

# Equity Research

**WELLS  
FARGO**

Price Target Change — January 19, 2024

## Commercial Lines Insurance

# The Travelers Companies, Inc. (TRV)

## TRV: Opening the Umbrella; Conference Call Roundup

### Our Call

TRV shares traded up dramatically on the day as they beat on the bottom and top line and saw the strongest BI margins on record. Although we see it as a good print, we do not view the level of BI underlying margin improvement as sustainable.

**The stock from here:** Travelers shares responded well to the strong underlying results. While we recognize it was one good quarter, we are not modeling for the level of BI underlying margin improvement to persist in 2024. Our numbers move up by 5% in 2024 (as higher underwriting income is counter-balanced by modestly lower investment income), and as a result we view the shares as adequately valued (1.93x 12/31 BV and 10.7x our 24 EPS estimate) post the move today.

**Estimate and price target changes:** Our 2024 EPS estimate goes to \$19.30 (from \$18.45), 2025 EPS goes to \$21.05 (from \$20.80), and we introduce an initial 2026 EPS estimate of \$22.90. Our estimates reflect better underwriting results, which more than offset modestly lower investment income (our quarterly fixed/short-term investment income ranges from \$632-678M in 2024 relative to the \$630-675M revised guidance). Our price target is now \$211 (from \$182) based on 10x our 2025 EPS estimate.

**Read thrus:** **(1)** underlying margins could be strong for the group in Q4 (although it is unclear what the benefit of non-cat weather was for TRV), **(2)** cats should be muted as TRV saw extremely low losses, **(3)** other companies could seek to get more reinsurance protection as they can offset the higher costs with continued price, and **(4)** reserves continue to pose a risk, especially for the soft market years as TRV added more to its GL and umbrella reserves (the level of which was not quantified).

**BI underlying margin:** The BI underlying CR improved 2.7 points Y/Y due to the higher earned pricing, a mix shift to property, and impact from non-cat weather which was modestly favorable to both the prior year and their expectations. When asked if the better BI margin is sustainable moving forward, they did not want to provide specific guidance. We are not expecting the 2.0 points of improvement we saw in '23 to persist in 2024 and are looking for 20bps of margin deterioration in '24.

**Reserves:** Travelers saw overall reserve strengthening and overall net favorable development within Business Insurance. With that being said, the company did add to its general liability and umbrella reserves, which was more than offset by releases in workers' compensation resulting in overall favorable development of \$56M in BI. We expect reserve movements within casualty lines to be in focus as we move through earnings season. **Other:** See inside for highlights of key issues for [TRV](#).

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$211.00/\$182.00
Upside/(Downside) to Target	0.6%
Price (01/19/2024)	\$209.66
52 Week Range	\$157.33 - 199.79
Shares Outstanding	228,399,446
Market Cap (MM)	\$47,886
Enterprise Value (MM)	\$54,403
Average Daily Volume	1,591,063
Average Daily Value (MM)	\$334
Dividend (NTM)	\$3.93
Dividend Yield	1.9%
Net Debt (MM) - last reported	\$6,517
ROIC - Current year est.	17%
3 Yr EPS CAGR from current year (unless otherwise noted)	20%

\$ EPS	2023A	2024E	2024E	2025E	2025E
	Curr.	Prior	Curr.	Prior	
Q1 (Mar)	4.11 A	5.04 E	4.79E	5.49 E	5.54E
Q2 (Jun)	0.06 A	3.94 E	3.78E	4.20 E	4.32E
Q3 (Sep)	1.95 A	4.15 E	4.03E	4.70 E	4.68E
Q4 (Dec)	7.01 A	6.16 E	5.86E	6.69 E	6.27E
FY	13.16 A	19.30 E	18.45E	21.05 E	20.80E
P/E	15.9x	10.9x			10.0x

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

## Wells Fargo Express Takeaways

**The Travelers Companies, Inc. (TRV) | Rating: Equal Weight | Price Target: \$211.00**

**Analyst: Elyse Greenspan**

### Financials

FY (Dec)	2023A	2024E	2025E
<b>ESTIMATES</b>			
<b>EPS</b>			
Q1	4.11 A	5.04 E	5.49 E
Q2	0.06 A	3.94 E	4.20 E
Q3	1.95 A	4.15 E	4.70 E
Q4	7.01 A	6.16 E	6.69 E
AN	13.16 A	19.30 E	21.05 E
<b>Rev. (MM)</b>	<b>41,469.0 A</b>	<b>46,340.5 E</b>	<b>49,463.3 E</b>
<b>Net Premiums Written (MM)</b>	<b>40,201.0 A</b>	<b>43,808.7 E</b>	<b>46,176.6 E</b>
<b>Underlying Loss Ratio</b>	<b>61.4% A</b>	<b>60.7% E</b>	<b>61.0% E</b>
<b>Underlying Combined Ratio</b>	<b>89.6% A</b>	<b>89.0% E</b>	<b>89.4% E</b>
<b>Book Value/Share</b>	<b>109.19 A</b>	<b>122.70 E</b>	<b>136.44 E</b>

### WELLS FARGO vs. CONSENSUS

Consensus Estimate	13.13 A	17.53 E	20.23 E
Difference from Consensus		10.0%	4.1%

### VALUATION

P/E	15.9x	10.9x	10.0x
P/Book Value	1.9x	1.7x	1.5x

EPS: Operating EPS

Rev. (MM): Excludes realized gains/losses

Consensus Estimate: Consensus EPS Estimate; Source: FactSet

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.

NA = Not Available, NE = No Estimate

### Investment Thesis

We believe that TRV will continue to benefit from the hard commercial market as pricing should continue to have legs given inflation and higher weather volatility. Although we are positive on the commercial lines space as a whole, we are Equal Weight TRV due to its smaller account exposure, higher workers' comp focus as both are getting less rate than other lines/account sizes, and personal lines exposure, particularly auto, which is well above target margins of mid-90s.

### Risk vs. Reward – Upside/Downside Price Target Scenarios



\*As of 01/19/24

Source: Wells Fargo Securities, LLC estimates and Refinitiv.

### Base Case | \$211.00

- Our price target of \$211 is based on just over 10x our 2025 EPS estimate.
- Implies around a ~1.6x multiple of our projected 2025 book value estimate of ~\$136.

### Upside Scenario | \$232.00

- Our upside scenario is \$232 and assumes a multiple of ~12x our 2025 EPS estimate and 1.85x our 2025 book value estimate of ~\$136.
- A continued firm commercial pricing environment with no material changes to loss cost trends
- No material reserve builds
- Catastrophe losses returning to normalized levels
- Share repurchase also returning to normalized levels in 2024

### Downside Scenario | \$158.00

- Our downside scenario is \$158 and is based on 7.5x our 2025 EPS estimate and over 1.16x our 2025 book value estimate of ~\$136.
- Commercial pricing softens causing the RRC in BI to slow
- Loss cost trends rise, and we see further additions to reserves
- Personal lines loss trends get worse, causing TRV to push for another round of elevated rate increases

### Upcoming Catalysts

- Commercial pricing survey data from MarketScout and Ivans to track movement in rate across various commercial lines, including workers' compensation
- Commentary from other peers around loss cost trends and rate adequacy in lines including commercial and personal insurance lines

### Company Description

Travelers Companies, Inc. (TRV) is the second largest writer of commercial lines, the eighth largest personal insurance writer, and biggest writer of workers' comp in the United States (as of 2022). The company is organized into three business segments: Business Insurance (50% of 2022 net premiums written); Personal Insurance (39%); and Bond & Specialty Insurance (11%). Products are distributed primarily through independent agents and brokers in all 50 states and in select international markets.

## What the Companies Are Saying—TRV

### Outlook

Overall, Travelers said they were confident with how they are positioned for 2024 and beyond. The company did not want to provide much in the way of future margins, but did say that their view of pricing and loss trend has not really changed. Further, the quota share with Fidelis was renewed for 2024 and is expected to provide a modest benefit to underlying margins.

### Pricing

Renewal rate change (RRC) slowed to 7.4% (from 7.8% in Q3) reflective of a lower percentage of National Property written premium in Q4 (16.8% of premiums vs 19.1% in Q3). TRV highlighted that they saw meaningful rate increases in all lines other than workers' comp, with the strongest increases in property, umbrella and auto. Within casualty, the RRCs in all lines were comparable or better than the Q3. With National Property, rates did decelerate in the quarter given the strong returns of the business, but TRV said both the RRC and RPC remain strong.

### Guidance

Guidance provided by TRV includes:

- **Fixed income/short-term investment guide lowered:** TRV updated its guidance for fixed income and short-term investment income for 2024. TRV is now looking for fixed income and short-term investment income to be around \$2.6 billion after-tax for FY 2024, which is down from prior guidance for more than \$2.6 billion. The guide assumes quarterly NII ranging from \$630-675 million, down from the prior guide of \$630-690 million.
- **Expense ratio guidance:** The overall expense ratio should be in the range of 28-28.5% for FY 2024.
- **Personal lines RPC guide:** Within **personal auto**, the RPC should remain in the mid-teens through H1 as they continue to seek rates on a state-by-state basis. Within **home**, the RPC should moderate to the low-double-digits in 2024 as TRV will continue to seek rates in response to elevated losses, but their automatic increase in limit factors will return to more normal levels, reflective of progress they have made with aligning insured values and replacement costs.
- **Share buyback view for Q1:** TRV expects buybacks to be around \$250 million in Q1 (vs. VA consensus of \$380m and our previous fcst of \$450m) as the capital strategy is unchanged but balances the need to use capital for growth and the recent Corvus deal.

### Investments

Travelers updated its outlook for after-tax investment income from fixed income and short-term investments to range from \$630 million in Q1 2024 to \$675 million in Q4.

### Liquidity and Capital

TRV has \$1.5 billion of capital at the holding company (up from just under \$1.5 billion at the end of 2022, but down when compared to \$1.7B at end of Q3) with all of their capital ratios at or better than target levels. They did say that they have a modest improvement in capital from the new S&P capital model. Overall, the capital strategy is unchanged, and Travelers will look to balance capital for top-line growth as well as the \$435m deployed for the Corvus deal (deal closed on 1/2/24). As a result of these dynamics, they now expect to buy back \$250 million in Q1 2024. TRV has \$6.0B left under its repurchase authorization as of 12/31.

*Highlights of TRV's call included commentary around pricing (in BI and PI), reserve movements, and its underlying loss ratio in BI.*

*Guidance was given around: (1) fixed income investment income, (2) expense ratio, (3) personal lines RPC, and (4) expected buyback for Q1 2024.*

## Highlights of Our Estimate Changes

**Overview of our estimate changes.** The exhibit below highlights the changes we made to our earnings model following Q4 2023 earnings.

- **2024 EPS goes up to \$19.30 (from \$18.45)** to reflect better margins (loss and expense), primarily in BI and auto and higher premium growth, partially offset by lower buybacks and a higher tax rate.
- **2025 EPS goes up to \$21.05 (from \$20.80)** to reflect better margins (loss and expense), primarily in BI and auto and higher premium growth, partially offset by lower buybacks and a higher tax rate.
- **We introduce a 2026 EPS of \$22.90.**

Exhibit 1 - TRV Summary of Estimate Changes

(\$ in millions, except as noted)	Current Estimates			Prior Estimates			Delta (Absolute)			2024 Outlook Guidance
	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	
Gross premiums written	46,038	48,601	51,313	45,371	47,902	NE	667	699	NE	
% growth (YoY)	7.1%	5.6%	5.6%	5.6%	5.6%	NE	1.6%	(0.0%)	NE	
Net premiums written	43,809	46,177	48,682	42,250	44,402	NE	1,559	1,774	NE	
% growth (YoY)	9.0%	5.4%	5.4%	5.1%	5.1%	NE	3.9%	0.3%	NE	
Increase in unearned premiums	(1,905)	(1,545)	(1,629)	(1,409)	(1,482)	NE	(496)	(62)	NE	
<b>Net premiums earned</b>	<b>41,904</b>	<b>44,632</b>	<b>47,054</b>	<b>40,841</b>	<b>42,920</b>	<b>NE</b>	<b>1,063</b>	<b>1,712</b>	<b>NE</b>	
% growth (YoY)	11.0%	6.5%	5.4%	8.3%	5.1%	NE	2.7%	1.4%	NE	
Net investment income (pre-tax)	3,570	3,936	4,303	3,597	3,991	NE	(27)	(55)	NE	
Fixed (Incl. SI) income (after-tax)	2,622	2,898	3,173	2,638	2,937	NE	(16)	(40)	NE	
Fee income	510	539	568	491	515	NE	19	23	NE	
Other income	357	357	357	348	348	NE	9	9	NE	
<b>Total revenue</b>	<b>46,340</b>	<b>49,463</b>	<b>52,282</b>	<b>45,277</b>	<b>47,774</b>	<b>NE</b>	<b>1,064</b>	<b>1,689</b>	<b>NE</b>	
Losses and loss adjustment expenses	27,754	29,707	31,481	27,283	28,728	NE	471	980	NE	
Amortization of deferred acquisition costs	6,911	7,382	7,781	6,764	7,113	NE	147	268	NE	
General and administrative expenses	5,839	6,185	6,515	5,719	5,970	NE	120	215	NE	
Interest expense	392	392	392	392	392	NE	0	0	NE	
<b>Total expenses</b>	<b>40,896</b>	<b>43,666</b>	<b>46,168</b>	<b>40,158</b>	<b>42,204</b>	<b>NE</b>	<b>738</b>	<b>1,463</b>	<b>NE</b>	
<b>Pretax operating income</b>	<b>5,445</b>	<b>5,797</b>	<b>6,114</b>	<b>5,119</b>	<b>5,570</b>	<b>NE</b>	<b>326</b>	<b>227</b>	<b>NE</b>	
% growth (YoY)	56.7%	6.5%	5.5%	77.9%	8.8%	NE	(21.3%)	(2.3%)	NE	
Income tax expense/(benefit)	1,018	1,077	1,127	945	1,024	NE	73	53	NE	
<b>After-tax core income</b>	<b>4,427</b>	<b>4,721</b>	<b>4,986</b>	<b>4,174</b>	<b>4,546</b>	<b>NE</b>	<b>253</b>	<b>174</b>	<b>NE</b>	
% growth (YoY)	44.1%	6.6%	5.6%	60.7%	8.9%	NE	(16.6%)	(2.3%)	NE	
Company income tax rate (%)	18.7%	18.6%	18.4%	18.5%	18.4%	NE	0.2%	0.2%	NE	
Share repurchases	1,000	1,800	1,800	1,800	1,800	NE	(800)	0	NE	
Weighted average number of diluted shares	228.4	223.3	216.9	225.2	217.6	NE	3.2	5.6	NE	
Participating share-based awards	20.0	20.0	20.0	19.0	19.0	NE	1.0	1.0	NE	
<b>Adjusted Operating EPS</b>	<b>\$19.30</b>	<b>\$21.05</b>	<b>\$22.90</b>	<b>\$18.45</b>	<b>\$20.80</b>	<b>NE</b>	<b>\$0.85</b>	<b>\$0.25</b>	<b>NE</b>	
<b>Profitability Metrics</b>										
Loss and loss adjustment expense ratio	65.8%	66.1%	66.4%	66.3%	66.5%	NE	(0.6%)	(0.4%)	NE	
Underwriting expense ratio	28.3%	28.3%	28.3%	28.5%	28.5%	NE	(0.2%)	(0.1%)	NE	
<b>Combined ratio</b>	<b>94.1%</b>	<b>94.4%</b>	<b>94.7%</b>	<b>94.9%</b>	<b>94.9%</b>	<b>NE</b>	<b>(0.8%)</b>	<b>(0.5%)</b>	<b>NE</b>	
Cat points on the combined ratio	5.2%	5.2%	5.1%	5.3%	5.2%	NE	(0.1%)	(0.1%)	NE	
PYD points on the combined ratio	(0.1%)	(0.1%)	(0.1%)	(0.0%)	(0.1%)	NE	(0.1%)	(0.0%)	NE	
<b>Current accident year combined ratio</b>	<b>89.0%</b>	<b>89.4%</b>	<b>89.7%</b>	<b>89.6%</b>	<b>89.8%</b>	<b>NE</b>	<b>(0.7%)</b>	<b>(0.4%)</b>	<b>NE</b>	
<b>Underlying loss ratio</b>	<b>60.7%</b>	<b>61.0%</b>	<b>61.4%</b>	<b>61.1%</b>	<b>61.3%</b>	<b>NE</b>	<b>(0.4%)</b>	<b>(0.3%)</b>	<b>NE</b>	
<b>Segment Underwriting Income:</b>										
Business Insurance	\$1,251	\$1,301	\$1,402	\$1,040	\$1,150	NE	\$211	\$151	NE	
Bond & Specialty Insurance	\$665	\$697	\$713	\$652	\$681	NE	\$13	\$16	NE	
Personal Insurance	\$29	(\$66)	(\$234)	(\$90)	(\$172)	NE	\$120	\$106	NE	
Book value per share	\$122.70	\$136.44	\$152.21	\$113.05	\$126.42	NE	\$9.65	\$10.02	NE	
ROE	16.6%	16.2%	15.9%	17.2%	17.4%	NE	(0.5%)	(1.1%)	NE	

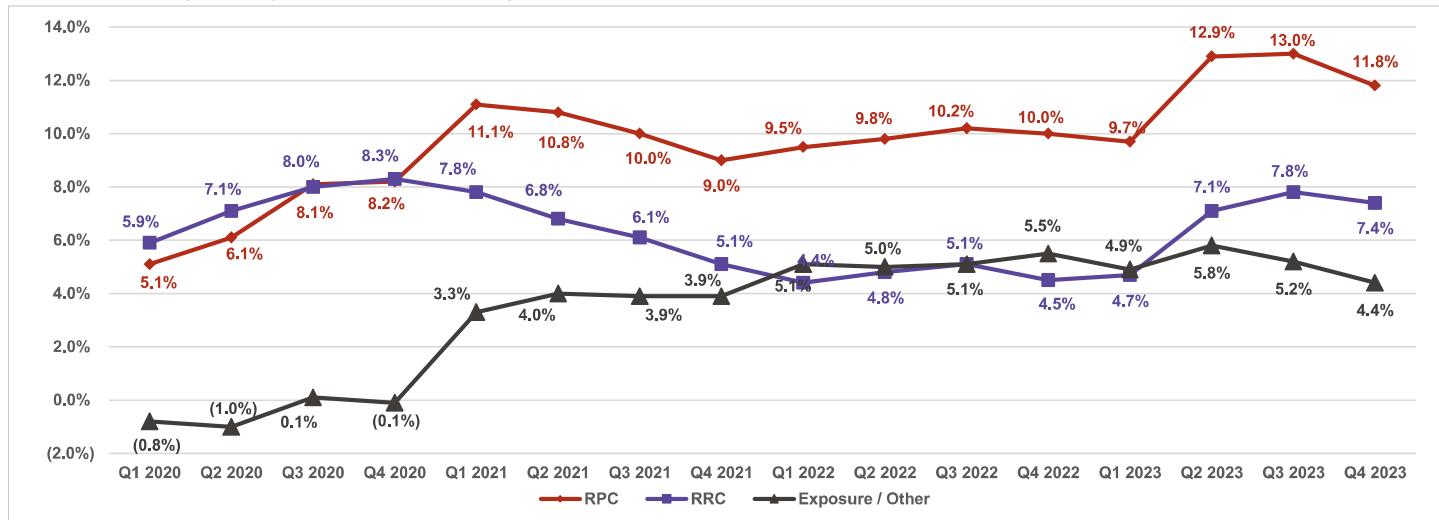
Source: Company reports and Wells Fargo Securities, LLC estimates

## Pricing Highlights—Commercial Lines

### Business Insurance Rating Environment—RRC Down; Exposure Slows Modestly

- In Q4, the **Business Insurance** renewal rate change was +7.4%, a deceleration from the +7.8% in the prior quarter which was attributed to a lower concentration of National Property in the quarter. Exposure growth was up 4.4%, down from the 5.2% in Q3, but remaining at strong levels. The 11.8% of RPC in Q4 was down from the record-high 13.0% we saw in the prior quarter. The exhibits below show the trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change since 2020.

Exhibit 2 - Pricing and Exposure Growth Seen By Travelers



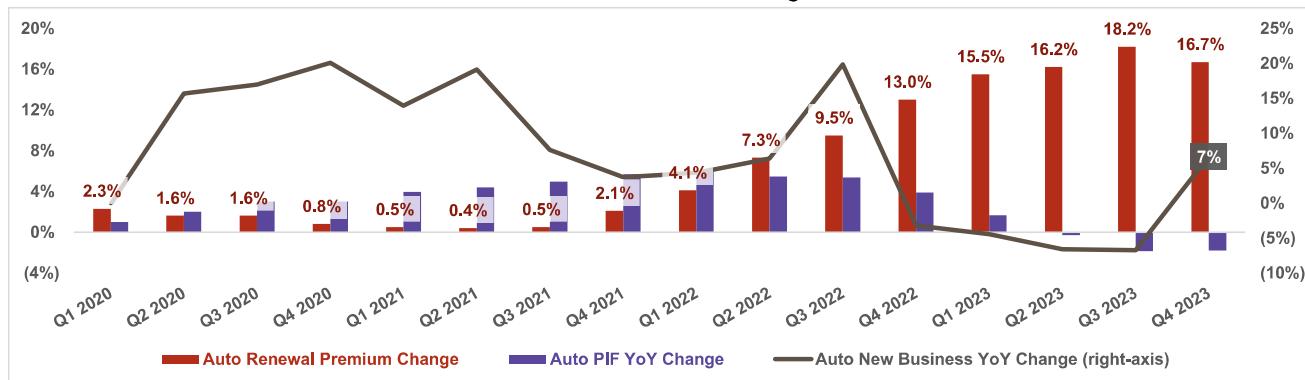
Source: Company data and Wells Fargo Securities, LLC

## Pricing Highlights—Personal Lines

### Personal Lines—TRV Sees Rate Slow in Auto and Accelerate in Home, Margins Improve in Both Segments

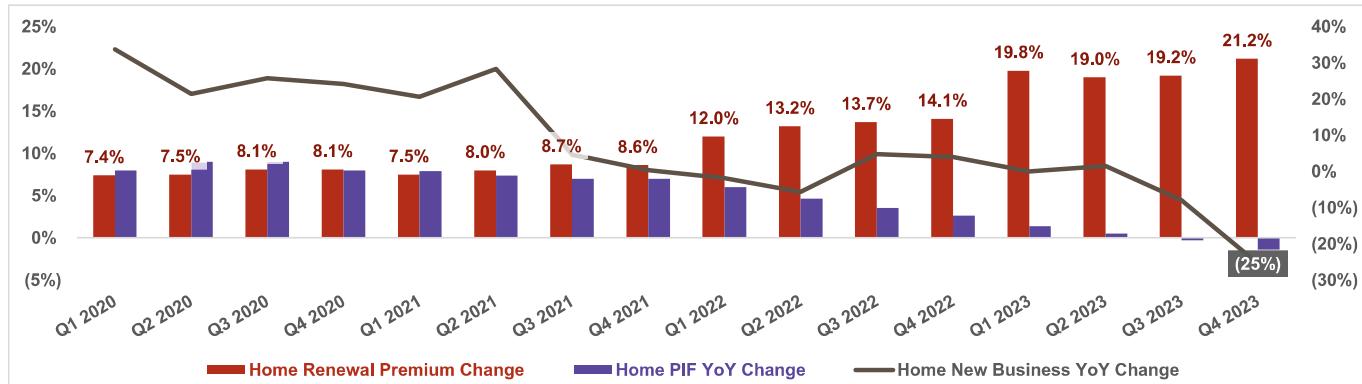
- Within **Personal Auto**, TRV saw renewal premium change decelerate sequentially to 16.7% from 18.2% in the previous quarter; however, their auto underlying margin remained above 100% for the seventh straight quarter (102.7% in Q4) but this did improve 790 basis points Y/Y. The underlying margin was down 210bps sequentially, which is seasonality as the Q4 is usually 6-7 points worse Q/Q. They expect personal auto RPC to be in the mid-teens through the first half of 2024, and pointed out that the majority of their auto book reached written rate adequacy in the Q4.
- Homeowners'** RPC accelerated sequentially to a new record-high 21.2% from the previous record-high 19.2% in Q3. They expect RPC to moderate to the low double-digits in 2024.
- Auto PIFs flat sequentially, while home was down 1%.** Travelers' new business in auto increased 7% Y/Y to \$288 million, after also decreasing 7% Y/Y last quarter and marked the first quarter since Q3 2022 to see a sequential increase. Auto PIFs were flat sequentially (modestly better than the 0.1% sequential decline in Q3). Home new business was down 25% in the Q4 (a deceleration from a decline of 8% in Q3). From a PIF standpoint, home was down 1%, which was a slowdown from the 0.2% sequential decline last quarter.

Exhibit 3 - Personal Auto Statistics - RPC, PIF, and New Business Y/Y Change



Source: Company Reports and Wells Fargo Securities, LLC

Exhibit 4 - Homeowners' Statistics - RPC, PIF, and New Business Y/Y Change



Source: Company Reports and Wells Fargo Securities, LLC

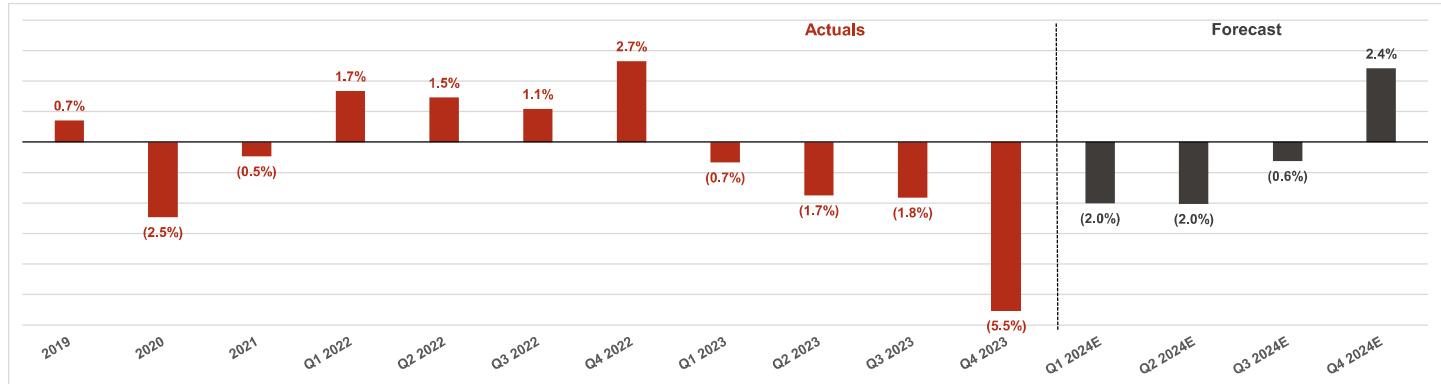
## Underlying Margin Tables

### Exhibit 5 - Consolidated Underlying Margin Trends

Underlying Margin Trends	Q1 2019	Q2 2019	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	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Reported Combined Ratio	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%	88.0%	91.3%	98.3%	98.2%	94.5%	95.4%	106.5%	101.0%	85.8%
Catastrophe Losses, net of reinsurance	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%	0.4%	2.0%	9.0%	5.9%	5.2%	6.0%	16.1%	8.7%	1.3%
Prior Year Reserve Development (Unfavorable)/Favorable	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)	(2.4%)	0.8%	(1.2%)	(1.9%)	(3.5%)	(0.2%)	(2.1%)	(1.2%)	(0.7%)	1.6%	(1.3%)
<b>Underlying Combined Ratio</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>88.7%</b>	<b>91.2%</b>	<b>92.8%</b>	<b>92.5%</b>	<b>91.4%</b>	<b>90.5%</b>	<b>91.1%</b>	<b>90.7%</b>	<b>85.9%</b>
Underlying (Improvement)/deterioration	(0.8%)	1.3%	1.1%	0.9%	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	(0.1%)	0.0%	1.7%	1.5%	1.1%	2.7%	(0.7%)	(1.7%)	(1.8%)	(5.5%)
<b>Underlying Loss Ratio</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>	<b>60.2%</b>	<b>62.2%</b>	<b>63.8%</b>	<b>64.4%</b>	<b>63.5%</b>	<b>61.8%</b>	<b>62.5%</b>	<b>62.7%</b>	<b>58.5%</b>
YoY Change	0.1%	1.8%	1.3%	1.3%	(0.7%)	(4.3%)	(2.3%)	(3.6%)	(1.6%)	1.2%	(0.2%)	0.9%	2.5%	2.1%	2.4%	3.3%	(0.4%)	(1.3%)	(1.7%)	(5.0%)
<b>Underlying Expense Ratio</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>	<b>28.5%</b>	<b>29.0%</b>	<b>29.0%</b>	<b>28.1%</b>	<b>27.9%</b>	<b>28.7%</b>	<b>28.6%</b>	<b>28.0%</b>	<b>27.4%</b>
YoY Change	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%	0.8%	(0.2%)	0.3%	(0.0%)	(1.3%)	0.1%	(0.9%)	(0.9%)	(0.7%)	(1.3%)	(0.6%)	(0.4%)	(0.3%)	(0.4%)	(0.5%)

Source: Company reports and Wells Fargo Securities, LLC

### Exhibit 6 - Consolidated Underlying Combined Ratio Y/Y (Improvement)/Deterioration



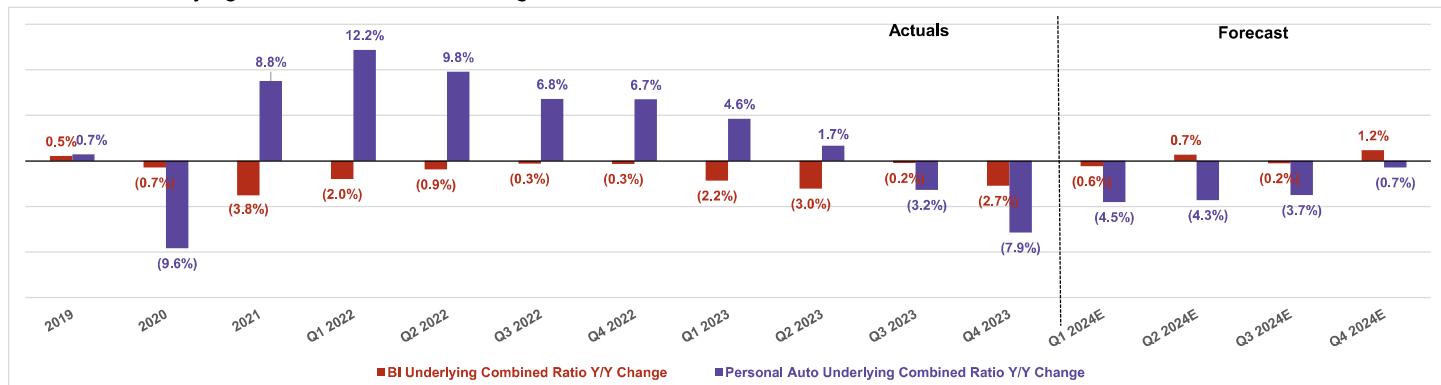
Source: Company Reports and Wells Fargo Securities, LLC Estimates

### Exhibit 7 - Underlying Combined Ratio Trends by Segment

Underlying Combined Ratio Trends	Q1 2019	Q2 2019	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	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
<b>Business Insurance</b>	<b>95.0%</b>	<b>97.4%</b>	<b>95.9%</b>	<b>96.4%</b>	<b>97.3%</b>	<b>97.0%</b>	<b>94.0%</b>	<b>93.6%</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>	<b>89.5%</b>	<b>89.6%</b>	<b>89.4%</b>	<b>89.7%</b>	<b>86.8%</b>
Underlying (Improvement) deterioration	(0.5%)	0.9%	0.5%	1.0%	2.3%	(0.4%)	(1.8%)	(2.8%)	(3.6%)	(3.6%)	(3.8%)	(3.8%)	(2.0%)	(0.8%)	(0.3%)	(0.3%)	(2.2%)	(3.0%)	(0.2%)	(2.7%)
<b>Bond &amp; Specialty</b>	<b>81.1%</b>	<b>81.0%</b>	<b>83.6%</b>	<b>81.3%</b>	<b>85.7%</b>	<b>88.1%</b>	<b>89.0%</b>	<b>85.0%</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>	<b>82.2%</b>	<b>82.1%</b>	<b>78.5%</b>	<b>81.8%</b>	
Underlying (Improvement) deterioration	0.4%	0.5%	5.3%	3.2%	4.6%	7.1%	5.5%	3.7%	(1.5%)	(4.7%)	(5.6%)	(1.7%)	(2.0%)	(1.2%)	(1.2%)	(0.1%)	(0.1%)	(3.7%)	(0.4%)	
<b>Personal Insurance</b>	<b>89.1%</b>	<b>94.8%</b>	<b>94.0%</b>	<b>88.4%</b>	<b>84.0%</b>	<b>84.0%</b>	<b>88.7%</b>	<b>83.1%</b>	<b>85.4%</b>	<b>91.0%</b>	<b>95.2%</b>	<b>88.7%</b>	<b>92.8%</b>	<b>96.0%</b>	<b>99.3%</b>	<b>96.2%</b>	<b>92.9%</b>	<b>94.1%</b>	<b>94.2%</b>	<b>85.9%</b>
Underlying (Improvement) deterioration	(1.4%)	2.0%	1.1%	0.5%	(5.1%)	(10.7%)	(5.3%)	(5.3%)	1.4%	7.0%	6.5%	5.6%	7.4%	5.0%	4.2%	7.5%	0.1%	(2.0%)	(5.1%)	(10.3%)
<b>Personal Insurance Breakdown:</b>																				
<b>Automobile</b>	<b>92.1%</b>	<b>93.8%</b>	<b>92.7%</b>	<b>99.6%</b>	<b>90.9%</b>	<b>86.1%</b>	<b>81.5%</b>	<b>87.4%</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>	<b>110.5%</b>	<b>103.4%</b>	<b>103.5%</b>	<b>100.6%</b>	<b>102.7%</b>
Underlying (Improvement) deterioration	(4.2%)	(1.7%)	0.1%	2.7%	(1.2%)	(7.7%)	(11.2%)	(12.2%)	(4.3%)	5.9%	15.5%	16.4%	12.2%	9.8%	6.8%	6.7%	4.6%	1.7%	(3.2%)	(7.9%)
<b>Homeowners &amp; Other</b>	<b>82.6%</b>	<b>92.9%</b>	<b>93.5%</b>	<b>73.6%</b>	<b>75.7%</b>	<b>82.0%</b>	<b>96.8%</b>	<b>78.5%</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>	<b>82.2%</b>	<b>82.7%</b>	<b>85.2%</b>	<b>88.0%</b>	<b>69.7%</b>
Underlying (Improvement) deterioration	2.4%	7.7%	5.0%	1.1%	(6.9%)	(10.9%)	3.3%	5.0%	8.4%	7.9%	(3.5%)	(5.1%)	2.8%	0.3%	1.6%	8.8%	(4.2%)	(5.0%)	(6.9%)	(12.5%)

Source: Company data and Wells Fargo Securities, LLC

### Exhibit 8 - Underlying Combined Ratio Y/Y Change - BI and Personal Auto



Source: Company Reports and Wells Fargo Securities, LLC estimates

## Valuation

**Current valuation.** The TRV shares are now trading at 1.93x Q4 2023 book value, which is above its 5-year (1.49x) average, and its 10-year (1.43x) average multiple but below the peak level of 2.05x. The P/B multiple continues to be elevated as reported book value has higher unrealized losses on TRV's investment portfolio vs. historical averages; when excluding unrealized losses (net), shares are currently trading at 1.61x Q4 adjusted book of \$128.78, which is just above the 1.37x 5-year average ex AOCI. On a price-to-earnings basis, the shares are trading at 10.7x our 2024 EPS and 9.8x our 2025 estimate versus the 5-year average of 11.6x, 10-year average of 11.5x and the 5-year and 10-year peak of 14.2x.

Exhibit 9 - TRV Historical P/BV



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

Exhibit 10 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

### Exhibit 11 - TRV Consolidated Earnings Model

	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E
<b>Summary</b>																					
Business Insurance	\$3,068	713	485	569	1,184	2,951	1,010	2,56	256	289	1,023	1,053	973	1,023	1,283	4,332	1,134	1,140	1,140	1,140	
Bond & Specialty Insurance	1,103	248	289	331	1,170	2,80	43	74	351	279	313	1,023	277	279	1,177	285	331	324	324	324	
Personal Insurance	58 (230)	56 (256)	60 (251)	662 (106)	662 (107)	1,170 (107)	1,141 (107)	1,029 (107)	1,029 (107)												
Other	58 (230)	56 (256)	60 (251)	662 (106)	662 (107)	1,170 (107)	1,141 (107)	1,029 (107)													
<b>Adjusted Pre-Tax Operating Income</b>	<b>1,559</b>	<b>922</b>	<b>113</b>	<b>536</b>	<b>1,031</b>	<b>3,476</b>	<b>1,105</b>	<b>1,160</b>	<b>1,148</b>	<b>1,536</b>	<b>1,741</b>										
Tax Rate	15.7%	15.5%	15.5%	15.6%	15.6%	18.0%	18.0%	18.1%	18.1%	18.3%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	
Taxes	(560)	48	28	(83)	(404)	(273)	(198)	(210)	(210)	(336)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	
<b>Adjusted After-Tax Operating Income</b>	<b>2,989</b>	<b>970</b>	<b>15</b>	<b>453</b>	<b>1,134</b>	<b>3,072</b>	<b>1,166</b>	<b>906</b>	<b>950</b>	<b>1,404</b>	<b>1,246</b>	<b>944</b>	<b>1,049</b>								
<b>Adjusted Operating EPS</b>	<b>\$4.11</b>	<b>\$4.11</b>	<b>\$0.06</b>	<b>\$1.95</b>	<b>\$7.01</b>	<b>\$11.16</b>	<b>\$5.04</b>	<b>\$3.94</b>	<b>\$4.15</b>	<b>\$6.16</b>	<b>\$19.30</b>	<b>\$6.49</b>	<b>\$4.20</b>	<b>\$4.70</b>	<b>\$6.69</b>	<b>\$21.05</b>	<b>\$5.96</b>	<b>\$4.47</b>	<b>\$5.21</b>	<b>\$5.20</b>	
<b>YoY Change in Adjusted After-Tax Operating Income</b>	<b>(57.7%)</b>	<b>(23.6%)</b>	<b>(107.7%)</b>	<b>(115.5%)</b>	<b>(106.3%)</b>	<b>(115.5%)</b>	<b>(107.2%)</b>	<b>(115.5%)</b>													
<b>Consensus EPS</b>	<b>\$7.01</b>	<b>\$13.13</b>	<b>0.1%</b>	<b>0.2%</b>	<b>5.1%</b>	<b>20.1%</b>	<b>5.1%</b>	<b>10.2%</b>	<b>6.4%</b>	<b>8.3%</b>	<b>10.2%</b>										
<b>WFS Estimate Versus Consensus</b>	<b>(\$0.9%)</b>																				
<b>Premiums</b>																					
<b>YoY Change in Gross Premiums Written</b>																					
<b>YoY Change in Premiums Earned</b>																					
<b>Investment Income (Pre-Tax)</b>																					
Fixed Maturities	2,113	575	591	631	675	2,472	707	734	759	783	2,984	805	828	850	872	883	915	937	959	959	959
Alternatives	2.8%	3.2%	3.4%	3.5%	3.6%	3.7%	3.7%	3.8%	3.9%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.2%	4.2%	4.2%	4.2%
Catastrophe Losses	419	53	78	82	40	253	117	120	122	125	484	127	130	132	135	523	137	143	146	146	146
Reserve Development	7.3%	3.6%	5.3%	5.6%	7.2%	4.3%	9.0%	8.0%	8.0%	8.2%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Points on Combined Ratio	73	47	55	67	72	241	45	45	45	45	30	30	30	30	30	120	25	25	25	25	25
Underlying Loss Ratio	(43)	(12)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	
Underlying Loss Ratio	66.3	712	769	778	881	885	902	922	937	947	972	986	1,020	1,020	1,020	1,020	1,020	1,020	1,020	1,020	1,020
Underlying Loss Ratio	2.9%	3.0%	3.2%	3.4%	3.4%	3.2%	3.7%	3.7%	3.8%	3.9%	3.9%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	
Underlying Loss Ratio	67.2%	66.7%	77.9%	73.0%	69.0%	64.3%	68.1%	67.9%	62.9%	65.8%	64.6%	68.6%	67.8%	63.4%	66.1%	65.0%	69.2%	63.7%	63.7%	63.7%	
Underlying Loss Ratio	28.5%	28.7%	28.6%	28.6%	28.6%	27.4%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	28.2%	
Underlying Loss Ratio	95.5%	95.4%	106.5%	101.0%	97.8%	97.2%	97.2%	97.2%	96.6%	96.6%	96.6%	96.6%	96.6%	96.6%	96.6%	96.6%	94.4%	94.4%	94.4%	94.4%	
Underlying Loss Ratio	1.3%	1.3%	8.2%	2.8%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	0.5%	0.5%	0.5%	0.5%	
Underlying Loss Ratio	1.877	535	1,481	850	125	2,991	450	450	550	550	3,250	7,75	7,75	7,75	7,75	7,75	500	925	925	925	925
Underlying Loss Ratio	5.6%	6.0%	16.1%	8.7%	1.3%	7.9%	7.9%	7.9%	7.9%	7.9%	5.2%	4.4%	4.4%	4.4%	4.4%	4.4%	5.0%	5.0%	5.0%	5.0%	5.0%
Underlying Loss Ratio	649	105	154	154	154	154	154	154	154	154	154	154	154	154	154	154	154	154	154	154	
Underlying Loss Ratio	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	
Underlying Loss Ratio	63.6%	61.8%	62.5%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	62.7%	
Underlying Loss Ratio	92.1%	90.5%	91.1%	90.7%	85.9%	88.6%	88.6%	88.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.1%	90.6%	89.7%	89.7%	
Underlying Loss Ratio	2.7%	2.7%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	0.5%	0.5%	0.5%	0.5%	0.5%
Underlying Loss Ratio	11.7%	11.7%	0.2%	8.5%	8.5%	8.5%	13.0%	18.2%	13.8%	13.8%	14.2%	20.5%	16.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%	17.6%
Underlying Loss Ratio	232.1	231.0	228.9	228.4	228.2	227.0	227.0	227.0	225.8	224.6	223.5	223.5	221.5	219.5	217.5	215.6	213.7	211.9	210.1	208.3	
Underlying Loss Ratio	239.7	234.4	229.7	231.1	231.1	231.6	231.6	231.6	228.7	227.9	227.1	227.1	225.8	224.1	222.4	220.8	219.2	217.6	216.1	214.6	
Weighted Average Diluted Shares																					
Capital Return to Shareholders																					
Common Dividends	881	218	233	232	232	915	228	234	233	231	231	231	231	231	231	928	222	222	223	223	223
Share Repurchases	2,081	452	400	101	66	1,029	250	250	1,000	450	450	450	450	450	450	450	450	450	450	450	
Total Capital Returned	2,942	680	633	333	298	1,944	478	484	481	481	1,926	680	683	681	681	681	675	675	675	675	675
Total Payout Ratio (% of Operating Income)	98.1%	70.1%	4,220.0%	73.5%	63.3%	41.0%	53.4%	50.8%	34.3%	54.6%	72.5%	65.1%	57.8%	51.2%	51.2%	51.2%	59.7%	59.7%	59.7%	59.7%	59.7%
Equity Rollover and Leverage																					
Beginning GAAP Equity	28,887	21,560	23,052	21,855	19,978	21,560	24,921	25,609	26,031	24,939	24,931	24,931	24,931	24,931	24,931	24,931	27,422	27,422	27,422	27,422	
Net Income	2,843	975	(881)	(218)	(233)	(232)	1,166	906	950	1,166	1,166	1,166	1,166	1,166	1,166	1,166	1,133	1,133	1,133	1,133	
Common Dividends	(2,061)	(452)	(400)	(101)	(101)	(101)	(1,029)	(250)	(250)	(1,029)	(1,029)	(1,029)	(1,029)	(1,029)	(1,029)	(1,029)	(225)	(225)	(225)	(225)	
Share Repurchases	(7,638)	(1,059)	(623)	(2,003)	(3,541)	(3,541)	1,974	0	0	0	0	0	0	0	0	0	(450)	(450)	(450)	(450)	
Change in AOCI	410	138	73	55	341	74	24,921	25,609	26,031	24,931	24,931	24,931	24,931	24,931	24,931	24,931	(1,800)	(1,800)	(1,800)	(1,800)	
Other	21,560	21,652	21,855	19,978	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	24,921	
Ending GAAP Equity	25.3%	24.40%	25.0%	26.7%	22.6%	22.2%	21.9%	21.6%	21.4%	21.0%	21.0%	20.5%	20.5%	20.5%	20.5%	20.5%	19.9%	19.9%	19.9%	19.9%	19.9%
Debt/Capital																					

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 continue to benefit from the hard commercial market as pricing should continue to have legs given inflation and higher weather volatility. Although we are positive on the commercial lines space as a whole, we are Equal Weight TRV due to its smaller account exposure, higher workers' comp focus as both are getting less rate than other lines/account sizes, and personal lines exposure, particularly auto, which is well above target margins of mid-90s.

#### **Target Price Valuation for TRV: \$211.00 from \$182.00**

- Our price target of \$211 is based on just over 10x our 2025 EPS estimate.
- Implies around a ~1.6x multiple of our projected 2025 book value estimate of ~\$136.

#### **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 reported / underlying margins coming in better than expected.

## Required Disclosures

I, Elyse Greenspan, certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

## Additional Information Available Upon Request

**The Travelers Companies, Inc. Rating History as of 01-18-2024**



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

Wells Fargo Securities, LLC, or its affiliates received compensation for investment banking services from The Travelers Companies, Inc. in the past 12 months.

Wells Fargo Securities, LLC, maintains a market in the common stock of The Travelers Companies, Inc..

The Travelers Companies, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC, provided non-investment banking securities-related services to The Travelers Companies, Inc..

Wells Fargo Securities, LLC, or its affiliates, managed or co-managed a public (or 144a) offering of securities for The Travelers Companies, Inc. within the past 12 months.

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