missing our +9.5% estimate and well below the +16.4% last quarter. Within Personal Insurance, auto net premiums written of +2.9% missed our +7.2% estimate and are well below the +21.4% last quarter, although this growth would have been a more modest +4.2% when accounting for the personal auto rebates last Q2, while home net premiums written growth of +11.3% was below our +11.8% estimate and slightly down from the +12.2% last quarter.

## Valuation

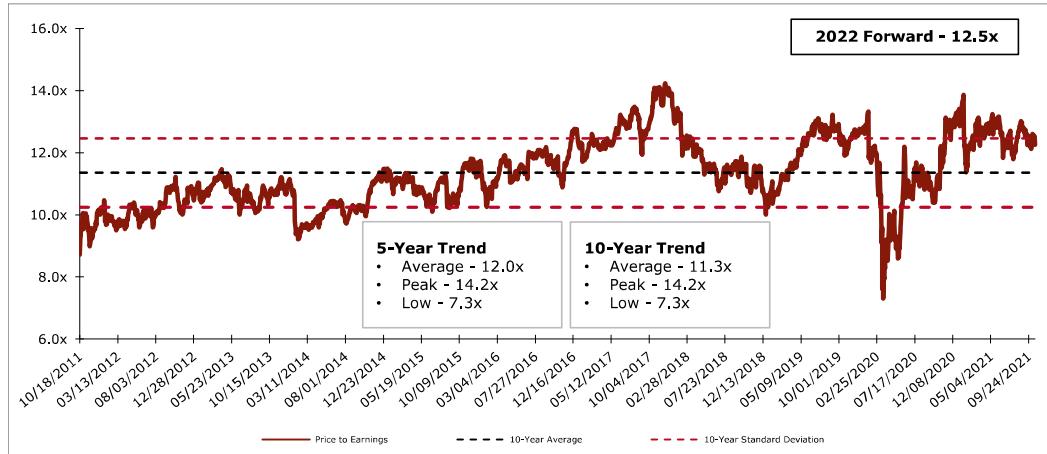
**Current valuation.** The TRV shares are now trading at 1.32x book value, just below its 5-year (1.37x) average, and in line with its 10-year (1.31x) average multiple. The shares are trading well below peak levels of 1.76x. On a price-to-earnings basis, the shares are trading at 12.0x our 2021 EPS estimate and 12.5x our 2022 EPS estimate versus the 10-year average of 11.3x and 10-year peak of 14.2x

Exhibit 9 - TRV Historical Price-to-Book Multiples



Source: FactSet and Wells Fargo Securities, LLC

Exhibit 10 - TRV Historical Price-to-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

## Consolidated Earnings Model

### Exhibit 11 - Travelers Model—Consolidated

The Travelers Companies, Inc.  
Earnings Projections and Operating Results

(\$ in millions, except as otherwise indicated)

Consolidated Income Statement												Consolidated Balance Sheet												
Q1	Q2	Q3	Q4	2019	Q1	Q2	Q3	Q4	2020	Q1	Q2	Q3	Q4	2021E	Q1	Q2	Q3	Q4	2022E	Q1	Q2	Q3	Q4	2023E
Gross premiums written	7,939.0	8,020.0	7,937.0	31,963.0	8,152.0	7,751.0	8,243.0	7,611.0	31,763.0	8,407.0	8,592.0	8,676.0	8,101.0	9,389.6	9,363.0	9,393.3	9,363.0	9,393.0	9,391.9	9,391.6	9,391.9	9,391.6	9,391.1	
% growth (Y/Y)	5.7%	5.3%	7.5%	6.3%	4.0%	(0.6%)	2.8%	3.2%	2.3%	3.1%	10.9%	7.7%	6.4%	5.0%	5.6%	5.5%	5.6%	5.6%	5.6%	5.5%	5.5%	5.5%	5.5%	5.5%
% retained	90.0%	95.2%	94.5%	96.3%	90.1%	94.3%	95.4%	93.5%	90.2%	89.7%	90.3%	95.7%	90.3%	95.7%	94.9%	92.5%	94.9%	92.5%	94.9%	92.6%	94.9%	92.6%	94.9%	92.6%
Net premiums written	7,057.0	7,450.0	7,057.0	7,075.0	5.3%	4.7%	2.7%	2.7%	2.6%	2.6%	4.7%	7.1%	6.7%	6.7%	4.5%	4.8%	4.8%	4.8%	4.8%	4.8%	5.2%	5.2%	5.2%	5.2%
% growth (Y/Y)	4.7%	7.2%	4.7%	4.7%	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	(1.4%)	
Increase in unearned premiums	2,022.0	4,622.0	1,723.0	1,723.0	1,172.0	1,321.0	1,181.0	2,110.0	683.0	1,181.0	4,650.0	508	1,181.0	1,181.0	1,181.0	1,181.0	1,181.0	1,181.0	1,181.0	1,181.0	1,181.0	1,181.0	1,181.0	
Net premiums earned	6,955.0	6,888.0	7,179.0	7,250.0	28,272.0	7,229.0	7,380.0	7,480.0	28,044.0	7,386.0	7,816.0	7,823.0	7,836.7	8,098.5	8,269.5	8,313.5	8,386.6	8,475.0	8,566.5	8,632.1	8,717.3	8,757.7		
% growth (Y/Y)	4.9%	4.4%	4.4%	4.4%	32.5%	53%	53%	2.8%	3.2%	2.8%	2.2%	9.5%	6.1%	4.4%	5.5%	6.1%	5.5%	6.1%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Net investment income	532.0	648.0	632.0	616.0	268.0	617.0	677.0	722.0	705.0	677.0	818.0	777.0	556.2	2,845.2	555.8	555.8	555.8	555.8	555.8	558.2	558.2	558.2	558.2	
% growth (Y/Y)	8.5%	8.5%	(3.7%)	(3.7%)	5.0%	(56.0%)	7.9%	9.5%	14.7%	14.7%	14.7%	(21.9%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	(20.7%)	
Fee income	198.0	116.0	121.0	113.0	489.0	108.5	114.0	101.0	104.0	101.0	106.0	114.0	106.0	106.0	106.0	106.0	106.0	106.0	106.0	106.0	106.0	106.0	106.0	
% growth (Y/Y)	7.2%	6.8%	7.2%	7.2%	4.6%	3.6%	11.0%	6.3%	6.3%	6.3%	6.3%	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	(6.5%)	
Other income	72.0	57.0	68.0	72.0	289.0	58.0	51.0	86.0	84.0	82.0	81.0	88.0	100.0	88.0	88.0	88.0	88.0	88.0	88.0	90.0	90.0	90.0	90.0	
% growth (Y/Y)	19.3%	19.3%	16.3%	16.3%	26.5%	(10.5%)	(10.5%)	3.7%	16.7%	16.7%	16.7%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	2.3%	2.3%	2.3%	
Total revenue	7,618.0	7,689.0	7,960.0	8,051.0	31,468.0	7,388.0	8,238.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0	8,260.0		
% growth (Y/Y)	4.4%	4.5%	3.6%	4.1%	4.3%	5.1%	5.1%	3.1%	3.7%	1.5%	3.3%	16.8%	6.3%	2.5%	1.5%	3.7%	1.5%	3.7%	1.5%	4.5%	4.5%	4.5%	4.5%	
Losses and loss adjustment expenses	4,462.0	4,622.0	4,640.0	4,640.0	19,330.0	4,789.0	5,107.0	4,886.0	4,886.0	4,886.0	4,970.0	5,045.0	5,045.0	4,984.0	4,812.4	5,045.0	5,045.0	5,045.0	5,045.0	5,045.0	5,045.0	5,045.0		
% growth (Y/Y)	3.4%	5.7%	12.5%	12.5%	(2.9%)	4.6%	7.3%	5.9%	5.9%	5.9%	6.4%	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	(1.2%)	
Amortization of deferred acquisition costs	1,117.0	1,134.0	1,168.0	1,181.0	4,810.0	1,178.0	1,173.0	1,207.0	1,207.0	1,207.0	1,215.0	1,234.0	1,234.0	1,254.0	1,257.7	1,265.0	1,265.0	1,265.0	1,265.0	1,265.0	1,265.0	1,265.0		
% growth (Y/Y)	5.3%	4.9%	4.7%	4.7%	5.3%	3.4%	3.3%	2.9%	3.7%	2.5%	6.9%	6.1%	5.0%	4.4%	4.5%	5.1%	4.4%	4.5%	4.5%	5.1%	4.4%	4.5%	4.5%	
General and administrative expenses	1,057.0	1,125.0	1,086.0	1,085.0	4,965.0	1,137.0	1,121.0	1,109.0	1,142.0	1,163.0	1,163.0	1,174.0	1,187.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	1,188.0	
% growth (Y/Y)	0.5%	1.1%	3.7%	2.1%	2.1%	7.8%	6.0%	1.0%	5.3%	2.3%	4.7%	7.0%	4.0%	3.8%	3.8%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	4.7%	
Interest expense	98.0	80.0	94.0	83.0	344.0	84.0	85.0	87.0	82.0	83.0	82.0	83.0	87.0	87.0	87.0	87.0	87.0	87.0	87.0	84.3	84.3	84.3		
% growth (Y/Y)	(1.1%)	(2.5%)	(2.5%)	(2.5%)	(2.5%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(4.6%)	(3.1%)	(3.1%)	(3.1%)		
Total expenses	6,704.0	7,169.0	7,980.0	8,180.0	28,443.0	7,188.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0	7,486.0		
% growth (Y/Y)	3.0%	4.7%	9.8%	9.8%	4.1%	4.7%	7.2%	4.4%	4.4%	4.4%	3.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	
Underwriting income	348.0	348.0	348.0	348.0	1,970.0	457.0	622.0	233.0	320.0	320.0	474.0	247.0	60.0	638.6	1,024.6	483.3	91.7	197.2	500.8	1,373.5	573.7	1,391.2		
add back general and expense in Other	46.0	47.0	49.0	50.0	1,086.0	54.0	54.0	58.0	60.0	62.0	220.0	220.0	73.0	76.0	60.0	263.0	68.5	68.5	68.5	68.5	68.5	68.5	68.5	
Net Underwriting income	364.0	49.0	59.0	51.0	3,590.0	51.0	328.0	377.0	95.0	1,256.0	213.0	320.0	70.0	70.0	70.0	1,307.6	52.6	69.3	1,612.0	552.2	288.8	1,665.2		
Pretax operating income	914.0	64.0	64.0	64.0	1,062.0	61.0	61.0	61.0	61.0	61.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0	1,072.0		
Income tax expense/(credit)	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0	159.0		
Average core income	557.0	370.0	557.0	61.0	2,337.0	676.0	798.0	1,182.0	1,182.0	1,182.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0	1,286.0		
% growth (Y/Y)	11.4%	8.7%	11.8%	51.8%	4.0%	(10.5%)	11.1%	11.1%	45.6%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%		
Realized gains/(losses) on investments and other, after tax	41.0	20.0	60.0	60.0	769.0	10.0	46.0	27.0	60.0	60.0	11.0	34.0	55.0	11.0	34.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income	56.0	56.0	56.0	56.0	360.0	87.0	83.0	82.0	82.0	82.0	1,100.0	1,100.0	934.0	662.0	966.8	662.0	966.8	526.0	959.5	2,975.9	554.2	843.2	1,665.2	
% growth (Y/Y)	6.3%	6.3%	6.3%	6.3%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%	
Participating share-based awards - allocated income	5.0	4.0	3.0	7.0	19.0	5.0	1.0	5.8	10.0	21.8	5.0	1.0	5.8	10.0	21.8	5.0	1.0	5.8	10.0	4.0	4.0	4.0	4.0	
Per-share	\$2.83	\$2.02	\$1.43	\$3.32	\$9,660	\$2.62	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12	\$1.12		
After-tax core income	\$16.3%	15.3%	11.8%	43.6%	\$1.12	\$1.45	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	
Net income	\$2.99	\$2.99	\$2.99	\$2.99	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	\$1.45	
GAAP ratios:																								
Less Fee Income - Underwriting expenses	27.0	26.0	28.0	27.0	27.0	26.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0	
Less Fee Income - Billing and policy fees	40.0	45.0	47.0	42.0	47.0	42.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	
Less Fee Income - Loss and expense adjustment expenses	40.0	45.0	47.0	42.0	47.0	42.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	47.0	
Combined Ratio:	93.7%	94.4%	101.5%	92.4%	95.8%																			

## Price Target Basis and Risk

### **Price Target for ALL: \$132.00**

Our price target of \$132 represents around a 1.4x multiple on our 2022 book value per share estimate of approximately \$95.

#### **Risk for ALL**

Risks to achieving the price target include large cat losses, regulatory constraints in key states (including around getting rate increases approved), reserve strengthening, irrational competition in personal lines, and deterioration in loss cost trends. Risks to the upside include margins continuing to see benefits from low frequency, the elevated severity trends abating, and policy and premium growth coming in above expectations.

### **Price Target for PGR: \$87.00**

Our \$87 price target is based on **(1)** about a 2.45x multiple of our 2022 GAAP book value estimate of around \$35.50 per share and **(2)** just above 17.5x our 2022 EPS estimate.

#### **Risk for PGR**

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

### **Price Target for TRV: \$161.00 from \$159.00**

Our price target of \$161 is based on around a ~1.28x multiple of our projected 2022 book value estimate of around \$126 and 13.1x our 2022 EPS estimate of \$12.25.

#### **Risk 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.

## Investment Thesis

### **ALL**

We believe the ALL shares are fairly valued as the company most likely has seen its margins peak and the company should be impacted by both elevated severity trends and a spike in frequency as driving picks up. As margins are constrained by the higher loss trends, we believe valuation expansion from here will be limited and rate the shares Equal Weight as a result.

### **PGR**

We have an Underweight rating on the shares. As Covid-19 vaccines are rolled out and driving picks up, frequency should revert back to more normalized levels, which combined with elevated severity trends, should cause pressure margins for PGR over the remainder of 2021 and into 2022, in our view. Further, PGR's policy growth should slow as there is less shopping in the market as most players advertise less and look to lower top-line growth in response to the higher loss trend. The combination of weaker margins and slowing top-line growth should cause the PGR shares to underperform the insurance sector.

### **TRV**

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.

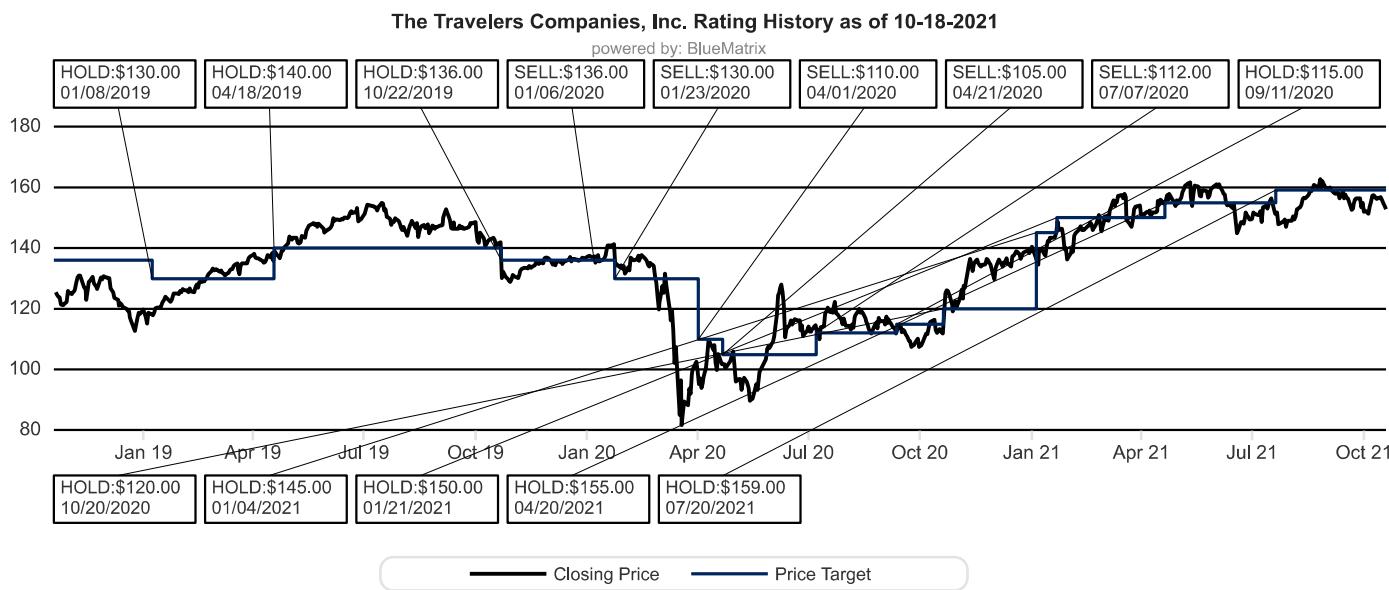
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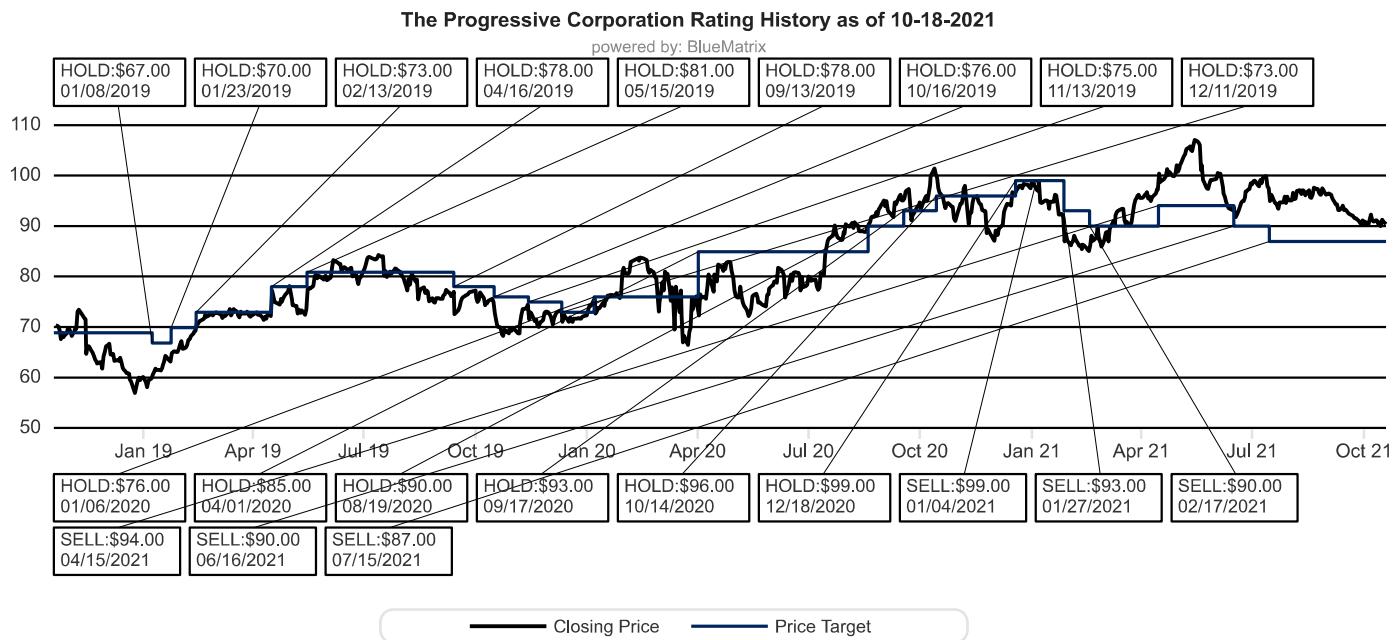
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Initiation (I); Drop Coverage (D); Overweight (BUY); Equal Weight (HOLD); Underweight (SELL); Suspended (SR); Not Rated (NR); No Estimate (NE)



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## **As of October 18, 2021**

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