

The Hartford Financial Services Group, Inc.

## 3Q22 Earnings Review

Our focus is on total returns, HIG's premium growth and WC bias can fuel nice NII upside from higher net invested assets. While we do not think this is the time to grow auto PIF (+1.2% q/q vs. its historical declines), auto is not a material component of HIG's enterprise (10.5% of premiums earned).

NII upside should more than offset auto headwinds: HIG's new money rate of about 4.9% is well ahead of its 3.7% average yield of assets rolling off (both pre-tax). In translation, HIG is expecting its annualized portfolio yield, excluding limited partnerships, to increase by ~10 to 20 bps in 4Q22 and ~50 to 60 bps in 2023 from 2022. HIG is also shortening its asset duration (4.0 in Sept' 22 vs. 4.8 in March 21), which should accelerate its portfolio turnover rate. While HIG's investment posture is conservative, we pay attention to changes on the margin. In terms of asset allocations on an amortized cost basis, HIG is growing in ABS (+75% since YE21) and RMBS (+17% since YE21). These are asset classes linked to consumer finance.

On the personal auto side, HIG's +1.2% PIF growth q/q in this business is ahead of its historical trend. HIG had originally expected improvements in auto physical damage in 2H22 that is not materializing. HIG is ramping up its auto filing efforts (from 5% in 3Q22 to double-digits in 4Q & mid-teens in 1H23), although we think it will take longer for those rates to earn in, especially considering that the bulk of its inforce is still on 12-month policies. (Note, its more recent marketing efforts for Prevail are centered on 6-month policies). Unlike ALL, HIG is not calling out higher bodily injury claims and/or higher attorney representations. To be sure, HIG's favorable auto PYD reflects AY2018 and prior, although we are surprised that the auto claims cycle can span those multiple years.

HIG is maintaining its loss trends, excluding workers' compensation, 100 bps below its pricing level. As HIG reported 6.4% of commercial lines (ex WC) renewal pricing in 3Q22, we assume that its loss trend is ~5.5%, which feels up from prior commentary of 5%. Within WC, indemnity loss trends are contained in wage growth and HIG's long-term medical severity for comp is 5%. While HIG experienced some WC underlying margin compression in 3Q22, it was within its expectations (<0.5 points). We recognize that on an absolute basis, WC is a high underwriting margin business with greater NII upside than other lines. WC pricing is also in positive territory, though we think most of that is driven from exposures that act like rate (i.e. audit premiums).

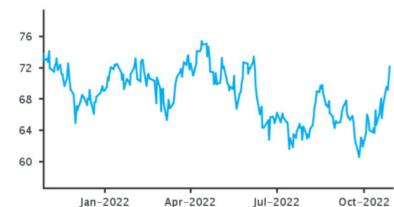
**Peer Leading P&C ROE:** HIG's core ROE of 14.0% is at the upper end of its 13-14% '22 guidance. In particular, its core ROE in P&C of 17.7% is peer leading and ahead of its segment guide of 14-15%, which is impressive considering a heavy catastrophe quarter and tough auto headwinds. HIG's core ROE within group benefits of 6.6% and well below its segment guide of 10-11%.

## CORE Earnings Review

|                             |                          |
|-----------------------------|--------------------------|
| HIG                         | OVERWEIGHT               |
|                             | Unchanged                |
| U.S. Insurance/Non-Life     | POSITIVE                 |
|                             | Unchanged                |
| Price Target                | USD 82.00                |
|                             | raised 5% from USD 78.00 |
| Price (28-Oct-22)           | USD 72.16                |
| Potential Upside/Downside   | +13.6%                   |
| Market Cap (USD mn)         | 22954                    |
| Shares Outstanding (mn)     | 318.10                   |
| Free Float (%)              | 99.55                    |
| 52 Wk Avg Daily Volume (mn) | 1.9                      |
| Dividend Yield (%)          | 2.36                     |
| Return on Equity TTM (%)    | 12.83                    |
| Current BVPS (USD)          | 39.50                    |

Source: Bloomberg

|                   |                 |
|-------------------|-----------------|
| Price Performance | Exchange-NYSE   |
| 52 Week range     | USD 78.17-60.17 |



Source: IDC

[Link to Barclays Live for interactive charting](#)

### U.S. Insurance/Non-Life

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Completed: 31-Oct-22, 05:35 GMT Released: 31-Oct-22, 10:00 GMT Restricted - External

Lastly, Hartford Funds core ROE of 52.8% is trending below its segment guide of 54-55%. Note, HIG excludes AOCI from the denominator of its CORE ROE.

**HIG: Quarterly and Annual EPS (USD)**

| <b>FY Dec</b> | <b>2021</b>   | <b>2022</b> |            |             | <b>2023</b> |            |             | <b>Change y/y</b> |             |
|---------------|---------------|-------------|------------|-------------|-------------|------------|-------------|-------------------|-------------|
|               | <b>Actual</b> | <b>Old</b>  | <b>New</b> | <b>Cons</b> | <b>Old</b>  | <b>New</b> | <b>Cons</b> | <b>2022</b>       | <b>2023</b> |
| Q1            | 0.56A         | 1.66A       | 1.66A      | 1.69A       | 2.03E       | 2.04E      | 2.03E       | 196%              | 23%         |
| Q2            | 2.33A         | 2.15A       | 2.15A      | 2.18A       | 1.77E       | 1.80E      | 1.97E       | -8%               | -16%        |
| Q3            | 1.26A         | 1.39E       | 1.44A      | 1.44A       | 1.96E       | 2.00E      | 2.06E       | 14%               | 39%         |
| Q4            | 2.02A         | 1.76E       | 1.85E      | 1.92E       | 2.29E       | 2.36E      | 2.31E       | -8%               | 28%         |
| Year          | 6.17A         | 6.97E       | 7.11E      | 7.06E       | 8.04E       | 8.19E      | 8.38E       | 15%               | 15%         |
| P/E           | 11.7          |             | 10.1       |             |             | 8.8        |             |                   |             |

Consensus numbers are from Bloomberg received on 28-Oct-2022; 12:50 GMT

Source: Barclays Research

| <b>U.S. Insurance/Non-Life</b>                               |              |              |              |              |                | <b>POSITIVE</b>   |                  |
|--|--------------|--------------|--------------|--------------|----------------|---|------------------|
| <b>The Hartford Financial Services Group, Inc.<br/>(HIG)</b> |              |              |              |              |                | <b>OVERWEIGHT</b>   |                  |
| <b>Income statement (\$mn)</b>                               | <b>2021A</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>CAGR</b>    | Price (28-Oct-2022)   | <b>USD 72.16</b> |
| Net premiums earned  | 12,495       | 13,534       | 14,512       | 15,408       | 7.2%           | Price Target  | <b>USD 82.00</b> |
| Net investment income (NII)                                  | 2,313.0      | 2,013.5      | 2,355.8      | 2,544.2      | 3.2%           | <b>Why OVERWEIGHT?</b>  |                  |
| Underwriting income  | 469          | 909          | 888          | 978          | 27.8%          | HIG has sound fundamentals following transformation, which should continue to drive a stronger book multiple. ROE convergence with peers should make current valuation look inexpensive. Navigators acquisition is becoming more accretive given boost from hard pricing in specialty lines. HIG has accelerated the pace of its expense savings plans. |                  |
| Operating income   | 2,150        | 2,340        | 2,526        | 2,752        | 8.6%           |   |                  |
| Net income   | 2,337        | 1,826        | 2,550        | 2,776        | 5.9%           |   |                  |
| Effective tax rate (%)                                       | 18.6         | 20.4         | 19.5         | 19.5         | 1.5%           |   |                  |
| Combined ratio (%)   | 96.2         | 93.3         | 93.9         | 93.6         | -0.9%          |   |                  |
| Combined ratio (ex cats & py development) (%)                | 89.3         | 89.8         | 89.5         | 89.3         | 0.0%           |   |                  |
| <b>Per share data (\$)</b>                                   | <b>2021A</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>CAGR</b>    | <b>Upside case</b>  | <b>USD 87.00</b> |
| EPS (adj)  | 6.17         | 7.11         | 8.19         | 9.52         | 15.5%          | Our upside case reflects stronger than expected underwriting margin expansion and commercial P&C pricing levels and improving group benefits margins. Our upside case is ~1.6x '23 BVPS ex AOCI.  |                  |
| EPS (reported)   | 6.62         | 5.48         | 8.19         | 9.52         | 12.9%          |   |                  |
| DPS  | 1.44         | 1.59         | 1.79         | 1.96         | 11.0%          |   |                  |
| BVPS   | 51.36        | 39.96        | 44.62        | 50.51        | -0.6%          |   |                  |
| BVPS (ex AOCI)   | 50.86        | 53.82        | 59.40        | 66.27        | 9.2%           |   |                  |
| <b>Balance sheet and capital return (\$mn)</b>               | <b>2021A</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>CAGR</b>    | <b>Downside case</b>  | <b>USD 62.00</b> |
| Total investments  | 57,749       | 53,525       | 56,502       | 59,691       | 1.1%           | Our downside case assumes unsuccessful underwriting margin expansion and expense savings as well as a slowdown in the commercial P&C renewal rate environment. Our downside case is ~7.6x '23E EPS.   |                  |
| Common shareholders' equity (ex AOCI)                        | 17,337       | 17,143       | 17,742       | 18,551       | 2.3%           |   |                  |
| Share buybacks   | 1,702        | 1,545        | 1,380        | 1,380        | -6.8%          |   |                  |
| Dividends paid   | 501          | 515          | 543          | 560          | 3.8%           |   |                  |
| <b>Balance sheet and capital return metrics</b>              | <b>2021A</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>Average</b> | <b>Upside/Downside scenarios</b>  |                  |
| Debt leverage (%)  | 21.7         | 25.0         | 24.2         | 23.1         | 23.5           |   |                  |
| Financial leverage (%)                                       | 23.2         | 26.9         | 26.0         | 24.9         | 25.3           |   |                  |
| Total capital return as a % of op. earnings                  | 102.5        | 88.0         | 76.1         | 70.5         | 84.3           |   |                  |
| <b>Valuation metrics</b>                                     | <b>2021A</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> | <b>Average</b> |   |                  |
| P/BV (ex AOCI) (x)   | 1.42         | 1.34         | 1.21         | 1.09         | 1.27           |   |                  |
| P/E (adj) (x)  | 11.7         | 10.1         | 8.8          | 7.6          | 9.5            |   |                  |
| Dividend yield (%)   | 2.0          | 2.2          | 2.5          | 2.7          | 2.3            |   |                  |
| ROE (%)  | 13.2         | 10.3         | 14.2         | 14.9         | 13.1           |   |                  |

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research



## 3Q22 vs. Target Financial Plan

HIG's personal lines underlying CR was 95.9% in 3Q22, tracking above its FY22 guided range of 91-94% (updated last quarter by 1-2 points). On a YTD basis it's inside the range at 92.8%, although we recognize on a seasonality perspective, 4Q auto loss trends usually run higher. HIG expects to meet its guided ranges in 2022.

Commercial lines underlying CR of 89.3% in 3Q22 is on track to meet HIG's 2022E outlook range of 86.5%-88.5%. Group Benefits 7.2% core earnings margin and 8.7% ex-COVID in 2Q22 is ahead of the 2022E outlook ranges (3.1-5.4% inc. COVID and 6-7% ex-COVID) in the quarter. We are modeling better commercial lines premiums in 2022 than HIG's plan (BARC: 11.3% vs. HIG: 4-5%).

**FIGURE 1. HIG Targets vs. Barclays Estimates**

| HIG Outlook<br>Key Business Metrics    | 2021<br>Actual | 2022E<br>Outlook Range |   | 2022E<br>Barclays | 2023E<br>Barclays |
|--|----------------|------------------------|---|-------------------|-------------------|
| <b>Commercial Lines</b>                |                |                        |   |                   |                   |
| NPW Growth                             | 12%            | ~ 4%                   | - | 5%                | 11.3%             |
| CR                                     | 95.8%          | 90%                    | - | 92%               | 90.6%             |
| Underlying CR                          | 89.1%          | 86.5%                  | - | 88.5%             | 88.5%             |
| <b>Personal Lines</b>                  |                |                        |   |                   |                   |
| NPW Growth                             | -1.0%          | Flat to slightly down  |   | 1.6%              | 0.5%              |
| CR                                     | 90.6%          | 97.0%                  | - | 99.0%             | 101.7%            |
| Underlying CR                          | 89.9%          | 91.0%                  | - | 94.0%             | 94.0%             |
| <b>Group Benefits</b>                  |                |                        |   |                   |                   |
| Earned Premium and Fee Income Growth   | 2.7%           | ~ 2%                   |   | 5.6%              | 3.0%              |
| Core earnings margin (excluding COVID) | 10.3%          | 6.0%                   | - | 7.0%              | 8.3%              |
| Core earnings margin (including COVID) | 2.4%           | 3.1%                   | - | 5.4%              | 6.3%              |
| Core ROE                               | 12.7%          | 13.0%                  | - | 14.0%             | 13.6%             |
|  |                |                        |   |                   | 14.5%             |

Source: Barclays Research, Company Data.

## Personal Lines

HIG is ramping up its auto rate actions and anticipates to see double digit increases in 4Q and mid-teens increases for 1H23. We think these rating actions are on a written basis and may take time to fully earn in for its inforce, as the bulk are written under 12 month policies.

The **auto** underlying combined ratio of 102.6% was up 2.6 pts sequentially. HIG saw higher than expected severity, most evident in physical damage with bodily injury being a less significant driver.

**Auto Underlying Loss ratio: To get worse before it gets better.** On a seasonality perspective, we keep in mind that HIG's auto loss ratio runs at the highest level in the fourth quarter (about 3 to 5 points) than the annual loss ratio. Conversely, 1Q auto loss costs run lower than the balance of the year.

The **homeowners** underlying combined ratio of 80.4% was down 1.6 pts q/q. HIG is also pushing for rate on the homeowners side with 12% rate increases seen in 3Q22.

The loss ratio for Personal lines increased to 82.5% in 3Q22 compared to 73.4% in 2Q22 and 71.2% in 3Q21.

## Auto PIF slightly up, despite headwinds

**FIGURE 2. PIF slightly up in auto and PIF decline moderating in home**

| Policies in Force (in thousands) | 1Q20  | 2Q20  | 3Q20  | 4Q20  | 1Q21  | 2Q21  | 3Q21  | 4Q21  | 1Q22  | 2Q22  | 3Q22  |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Auto                             | 1,410 | 1,416 | 1,392 | 1,369 | 1,357 | 1,339 | 1,328 | 1,317 | 1,315 | 1,315 | 1,331 |
| y/y % growth                     | -5.1% | -3.3% | -3.7% | -3.7% | -3.8% | -5.4% | -4.6% | -3.8% | -3.1% | -1.8% | 0.2%  |
| Homeowners                       | 868   | 865   | 846   | 826   | 815   | 799   | 786   | 773   | 765   | 756   | 749   |
| y/y % growth                     | -4.9% | -4.2% | -5.3% | -5.8% | -6.1% | -7.6% | -7.1% | -6.4% | -6.1% | -5.4% | -4.7% |

Source: Barclays Research, Company Data.

## Underlying Commercial Margin

Commercial lines underlying margin worsened to 89.3% ~2.1 pts y/y and 1.2 pts q/q. Over the last 2 quarters, HIG's global specialty underlying combined ratio was better than small commercial which we partly attribute to pricing as well as HIG's underwriting influence on the old NAVG book. HIG is targeting commercial lines underlying combined ratio of 86.5%- 88.5% in 2022 (BARC estimate 88.5%).

### Segment Underlying Results:

- **Middle & Large Commercial** underlying combined ratio of 93.7% in 3Q22 worsened from 92.9% in 2Q22, partly due to unfavorable non-cat weather.
- **Small Commercial** underlying combined ratio at 88.5% in 3Q22 worsened from 86.9% in 2Q22, partly due to unfavorable non-cat weather and WC margins.
- **Global Specialty** underlying combined ratio of 84.5% in 3Q22 worsened from 83.1% in 2Q22, but improved y/y by 2.4 points.

## Group Benefits

Core earnings margin of 7.2% is trending above'22 guidance including COVID of 3.1%-5.4%, and better than our estimate of 5.5%. HIG's margins included a pandemic headwind of \$26mn and a \$5mn headwind related to pre-tax COVID-19 related short term disability claims. The group benefits core earnings margin adjusted for pandemic excess mortality and COVID-19 ST disability losses was 8.7%, above its guided range of 6-7%.

## Forward Looking Commentary/Model Updates

- Higher NII guide: Annualized portfolio yield, excluding limited partnerships, to increase by ~10 to 20 bps in 4Q22 (we are estimating 3.45%) and ~50 to 60 bps in 2023 from 2022. HIG posted 3.1% (pre-tax) annualized yield, ex LLP, in the first nine months of 2022. On the same basis, we are estimating 3.21% for FY22 and 3.76% for FY23.
- HIG anticipates annualized LP returns in FY2022 to be at the high end of its 8-10% range. HIG posted 13.0% (pre-tax) annualized LLP returns in the first nine months of 2022. In order to arrive at the high end of its 8-10% annual target, we are estimating below trend 3% returns in 4Q22E.
- **Capital Returns:** During 3Q22 HIG repurchased \$350mn of shares (vs. our \$311mn estimate) and repurchased \$98mn from Oct. 1-26, 2022. HIG has \$3.1bn remaining on its board authorized buyback programs through YE24. In 4Q22, HIG expects to receive \$400mn of

dividends from its U.S. P&C insurance subsidiaries, \$45mn from HLA (Group Benefits) and \$40mn from Hartford Funds. HIG's holding co. cash and marketable assets totaled \$1.1bn as of Sept. 30, 2022. We are modeling a \$345mn quarterly buyback run-rate.

**We reiterate our Overweight rating on HIG** and raise our PT to \$82 (from \$78) based on a 50/50 weighted 10.5x \$8.19 (up from \$8.04) '23E EPS and 1.3x (from 1.2x) 2023E book value per share ex AOCI of \$59.4 (up from \$59.2). Trading at 8.6x 2023E P/E, HIG offers one of the best long term risk/rewards in P/C insurance, in our view.

## 3Q22 Variance

**FIGURE 3. 3Q22 Variance Analysis: Segments**

| <b>Consolidated Results</b><br><b>(in \$ mn, expect per share data)</b> | Q/Q          |             |                 | Y/Y         |                 |              | Barclays Est. |  |
|---|--------------|-------------|-----------------|-------------|-----------------|--------------|---------------|--|
|   | <b>3Q22A</b> | <b>2Q22</b> | <b>% Change</b> | <b>3Q21</b> | <b>% Change</b> | <b>3Q22E</b> | <b>% Var.</b> |  |
| Net income avail to common shareholders                                 | \$333        | \$437       | (23.8%)         | \$476       | (30.0%)         | \$455        | (26.8%)       |  |
| Net income per diluted share  | \$1.02       | \$1.32      | (22.6%)         | \$1.36      | (24.9%)         | \$1.39       | (26.7%)       |  |
| Core earnings   | \$471        | \$714       | (34.0%)         | \$442       | 6.6%            | \$455        | 3.5%          |  |
| Core earnings per diluted share   | \$1.44       | \$2.15      | (33.1%)         | \$1.26      | 14.3%           | \$1.39       | 3.4%          |  |
| Net investment income   | \$487        | \$541       | (10.0%)         | \$650       | (25.1%)         | \$419        | 16.1%         |  |
| Cat losses  | \$293        | \$123       | 138.2%          | \$300       | (2.3%)          | \$243        | 20.3%         |  |
| P&C - Combined ratio  | 94.3%        | 91.4%       | 292 bps         | 100.5%      | (620 bps)       | 96.0%        | (173 bps)     |  |
| P&C - Underlying combined ratio   | 89.3%        | 89.4%       | (13 bps)        | 88.3%       | 101 bps         | 89.2%        | 12 bps        |  |
| Book value per diluted share  | \$38.99      | \$42.21     | (7.6%)          | \$50.53     | (22.8%)         | \$42.43      | (8.1%)        |  |
| Book value per diluted share (ex. AOCI)                                 | \$52.63      | \$52.12     | 1.0%            | \$49.64     | 6.0%            | \$52.48      | 0.3%          |  |
| Core Earnings ROE   | 14.3%        | 0.0%        | 1430 bps        | 12.5%       | 180 bps         | 14.2%        | 13 bps        |  |
| Share Repurchases   | \$350        | \$450       | (22.2%)         | \$511       | (31.5%)         | \$311        | 12.6%         |  |

Source: Barclays Research, Company Data.

**FIGURE 4. 3Q22 Variance Analysis: Segments**

| <b>Business Results</b><br><b>(in \$ mn, expect per share data)</b> | Q/Q          |             |                 | Y/Y         |                 |              | Barclays Est. |  |
|---|--------------|-------------|-----------------|-------------|-----------------|--------------|---------------|--|
|   | <b>3Q22A</b> | <b>2Q22</b> | <b>% Change</b> | <b>3Q21</b> | <b>% Change</b> | <b>3Q22E</b> | <b>% Var.</b> |  |
| <b>Commercial Lines</b>   |              |             |                 |             |                 |              |               |  |
| Net written premiums  | \$2,780      | \$2,836     | (2.0%)          | \$2,532     | 9.8%            | \$2,809      | (1.0%)        |  |
| Underwriting gain (loss)  | \$153        | \$333       | (54.1%)         | (\$30)      | 610.0%          | \$168        | (8.8%)        |  |
| Underlying underwriting gain  | \$290        | \$312       | (7.1%)          | \$314       | (7.6%)          | \$331        | (12.3%)       |  |
| Underlying Loss ratio   | 57.5%        | 56.1%       | 140 bps         | 55.2%       | 233 bps         | 55.9%        | 160 bps       |  |
| Cat and PYD pts   | 5.0%         | (1%)        | 580 bps         | 14.0%       | (905 bps)       | 6.0%         | (100 bps)     |  |
| Expense ratio   | 31.5%        | 31.7%       | (20 bps)        | 31.8%       | (31 bps)        | 31.6%        | (11 bps)      |  |
| Policyholder dividends  | 0.3%         | 0.3%        | 3 bps           | 0.2%        | 10 bps          | 0.3%         | (2 bps)       |  |
| Combined ratio  | 94.3%        | 87.3%       | 703 bps         | 101.2%      | (692 bps)       | 93.8%        | 47 bps        |  |
| Underlying combined ratio   | 89.3%        | 88.1%       | 123 bps         | 87.2%       | 212 bps         | 87.8%        | 147 bps       |  |
| <b>Personal Lines</b>   |              |             |                 |             |                 |              |               |  |
| Net written premiums  | \$803        | \$756       | 6.2%            | \$765       | 5.0%            | \$761        | 5.5%          |  |
| Underwriting gain (loss)  | (\$72)       | (\$13)      | 453.8%          | \$10        | (820.0%)        | (\$31)       | 134.3%        |  |
| Underwriting underwriting gain                                      | \$31         | \$43        | (27.9%)         | \$61        | (49.2%)         | \$42         | (26.8%)       |  |
| Underlying Loss ratio   | 68.8%        | 65.7%       | 310 bps         | 64.4%       | 442 bps         | 66.0%        | 280 bps       |  |
| Cat and PYD pts   | 13.7%        | 7.7%        | 599 bps         | 6.9%        | 685 bps         | 10.0%        | 370 bps       |  |
| Expense ratio   | 27.1%        | 28.4%       | (127 bps)       | 27.4%       | (28 bps)        | 28.2%        | (111 bps)     |  |
| Combined ratio  | 109.6%       | 101.8%      | 781 bps         | 98.7%       | 1095 bps        | 104.2%       | 539 bps       |  |
| Underlying combined ratio   | 95.9%        | 94.1%       | 182 bps         | 91.8%       | 410 bps         | 94.2%        | 169 bps       |  |
| <b>Group Benefits</b>   |              |             |                 |             |                 |              |               |  |

|  |           |           |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Net income   | \$86      | \$104     | (17.3%)   | \$28      | 207.1%    | \$86      | 0.5%      |
| Core earnings  | \$117     | \$161     | 27.3%     | \$149     | 21.5%     | \$88      | (33.4%)   |
| Fully insured ongoing premiums (ex. buyout premiums) | \$1,458   | \$1,469   | (0.7%)    | \$1,378   | 5.8%      | \$1,441   | 1.2%      |
| Loss ratio   | 72.8%     | 70.2%     | 260 bps   | 71.4%     | 139 bps   | 74.0%     | (120 bps) |
| Expense ratio  | 25.4%     | 25.5%     | (6 bps)   | 25.4%     | 0 bps     | 25.7%     | (29 bps)  |
| Net income margin                                    | 5.4%      | 6.6%      | (119 bps) | 10.7%     | (529 bps) | 5.5%      | (5 bps)   |
| Core earnings margin                                 | 7.2%      | 9.8%      | (260 bps) | 9.5%      | (227 bps) | 5.5%      | 167 bps   |
| <b>Hartford Funds</b>                                |           |           |           |           |           |           |           |
| Net income   | \$41      | \$34      | 20.6%     | \$52      | (21.2%)   | \$52      | (20.5%)   |
| Core earnings  | \$47      | \$44      | 6.8%      | \$51      | (7.8%)    | \$52      | (8.9%)    |
| Mutual Fund and ETP net flows                        | (\$2,223) | (\$2,011) | 10.5%     | \$2,440   | (191.1%)  | \$115     | (2026.2%) |
| Total Hartford AUM                                   | \$117,827 | \$127,398 | (7.5%)    | \$153,793 | (23.4%)   | \$133,074 | (11.5%)   |

Source: Barclays Research, Company Data.

## Model Summary

**FIGURE 5. Model Summary (pg. 1)**

| (\$ in mn, except per share data)                   | 2020           | 2021           | 2022E          | 2023E          | 2024E          |
|---|----------------|----------------|----------------|----------------|----------------|
| P&C Net written premiums                            | 11,905         | 12,949         | 14,134         | 15,210         | 16,308         |
| <b>P&amp;C Revenues:</b>                            |                |                |                |                |                |
| P&C net earned premiums                             | 11,918         | 12,495         | 13,534         | 14,512         | 15,408         |
| Fee Income  | 64             | 66             | 69             | 69             | 69             |
| <b>Total revenues</b>                               | <b>11,982</b>  | <b>12,561</b>  | <b>13,603</b>  | <b>14,581</b>  | <b>15,477</b>  |
| <b>P&amp;C Expenses:</b>                            |                |                |                |                |                |
| Loss & loss adjustment expenses                     | 7,653          | 8,110          | 8,422          | 9,119          | 9,621          |
| Amortization of DAC                                 | 1,641          | 1,628          | 1,789          | 1,918          | 2,060          |
| Underwriting Expenses                               | 2,228          | 2,330          | 2,452          | 2,619          | 2,777          |
| Dividends to policyholders                          | 29             | 24             | 30             | 38             | 41             |
| <b>Total expenses</b>                               | <b>11,551</b>  | <b>12,092</b>  | <b>12,693</b>  | <b>13,693</b>  | <b>14,499</b>  |
| <b>Underwriting Income</b>                          | <b>431</b>     | <b>469</b>     | <b>909</b>     | <b>888</b>     | <b>978</b>     |
| P&C Net investment income                           | 1,372          | 1,734          | 1,509          | 1,772          | 1,914          |
| Other   | (83)           | 315            | (436)          | -              | -              |
| <b>P&amp;C Income before income taxes</b>           | <b>1,720</b>   | <b>2,518</b>   | <b>1,982</b>   | <b>2,660</b>   | <b>2,892</b>   |
| Income tax expense                                  | 314            | 469            | 405            | 519            | 564            |
| <b>P&amp;C Net Income (loss)</b>                    | <b>1,406</b>   | <b>2,049</b>   | <b>1,577</b>   | <b>2,141</b>   | <b>2,328</b>   |
| Adjustments (incl ATX net realized cap gain/(loss)) | (313)          | 36             | (349)          | -              | -              |
| <b>P&amp;C Core Earnings</b>                        | <b>\$1,719</b> | <b>\$2,013</b> | <b>\$1,926</b> | <b>\$2,141</b> | <b>\$2,328</b> |
| <b>Core earnings Per Share</b>                      | <b>\$5.78</b>  | <b>\$6.17</b>  | <b>\$7.11</b>  | <b>\$8.19</b>  | <b>\$9.52</b>  |
| <b>Shares</b>                                       |                |                |                |                |                |
| Wtd Average Diluted Shares Outstanding              | 360.6          | 354.1          | 329.1          | 308.5          | 289.2          |

Source: Barclays Research, Company Data.

**FIGURE 6. Model Summary (pg. 2)**

| <b>(\$ in mn, except per share data)</b>                  | <b>2020</b> | <b>2021</b> | <b>2022E</b> | <b>2023E</b> | <b>2024E</b> |
|---|-------------|-------------|--------------|--------------|--------------|
| <b><u>Capital deployment</u></b>                          |             |             |              |              |              |
| Assumed Repurchase Price Per Share                        | \$56        | \$65        | \$69         | \$69         | \$73         |
| Shares Repurchased (in mn)                                | 2.7         | 26.3        | 22.5         | 19.9         | 18.8         |
| Dollar Amount Repurchased (in \$ mn)                      | 150         | 1,702       | 1,545        | 1,380        | 1,380        |
| Dividends Per Share                                       | \$1.30      | \$1.44      | \$1.59       | \$1.79       | \$1.96       |
| Shareholder dividends (in \$ mn)                          | 466         | 501         | 515          | 543          | 560          |
| Total capital returned                                    | 616         | 2,203       | 2,060        | 1,923        | 1,940        |
| Total capital returned as % normalized earnings           | 30%         | 102%        | 88%          | 76%          | 70%          |
| <b><u>Other statistics</u></b>                            |             |             |              |              |              |
| Effective Tax Rate  | 18.3%       | 18.6%       | 20.4%        | 19.5%        | 19.5%        |
| Catastrophe losses (P/T)                                  | 606         | 664         | 650          | 748          | 789          |
| Prior year reserve development (fav)/unfav (P/T)          | (136)       | 199         | (175)        | (116)        | (125)        |
| <b><u>Shareholders' Equity and Returns on Capital</u></b> |             |             |              |              |              |
| Common stockholders' equity ex AOCI                       | 17,052      | 17,337      | 17,143       | 17,742       | 18,551       |
| Total stockholders' equity ex AOCI                        | 17,386      | 17,671      | 17,477       | 18,076       | 18,885       |
| Book value per diluted share ex AOCI                      | \$47.16     | \$50.86     | \$53.82      | \$59.40      | \$66.27      |
| Core Earnings ROE   | 12.7%       | 12.5%       | 13.6%        | 14.5%        | 15.2%        |
| <b><u>Underwriting Margins - P&amp;C</u></b>              |             |             |              |              |              |
| Loss ratio  | 64.2%       | 64.9%       | 62.2%        | 62.8%        | 62.4%        |
| Expense ratio   | 31.9%       | 31.1%       | 30.8%        | 30.8%        | 30.9%        |
| Policyholder dividends                                    | 0.2%        | 0.2%        | 0.2%         | 0.3%         | 0.3%         |
| Total P&C Combined ratio                                  | 96.4%       | 96.2%       | 93.3%        | 93.9%        | 93.6%        |
| <b><u>Underlying Combined Ratio</u></b>                   |             |             |              |              |              |
| Catastrophe loss CR pts                                   | 5.1%        | 5.3%        | 4.8%         | 5.2%         | 5.1%         |
| Prior year reserve development CR pts                     | -1.1%       | 1.6%        | -1.3%        | -0.8%        | -0.8%        |
| Underlying P&C Combined Ratio                             | 92.4%       | 89.3%       | 89.8%        | 89.5%        | 89.3%        |

Source: Barclays Research, Company Data.

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**The Hartford Financial Services Group, Inc.** (HIG, 28-Oct-2022, USD 72.16), Overweight/Positive, CD/CE/D/J/K/L/M

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## The Hartford Financial Services Group, Inc. (HIG / HIG)

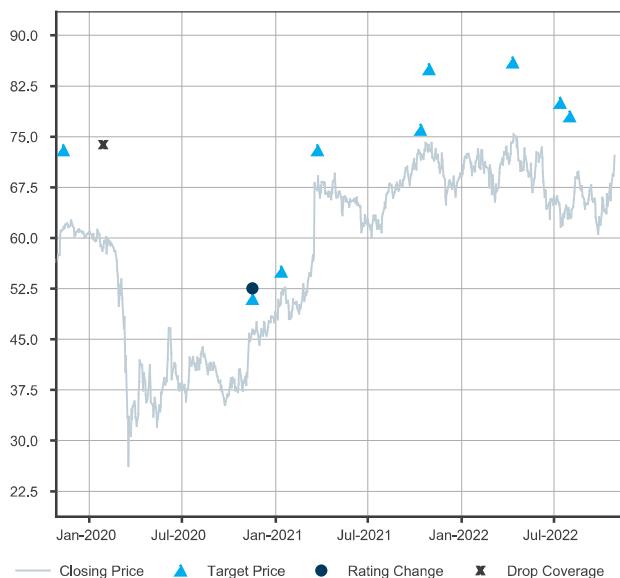
Stock Rating: **OVERWEIGHT**

Industry View: **POSITIVE**

**USD 72.16** (28-Oct-2022)

### Rating and Price Target Chart - USD (as of 28-Oct-2022)

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

| Publication Date | Closing Price* | Rating           | Adjusted Price Target |
|------------------|----------------|------------------|-----------------------|
| 01-Aug-2022      | 64.47          |                  | 78.00                 |
| 13-Jul-2022      | 64.93          |                  | 80.00                 |
| 11-Apr-2022      | 74.13          |                  | 86.00                 |
| 29-Oct-2021      | 72.93          |                  | 85.00                 |
| 12-Oct-2021      | 71.96          |                  | 76.00                 |
| 24-Mar-2021      | 67.05          |                  | 73.00                 |
| 12-Jan-2021      | 51.86          |                  | 55.00                 |
| 16-Nov-2020      | 46.34          | Overweight       | 51.00                 |
| 22-Jan-2020      | 59.90          | Coverage Dropped |                       |
| 11-Nov-2019      | 61.09          |                  | 73.00                 |

On 31-Oct-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 70.00.

Source: Bloomberg, Barclays Research

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