

# Equity Research

WELLS FARGO

Price Target Change — January 22, 2025

## Commercial Lines Insurance

# The Travelers Companies, Inc.

A Sunny Quarter, but Still See Rain Showers; Conference Call Roundup

## Our Call

Travelers traded up on the print and strong margins across all segments and there was no GL reserve movement called out. Although we do note it was a strong quarter, at 10.5x 2026 EPS, we see better opportunities in the sector. Remain Underweight.

**The stock from here:** TRV got a nice bounce today and from here we think movement will depend on how it looks relative to others. We remain cautious on 2025 due to: **(1)** we believe the 6.9 pt planned cat load (ex CA) is low and CA should be a meaningful hit to Q1 earnings, **(2)** a tougher y/y setup on margins given 2024 benefited from favorable non-cat weather and pricing is moderating, and **(3)** continued volatility in casualty picks / reserves as TRV added to casualty IBNR again in Q4.

**Mixed estimate changes, price target goes up:** Our 2025E EPS goes down to \$18.05 (from \$20.55), primarily reflecting CA wildfire losses in Q1 (we include \$1.1b CA fire losses as we haircut TRV's market share in the state), while 2026E EPS estimate goes up to \$23.65 (from \$22.35) reflecting better underlying margin in personal lines / BI and higher NII. We introduce an initial 2027 EPS of \$26.50. Our PT is \$225 (from \$213) as we shift it to be based on 9.5x our '26 EPS (vs '25 previously).

**CA wildfire and reinsurance thoughts:** We update our Q1 to include our initial estimate of \$1,140m of fire losses (based on a 15% haircut of implied 2023 homeowners' market share). On positive side for TRV, they have an aggregate XOL cover that provides recovery of up to \$3.675b in excess of a \$4.0b retention (\$100m deductible for each occurrence). Although we still think their 6.9% planned cat load for 2025 is low (we were looking for 7.5pts pre CA wildfires), reinsurance provides a ceiling.

**Read-throughs:** **(1)** Q4 pricing remained relatively stable in both small and middle market, **(2)** lower Milton losses for the industry vs original expectations could be offset by adverse development on Helene losses, as TRV saw \$60m of Milton losses vs initial \$75-175m guide, while Helene developed adversely (by ~\$100m), **(3)** TRV added to casualty picks, which we could see from others as well, and **(4)** Q4 underlying personal auto and home margins should be strong for the group.

**Reserves / loss pick color:** TRV released \$147m in BI, driven by ~\$250m of workers' comp releases partially offset by adverse development in abuse/molestation. TRV added a little IBNR to the casualty line again and increased their casualty reinsurance protection, which to us highlights the continued volatility expected in casualty picks in 2025 and one of the reasons we downgraded the stock at the end of last year. For more details, see our conference call recap [note](#) and first look note [here](#).

**Underweight**  
**Price Target: \$225.00**

Notable Changes				
\$ (Dec)	Current	Prior	% Chg	
Price Target	\$225.00	\$213.00	5.6% <span style="color: green;">▲</span>	
EPS 2024	21.58	19.48	10.8% <span style="color: green;">▲</span>	
EPS 2025	18.05	20.55	-12.1% <span style="color: red;">▼</span>	
Rev. (MM) 2024	46,453.0	46,209.2	0.5% <span style="color: green;">▲</span>	
Rev. (MM) 2025	49,833.1	50,023.8	-0.4% <span style="color: red;">▼</span>	

Ticker	TRV
Upside/(Downside) to Target	(8.8)%
Price (01/22/2025)	\$246.72
52 Week Range	\$200.21 - 269.56
Market Cap (MM)	\$56,894
Enterprise Value (MM)	\$64,155
Average Daily Value (MM)	\$323
Dividend Yield	1.7%

\$ (Dec)	Q1	Q2	Q3	Q4	FY
EPS					
2024E	4.69 A	2.51 A	5.24 A	9.15 A	21.58 A
Prior	NC	NC	NC	7.07 E	19.48 E
2025E	2.02 E	2.93 E	4.29 E	8.85 E	18.05 E
Prior	5.62 E	2.91 E	4.34 E	7.71 E	20.55 E
2026E	6.34 E	3.15 E	4.89 E	9.30 E	23.65 E
Prior	6.08 E	3.09 E	4.86 E	8.37 E	22.35 E

ROIC - Current year est.: Represents return on equity (ROE) 3 Yr EPS CAGR from current year (unless otherwise noted); Using 2019-2022 for CAGR calculation  
EPS: Operating EPS  
Source: Company Data, Wells Fargo Securities estimates, and Factset.  
NA = Not Available, NC = No Change, NE = No Estimate

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## Wells Fargo Express Takeaways

**The Travelers Companies, Inc. (TRV) | Rating: Underweight | Price Target: \$225.00**

**Analyst:** Elyse Greenspan

### Financials

FY (Dec)	2024E	2025E	2026E
<b>ESTIMATES</b>			
<b>EPS</b>			
Q1	4.69 A	2.02 E	6.34 E
Q2	2.51 A	2.93 E	3.15 E
Q3	5.24 A	4.29 E	4.89 E
Q4	9.15 A	8.85 E	9.30 E
AN	21.58 A	18.05 E	23.65 E
<b>Rev. (MM)</b>	46,453.0 A	49,833.1 E	53,232.4 E
<b>Net Premiums Written (MM)</b>	43,358.0 A	46,266.5 E	48,839.0 E
<b>Underlying Loss Ratio</b>	57.7% A	58.4% E	59.4% E
<b>Underlying Combined Ratio</b>	86.2% A	87.1% E	87.6% E
<b>Book Value/Share</b>	122.97 A	134.85 E	150.67 E

### WELLS FARGO vs. CONSENSUS

Consensus Estimate	19.04 E	20.93 E	22.87 E
Difference from Consensus		(13.7)%	3.4%

### VALUATION

P/E	11.4x	13.7x	10.4x
P/Book Value	2.0x	1.8x	1.6x

EPS: Operating EPS

Rev. (MM): Excludes realized gains/losses

Consensus Estimate: EPS; Source: FactSet

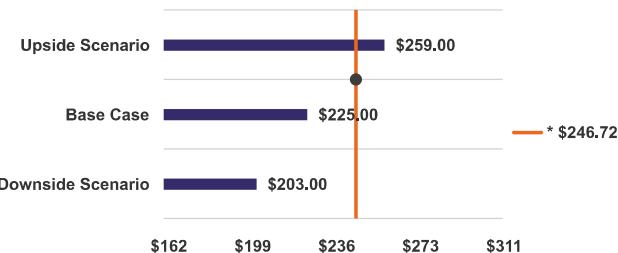
Source: Company Data, Wells Fargo Securities estimates, and Factset.

NA = Not Available, NE = No Estimate

### Investment Thesis

We believe that TRV shares could underperform as **(1)** they face liability reserve volatility, **(2)** tough comps in BI and personal lines underlying margins in 2025 as personal auto pricing moderates and 2024 saw favorable non-cat weather, and **(3)** a potentially higher cat load vs what is currently baked in from the Street. In addition, Our rating is Underweight.

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



\*As of 01/22/25

Source: Wells Fargo Securities, LLC estimates and Factset.

### Base Case | \$225.00

- Our price target of \$225 is based on 9.5x our 2026 EPS estimate. We come to the 9.5x multiple based on a 5% discount to the peer group of AIG, CB, and HIG (currently trading at 10.0x).
- Implies around a ~1.5x multiple of our projected 2026 book value estimate of ~\$151.

### Upside Scenario | \$259.00

- Our upside scenario is \$259 and assumes a multiple of ~10.9x our 2026 EPS estimate and ~1.7x our 2026 book value estimate of ~\$151.
- A continued firm commercial pricing environment with no material changes to loss cost trends / loss picks
- No material reserve additions
- Cat load in line with or better than the Street
- Strong level of buybacks

### Downside Scenario | \$203.00

- Our downside scenario is \$203 and is based on 8.6x our 2026 EPS estimate and ~1.35x our 2026 book value estimate of ~\$151.
- Material softening in the RRC, particularly in BI
- Higher-than-expected cat load
- Loss cost trends rise, and we see further additions to reserves as well as an uptick in loss picks (especially within general liability)

### Upcoming Catalysts

- Commercial pricing survey data** from MarketScout and Ivans, which track movement in rate across various commercial lines, including workers' compensation
- Updated CA wildfire industry loss estimates** as well potential disclosed losses from peer
- Commentary from other peers** around loss cost trends, reserves, 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 2023). The company is organized into three business segments: Business Insurance (51% of 2023 net premiums written); Personal Insurance (40%); and Bond & Specialty Insurance (10%). 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

TRV did not provide a preliminary estimate for wildfires, but noted they have two policies they sell in California with **(1)** being their standard Quantum product, which includes wildfire protection, and **(2)** their DIC policy, which excludes losses from wildfire, with most customers bundling that policy with a FAIR plan policy. When asked about their appetite for \$5m homes in California, they noted their exposure is limited, as they are not a significant player in the high net worth space. TRV noted they are actively pursuing auto growth and will continue to do so despite some risk from the potential of tariffs. TRV noted there were not any one-off items to call out in BI's underlying loss ratio, while home and auto benefited from favorable prior quarter re-estimates, as well as favorable non-cat weather (in home).

### Pricing

The Business Insurance RRC was 6.9% in the quarter (decelerating modestly from 7.2% in Q3), with renewal rate increases in umbrella and auto both well into double digits and both up sequentially from a third quarter. Rate increases in CMP and GL remain strong and generally in line with third-quarter levels, while the rate increases in property were less than Q3 with the moderation in property driven by their national book, where returns are very strong. For Select (small business product), RRC was 5.6%, which ticked up from the Q3 with some moderation in retention as they continue to intentionally optimize their CMP risk return profile in a few targeted geographies. In middle market, the rate increases remain broad-based, with positive rate change in 80% of their middle market accounts. In auto, RPC was 10.2% (vs 12.8% in Q3) and should continue to moderate as profitability improves. For home, RPC was 14.1%, modestly down from 14.4% in Q3 and is expected to accelerate to the high teens in 2025.

### Guidance

Guidance was provided around investment income (see section below). TRV said they are comfortable with the annual expense ratio at this level (28.5% in FY 2024) in 2025. TRV enhanced their casualty reinsurance program at 1/1, as they were able to purchase more coverage at a lower attachment point on a roughly margin-neutral basis, which will affect the growth rate of consolidated NPW for full-year 2025 by less than 0.5 points. For the Q1, the impact will be more pronounced with a 4 point headwind expected for BI NPW growth and about 2 points on a consolidated basis. TRV also introduced a pretax cat load of 6.9 pts for full-year 2025, but did caveat that was before any California wildfire losses.

### Investments

TRV modestly raised its net investment income guide and is looking for after-tax net investment income from fixed income portfolio to \$3.0b for FY 2025 from \$2.9b with \$710m in Q1 (vs \$700m previously) to \$790m in Q4 (from \$760m previously).

### Liquidity and Capital

TRV bought back \$252m of shares in the Q4, consistent with the past few quarters, leaving \$5.0b of capacity remaining under the current authorization. The company ended the quarter with \$1.8b of holdco liquidity, relatively unchanged from the Q3.

## Highlights of Our Estimate Changes

**Overview of our estimate changes.** The exhibit below highlights the changes we made to our earnings model following Q4 2024 earnings.

- **2025 EPS goes down to \$18.05 (from \$20.55)** to reflect a higher Q1 cat load driven by CA wildfire losses (we assume \$1.1b of CA losses) and lower buybacks, partially offset by higher NII and better underlying margins in personal lines. For CA fires we assume 85% of the \$30b industry loss is in homeowners' and then haircut TRV's statewide share by 15% to reflect both the fact that TRV pulled back in 2024, and they are under-indexed to the HNW space. For the remaining 15% of the insured loss we use statewide share in commercial property and auto. Our NII is a bit above its guide, as we use the current forward curve to set our estimates.
- **2026 EPS goes up to \$23.65 (from \$22.35)** to reflect better underlying margins in personal lines / business insurance, partially offset by a higher share count (as a result of lower buybacks in 2025).
- **We set our initial 2027 EPS at \$26.50**, translating to 12% EPS growth and 16.6% return on equity.

### Exhibit 1 - TRV Summary of Estimate Changes

(\$ in millions, except as noted)	Current Estimates			Prior Estimates			Delta (Absolute)			Outlook (2025)
	2025E	2026E	2027E	2025E	2026E	2027E	2025E	2026E	2027E	
Gross premiums written	49,398	52,140	55,062	49,716	52,450	NE	(319)	(310)	NE	2 pt headwind / 4 pt headwind in BI on NWP in Q1 2025 from more casualty reinsurance  \$3.0b in 2025 with \$710m in Q1 - \$790m in Q4
% growth (YoY)	6.1%	5.6%	5.6%	6.7%	5.5%	NE	(0.6%)	0.1%	NE	
Net premiums written	46,266	48,839	51,579	46,609	49,201	NE	(343)	(362)	NE	
% growth (YoY)	6.7%	5.6%	5.6%	7.5%	5.6%	NE	(0.8%)	(0.0%)	NE	
Increase in unearned premiums	(1,154)	(1,306)	(1,391)	(1,641)	(1,312)	NE	99	5	NE	
<b>Net premiums earned</b>	<b>44,724</b>	<b>47,533</b>	<b>50,188</b>	<b>44,968</b>	<b>47,890</b>	NE	<b>(244)</b>	<b>(357)</b>	NE	
% growth (YoY)	6.6%	6.3%	5.6%	7.7%	6.5%	NE	(1.1%)	(0.2%)	NE	
Net investment income (pre-tax)	4,225	4,786	5,367	4,168	4,658	NE	56	128	NE	
Fixed (Incl. SI) income (after-tax)	3,131	3,567	4,017	3,069	3,444	NE	62	123	NE	
Fee income	493	523	552	498	529	NE	(4)	(7)	NE	
Other income	391	391	391	390	390	NE	1	1	NE	
<b>Total revenue</b>	<b>49,833</b>	<b>53,232</b>	<b>56,498</b>	<b>50,024</b>	<b>53,467</b>	NE	<b>(191)</b>	<b>(234)</b>	NE	
Losses and loss adjustment expenses	30,650	31,823	33,614	30,261	32,493	NE	389	(670)	NE	
Amortization of deferred acquisition costs	7,399	7,837	8,274	7,439	7,895	NE	(40)	(59)	NE	
General and administrative expenses	6,279	6,528	6,887	6,143	6,519	NE	137	9	NE	
Interest expense	392	392	392	392	392	NE	0	0	NE	
<b>Total expenses</b>	<b>44,720</b>	<b>46,580</b>	<b>49,167</b>	<b>44,235</b>	<b>47,300</b>	NE	<b>486</b>	<b>(720)</b>	NE	
<b>Pretax operating income</b>	<b>5,113</b>	<b>6,652</b>	<b>7,331</b>	<b>5,789</b>	<b>6,167</b>	NE	<b>(676)</b>	<b>485</b>	NE	
% growth (YoY)	(17.7%)	30.1%	10.2%	3.5%	6.5%	NE	(21.2%)	23.6%	NE	
Income tax expense/(benefit)	946	1,260	1,384	1,092	1,153	NE	(146)	107	NE	
<b>After-tax core income</b>	<b>4,167</b>	<b>5,392</b>	<b>5,946</b>	<b>4,697</b>	<b>5,014</b>	NE	<b>(531)</b>	<b>378</b>	NE	
% growth (YoY)	(17.1%)	29.4%	10.3%	3.7%	6.7%	NE	(20.8%)	22.7%	NE	
Company income tax rate (%)	18.5%	18.9%	18.9%	18.9%	18.7%	NE	(0.4%)	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	229.1	226.6	223.1	227.1	222.8	NE	2.0	3.8	NE	
Participating share-based awards	31.0	34.0	34.0	31.0	34.0	NE	0.0	0.0	NE	
<b>Adjusted Operating EPS</b>	<b>\$18.05</b>	<b>\$23.65</b>	<b>\$26.50</b>	<b>\$20.55</b>	<b>\$22.35</b>	NE	<b>(\$2.50)</b>	<b>\$1.29</b>	NE	
<b>Profitability Metrics</b>										
Loss and loss adjustment expense ratio	68.1%	66.5%	66.6%	66.9%	67.4%	NE	1.2%	(0.9%)	NE	
Underwriting expense ratio	28.6%	28.3%	28.3%	28.3%	28.2%	NE	0.4%	0.1%	NE	
<b>Combined ratio</b>	<b>96.8%</b>	<b>94.8%</b>	<b>94.8%</b>	<b>95.1%</b>	<b>95.6%</b>	NE	<b>1.6%</b>	<b>(0.8%)</b>	NE	
Cat points on the combined ratio	9.9%	7.3%	7.3%	7.5%	7.5%	NE	2.4%	(0.1%)	NE	
PYD points on the combined ratio	(0.2%)	(0.2%)	(0.2%)	(0.0%)	(0.1%)	NE	(0.2%)	(0.1%)	NE	
<b>Current accident year combined ratio</b>	<b>87.1%</b>	<b>87.6%</b>	<b>87.7%</b>	<b>87.7%</b>	<b>88.2%</b>	NE	<b>(0.6%)</b>	<b>(0.6%)</b>	NE	
<b>Underlying loss ratio</b>	<b>58.4%</b>	<b>59.4%</b>	<b>59.4%</b>	<b>59.5%</b>	<b>60.0%</b>	NE	<b>(1.0%)</b>	<b>(0.7%)</b>	NE	
Catastrophe Losses (\$)	4,424	3,490	3,685	3,361	3,576	NE	1,062	(86)	NE	
Reserve Development (\$)	(95)	(72)	(84)	(21)	(35)	NE	(74)	(37)	NE	
<b>Segment Underwriting Income:</b>										
Business Insurance	\$770	\$956	\$1,015	\$933	\$830	NE	(\$163)	\$126	NE	
Bond & Specialty Insurance	\$615	\$700	\$731	\$630	\$696	NE	(\$14)	\$4	NE	
Personal Insurance	(\$450)	\$260	\$268	\$106	\$35	NE	(\$556)	\$225	NE	
Book value per share	\$134.85	\$150.67	\$169.57	\$131.61	\$146.13	NE	\$3.24	\$4.54	NE	
ROE	14.0%	16.6%	16.6%	16.4%	16.1%	NE	(2.4%)	0.5%	NE	

Source: Company reports and Wells Fargo Securities, LLC estimates

## Exhibit 2 - 2025 Guidance Tracker

2025 Guidance Tracker	2025 Outlook	
	Provided With Q3 2024 Earnings	Provided With Q4 2024 Earnings
<b>Underlying Margin Outlook</b>	No guide	No guide
<b>Expense Ratio Outlook</b>	No guide	Expect to be stable in 2025 with 28.5% in FY 2024
<b>Cat Load</b>	No guide	6.9 pts planned ex CA wildfires
<b>Renewal Premium Growth</b>	<b>Business Insurance:</b> No guide <b>Personal Lines:</b> No guide	<b>Business Insurance:</b> No guide <b>Personal Lines:</b> For home, expect RPC to increase to the high-teens. For auto, RPC continued to moderate as intended and they remain focused on growing the Auto book
<b>Investment Income</b>	<b>Fixed Book:</b> Expects FY 2025 after-tax fixed income (including short-term) to be \$2.9b with \$700m in Q1 2025 and growing to \$760m in Q4 2025 <b>Alternatives:</b> No outlook commentary	<b>Fixed Book:</b> Expects FY 2025 after-tax fixed income (including short-term) to be \$3.0b with \$710m in Q1 2025 and growing to \$790m in Q4 2025 <b>Alternatives:</b> No outlook commentary
<b>Capital Management</b>	No guide	No guide

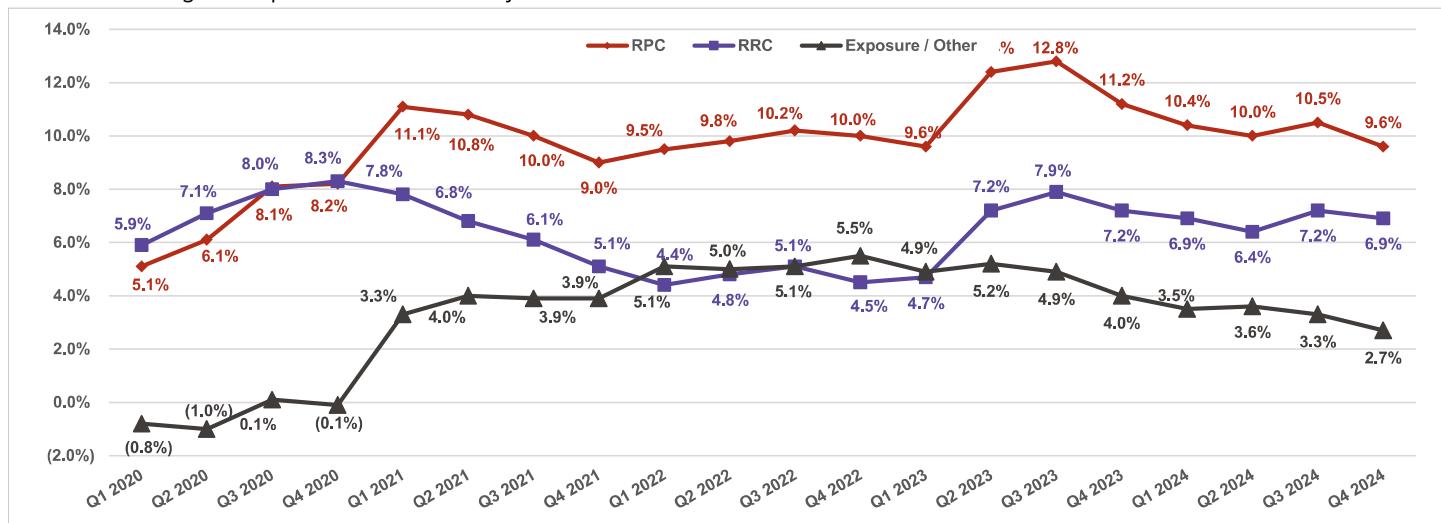
Source: Company reports and Wells Fargo Securities, LLC

## Pricing Highlights—Commercial Lines

### Business Insurance Rating Environment—RRC and exposure slow modestly

- **RRC:** Business Insurance renewal rate change (RRC) was +6.9% in the Q4, a modest slowdown from +7.2% in Q3. They noted on their conference call that umbrella and auto continue to lead the way with rate increases well into double digits with both accelerating Q/Q. Property rate did moderate Q/Q, primarily driven by their national property book, which has seen strong returns. Property accounted for 15.8% of premiums in the Q4 (vs 18.5% in the Q3 and 16.8% in the prior year quarter), while workers' comp accounted for 14.9% of premiums (vs 14.4% in the Q3 and 16.2% in the prior year quarter).
- **Exposure:** Exposure growth was up 2.7%, down from the 3.3% in Q3 and the lowest exposure change since 2020.
- **RPC:** Renewal premium change (RPC) was 9.6% in Q4, down from the 10.5% in Q3. They highlighted on their conference that rate increases across middle market remained broad-based, with almost 80% of accounts seeing positive rate change, while their Select product saw RPC modestly decelerate due to exposure while rate was modestly up. The exhibits below show the trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change since 2020.

Exhibit 3 - 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 given improved profitability and home modestly slows

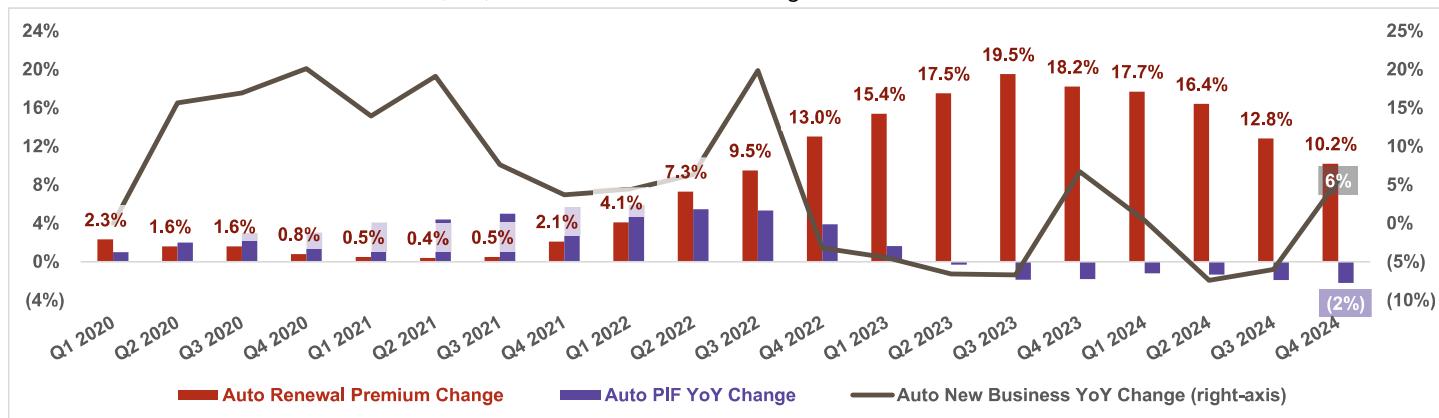
- Personal Auto** renewal premium change (RPC) decelerated sequentially to 10.2% from 12.8% in Q3 and their auto underlying combined ratio remained below 100% (96.3% in the quarter) after returning to profitability in Q1 2024, with the combined ratio at 93.4%, the best margin since Q2 2021. The underlying loss ratio was up 5.2% sequentially given weaker seasonality (Q4 underlying margins are typically 6-7 points higher vs other three quarters), but down 7.5% Y/Y with some of the improvement driven by favorable frequency across a number of coverages and sustained moderation in PD (no amount quantified), as well as a 1.5 pt benefit from favorable re-estimation of prior quarters in 2024.

- Homeowners'** RPC decelerated modestly sequentially to 14.1% in Q4 from 14.4% in Q3 with the expectation RPC accelerates to the high teens in 2025. The company did note the 4.3 pt y/y improvement in the underlying combined ratio did include a 2.0 pt benefit from favorable re-estimation of prior quarters in 2024.

- Auto and home PIFs remain down Q/Q, but new business picks up.** Travelers' new business in auto was up 6% Y/Y at \$304 million, after seeing new business down 6% in the Q3. Auto PIFs were still down 0.3% sequentially (vs down 0.6% in the Q3). Home new business was up 15% in the quarter (an improvement from the decline of 12% in Q3). From a PIF standpoint, home was down 0.6%, which was modestly better than the 0.9% sequential decline in Q3. TRV noted on their call that the decline in home PIF continues to reflect their intentional efforts to improve profitability.

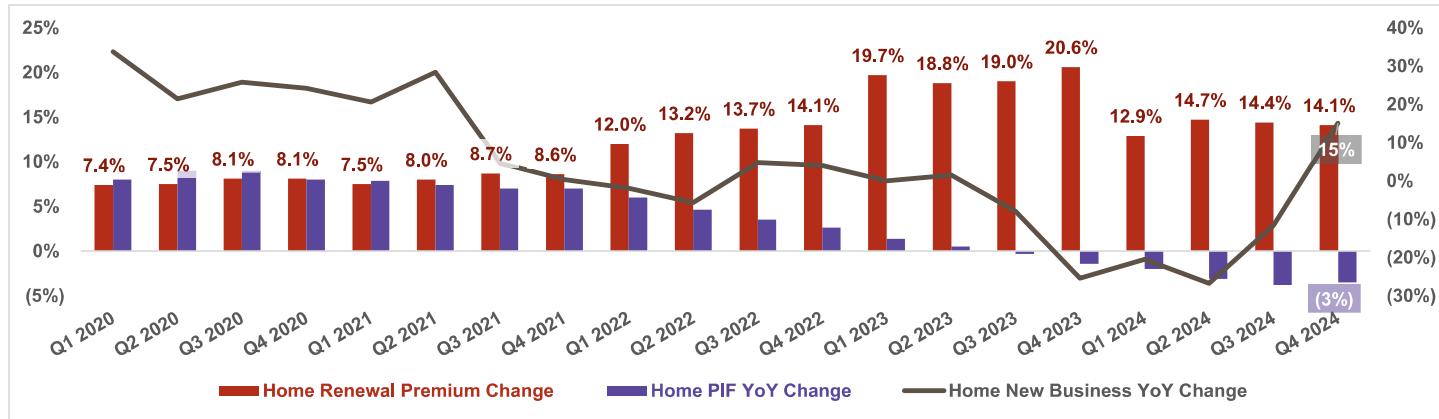
As for auto, TRV noted they are actively pursuing growth and will continue to do so.

Exhibit 4 - Personal Auto Statistics - RPC, PIF, and New Business Y/Y Change



Source: Company Reports and Wells Fargo Securities, LLC

Exhibit 5 - Homeowners' Statistics - RPC, PIF, and New Business Y/Y Change



Source: Company Reports and Wells Fargo Securities, LLC

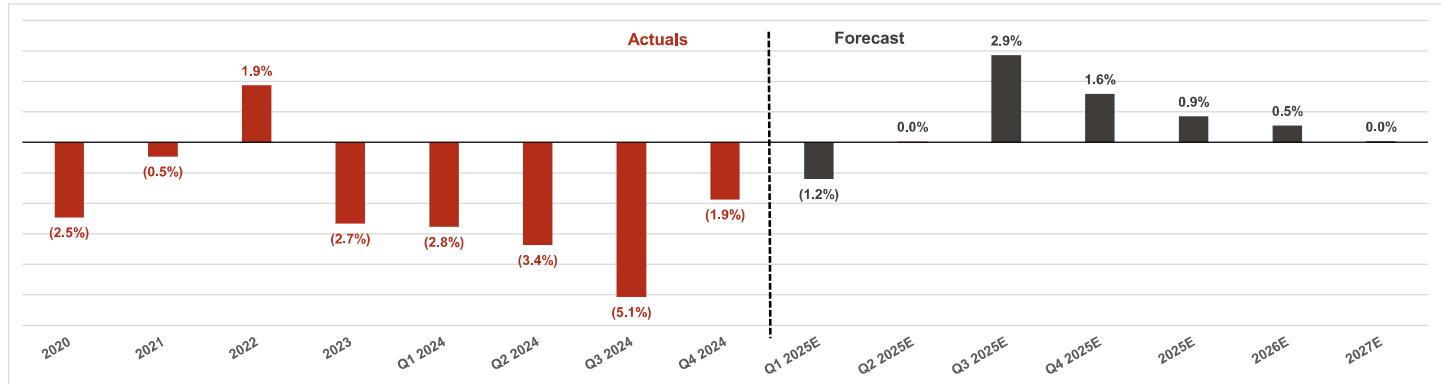
## Underlying Margin Tables

### Exhibit 6 - Consolidated Underlying Margin Trends

Underlying Margin Trends	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	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Reported Combined Ratio	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%	88.0%	91.3%	98.3%	98.2%	94.5%	95.4%	106.5%	101.0%	85.6%	93.9%	100.2%	93.2%	83.2%
Catastrophe Losses, net of reinsurance	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%	0.4%	2.0%	9.0%	5.9%	5.2%	6.0%	16.1%	8.7%	1.3%	7.0%	14.7%	8.6%	1.6%
Prior Year Reserve Development (Unfavorable)/Favorable	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)	(2.4%)	(0.8%)	(1.2%)	(1.9%)	(3.5%)	(0.2%)	(2.1%)	(1.2%)	(0.7%)	(1.6%)	(1.3%)	(0.9%)	(2.2%)	(1.2%)	(2.4%)
<b>Underlying Combined Ratio</b>	<b>91.3%</b>	<b>91.4%</b>	<b>91.5%</b>	<b>88.7%</b>	<b>89.5%</b>	<b>91.4%</b>	<b>91.4%</b>	<b>88.7%</b>	<b>91.2%</b>	<b>92.8%</b>	<b>92.5%</b>	<b>91.4%</b>	<b>90.5%</b>	<b>91.1%</b>	<b>90.7%</b>	<b>85.9%</b>	<b>87.8%</b>	<b>87.7%</b>	<b>85.6%</b>	<b>84.0%</b>
Underlying (improvement)/deterioration	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	(0.1%)	0.0%	1.7%	1.5%	1.1%	2.7%	(0.7%)	(1.7%)	(1.8%)	(5.5%)	(2.8%)	(3.4%)	(5.1%)	(1.9%)
<b>Underlying Loss Rate YoY Change</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>	<b>59.1%</b>	<b>58.9%</b>	<b>57.2%</b>	<b>55.8%</b>
Underlying Expense Ratio YoY Change	30.0%	31.0%	29.3%	29.4%	29.9%	29.7%	29.4%	28.5%	29.0%	29.0%	28.1%	27.9%	28.7%	28.6%	28.0%	27.4%	28.7%	28.8%	28.4%	28.2%
Underlying Combined Ratio YoY Change	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%)	(0.1%)	(0.5%)	(0.0%)	0.0%	0.2%	0.4%	0.6%

Source: Company reports and Wells Fargo Securities, LLC

### Exhibit 7 - Consolidated Underlying Combined Ratio Y/Y (Improvement)/Deterioration



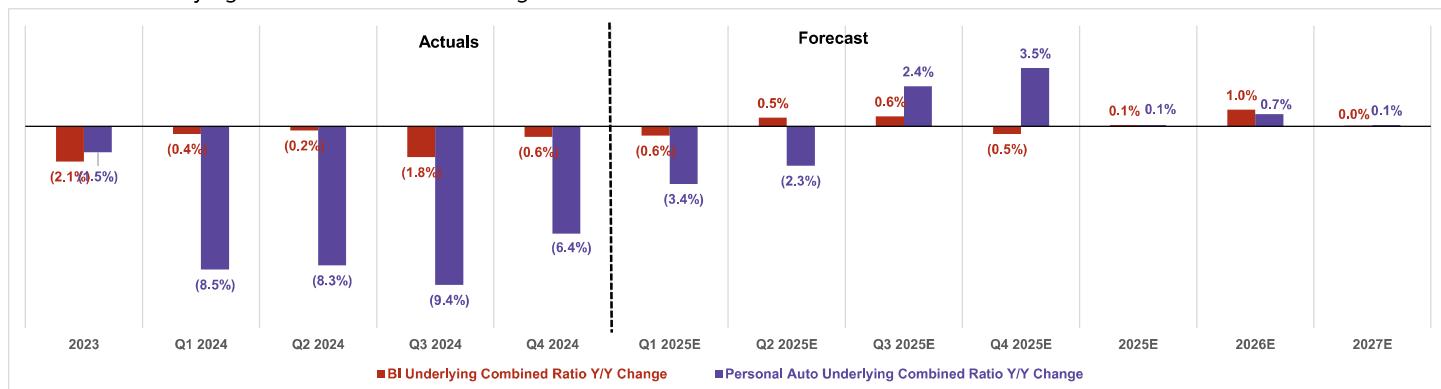
Source: Company Reports and Wells Fargo Securities, LLC Estimates

### Exhibit 8 - Underlying Combined Ratio Trends by Segment

Underlying Combined Ratio Trends	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	Q1 2024	Q2 2024	Q3 2024	Q4 2024
<b>Business Insurance</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>	<b>89.2%</b>	<b>89.2%</b>	<b>87.9%</b>	<b>86.2%</b>
Underlying (improvement) deterioration	2.3%	(0.4%)	(1.8%)	(2.8%)	(3.6%)	(3.6%)	(3.8%)	(3.8%)	(2.0%)	(0.9%)	(0.3%)	(0.3%)	(2.1%)	(3.0%)	(0.2%)	(2.7%)	(0.4%)	(0.2%)	(1.8%)	(0.6%)
<b>Bond &amp; Specialty</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>82.1%</b>	<b>78.5%</b>	<b>81.8%</b>	<b>86.1%</b>	<b>87.8%</b>	<b>80.7%</b>	<b>80.6%</b>	<b>86.6%</b>	<b>86.1%</b>	<b>85.6%</b>	<b>86.8%</b>
Underlying (improvement) deterioration	4.6%	7.1%	5.5%	3.7%	(1.5%)	(4.7%)	(5.6%)	(1.7%)	(2.0%)	(1.3%)	(4.9%)	(1.5%)	3.9%	5.7%	2.2%	(1.2%)	0.5%	(1.7%)	4.9%	6.3%
<b>Personal Insurance</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>	<b>86.1%</b>	<b>86.3%</b>	<b>82.7%</b>	<b>80.5%</b>
Underlying (improvement) deterioration	(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%)	(6.7%)	(7.7%)	(11.5%)	(5.4%)
<b>Personal Insurance Breakdown:</b>																				
<b>Automobile</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>	<b>94.9%</b>	<b>95.2%</b>	<b>91.2%</b>	<b>96.3%</b>
Underlying (improvement) deterioration	(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%	(7.9%)	(8.5%)	(8.3%)	(9.4%)	(6.4%)	
<b>Homeowners &amp; Other</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>	<b>77.6%</b>	<b>74.4%</b>	<b>65.4%</b>	
Underlying (improvement) deterioration	(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%)	(5.1%)	(7.6%)	(13.6%)	(4.4%)

Source: Company data and Wells Fargo Securities, LLC

### Exhibit 9 - Underlying Combined Ratio Y/Y Change - BI and Personal Auto

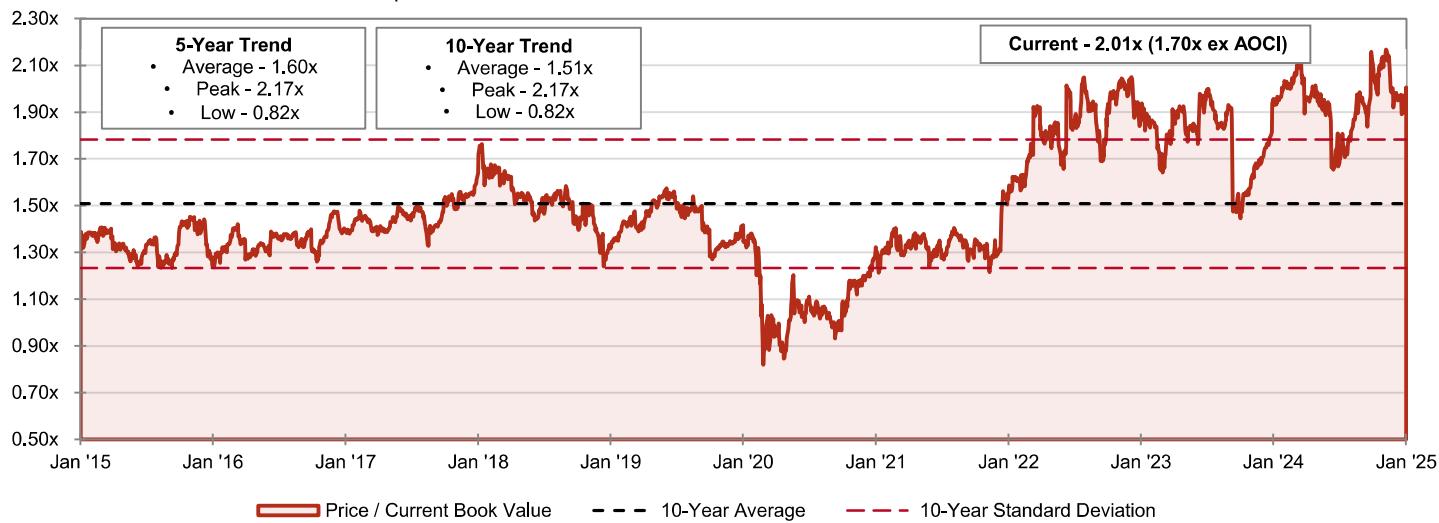


Source: Company Reports and Wells Fargo Securities, LLC

## Valuation

**Current valuation.** As of 1/22 close, TRV shares are now trading at 2.01x Q4 2024 book value, well above its 5-year (1.60x) average, and its 10-year (1.51x) average multiple. When excluding unrealized losses (net), shares still trade at a high multiple of 1.70x Q4 adjusted book of \$144.89, which is well above the 1.41x 5-year average ex AOCI. On a price-to-earnings basis, the shares are trading at 10.4x our updated 2026 estimate, below the 5-year average of 11.3x, 10-year average of 11.6x, and 10-year peak of 14.2x. We believe the valuation of the shares is relatively full given we still see limited upside in numbers. As numbers for 2025 will come down as a result of the CA wildfires, margins have tough Y/Y comps in 2025 given a strong 2024, which benefited from favorable non-cat weather, and we see potential for further volatility in casualty picks / reserves in 2025.

Exhibit 10 - TRV Historical Price / Reported Book Value (Incl. AOCI)



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

Exhibit 11 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

### Exhibit 12 - TRV Consolidated Earnings Model

	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2024	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E	Q1 2027E	Q2 2027E	Q3 2027E	Q4 2027E	2027E
<b>(\$ in millions, except as noted)</b>																					
<b>Summary</b>																					
Business Insurance																					
Bond & Specialty Insurance	2,851	814	860	1,478	4,086	739	815	911	1,570	4,034	851	1,005	1,610	1,271	939	1,152	1,730	5,091	1,345	5,091	
Personal Insurance	1,170	215	280	1,018	249	286	304	320	295	322	320	337	1,251	343	343	362	362	362	362	362	
Other	(231)	267	(198)	475	999	1,543	(335)	(146)	411	456	(170)	154	783	(167)	176	940	1,336	1,336	1,336	1,336	
<b>Adjusted Pre-Tax Operating Income</b>	<b>3,476</b>	<b>1,063</b>	<b>(110)</b>	<b>1,109</b>	<b>111.1</b>	<b>1,021</b>	<b>111.1</b>	<b>111.1</b>	<b>110</b>	<b>110</b>	<b>110</b>	<b>111.1</b>									
Tax Rate	11.6%	11.73%	18.9%	19.1%	19.1%	19.1%	13.8%	16.8%	18.4%	20.2%	18.5%	19.2%	16.3%	18.4%	18.3%	19.1%	18.4%	18.3%	18.9%	18.3%	
<b>Taxes</b>	<b>404</b>	<b>(239)</b>	<b>595</b>	<b>1,219</b>	<b>2,126</b>	<b>5,025</b>	<b>1,186</b>														
<b>Adjusted After-Tax Operating Income</b>	<b>3,072</b>	<b>1,046</b>	<b>595</b>	<b>1,219</b>	<b>2,126</b>	<b>5,025</b>	<b>1,186</b>														
<b>Adjusted Operating EPS</b>	<b>\$13.13</b>	<b>\$4.69</b>	<b>\$2.51</b>	<b>\$5.54</b>	<b>\$9.15</b>	<b>\$21.58</b>	<b>\$2.02</b>	<b>\$2.03</b>	<b>\$4.29</b>	<b>\$8.05</b>	<b>\$18.05</b>	<b>\$6.34</b>	<b>\$3.15</b>	<b>\$4.89</b>	<b>\$9.30</b>	<b>\$32.65</b>	<b>\$5.66</b>	<b>\$10.17</b>	<b>\$26.50</b>	<b>\$26.50</b>	
<b>YoY Change in Adjusted Operating EPS</b>	<b>(2.3%)</b>	<b>44.2%</b>	<b>(6,647.7%)</b>	<b>781.7%</b>	<b>30.3%</b>	<b>781.7%</b>	<b>(59.7%)</b>	<b>(19.2%)</b>	<b>(4.3%)</b>	<b>(17.7%)</b>	<b>(4.3%)</b>	<b>(17.7%)</b>	<b>(4.3%)</b>	<b>(3.3%)</b>							
<b>Consensus EPS</b>	<b>5.7%</b>	<b>14.1%</b>	<b>4,012.1%</b>	<b>169.2%</b>	<b>30.4%</b>	<b>64.4%</b>	<b>5.57</b>	<b>5.57</b>	<b>5.63</b>	<b>7.13</b>	<b>8.32</b>	<b>8.45</b>	<b>7.32</b>	<b>7.32</b>	<b>8.05</b>	<b>8.05</b>	<b>8.05</b>	<b>8.05</b>	<b>8.05</b>	<b>8.05</b>	
<b>WPS Estimate Versus Consensus</b>																					
<b>Premiums</b>																					
<b>YoY Change in Gross Premiums Written</b>																					
<b>Investment Income (Pre-Tax)</b>																					
Fixed Maturities Pre-Tax Annualized Yield	2,472	682	709	749	2,948	836	877	915	942	3,570	971	1,009	1,048	1,077	1,106	1,145	1,184	1,213	1,213	1,213	
Alternatives	3.2%	3.6%	3.7%	3.7%	3.8%	4.0%	4.1%	4.1%	4.1%	4.2%	4.2%	4.3%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	
Alternatives Pre-Tax Annualized Yield	253	98	118	103	409	117	119	122	124	482	127	129	132	134	137	140	143	145	145	145	
Short-Term Securities	4.3%	6.6%	7.9%	6.0%	7.0%	7.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
Investment Expenses	241	70	70	77	63	260	60	58	56	228	55	56	56	56	56	56	56	56	56	56	
Total Pre-Tax Net Investment Income	(44)	(14)	(12)	(9)	(4)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	
<b>Margins</b>	<b>846</b>	<b>885</b>	<b>904</b>	<b>955</b>	<b>997</b>	<b>1,044</b>	<b>1,078</b>	<b>1,110</b>	<b>1,134</b>	<b>1,220</b>	<b>1,255</b>	<b>1,278</b>	<b>1,296</b>	<b>1,324</b>	<b>1,340</b>	<b>1,365</b>	<b>1,380</b>	<b>1,396</b>	<b>1,400</b>	<b>1,400</b>	
<b>Margin</b>	<b>3.2%</b>	<b>3.6%</b>	<b>3.7%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.0%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.1%</b>	<b>4.2%</b>	<b>4.2%</b>	<b>4.3%</b>	<b>4.4%</b>								
<b>Loss Ratio</b>																					
Expense Ratio	68.9%	71.4%	64.8%	55.0%	64.0%	73.8%	71.0%	68.2%	68.1%	64.5%	72.7%	69.5%	66.5%	64.6%	62.8%	60.5%	58.5%	56.5%	54.5%	52.5%	
<b>Combined Ratio</b>	<b>281.1%</b>	<b>282.7%</b>	<b>28.8%</b>	<b>28.4%</b>	<b>28.2%</b>																
<b>YoY Change in Combined Ratio (Favorable)</b>	<b>91.0%</b>	<b>93.3%</b>	<b>100.2%</b>	<b>92.1%</b>	<b>93.2%</b>	<b>100.8%</b>	<b>93.0%</b>	<b>93.2%</b>	<b>97.6%</b>	<b>96.8%</b>	<b>93.0%</b>	<b>101.4%</b>	<b>97.6%</b>	<b>93.1%</b>	<b>97.3%</b>	<b>97.3%</b>	<b>94.8%</b>	<b>94.8%</b>	<b>94.8%</b>	<b>94.8%</b>	<b>94.8%</b>
<b>Catastrophe Losses</b>	<b>2,991</b>	<b>712</b>	<b>1,509</b>	<b>939</b>	<b>175</b>	<b>1,832</b>	<b>1,509</b>	<b>886</b>	<b>86.1%</b>												
<b>Points on Combined Ratio</b>	<b>7.9%</b>	<b>14.7%</b>	<b>8.8%</b>	<b>8.6%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>7.8%</b>														
<b>Reserve Development</b>	<b>(44)</b>	<b>(9)</b>	<b>(230)</b>	<b>(126)</b>																	
<b>Adjusted Margins</b>																					
<b>Underlying Loss Ratio</b>																					
<b>Underlying Combined Ratio</b>																					
<b>YoY Change in Loss Ratio (Favorable)</b>	<b>88.5%</b>	<b>87.8%</b>	<b>87.7%</b>	<b>86.6%</b>	<b>86.2%</b>	<b>86.0%</b>	<b>85.6%</b>	<b>85.3%</b>	<b>85.0%</b>	<b>84.7%</b>	<b>84.4%</b>	<b>84.1%</b>	<b>83.8%</b>	<b>83.5%</b>	<b>83.2%</b>	<b>82.9%</b>	<b>82.6%</b>	<b>82.3%</b>	<b>82.0%</b>	<b>81.7%</b>	
<b>YoY Change in Combined Ratio (Favorable)</b>	<b>(2.2%)</b>	<b>(2.2%)</b>	<b>(3.6%)</b>	<b>(3.6%)</b>	<b>(5.5%)</b>	<b>(5.5%)</b>	<b>(5.1%)</b>	<b>(3.2%)</b>	<b>(2.0%)</b>	<b>(2.9%)</b>											
<b>Book Value and Return on Equity</b>																					
<b>GAAP Book Value per Share</b>	<b>\$109.19</b>	<b>\$109.28</b>	<b>\$112.00</b>	<b>\$112.97</b>	<b>\$112.97</b>	<b>\$123.42</b>	<b>\$124.74</b>	<b>\$127.47</b>	<b>\$134.85</b>	<b>\$139.27</b>	<b>\$143.23</b>	<b>\$148.95</b>	<b>\$154.67</b>	<b>\$155.87</b>	<b>\$161.14</b>	<b>\$169.57</b>	<b>\$169.57</b>	<b>\$169.57</b>	<b>\$169.57</b>	<b>\$169.57</b>	
<b>Operating Return on Equity</b>																					
<b>Share Count</b>																					
<b>Funding Common Shares</b>	228.2	229.0	227.9	227.0	226.6	225.6	224.7	223.8	222.8	221.2	219.7	218.1	216.6	215.1	213.7	212.2	210.8	210.8	210.8	210.8	
<b>Weighted Average Diluted Shares</b>	232.2	231.5	230.6	230.7	231.1	229.6	228.7	228.2	227.1	226.6	226.6	224.7	223.6	222.6	221.4	221.4	221.4	221.4	221.4	221.4	
<b>Capital Return to Shareholders</b>																					
<b>Common Dividends</b>	915	232	245	243	242	962	238	249	247	246	245	254	252	251	250	249	248	247	246	245	
<b>Share Repurchases</b>	1,029	368	253	252	250	488	494	497	496	495	495	706	704	702	701	701	700	700	700	700	700
<b>Total Capital Returned</b>	1,944	620	498	496	494	2,108	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	1,146	
<b>Total Payout Ratio (% of Operating Income)</b>	63.3%	56.5%	85.1%	40.7%	23.2%	103.6%	73.5%	41.9%	24.5%	47.5%	97.5%	63.0%	43.9%	55.1%	31.3%	31.3%	31.3%	31.3%	31.3%	31.3%	
<b>Equity Rollforward and Leverage</b>																					
<b>Beginning GAAP Equity</b>	21,560	25,022	24,862	27,986	24,921	27,847	28,027	28,522	27,864	30,051	30,811	31,242	32,635	33,551	33,639	34,202	32,635	32,635	32,635	32,635	
<b>Net Income</b>	2,991	1,123	534	1,261	1,282	4,999	2,025	2,025	1,117	1,117	1,117	1,117	1,117	1,117	1,117	1,117	1,117	1,117	1,117		
<b>Common Dividends</b>	(915)	(110)	(245)	(242)	(242)	(436)	(111)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	(110)	
<b>Share Repurchases</b>	(1,029)	(388)	(253)	(253)	(253)	(496)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	(114)	
<b>Change in AOCI</b>	1,974	660	(279)	1,977	(534)	522	114	548	114	114	114	114	114	114	114	114	114	114	114	114	
<b>Other</b>	3,111	258	83	27,662	27,662	27,664	27,847	28,027	28,522	28,864	30,051	30,811	31,242	32,635	33,551	33,639	34,202	32,635	32,635	32,635	
<b></b>																					

## Investment Thesis, Valuation and Risks

### **The Travelers Companies, Inc. (TRV)**

#### **Investment Thesis**

We believe that TRV shares could underperform as **(1)** they face liability reserve volatility, **(2)** tough comps in BI and personal lines underlying margins in 2025 as personal auto pricing moderates and 2024 saw favorable non-cat weather, and **(3)** a potentially higher cat load vs what is currently baked in from the Street. In addition, Our rating is Underweight.

#### **Target Price Valuation for TRV: \$225.00 from \$213.00**

- Our price target of \$225 is based on 9.5x our 2026 EPS estimate. We come to the 9.5x multiple based on a 5% discount to the peer group of AIG, CB, and HIG (currently trading at 10.0x).
- Implies around a ~1.5x multiple of our projected 2026 book value estimate of ~\$151.

#### **Risks to Our Price Target and Rating for TRV**

Risks to the upside include **(1)** stronger premium growth, **(2)** reported / underlying margins coming in better than expected, **(3)** lower-than-expected losses from CA wildfires and **(4)** higher-than-expected favorable PYD with minimal movement in long-tail liability reserves.

## 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.

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## Additional Information Available Upon Request

**The Travelers Companies, Inc. Rating History as of 01-21-2025**

powered by BlueMatrix



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

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

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### STOCK RATING

**OW=Overweight:** Total return on stock expected to be 10%+ over the next 12 months. (BUY)

**EW=Equal Weight:** Total return on stock expected to be -10% to +10% over the next 12 months. (HOLD)

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

**NR=Not Rated:** The rating and price target has been removed due to lack of fundamental basis to support the recommendation or due to legal, regulatory or company policy considerations.

FINRA regulation requires member firms to assign ratings to one of three rating categories: Buy, Hold and Sell. In accordance with FINRA regulation and solely to satisfy those disclosure requirements in the ratings distribution table and ratings history chart contained in these Required Disclosures, our rating of Overweight corresponds to a Buy rating; Equal Weight corresponds to a Hold rating; and Underweight corresponds to a Sell rating.

#### **As of January 21, 2025**

50.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight. (BUY)

40.7% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight. (HOLD)

9.3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight. (SELL)

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