Allstate Corp.

1Q22 Review: Revisiting "Preferred" Class

| CORE

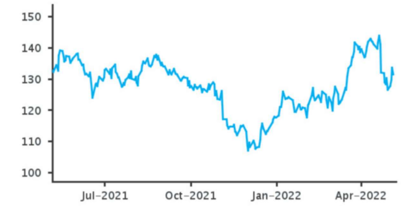
While Allstate brand is synonymous with preferred drivers, NatGen, its non-standard book, appears more resilient to inflationary pressures. With less new vehicles with bells and whistles, NatGen vehicles are cheaper to repair. As such, ALL is growing more non-standard auto (monoline).

ALL	EQUAL WEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 132.00
	lowered -4% from USD 137.00
Price (06-May-22)	USD 130.56
Potential Upside/Downside	+1.1%

Market Cap (USD mn)	35902
Shares Outstanding (mn)	274.98
Free Float (%)	97.95
52 Wk Avg Daily Volume (mn)	2.0
Dividend Yield (%)	2.60
Return on Equity TTM (%)	15.42
Current BVPS (USD)	76.76

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 144.46-106.11



Source: IDC
Link to Barclays Live for interactive charting

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ALL's auto remediation path appears slower than others for the following reasons: 1.) Allstate brand customers tend to have more expensive and often new vehicles and higher opt in for full comprehension coverage 2.) ALL's premium orientation is slightly more dominated in states that is seeing >15% severity, 3.) Post pandemic ALL decreased rates later than others (by low single digits), therefore these lower rates have not been fully cycled out yet delaying the effect of earning in rate increases (delayed recognition through 3Q23). Likewise, ALL plans to top off the rate increases it has been taking so far going forward.

Even though Allstate brand's customer demographics is synonymous with preferred drivers, its underlying auto combined ratio (of 99.3%) lags NatGen (of 95.4%) that is more focused on non-standard auto drivers. While opposing performance for these divisions is counter intuitive, we would rank file auto physical damage pressures ahead of other contributors (frequency, and bodily injury, though still noteworthy). NatGen customers don't buy full comprehensive coverage and its cars do not have as many bells and whistles (sensors, digital dashboards, etc.) Likewise, NatGen customers have been back on the road much earlier on, reverting to pre-pandemic frequency early in 2021. Therefore, NatGen does not have the same drag of frequency going up. ALL is purposely growing more non-standard auto with NatGen auto PIF up 13% y/y. Conversely, ALL is instilling its superior homeowners underwriting practices upon NatGen, resulting in NatGen homeowners PIF down 5% y/y.

Investment portfolio actions to shorten asset duration: Starting in late 2021, ALL sold long durated fixed income assets to counterbalance the negative impact on valuation, given higher interest rates resulting in a lower fixed income portfolio yield and investment income in the near term. As such, ALL shortened its asset duration to 3.1 years in 1Q22 from 3.8 years in 2021 and 5.0 years in 2020. It makes sense, given it sold its life business. We assume the duration of its liabilities is now less than 3 years. ALL's AOCI has dropped to $(953)mn at March 31, 2022 from $655mn at YE21.

ALL doesn't have an AOCI component of fixed income in its view of available capital which gleans on its economic capital framework and statutory surplus. However, unlike other P&C insurers, ALL doesn't have the same binary view of holding assets to maturity, rather it makes active calls on bonds. It is our understanding that many insurers like CB and TRV elect FMV reporting for flexibility but for the most part choose to HTM. As such, ALL is managing its BVPS growth more actively by making tweaks to its asset duration. Consequently, ALL had mitigated $0.8bn negative marks on its portfolio. ALL's market-based reinvestment rates are below its average fixed income portfolio yield, vs. peers who are already seeing the opposite. Eventually, with a shorter durated portfolio, ALL is planning to reinvest upon interest rates rising further.

ALL: Quarterly and Annual EPS (USD)

	2021	2022			2023			Change y/y	
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2022	2023
Q1	6.11A	2.33E	2.58A	2.58A	3.66E	3.51E	3.48E	-58%	36%
Q2	3.79A	1.32E	1.19E	1.12E	2.43E	1.98E	2.12E	-69%	66%
Q3	0.73A	1.37E	1.48E	2.01E	2.25E	2.59E	2.87E	103%	75%
Q4	2.75A	3.44E	3.29E	3.49E	4.26E	4.17E	4.41E	20%	27%
Year	13.48A	8.43E	8.49E	9.92E	12.59E	12.24E	13.29E	-37%	44%
P/E	9.7		15.4			10.7			

Consensus numbers are from Bloomberg received on 06-May-2022; 12:50 GMT
Source: Barclays Research

U.S. Insurance/Non-Life — **POSITIVE**

Allstate Corp. (ALL)

EQUAL WEIGHT

Income statement ($mn)	2021A	2022E	2023E	2024E	CAGR
Net premiums earned	42,218	44,448	46,218	48,020	4.4%
Net investment income (NII)	3,293	2,650	2,670	2,694	-6.5%
Underwriting income	1,665	312	1,247	1,810	2.8%
Operating income	4,033	2,357	3,195	3,757	-2.3%
Net income	1,485	2,261	3,195	3,757	36.3%
Effective tax rate (%)	20.0	20.4	21.0	21.0	1.7%
Combined ratio (%)	95.9	99.3	97.1	96.0	0.0%
Combined ratio (ex cats & py development) (%)	86.4	90.0	87.9	86.7	0.1%

Per share data ($)	2021A	2022E	2023E	2024E	CAGR
EPS (adj)	13.48	8.49	12.24	15.09	3.8%
EPS (reported)	4.96	8.14	12.24	15.09	44.8%
DPS	3.24	3.40	3.57	3.75	5.0%
BVPS	81.55	75.54	81.66	91.05	3.7%
BVPS (ex AOCI)	78.24	77.49	84.07	93.58	6.2%

Balance sheet and capital return ($mn)	2021A	2022E	2023E	2024E	CAGR
Total investments	64,701	75,675	83,720	88,121	10.8%
Common shareholders' equity (ex AOCI)	22,611	20,998	21,515	22,845	0.3%
Share buybacks	3,260	2,669	1,750	1,500	-22.8%
Dividends paid	955	930	918	919	-1.3%

Balance sheet and capital return metrics	2021A	2022E	2023E	2024E	Average
Debt leverage (%)	23.9	26.1	23.9	22.9	24.2
Financial leverage (%)	30.6	33.5	31.3	30.0	31.3
Total capital return as a % of op. earnings	104.5	152.7	83.5	64.4	101.3

Valuation metrics	2021A	2022E	2023E	2024E	Average
P/BV (ex AOCI) (x)	1.67	1.68	1.55	1.40	1.58
P/E (adj) (x)	9.7	15.4	10.7	8.7	11.1
Dividend yield (%)	2.5	2.6	2.7	2.9	2.7
ROE (%)	16.9	10.8	15.0	16.9	14.9

Price (06-May-2022)	**USD 130.56**
Price Target	**USD 132.00**

Why EQUAL WEIGHT?

ALL's fundamentals are strong and we look forward to seeing progress on its transformative growth plan. However, pricing correction actions may stall ALL's progress in actualizing stronger PIF growth.

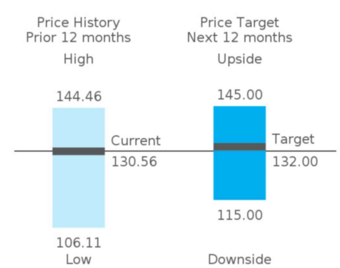
Upside case **USD 145.00**

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 $145 assumes ~1.75x our '23 BVPS ex AOCI estimate.

Downside case **USD 115.00**

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 $115 assumes ~10x our '23 EPS estimates

Upside/Downside scenarios

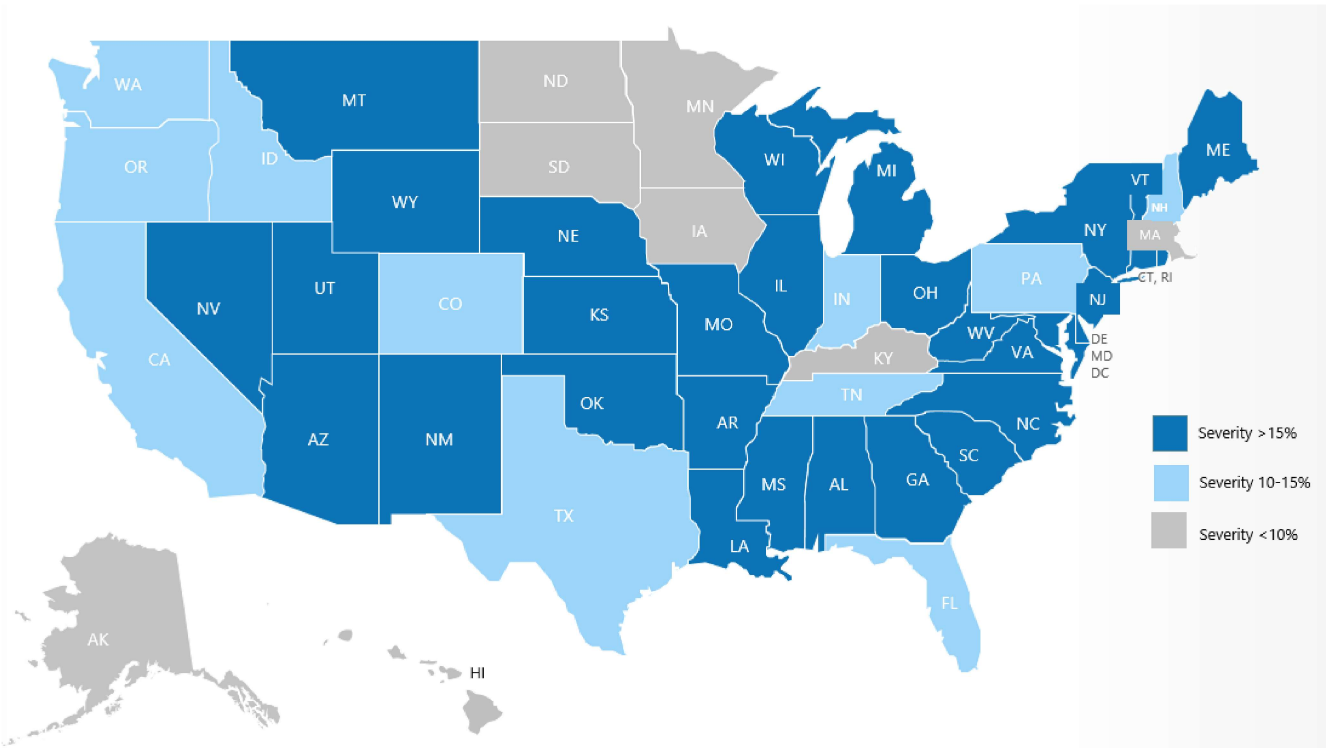


Note: FY End Dec
Source: Company data, Bloomberg, Barclays Research

Severity Trend by State

Allstate brand expects to see severity for property damage rise to 11% in ‘22E vs. ‘21. This is on top of the higher severity that incurred 2Q21-4Q21. Severity trends also differ by state. We were surprised to see relatively lower severity in populous states like CA, FL, and TX. Shifting to bodily injury, ALL highlighted TX accounting for 80% of its bodily injury adverse PYD actions taken this quarter. Note, ALL’s TX auto premiums represent nearly 10% of its total (vs. 9% of the industry allocation).

FIGURE 1. Auto property damage 2022 report year incurred severity



Allstate brand excluding Esurance and Canada
Source: Company Reports, Barclays Research

ALL’s Geographic Focus: Slight Bias to Higher Severity States

ALL’s premium orientation is slightly more dominated in states that is seeing >15% severity (53% of premiums vs. industry 50%), followed by states seeing 10-15% severity (44% of premiums vs. industry 43%).

FIGURE 2. ALL vs. Industry Geographic Focus - Sorted by High, Medium and Lower Severity States

2021 Auto DPW	Allstate	Industry
States Severity >15%	53%	50%
States Severity 10-15%	44%	43%
States Severity <10%	3%	7%

LOBs Rollup: Personal Auto Liability, Personal Auto Physical Damage by state. See figure 1 for allocation of high, medium and lower severity states. Note, BARC complied all ALL auto premiums (FY 2021); not limited to Allstate brand.
Source: Barclays Research, S&P Capital IQ Pro

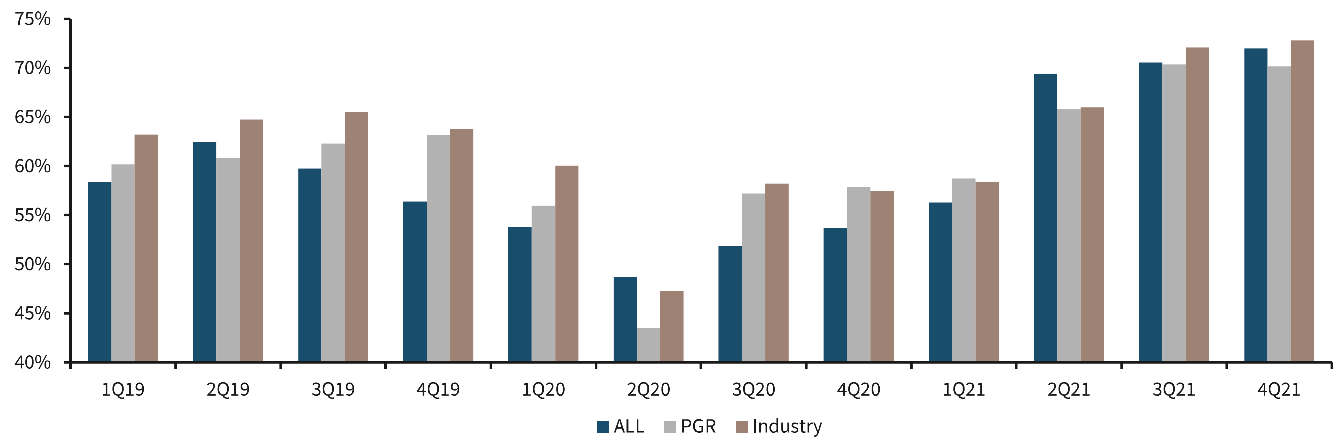
ALL no longer leading the industry on its loss ratio

Historically, ALL has shown a consistent track record of outperforming the industry, as measured by the statutory direct incurred loss ratio until 2Q21. While ALL no longer underperformed the industry during 3Q21, that does not mean its performance got better; the industry just caught up. On this basis, ALL also noticeably unperformed PGR in 2Q21 and 4Q21 (just a lesser degree in 3Q21).

We asked Mario Rizzo, CFO his thoughts on these data points. According to Mario, peers have cycled out most of the prior rate decreases from the start of the pandemic allowing others to earn in the rate increases earlier. In comparison ALL decreased rates later than others, therefore these lower rates have not been fully cycled out yet delaying the effect of earning in rate increases.

Statutory Auto Loss Ratios: ALL vs. PGR vs. Industry

FIGURE 3. ALL's auto direct incurred loss ratio (statutory) had trended better than the industry until 2Q21

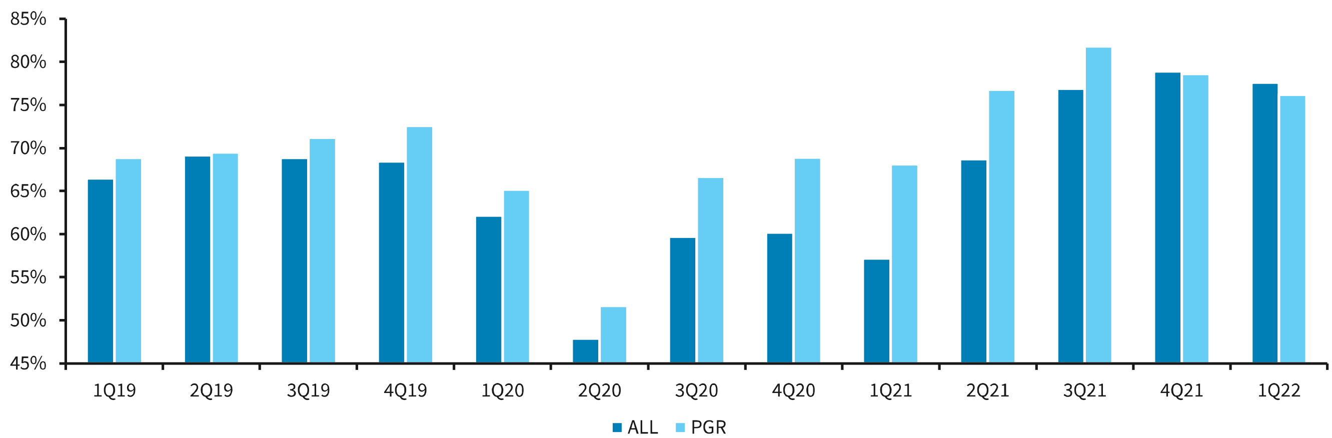


Note: Based on statutory data. Personal Auto only (liability and physical damage).
Source: Barclays Research, S&P Capital IQ Pro

GAAP Auto Loss Ratios: ALL vs. PGR

From a GAAP perspective, the gap between PGR and ALL started to narrow in 2Q21. By 4Q21, as well as 1Q22, ALL no longer outperformed PGR. Keep in mind PGR operates at a lower expense ratio than ALL. Note, we looked at total auto loss ratios, there may be nuances with PYD and cats.

FIGURE 4. GAAP Auto Loss Ratio Comparison: ALL no longer outperforms PGR



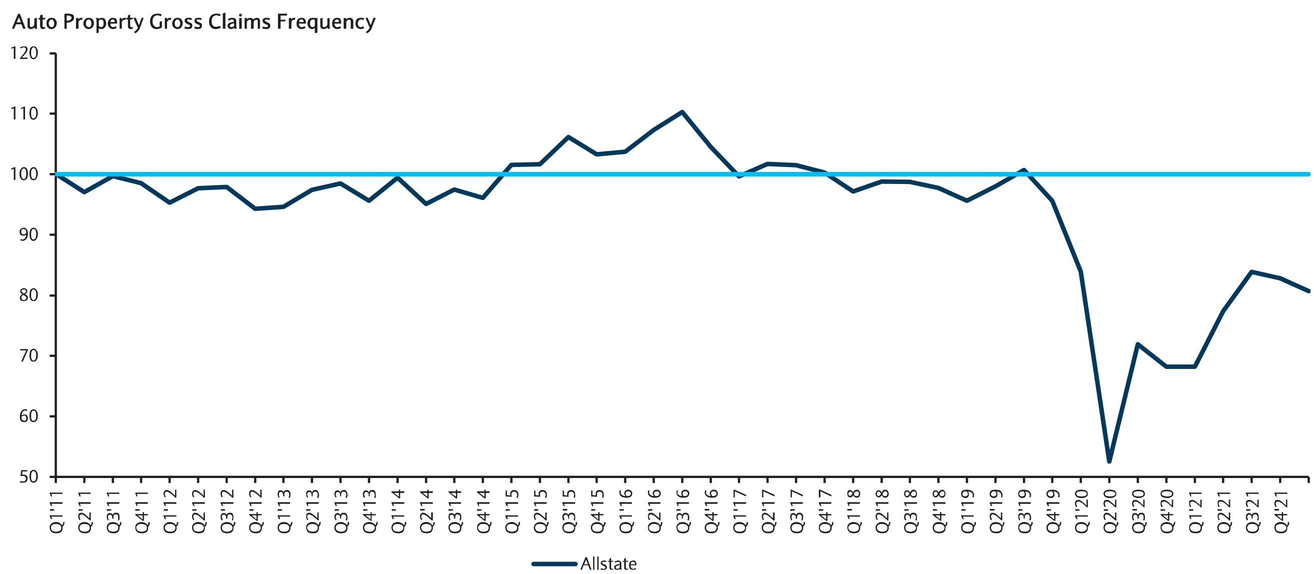
Note: ALL loss ratio based on Property-Liability Auto and PGR based on Personal Lines (Agent and Direct). Not adjusted for PYD or catastrophes.
Source: Barclays Research, Company Data.

1Q22 is serving as a tough quarter for auto results yet 4Q21 seems to be the trough. Nevertheless, ALL's 60 bps q/q improvement with respect to its GAAP auto underlying loss ratio (ex cats & PYD) is underwhelming relative to peers' sequential progress: (i.e. MCY 200 bps, TRV 470 bps). Note, not every insurer provides the finer details to make like for like comparisons. Geico's auto loss ratio ex PYD sequential improvement was 3.4 pts. PGR's auto loss ratio ex cats sequential improvement was 3.4 pts. Conversely, KMPR's underlying personal auto loss ratio deteriorated by 13 pts q/q.

Frequency Benefits Persists

We analyzed Allstate Brand's reported auto gross frequency data (auto physical damage) since 2010 to create a baseline. It appears that frequency has not returned yet to pre-pandemic levels, which means the loss trend may get worse from here. We understand its Allstate brand book has more preferred customers who are still working from home, office policies may change in the future. In contrast its NatGen book's more non-standard auto focus has already seeing its policyholders driving back to pre-pandemic levels for awhile, which may be a prelude for what may come. Based on our conversation with Mario Rizzo, CFO, ALL thinks that we may never get back to pre-pandemic miles driven given hybrid working arrangements.

FIGURE 5. ALL's Auto frequency approaching pre-pandemic levels. Have yet to reach normalized activity.



Year 2010 = 100
Source: Barclays Research, Company Reports

1Q22 Highlights

We remain cautious about the potentially elongated time it will take for the sector's pricing to catch up with loss trend but recognize ALL's diligence. Performance-based NII results declined from record 2021.

Auto Loss trends:

- Within Allstate brand, property damage gross claim frequency of 18.4% y/y in 1Q22 remained elevated but is below 21.5% in 4Q21. Per the 10Q, ALL characterized frequency to remain below pre-pandemic levels.
- Property damage gross claim severity of 11% in 1Q22 remained elevated but is below 18.2% in 4Q21.
- Bodily injury increased by 8% y/y. The current 2021 estimated report year incurred claim severity increased by about 5% vs. 2020 due to rising medical treatment, increased severity of claims with attorney representation and higher medical care inflation.

Underwriting details: ALL delivered a 1Q Property-Liability underlying combined ratio of 90.9% (vs. our estimate of 91.1%), an improvement from 91.3% in 4Q21 driven by the expense ratio. **ALL's underlying loss ratio of 67.4% (vs. our estimate of 66.9%) increased relative to 4Q21 of 67.0%.** ALL's 1Q underlying expense ratio of 23.5% was down q/q from 24.3% in 4Q21.

Prior year reserve strengthening of $158mn most evident within auto physical damage and bodily injury coverages. ALL's reported 102.1% auto combined ratio was impacted by 2.0 pts of adverse PYD. In comparison we modeled an auto combined ratio of 103.5%. Auto underlying loss ratio down to 74.9% in 1Q22 vs. 75.5% in 4Q21 . We had estimated 75.7% auto underlying loss ratio for 1Q22.

Allstate Brand Auto PIF growth was flat y/y.

Repurchase Program progress: ALL repurchased ~$794mn in 1Q (vs. our estimate of $660mn). ALL expects to complete the $5bn buyback program by 1Q23, $2.5bn authorization remains outstanding.

2022/2023 Nationwide Excess Catastrophe Reinsurance: Fully placed, providing $6.61bn coverage in excess of a $500mn retention and various co-insurance by layers. In comparison, its national program placed on June 1, 2021 provided $5.76bn coverage in excess of a $500mn retention and various co-insurance by layers.

Key Results
ALL's 1Q22 Operating EPS of $2.58 was above our $2.33 estimate but below the $2.90 consensus street estimate. Relative to our estimates, the beat primarily reflected better than expected NPE and slightly better combined ratio of 97.3% vs. our estimated 97.7%. Buybacks of $794mn beat our estimate of $660mn. NII of $594mn fell short of our expectations as performance-based results declined from record 2021. Still NII contributed $1.56 to EPS eclipsing property-liability insurance underwriting EPS contribution of $0.95.

1Q Variance

FIGURE 6. 1Q22 Variance

Summary	Q/Q			Y/Y		Barclays Est.	
(In $mn, except per share)	1Q22A	4Q21	% Change	1Q21	% Change	1Q22E	% Var.
Consolidated revenues	$12,337	$13,011	-5.2%	$12,451	-0.9%	$12,733	-3.1%
Net Investment Income	$594	$847	-29.9%	$708	-16.1%	$622	-4.5%
Net income applicable to common	630	790	-20.3%	(1,408)	144.7%	656	-3.9%
Net income applicable to common per dil common share	$2.24	$2.73	-18.1%	($4.60)	148.7%	$2.33	-3.7%
Adusted net income	726	796	-8.8%	1,871	-61.2%	656	10.7%
Adusted net income per diluted common share	$2.58	$2.75	-6.3%	$6.11	-57.7%	$2.33	10.9%
Book value per common share	$75.95	$82.71	-8.2%	$81.08	-6.3%	$83.43	-9.0%
Weighted avg common shares - diluted	281.8	289.0	-2.5%	306.4	-8.0%	282.0	-0.1%
Share repurchases	$794	$870	-8.7%	$601	32.1%	$660	20.3%
P-L Combined Ratio							
Recorded	97.3%	98.9%	(161 bps)	83.3%	1404 bps	97.7%	(37 bps)
Underlying	90.9%	92.0%	(111 bps)	77.1%	1379 bps	91.1%	(17 bps)
P-L insurance premiums earned	$10,981	$10,390	5.7%	$9,896	11.0%	$10,543	4.2%
Cat losses	462	528	-12.5%	590	-21.7%	462	0.0%

Source: Barclays Research, Company Reports

FIGURE 7. **1Q22 Variance Con't**

Segment Details		Q/Q		Y/Y		Barclays Est.	
(In $mn, except per share)	1Q22A	4Q21	% Change	1Q21	% Change	1Q22E	% Var.
Property-Liability Results							
Premiums written	$10,761	$10,301	4.5%	$9,768	10.2%	$10,166	5.9%
Underwriting income	280	113	147.8%	1,657	-83.1%	245	14.1%
Recorded Combined Ratio	**97.3%**	**98.9%**	**(161 bps)**	**83.3%**	**1404 bps**	**97.7%**	**(37 bps)**
Auto	102.1%	104.3%	(220 bps)	80.5%	2160 bps	103.5%	(143 bps)
Home	84.2%	87.1%	(290 bps)	88.8%	(460 bps)	84.3%	(14 bps)
Underlying Combined Ratio	**90.9%**	**92.0%**	**(111 bps)**	**77.1%**	**1379 bps**	**91.1%**	**(17 bps)**
Auto	98.8%	100.2%	(140 bps)	80.1%	1874 bps	100.7%	(190 bps)
Home	69.0%	69.6%	(60 bps)	67.7%	130 bps	69.7%	(71 bps)
Allstate Health and Benefits							
Premiums and contract charges	$469	$459	2.2%	$455	3.1%	$471	-0.4%
Adjusted Net Income (Loss)	$53	$48	10.4%	$65	-18.5%	$56	-6.0%
Allstate Protection Services							
Revenues	$627	$606	3.5%	$552	13.6%	$625	0.3%
Adjusted Net Income (Loss)	$53	$46	15.2%	$78	-32.1%	$57	-6.8%

Source: Barclays Research, Company Reports

Valuation

Our Equal Weight rating and $132 price target (down from $137) are based on a 50/50 weighted average of ~12x our 2023 EPS estimates of $12.24 and 1.4x our YE23 book value per share ex AOCI estimates of $84.07. Prior methodology was based on a 50/50 weighted average of ~12x our 2023 EPS estimates of $12.59 and 1.4x our YE23 book value per share ex AOCI estimates of $87.2. We look forward to seeing progress on ALL's transformative growth plan. We would be more constructive on the stock when ALL shows signs of PIF growth while returning to mid 90% auto combined ratio. We think that scenario is more likely when adverse loss cost trends meaningfully abate.

Model Summary

FIGURE 8. **Model Summary**

($ In Mil, except per share)	2020	2021	2022E	2023E	2024E
P&C insurance premiums	$37,073	$42,218	$44,448	$46,218	$48,020
A&H premiums and contract charges	$1,094	$1,821	$1,894	$1,962	$2,031
Other revenue	$1,065	$2,172	$2,277	$2,368	$2,461
Net investment income	$1,590	$3,293	$2,650	$2,670	$2,694
Realized capital gains (losses)	1,087	1,084	(267)	-	-
Total revenues	**41,909**	**50,588**	**51,002**	**53,219**	**55,206**
P&C insurance claims and expenses	22,001	29,318	32,260	32,931	33,741
Shelter in Place payback expense	948	29	-	-	-
A&H policy benefits	516	1,015	1,059	997	1,024
Interest credited to contractholder funds	33	34	-	-	-
Operating costs/expenses & amortization of DAC	10,971	13,512	14,281	14,509	15,021
Pension and other post retirement remeasurement (gains) losses	(51)	(644)	(247)	-	-
Restructuring and related charges	253	170	12	-	-
Amortization of purchased intangibles	118	376	342	291	226
Interest expense	318	330	332	310	301
Total costs and expenses	**35,107**	**44,140**	**48,039**	**49,038**	**50,313**
Consolidated Adjusted net income	**4,510**	**4,033**	**2,357**	**3,195**	**3,757**
Effective tax rate	20.2%	20.0%	20.4%	21.0%	21.0%
Per share earnings data					
Adjusted net income per diluted common share	**$14.29**	**$13.48**	**$8.49**	**$12.24**	**$15.09**
Share information					
Average diluted shares outstanding	315.5	299.2	277.6	261.0	249.1

Source: Barclays Research, Company Reports

FIGURE 9. **Model Summary Con't**

($ In Mil, except per share)	2020	2021	2022E	2023E	2024E
Net premiums written (y/y % growth)	**0.9%**	**15.7%**	**6.2%**	**3.2%**	**3.0%**
Net premiums earned (y/y% change)	**2.8%**	**13.9%**	**5.3%**	**4.0%**	**3.9%**
Underwriting ratios					
Claims and claims expense ratio	60.8%	71.4%	75.1%	74.2%	73.5%
Expense ratio	26.8%	24.5%	24.1%	23.0%	22.5%
Combined ratio	**87.6%**	**95.9%**	**99.3%**	**97.1%**	**96.0%**
Underlying loss ratio	52.7%	62.5%	66.5%	65.6%	64.9%
Pre-tax cat. losses	2,811	3,339	3,374	3,612	3,722
Catastrophe points	7.9%	8.3%	8.0%	8.3%	8.3%
Pre-tax prior year development	60	267	271	128	133
Underlying combined ratio	**79.4%**	**86.4%**	**90.0%**	**87.9%**	**86.7%**
Shareholders' equity and returns					
Ending Common Shareholders' equity	28,247	23,209	20,298	20,815	22,145
Fully diluted book value per share	$90.5	$81.6	$75.5	$81.7	$91.0
Adjusted net income return on equity	**19.2%**	**16.9%**	**10.8%**	**15.0%**	**16.9%**
Capital deployment					
Assumed Repurchase Price Per Share	$98	$124	$125	$127	$129
# of shares repurchased (in mn)	17.4	26.3	21.4	13.8	11.6
Shares Repurchases	1,700	3,260	2,669	1,750	1,500
Dividends per share	$2.16	$3.24	$3.40	$3.57	$3.75
Total $ Amount of Dividends	$673	$955	$930	$918	$919
Total capital return	$2,373	$4,215	$3,599	$2,668	$2,419
Total capital return, % op. earnings	53%	105%	153%	83%	64%
Investment income					
Net investment income	$2,322	$3,293	$2,658	$2,670	$2,695
Total Investments	$94,237	$64,701	$75,675	$83,720	$88,121

Source: Barclays Research, Company Reports

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Primary Stocks (Ticker, Date, Price)
Allstate Corp. (ALL, 06-May-2022, USD 130.56), Equal Weight/Positive, CD/CE/J/K/M/N

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Allstate Corp. (ALL / ALL)

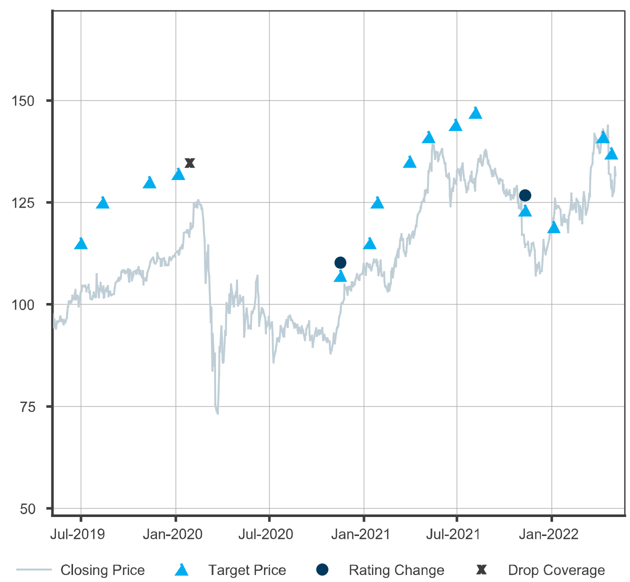
Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

USD 130.56 (06-May-2022)

Rating and Price Target Chart - USD (as of 06-May-2022)

Currency=USD



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Publication Date	Closing Price*	Rating	Adjusted Price Target
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
22-Jan-2020	117.65	Coverage Dropped	
06-Jan-2020	112.83		132.00
11-Nov-2019	108.19		130.00
12-Aug-2019	102.85		125.00
01-Jul-2019	103.15		115.00

On 08-May-2019, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 110.00.

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our Equal Weight rating and $132 price target are based on a 50/50 weighted average of ~12x our 2023 EPS estimates of $12.24 and 1.4x our YE23 book value per share ex AOCI estimates of $84.07.

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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