

Equity Research

Price Target Change — July 20, 2021

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Setting the Stage for Q2 P&C Earnings; Conference Call Round-Up

Our Call

Summary. TRV hosted a conference call on 7/20 to discuss Q2 results. The call focused on pricing, underlying trends within the auto market, its recent investment within Fidelis, and underlying business trends. Our 2021 EPS estimate rises to \$11.57 (from \$11.07), our 2022 estimate is now \$12.15 (from \$11.90) while 2023 goes to \$13.00 (from \$12.95) reflecting adjustments to our investment income, premium and margin assumptions. Our price target rises to \$159 (from \$155) and is based on 1.25x our 2022E book value. TRV got a modest lift from earnings coming in above expectations as the majority of the beat was driven off of favorable alternative investment income.

- TRV is the first P&C insurer to report leaving many tea leaves for the rest of earnings season**—including: **(1)** commercial lines pricing slowed (as shown within their renewal rate within BI), which was expected, but TRV did say they expect written rate to exceed loss trend for some time, **(2)** exposure growth was 2.4%, which was the strongest level in nine quarters and is a strong sign for the insurance brokers, **(3)** within their personal auto book they are starting to see loss trends return toward pre-pandemic levels (this became more evident as we moved towards the end of the quarter) and will look to take some rate in certain states as we move through the year, **(4)** it was a strong investment income quarter driven by alternative investments, and **(5)** M&A commentary was unchanged. TRV added to its leverage in the quarter, which was in-line with the company's expectations, as it had expected to bring up its leverage to help support its top-line growth.
- Pricing and margin color.** TRV expects written rate to stay above loss trend for some time, which points to continued underlying margin improvement. In the current quarter, Business Insurance saw a 2 point benefit from earned rate exceeding loss trend, which should be well-received, and they did not seem concerned about loss trend rising (from their assumed 5%). The level of BI margin improvement in the quarter was positively viewed, although the 1.5 point of better non-cat weather than expected lowers the starting margin base for next Q2.
- Personal auto losses rising, although not fully evident in Q2 results.** TRV's personal auto margins in the Q2 were not yet back to 2019 levels, however TRV said that frequency was closer to pre-pandemic levels towards the end of the quarter. Further, as loss experience approached pre-pandemic levels, TRV said that they will look to file for rate increases in selected states later this year. TRV's margins are not yet back to 2019 levels (whereas PGR's Q2 results were worse than what they saw in 2019) which we believe is most likely due to the larger concentration of non-standard risk within PGR's book and the nonstandard drivers perhaps have less work from home flexibility and have returned to the officer sooner.
- Buyback and M&A thoughts.** Buybacks picked up modestly in the quarter, while TRV pointed to using the \$750 million from the recent debt offering to support growth. Its recent investment in Fidelis does not impact TRV's capital management strategy.
- Its investment in Fidelis.** TRV recently made a [minority investment in Fidelis](#) and indicated it was small, given the level of the investment was not disclosed. The Fidelis investment will give the company access to the non-admitted market, and while it does bring some reinsurance exposure, it does not change TRV's overall view, which is that they are not looking to get bigger in reinsurance via M&A.

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| Rating | Equal Weight |
|--|-------------------|
| Ticker | TRV |
| Price Target/Prior: | \$159.00/\$155.00 |
| Upside/(Downside) to Target | 5.2% |
| Price (07/20/2021) | \$151.09 |
| 52 Week Range | \$105.67 - 162.71 |
| Shares Outstanding | 251,465,267 |
| Market Cap (MM) | \$37,994 |
| Enterprise Value (MM) | \$44,461 |
| Average Daily Volume | 1,377,477 |
| Average Daily Value (MM) | \$208 |
| Dividend (NTM) | \$3.49 |
| Dividend Yield | 2.3% |
| Net Debt (MM) - last reported | \$6,467 |
| ROIC - Current year est. | 10% |
| 3 Yr EPS CAGR from current year (unless otherwise noted) | 7% |

| | 2020A | 2021E | 2021E | 2022E | 2022E |
|----------|----------|---------|--------|---------|--------|
| EPS | | Curr. | Prior | Curr. | Prior |
| Q1 (Mar) | 2.62 A | 2.73 A | NC | 3.49 E | NC |
| Q2 (Jun) | (0.20) A | 3.45 A | 2.68E | 2.31 E | 1.91E |
| Q3 (Sep) | 3.12 A | 1.75 E | 1.80E | 2.36 E | 2.33E |
| Q4 (Dec) | 4.91 A | 3.65 E | 3.88E | 4.00 E | 4.18E |
| FY | 10.48 A | 11.57 E | 11.07E | 12.15 E | 11.90E |
| P/E | 14.4x | 13.1x | | 12.4x | |

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 Refinitiv.

NA = Not Available, Volatility = Historical trading volatility

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The Quarter In A Nutshell. This morning (7/20), TRV [reported](#) Q2 core EPS of \$3.45, beating both our \$2.68 estimate and the \$2.39 consensus estimate. TRV's results beat on better underlying results, higher favorable reserve development and stronger investment income, which more than offset higher catastrophe losses. The underlying combined ratio of 91.4%, came in better than our 92.1% estimate, with Business Insurance and Bond & Specialty beating us, while Personal Lines missed us (on weaker results within auto and home). NPW rose by 10.7% (or +7.6% excluding the auto rebates last year), beating our 3.7% estimate. Net investment income was \$818 million, better than our \$604 million estimate with the upside virtually all due to other investments. Catastrophe losses were \$475 million, higher than our \$300 million estimate. Repurchases were \$401 million, ahead of our \$375 million estimate. Book value per share rose by 3.9% and the core ROE was 13.7%.

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

Exhibit 1 - Consolidated Results Versus Wells Fargo Securities Estimates

| | Q2 2021 Actual | Q2 2021 Estimate |
|--|----------------|------------------|
| Net premiums written (in millions) | \$8,135 | \$7,617 |
| Growth in net premiums written | 10.7% | 3.7% |
| Growth in net premiums earned | 9.5% | 4.5% |
| Investment income (in millions) | \$818 | \$603 |
| Combined ratio | 95.3% | 95.9% |
| Catastrophe losses (in millions) | \$475 | \$300 |
| Reserve releases (in millions) | (\$182) | (\$23) |
| Underlying Loss Ratio | 61.7% | 62.1% |
| Expense Ratio | 29.7% | 30.0% |
| Underlying combined ratio | 91.4% | 92.1% |
| Tax rate | 17.9% | 16.5% |
| Operating EPS | \$3.45 | \$2.68 |
| Growth in operating EPS | NM | NM |
| Book value per share | \$116.86 | \$113.84 |
| Segment Underwriting Income (in millions): | | |
| Business Insurance | \$108 | (\$25) |
| Bond & Specialty Insurance | \$164 | \$89 |
| Personal Insurance | (\$17) | \$154 |
| Operating ROE | 12.0% | 9.5% |

Source: Wells Fargo Securities, LLC estimates and Company reports

2021 Outlook

2021 outlook mostly unchanged, although investment income guidance moves modestly higher.

[Exhibit 2](#) below highlights TRV's commentary and expectations for 2021. TRV did not provide specific 2021 guidance, which is consistent with previous quarters in 2020 after TRV pulled its outlook in Q1 2020 for renewal premium change and its underlying margins as a result of the uncertainty associated with the potential impacts associated with Covid-19. TRV did provide an outlook for net investment income, and also provided helpful color around other line items in the model. TRV now expects 2021 **fixed income NII** to be in the \$425-435 million range per quarter on an after-tax basis during the remaining two quarters of 2021 (up from its prior guidance of \$420-430 million). TRV did not call out any **alternative investment income** trends. For **catastrophe losses**, TRV highlighted that as of Q2 it has incurred \$1.5 billion towards the \$1.9 billion retention under its aggregate program. In **Business Insurance**, TRV did not call out any Covid-19 losses in the quarter (as our expectation is losses have largely subsided for the group) but did say the Y/Y compare with the BI margin benefited from the net Covid-19 charge the segment saw last year. Within BI, rate exceeded loss trend by around 2 points in the quarter, compared to a little less than 2 points in Q1 and over 1.5 points in Q4 2020. **Bond and Specialty** did not have a specific guidance for the year (with Q4 2020 earnings TRV said they expected the underlying margin to be better than the 87% in H2 2020 during 2021). **Personal lines** results benefited from favorable frequency but TRV pointed to starting to see miles driven return to pre-pandemic levels as the quarter came to a close. In homeowners' results were impacted by elevated frequency and severity of fire and non-weather water losses. No color was given on the **expense ratio**.

Exhibit 2 - TRV Summary Of Guidance

| | | 2021 Outlook | | | |
|--|---|--|--|---|--|
| | Provided With Q3 2020 Earnings | Provided With Q4 2020 Earnings | Provided With Q1 2021 Earnings | Provided With Q2 2021 Earnings | |
| Underlying Margins | | | | | |
| Business Insurance | | | TRV expects to expand margins this year as rate remains in excess of loss trend. | | TRV expects to expand margins due to strong pricing environment and exposure increases |
| Bond and Specialty Insurance | TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19. | Consistent with previous quarters during the pandemic, TRV did not provide specific guidance for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2021. | Did not provide specific guidance, but did say last quarter they expected the underlying margin to be better than the 87% in H2 2020 during 2021. | | Did not provide specific guidance, but did say in Q4'20 they expected the underlying margin to be better than the 87% in H2 2020 during 2021. |
| Personal Insurance | | | Q1 results benefited from favorable frequency, but TRV pointed to seeing miles driven returning to pre-pandemic levels. | | TRV pointed to seeing miles driven return to pre-pandemic levels by the end of the quarter, and they will look to implement rates changes in the 2H to taper the frequency unfavorability. |
| Personal auto | | | | | Severity of fire and non-water losses contributed to higher losses for the quarter. Reiterated Q2 losses are usually the highest. |
| Homeowners' | | | | | |
| Renewal Premium Growth | | | | | |
| Business Insurance | The company expects the decreased economic activity to weigh on premium volumes for 2020. TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19. | | | | |
| Bond and Specialty Insurance | | TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic. | TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic. | TRV did not provide specific guidance for premium volumes in 2021, consistent with past quarters during the pandemic. | |
| Personal auto | | | | | |
| Homeowners' | | | | | |
| Investment Income (Fixed Income And Short-Term Investments) | | | | | |
| | Approx. \$35-40 million lower per quarter for the remainder of 2020. For 2021, NII to be between \$420-430 million per quarter | TRV still expects 2021 fixed income NII to be in the \$420-430 million range on an after-tax basis in 2021. TRV also noted that new money yields are coming on at 90-100bps (versus 150bps last quarter) although it did not have an impact on Q1 results given the duration of the portfolio. | TRV still expects 2021 fixed income NII to be in the \$420-430 million range on an after-tax basis in 2021. TRV also noted that new money yields are coming on at 90-100bps (versus 150bps last quarter) although it did not have an impact on Q1 results given the duration of the portfolio. | TRV raised 2021 2H'21 fixed income NII to be in the \$425-435 million range on an after-tax basis per quarter. | |

Source: Company reports and Wells Fargo Securities, LLC

Pricing momentum slows a bit in commercial lines. Business Insurance renewal rate change was 7.1%, dropping from 8.3% in Q1, 8.3% in Q4, 8.1% in Q3, but stable with 7.1% last Q2. Exposure growth was 2.4%, versus the 1.4% last quarter. TRV pointed to the sequential slowdown in rates reflective of rational moderating rate increases in excess casualty and national property due to three years of compounding rate increases in the two business lines.

Takeaways For The Non-Life Insurance Group

The main takes that stand out from TRV to us and the laterals for the rest of the group are below.

Net-net, the biggest take is the fact that they expect to see written rate excess loss trend for the foreseeable future, combined with the fact that they saw driving levels approach pre-pandemic levels by the end of the Q2.

Commercial lines pricing remains strong, but is decelerating with renewal rates up 7.1% in business insurance, falling from 8-8.3% over the prior three quarters, but stable with last Q2. TRV attributed the sequential slowdown to lower prices within excess casualty and national property. Rates staying above loss trend is a positive for the commercial insurers (AIG, CB, HIG, and WRB) and specifically AIG and CB where workers' comp represent a smaller portion of their book, in our view.

1. *Underlying margin in Business Insurance benefited from rate exceeding trend and favorable non-cat weather.* TRV said that earned rate exceeded loss trend by around 2 points, which is better than the 'a little less' than 2.0 points in Q1, and 1.5 points in Q4 2020. TRV also said that it expects written rate to stay above loss trend for some time. To us, this points to strong underlying margins for the group in the Q2, with the potential for continued improvement throughout the year and into 2022. **This would be a positive as well for the commercial lines insurers, including AIG, CB, HIG and WRB.**
2. *Strong exposure growth.* Exposure growth was 2.4% which is the strongest level in nine quarters and highlights the robust improvement in the economy and is a bullish sign for the insurance brokers. This adds to the strong lateral we already have from the exceptional organic growth quarter from [Truist](#). **This appears to be a good sign for all insurance brokers—given that TRV is more of a small-middle market insurer, it is the best take for AJG and BRO, but does point to a strong quarter for the group in general.**
3. *No Covid-19 losses were called out.* This was the case last quarter as well and ties to our overall thought that Covid-19 related losses have largely subsided for the P&C sector. The only P&C company that had pointed to Covid-19 losses was HIG, although that was with its initial 2021 outlook at the start of the year. **We do not expect to see many, if any, Covid-19 losses from P&C insurers in the Q2.**
4. *Personal auto loss trends are getting back to pre-pandemic levels.* TRV's Personal Auto book saw continued benefits to its margin from lower claims frequency, but the company said they were largely back to pre-pandemic levels by the end of the quarter. The Personal Auto segment's underlying margin came in at 92.0%, which was the worst quarter since the start of 2020, but is still above the 95.7% in Q2 2019. Our sense is that PGR skews more non-standard auto than ALL, HIG and TRV which is probably why its margins have deteriorated more in the Q2 than TRV's did. **In general, we remain cautious on the personal auto insurers (EW-rated ALL [\$127.49] and UW-rated PGR [\$94.57]) due to the lack of pricing in the market, combined with the potential for frequency to return to more normalized levels as driving picks up.**
5. *Net investment income guide revised up to reflect growth in invested assets.* TRV raised its quarterly net investment income guide for its fixed income NII to be between \$425-435 million after-tax (up from the prior \$420-430 million). TRV invested assets are benefiting from the \$750 million of debt they issued in the Q2, but nonetheless the lack of revising down its investment income signals that the low interest rate environment should be mostly in numbers at this point. **This is a good lateral for most (if not all) insurers, in our view.**
6. *Strong alternative investment quarter.* Alternative related investment income totaled \$335 million in Q2, up from \$218 million in Q1, \$182 million in Q4 2020 and \$173 million in Q3 2020. **We think alternative related investment income could surprise to the upside, for both P&C and life insurers, based on TRV's strong results.**
7. *Repurchases picked up in the Q2.* TRV repurchased \$401 million in Q2, up from \$397 million in Q1, \$201 million in Q4 2020 after not repurchasing any in both Q3 or Q2 2020. Further, TRV said that its recent investment in Fidelis (the level of which was not disclosed as it was minor) does not impact its capital management strategy. **We expect all insurers, P&C and life, to pick up their level of buyback activity in the Q2, especially given the still attractive valuations across both the P&C and life insurance sectors.**

Highlights Of Our Estimate Changes

Overview of our estimate changes. [Exhibit 4](#) highlights the changes we made to our earnings model following Q2 2021 earnings. Our 2021 EPS estimate rises to \$11.57 (from \$11.07), our 2022 estimate is now \$12.15 (from \$11.90) while 2023 goes to \$13.00 (from \$12.95) reflecting adjustments to our investment income, premium and margin assumptions.

Exhibit 3 - TRV Summary of Estimate Changes

| Income Statement (\$M, except per share data) | Current | | | Prior Estimates | | | Delta (Absolute) | | |
|--|----------------|----------------|----------------|------------------------|----------------|----------------|-------------------------|---------------|---------------|
| | 2021E | 2022E | 2023E | 2021E | 2022E | 2023E | 2021E | 2022E | 2023E |
| Gross premiums written | 33,801 | 35,671 | 37,651 | 33,066 | 34,552 | 36,116 | 735 | 1,120 | 1,535 |
| % growth (yr/yr) | 6.4% | 5.5% | 5.5% | 4.1% | 4.5% | 4.5% | 2.3% | 1.0% | 1.0% |
| Net premiums written | 31,703 | 33,226 | 34,956 | 31,041 | 32,532 | 34,223 | 662 | 694 | 733 |
| % growth (yr/yr) | 6.6% | 4.8% | 5.2% | 4.4% | 4.8% | 5.2% | 2.2% | (0.0%) | 0.0% |
| Increase in unearned premiums | (1,139.7) | (934.8) | (1,058.4) | (1,020.1) | (906.1) | (1,024.7) | (119.6) | (28.7) | (33.6) |
| Net premiums earned | 30,563 | 32,291 | 33,898 | 30,021 | 31,626 | 33,199 | 542 | 665 | 699 |
| % growth (yr/yr) | 5.2% | 5.7% | 5.0% | 3.4% | 5.3% | 5.0% | 1.9% | 0.3% | 0.0% |
| Net investment income | 2,631 | 2,231 | 2,233 | 2,408 | 2,199 | 2,210 | 223 | 32 | 23 |
| Fee income | 412 | 412 | 412 | 422 | 422 | 422 | (10) | (10) | (10) |
| Other income | 340 | 348 | 356 | 337 | 348 | 356 | 3 | 0 | 0 |
| Total revenue | 33,947 | 35,282 | 36,899 | 33,188 | 34,596 | 36,187 | 759 | 686 | 712 |
| Losses and loss adjustment expenses | 20,358 | 21,255 | 22,305 | 19,934 | 20,778 | 21,759 | 424 | 477 | 546 |
| Amortization of deferred acquisition costs | 5,001 | 5,264 | 5,526 | 4,888 | 5,139 | 5,394 | 112 | 125 | 132 |
| General and administrative expenses | 4,711 | 4,874 | 5,101 | 4,674 | 4,882 | 5,101 | 38 | (8) | 0 |
| Interest expense | 340 | 351 | 337 | 341 | 351 | 337 | (1) | 0 | 0 |
| Total expenses | 30,410 | 31,743 | 33,269 | 29,837 | 31,149 | 32,591 | 573 | 594 | 678 |
| Pretax operating income | 3,537 | 3,538 | 3,630 | 3,351 | 3,446 | 3,596 | 186 | 92 | 34 |
| % growth (yr/yr) | 9.3% | 0.0% | 2.6% | 3.6% | 2.8% | 4.4% | 5.8% | (2.8%) | (1.8%) |
| Income tax expense/(benefit) | 606 | 584 | 599 | 561 | 569 | 593 | 45 | 15 | 6 |
| After-tax core income | 2,930 | 2,955 | 3,031 | 2,790 | 2,878 | 3,003 | 141 | 77 | 28 |
| % growth (yr/yr) | 9.1% | 0.8% | 2.6% | 3.9% | 3.2% | 4.4% | 5.2% | (2.3%) | (1.8%) |
| Company income tax rate (%) | 17.1% | 16.5% | 16.5% | 16.7% | 16.5% | 16.5% | 0.4% | 0.0% | 0.0% |
| Weighted average number of diluted shares | 252 | 242 | 232 | 250 | 241 | 231 | 1 | 1 | 1 |
| Participating share-based awards - allocated income | 20 | 16 | 16 | 17 | 16 | 16 | 3 | 0 | 0 |
| After-tax core income | \$11.57 | \$12.15 | \$13.00 | \$11.07 | \$11.90 | \$12.95 | \$0.50 | \$0.25 | \$0.04 |
| Profitability Metrics | | | | | | | | | |
| Loss and loss adjustment expense ratio | 66.1% | 65.3% | 65.2% | 65.9% | 65.1% | 65.0% | 0.2% | 0.1% | 0.3% |
| Underwriting expense ratio | 29.6% | 29.1% | 29.1% | 29.7% | 29.5% | 29.4% | -0.1% | -0.3% | -0.3% |
| Combined ratio | 95.7% | 94.4% | 94.4% | 95.6% | 94.6% | 94.4% | 0.1% | -0.2% | 0.0% |
| Points on the combined ratio | 6.1% | 4.5% | 4.5% | 5.6% | 4.6% | 4.6% | 0.5% | -0.1% | -0.1% |
| Points on the combined ratio | -1.3% | -0.2% | -0.1% | -0.8% | 0.0% | 0.0% | -0.5% | -0.2% | -0.1% |
| Current accident year combined ratio | 90.9% | 90.1% | 90.0% | 90.8% | 90.0% | 89.8% | 0.2% | 0.1% | 0.2% |
| Underlying loss ratio | 61.4% | 60.9% | 60.9% | 61.1% | 60.5% | 60.4% | 0.2% | 0.4% | 0.5% |
| Segment Underwriting Income (in millions): | | | | | | | | | |
| Business Insurance | (\$32) | \$304 | \$344 | (\$201) | \$113 | \$409 | \$169 | \$191 | (\$65) |
| Bond & Specialty Insurance | \$537 | \$646 | \$659 | \$470 | \$597 | \$620 | \$67 | \$49 | \$39 |
| Personal Insurance | \$431 | \$394 | \$410 | \$709 | \$573 | \$373 | (\$279) | (\$179) | \$37 |
| Book value per share | \$119.91 | \$127.48 | \$136.03 | \$117.08 | \$124.23 | \$132.53 | \$2.83 | \$3.25 | \$3.50 |
| ROE | 9.8% | 9.8% | 9.9% | 9.5% | 9.9% | 10.1% | 0.3% | 0.0% | -0.2% |

Source: Company reports and Wells Fargo Securities, LLC estimates

Pricing Accelerating In Commercial Lines

Business Insurance Rating Environment –TRV Rates Taper Down, But Still Well Above Loss Trend

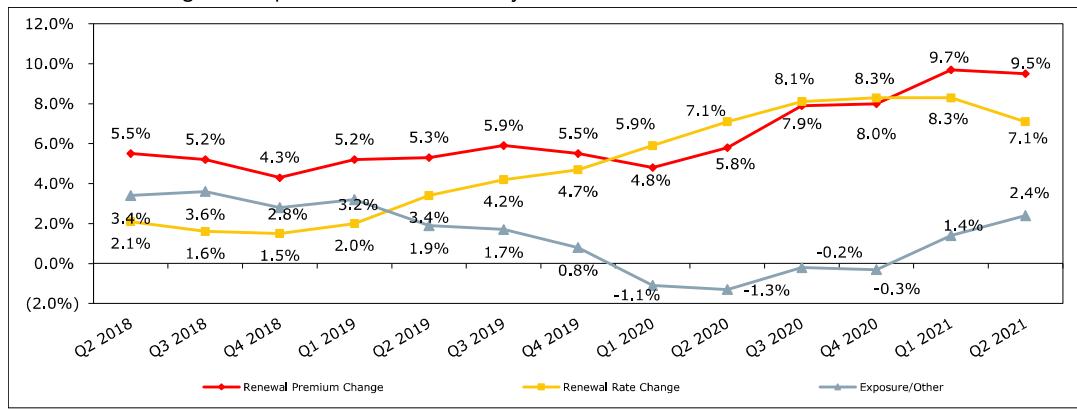
- In the Q2, the *Business Insurance* renewal rate change was +7.1%, below +8.3% (revised lower) in Q1, +8.0% in Q4 2020, +8.1% (revised lower) in Q3 2020, but same as +7.1% (revised lower) in Q2 last year. Exposure growth was +2.4% versus +1.4% in the Q1 2021 (revised up from 0.8%), -0.3% in the Q4 2020 (revised up from -0.5%), -0.2% in Q3 2020 (revised up from -0.4%), and -1.3% in Q2 2020. TRV said model changes on the length of the time period it looks at its RPC drivers results in the revisions to previous quarters. See [Exhibits 4 and 5](#) below, which shows the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change.
- TRV stopped providing forward guidance on its RPC (last summer) as the company was unsure of how the economy would be impacted from Covid-19. The company has yet to bring back RPC forward guidance but has pointed to margin improvement as Business Insurance earned rate remains in excess of loss trend. Our assumption is the exposure bucket of the RPC remains positive, in the Q3 although maybe not as strong as the Q2 given the dramatic drop in exposure in last year's Q2.

Exhibit 4 - Domestic Business Insurance Renewal Pricing Results By Quarter

| | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| RPC | 5.5% | 5.2% | 4.3% | 5.2% | 5.3% | 5.9% | 5.5% | 4.8% | 5.8% | 7.9% | 8.0% | 9.7% | 9.4% |
| RRC | 2.1% | 1.6% | 1.5% | 2.0% | 3.4% | 4.2% | 4.7% | 5.9% | 7.1% | 8.1% | 8.3% | 8.3% | 7.1% |
| Exposure/other | 3.4% | 3.6% | 2.8% | 3.2% | 1.9% | 1.7% | 0.8% | -1.1% | -1.3% | -0.2% | -0.3% | 1.4% | 2.4% |
| % of BT NPW in Workers' Comp | 24.7% | 24.3% | 23.4% | 28.6% | 23.1% | 23.3% | 22.1% | 26.2% | 20.7% | 20.2% | 19.3% | 23.0% | 18.9% |

Source: Company data and Wells Fargo Securities, LLC

Exhibit 5 - Pricing And Exposure Growth Seen By Travelers



Source: Company data and Wells Fargo Securities, LLC

Personal Auto - TRV Pointed To Looking To Take Price In Auto And Home

- Within *Personal Insurance*, TRV saw a deceleration in rate in personal auto in the quarter. The RPC in auto was 0.2% in the Q2 versus 0.5% in Q1, 0.9% in the Q4, 1.6% in the Q3, and 1.6% in Q2. On the auto side, TRV said that they have started to see driving frequency match pre-pandemic levels towards the end of Q2 and they are monitoring trends and incorporating them into their state-specific pricing decisions. Homeowners' pricing accelerated to 8.2%, compared to 7.6% in Q1, 8.2% in the Q4, 8.1% in the Q3, and 7.5% in Q2 of 2020. On the home side, TRV said they will look to take price in response to the high level of fire and non-cat weather losses they are seeing.
- Travelers saw its new business in auto grow in the Q2, with auto new business premiums totaling \$299 million versus \$278 million in the Q1, \$269 million in the Q4, \$276 million in Q3, and \$251 million in Q2. New business was also up in home in the quarter, growing to \$335 million from \$261 million last Q2.

Exhibit 6 - Personal Insurance Business Statistics

| | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Automobile | | | | | |
| Retention | 84% | 84% | 84% | 84% | 85% |
| Renewal Premium Change | 1.6% | 1.6% | 0.9% | 0.5% | 0.2% |
| Policies-In-Force (PIF, in thousands) | 2,732 | 2,761 | 2,779 | 2,807 | 2,808 |
| PIF Yearly Change | 2% | 3% | 3% | 4% | 3% |
| PIF Sequential Change | 1% | 1% | 1% | 1% | 0% |
| New Business (\$ in millions) | \$251 | \$276 | \$269 | \$278 | \$299 |
| Homeowners & Other | | | | | |
| Retention | 85% | 84% | 85% | 85% | 85% |
| Renewal Premium Change | 7.5% | 8.1% | 8.2% | 7.6% | 8.2% |
| Policies-In-Force (PIF, in thousands) | 5,435 | 5,549 | 5,617 | 5,703 | 5,704 |
| PIF Yearly Change | 9% | 9% | 8% | 8% | 5% |
| PIF Sequential Change | 3% | 2% | 1% | 2% | 0% |
| New Business (\$ in millions) | \$261 | \$298 | \$272 | \$263 | \$335 |

Source: Company data and Wells Fargo Securities, LLC

**Profitability Benefited From Better Underlying Results And Higher PYD
Underlying Results Came In Better-Than-Expected**

- The consolidated combined ratio was 95.3%, beating our 95.9% estimate largely reflective of a higher level of favorable reserve releases and better underlying results. Cats of \$475 million were higher than our \$300 million estimate, while favorable reserve development of \$182 million was significantly above our \$23 million estimate due to higher releases across all segments. The underlying combined ratio of 91.4% was favorable to our estimate of 92.1%, and in line with last year. Underlying results beat us in Bond & Specialty and Business Insurance (which benefited from rate exceeding loss trend as well as non-cat weather than was 1.5 points favorable versus TRV's expectations), while Personal Lines was just below us due to weaker results in both auto and home.
- Catastrophe losses totaled \$475 million and came in above our \$300 million estimate—due to the [cat announcement by ALL](#) in June and the losses that [PGR also saw in June](#) we were not necessarily surprised to see TRV see cats that exceeded our estimate. TRV noted that the \$475 million in cat losses was mainly related to severe wind and hail storms in several regions of the U.S. Through the end of the Q2 TRV has \$1.5 billion of cat losses counting towards its \$1.9 billion aggregate retention (due to TRV's cat definition, some losses count towards the aggregate retention that the company does not consider cat).
- Reserve releases were \$182 million, significantly better than our \$23 million estimate due to higher releases in Business Insurance, Bond & Specialty, and Personal Lines. Business Insurance which saw favorable development of \$73 million (significantly better than our \$2.5 million estimate and following the highest quarterly level for the segment in three years in Q1) as releases in workers' comp were only partially offset by strengthening for run-off operations, Bond & Specialty saw \$44 million (higher than our estimate for adverse development of \$0.2 million) due to better than expected loss experience in the fidelity and surety product lines, and Personal Lines saw \$65 million (higher than our \$21 million) due to better than expected losses in the both auto and homeowners.

Exhibit 7 - Underlying Combined Ratio – Deterioration In Loss Ratio, But Improvement In Expense Ratio

| | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Reported Combined Ratio | 98.1% | 96.6% | 97.5% | 93.7% | 98.4% | 101.5% | 92.4% | 95.5% | 103.7% | 94.9% | 86.7% | 96.6% | 95.3% |
| Catastrophe Losses, net of reinsurance | 7.3% | 3.8% | 8.8% | 2.8% | 5.3% | 3.4% | 1.2% | 4.6% | 12.3% | 5.3% | 0.4% | 11.3% | 3.9% |
| Prior Year Reserve Development (Favorable)/Unfavorable | (2.8%) | (0.2%) | (2.4%) | (0.7%) | (1.8%) | 4.1% | (0.8%) | (0.4%) | (0.0%) | (1.9%) | (2.1%) | (4.3%) | (2.4%) |
| Underlying Combined Ratio | 93.6% | 93.0% | 91.1% | 91.6% | 94.9% | 94.1% | 92.1% | 91.3% | 91.4% | 91.5% | 88.7% | 89.5% | 91.4% |
| Underlying (improvement) deterioration | 0.1% | 0.2% | (1.3%) | (0.8%) | 1.3% | 1.1% | 0.9% | (0.3%) | (3.5%) | (2.5%) | (3.3%) | (1.8%) | (0.0%) |
| Underlying Loss Ratio | 62.9% | 63.3% | 61.6% | 61.9% | 64.7% | 64.5% | 63.0% | 61.3% | 60.4% | 62.2% | 59.3% | 59.7% | 64.1% |
| Change from last year | 0.5% | 0.9% | (0.1%) | 0.1% | 1.8% | 1.3% | 1.3% | (0.7%) | (4.3%) | (2.3%) | (3.6%) | (1.6%) | 3.6% |
| Underlying Expense Ratio | 30.7% | 29.7% | 29.5% | 29.7% | 30.2% | 29.5% | 29.1% | 30.0% | 31.0% | 29.3% | 29.4% | 29.9% | 29.7% |
| Change from last year | (0.4%) | (0.7%) | (1.2%) | (0.9%) | (0.5%) | (0.2%) | (0.4%) | 0.3% | 0.8% | (0.2%) | 0.3% | (0.0%) | (1.3%) |

Source: Company data and Wells Fargo Securities, LLC

Exhibit 8 - Underlying Combined Ratio By Segment – Deterioration In All Segments

| | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | Q2 2021 |
|--|----------------|----------------|----------------|----------------|----------------|
| Business Insurance | 97.0% | 94.0% | 93.6% | 93.7% | 93.3% |
| Underlying (improvement) deterioration | (0.4%) | (1.8%) | (2.8%) | (3.6%) | (3.7%) |
| Bond & Specialty | 88.1% | 89.0% | 85.0% | 84.2% | 83.4% |
| Underlying (improvement) deterioration | 7.1% | 5.5% | 3.7% | (1.5%) | (4.7%) |
| Personal Insurance | 84.0% | 88.7% | 83.1% | 85.4% | 91.1% |
| Underlying (improvement) deterioration | (10.7%) | (5.3%) | (5.3%) | 1.4% | 7.1% |
| Personal Insurance: | | | | | |
| Automobile | 86.1% | 81.5% | 87.4% | 86.6% | 92.0% |
| Underlying (improvement) deterioration | (7.7%) | (11.2%) | (12.2%) | (4.3%) | 5.9% |
| Homeowners & Other | 82.0% | 96.8% | 78.5% | 84.1% | 89.9% |
| Underlying (improvement) deterioration | (10.9%) | 3.3% | 5.0% | 8.4% | 7.9% |

Source: Company data and Wells Fargo Securitites, LLC

Investment Income And Other**Investment Income Beats Us; 2021 Guidance Revised Up Modestly**

- Net investment income was \$818 million pre-tax, better than our \$604 million estimate. Travelers' after-tax book yield on its investment portfolio was 3.3%, above the 2.9% yield for Q1 2021. Fixed income investments added \$493 million pre-tax, lower than our \$490 million estimate, while alts were \$335 million, higher than our \$120 million estimate and benefited from higher private equity returns. Short-term investments added \$1 million, below our \$3 million estimate.
- TRV now expects 2021 fixed income net investment income to be in the \$425-435 million range per quarter on an after-tax basis during the remaining two quarters of 2021 (up from its prior guidance of \$420-430 million) as growth in invested assets is offsetting the impact of lower interest rates.

Capital Management

- TRV repurchased \$401 million for 2.6 shares in the Q2, better than our estimate for \$375 million of share repurchases. Dividends were \$224 million, bringing total capital return to \$625 million, compared to the \$879 million of core earnings. Total capital return to shareholders was 71.1% of core earnings in Q2 2021, and we are currently forecasting 82.8% and 80.2% in 2021 and 2022, respectively.
- TRV recently made a minority investment in Fidelis and indicated it was small, given the level of the investment was not disclosed. The Fidelis investment would give the company access to the non-admitted market, and while it does bring some reinsurance exposure it does not change TRV's overall view, which is that they are not looking to get bigger in reinsurance via M&A.

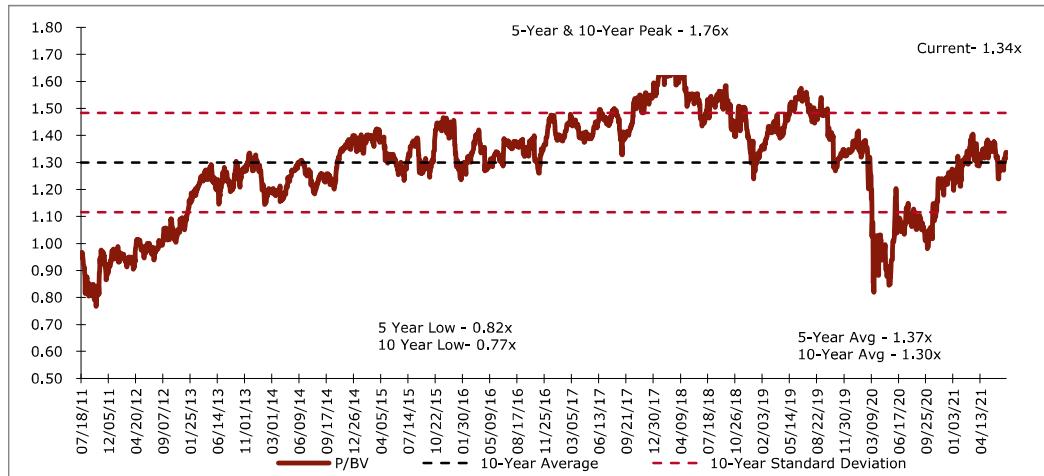
Premium Growth Benefited From Exposure Growth

- Net premiums written rose 10.7% (or 7.6% excluding personal auto refunds in the prior year), smashing our 3.7% estimate and the +2.2% in the Q1 2021. Results were ahead of us in all segments: Business Insurance, Bond & Specialty, and Personal Lines. Gross premiums written growth of 10.9% was ahead of our 3.3% estimate and well above than the 3.1% last quarter.
- Business insurance net premiums written were up 5.4% (first positive growth in 4 quarters) versus our flat growth estimate and -1.6% in the Q1. Bond & Specialty net premiums written were +16.3% versus our +4.7% estimate and the +9.0% last quarter. Personal Insurance net premiums written were +16.4% versus our +8.3% estimate and +6.6% last quarter. Within Personal Insurance, auto net premiums written of +21.4% delivered a huge beat to our +4.7% estimate and well above +2.3% last quarter although this growth would have been a more modest 4.2% when accounting for the personal auto rebates last Q2, while home net premiums written growth of +12.2% was just ahead of our +11.4% estimate and close to the +12.4% last quarter.

Valuation

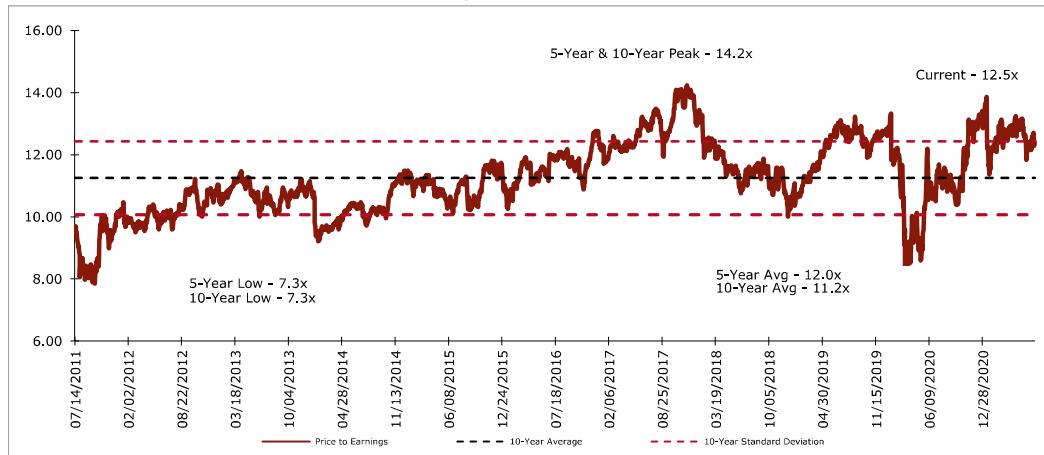
Current Valuation. The TRV shares are now trading at 1.34x book value, just below its 5-year (1.37x) average, but above its 10-year (1.30x) average multiple. The shares are trading well below peak levels of 1.76x. On a price-to-earnings basis, the shares are trading at 13.1x our 2021 EPS estimate and 12.5x our 2022 EPS estimate versus the 10-year average of 11.2x and 10-year peak of 14.2x

Exhibit 9 - TRV Historical Price-To-Book Multiples



Source: FactSet and Wells Fargo Securities, LLC

Exhibit 10 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

Consolidated Earnings Model

Exhibit 11 - Travelers Model - Consolidated

The Travelers Companies, Inc.
Earnings Projections and Operating Results
(\$ in millions, except per share data)

| | 2018 | Q1 | Q2 | Q3 | Q4 | 2019 | Q1 | Q2 | Q3 | Q4 | 2020 | Q1 | Q2 | Q3 | Q4 | 2021 | Q1 | Q2 | Q3 | Q4 | 2022 | Q1 | Q2 | Q3 | Q4 | 2023 | | | |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Gross premiums written | 29,252.2 | 7,836.3 | 7,849.3 | 8,022.4 | 7,737.0 | 31,363.3 | 8,152.1 | 7,751.2 | 8,245.0 | 7,677.0 | 31,363.3 | 8,472.2 | 8,092.2 | 8,178.4 | 8,380.8 | 33,891.1 | 8,695.2 | 8,223.3 | 8,572.2 | 8,752.2 | 33,891.2 | 8,742.4 | 8,468.9 | 8,747.9 | 8,974.7 | 37,750.2 | | | |
| % growth (y/y) | -0.5% | -0.4% | -0.4% | -0.4% | -0.4% | -0.5% | -0.4% | -0.4% | -0.4% | -0.4% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | | | | |
| % increase | 94.7% | 93.7% | 92.7% | 90.4% | 95.0% | 83.9% | 90.1% | 90.6% | 94.9% | 94.7% | 86.7% | 94.6% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | 95.1% | | | |
| Net premiums written | 27,388.2 | 7,051.9 | 7,060.1 | 7,086.2 | 7,075.0 | 29,115.2 | 7,386.0 | 7,346.0 | 7,711.0 | 7,260.0 | 29,115.2 | 7,550.2 | 8,135.0 | 8,307.1 | 8,758.4 | 31,702.4 | 7,682.2 | 8,203.1 | 8,590.2 | 8,736.8 | 33,252.0 | 8,287.2 | 8,969.6 | 9,192.5 | 8,594.3 | 34,096.3 | | | |
| % growth (y/y) | -0.5% | -0.4% | -0.4% | -0.4% | -0.4% | -0.5% | -0.4% | -0.4% | -0.4% | -0.4% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | | | | |
| Reinsurance in reinsurance premiums | 207.0 | 52.0 | 55.0 | 55.0 | 55.0 | 207.0 | 52.0 | 55.0 | 55.0 | 55.0 | 211.0 | 55.0 | 112.5 | 112.5 | 112.5 | 112.5 | 112.5 | 112.5 | 112.5 | 112.5 | 112.5 | 220.0 | 112.5 | 112.5 | 112.5 | 112.5 | 220.0 | | |
| Net premiums earned | 27,189.2 | 6,855.3 | 6,866.3 | 7,016.2 | 7,020.0 | 28,277.2 | 7,226.2 | 6,965.2 | 7,060.0 | 7,014.3 | 29,115.2 | 7,386.0 | 7,468.0 | 29,115.2 | 7,586.4 | 7,636.4 | 7,758.4 | 7,758.4 | 7,758.4 | 30,862.4 | 8,223.1 | 8,223.1 | 8,223.1 | 8,223.1 | 30,862.4 | | | | |
| % growth (y/y) | -0.5% | -0.4% | -0.4% | -0.4% | -0.4% | -0.5% | -0.4% | -0.4% | -0.4% | -0.4% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | -0.5% | | | | |
| Net premiums earned | 2,474.0 | 565.0 | 565.0 | 565.0 | 565.0 | 2,474.0 | 565.0 | 565.0 | 565.0 | 565.0 | 2,257.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | 565.0 | | | |
| % growth (y/y) | -3.2% | (3.5%) | 0.0% | (3.7%) | (2.2%) | (12.5%) | 0.0% | 0.0% | 0.0% | 0.0% | 7.0% | 0.0% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | | |
| Other income | 20.0 | 7.2 | 7.1 | 8.1 | 8.1 | 20.0 | 7.2 | 8.1 | 8.1 | 8.1 | 20.0 | 7.2 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | | | |
| % growth (y/y) | -21.7% | 33.4% | 4.2% | 2.4% | 2.4% | -21.7% | 33.4% | 4.2% | 2.4% | 2.4% | -21.7% | 33.4% | 4.2% | 2.4% | 2.4% | -21.7% | 33.4% | 4.2% | 2.4% | 2.4% | -21.7% | 33.4% | 4.2% | 2.4% | 2.4% | 2.4% | | | |
| Other expenses | 2,020.3 | 722.0 | 717.0 | 815.1 | 815.1 | 2,020.3 | 722.0 | 815.1 | 815.1 | 815.1 | 2,020.3 | 722.0 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | 815.1 | | | |
| % growth (y/y) | -3.2% | (3.5%) | 0.0% | (3.7%) | (2.2%) | (12.5%) | 0.0% | 0.0% | 0.0% | 0.0% | 14.4% | 0.0% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | | | |
| Net loss | 1,181.8 | 278.9 | 278.9 | 300.0 | 300.0 | 1,181.8 | 278.9 | 278.9 | 300.0 | 300.0 | 1,181.8 | 278.9 | 278.9 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | 300.0 | | | |
| % growth (y/y) | -5.0% | 4.4% | 4.0% | 3.0% | 4.1% | -5.0% | 4.4% | 4.0% | 3.0% | 4.1% | -5.0% | 4.4% | 4.0% | 3.0% | 4.1% | -5.0% | 4.4% | 4.0% | 3.0% | 4.1% | -5.0% | 4.4% | 4.0% | 3.0% | 4.1% | -5.0% | | | |
| Losses and loss adjustment expenses | 13,212.4 | 3,440.2 | 3,871.0 | 5,232.0 | 4,640.2 | 19,132.4 | 5,180.0 | 5,102.2 | 4,985.0 | 3,912.0 | 19,132.4 | 5,180.0 | 5,102.2 | 4,985.0 | 3,912.0 | 19,132.4 | 5,180.0 | 5,102.2 | 4,985.0 | 19,132.4 | 5,180.0 | 5,102.2 | 4,985.0 | 19,132.4 | 5,180.0 | 5,102.2 | 4,985.0 | | |
| % growth (y/y) | -3.2% | 7.7% | 10.4% | 10.4% | 10.4% | -3.2% | 7.7% | 10.4% | 10.4% | 10.4% | -3.2% | 7.7% | 10.4% | 10.4% | 10.4% | -3.2% | 7.7% | 10.4% | 10.4% | 10.4% | -3.2% | 7.7% | 10.4% | 10.4% | 10.4% | -3.2% | | | |
| Amortization of deferred acquisition costs | 4,383.8 | 1,110.0 | 1,154.0 | 1,160.2 | 1,160.2 | 4,670.0 | 1,116.0 | 1,175.2 | 1,210.0 | 1,210.0 | 4,670.0 | 1,116.0 | 1,175.2 | 1,210.0 | 1,210.0 | 4,670.0 | 1,116.0 | 1,175.2 | 1,210.0 | 4,670.0 | 1,116.0 | 1,175.2 | 1,210.0 | 4,670.0 | 1,116.0 | 1,175.2 | 1,210.0 | | |
| % growth (y/y) | -3.2% | 5.0% | 4.9% | 4.7% | 3.2% | -3.2% | 5.0% | 4.9% | 4.7% | 3.2% | -3.2% | 5.0% | 4.9% | 4.7% | 3.2% | -3.2% | 5.0% | 4.9% | 4.7% | 3.2% | -3.2% | 5.0% | 4.9% | 4.7% | 3.2% | -3.2% | | | |
| General and administrative expenses | 3,839.9 | 970.5 | 1,010.0 | 1,000.0 | 1,000.0 | 4,039.9 | 970.5 | 1,010.0 | 1,000.0 | 1,000.0 | 4,039.9 | 970.5 | 1,010.0 | 1,000.0 | 1,000.0 | 4,039.9 | 970.5 | 1,010.0 | 1,000.0 | 4,039.9 | 970.5 | 1,010.0 | 1,000.0 | 4,039.9 | 970.5 | 1,010.0 | 1,000.0 | | |
| % growth (y/y) | -3.2% | (1.5%) | 0.0% | 2.1% | 2.1% | -3.2% | (1.5%) | 0.0% | 2.1% | 2.1% | -3.2% | (1.5%) | 0.0% | 2.1% | 2.1% | -3.2% | (1.5%) | 0.0% | 2.1% | 2.1% | -3.2% | (1.5%) | 0.0% | 2.1% | 2.1% | -3.2% | | | |
| Provision for losses and loss adjustment expenses | 392.0 | 88.2 | 88.2 | 94.1 | 81.0 | 344.0 | 84.2 | 91.8 | 91.8 | 81.0 | 344.0 | 84.2 | 91.8 | 91.8 | 81.0 | 344.0 | 84.2 | 91.8 | 91.8 | 344.0 | 84.2 | 91.8 | 91.8 | 344.0 | 84.2 | 91.8 | 91.8 | | |
| % growth (y/y) | -4.4% | 1.1% | 1.1% | 1.1% | 1.1% | -4.4% | 1.1% | 1.1% | 1.1% | 1.1% | -4.4% | 1.1% | 1.1% | 1.1% | 1.1% | -4.4% | 1.1% | 1.1% | 1.1% | 1.1% | -4.4% | 1.1% | 1.1% | 1.1% | 1.1% | -4.4% | 1.1% | 1.1% | 1.1% |
| Total expenses | 27,382.4 | 6,850.0 | 7,060.0 | 7,891.0 | 6,986.0 | 31,432.2 | 7,788.0 | 7,486.0 | 8,193.0 | 8,240.0 | 31,432.2 | 7,788.0 | 7,486.0 | 8,193.0 | 8,240.0 | 31,432.2 | 7,788.0 | 7,486.0 | 8,193.0 | 31,432.2 | 7,788.0 | 7,486.0 | 8,193.0 | 31,432.2 | 7,788.0 | 7,486.0 | 8,193.0 | | |
| % growth (y/y) | -3.2% | (3.5%) | 0.0% | (3.7%) | (2.2%) | (12.5%) | 0.0% | 0.0% | 0.0% | 0.0% | -3.2% | 0.0% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | 14.4% | | |
| Reinsurance losses on investments and other | 81.9 | 41.0 | 31.8 | 15.1 | 6.0 | 81.9 | 41.0 | 31.8 | 15.1 | 6.0 | 81.9 | 41.0 | 31.8 | 15.1 | 6.0 | 81.9 | 41.0 | 31.8 | 15.1 | 6.0 | 81.9 | 41.0 | 31.8 | 15.1 | 6.0 | 81.9 | 41.0 | 31.8 | 15.1 |
| % growth (y/y) | -23.8% | 10.4% | 10.4% | 10.4% | 10.4% | -23.8% | 10.4% | 10.4% | 10.4% | 10.4% | -23.8% | 10.4% | 10.4% | 10.4% | 10.4% | -23.8% | 10.4% | 10.4% | 10.4% | 10.4% | -23.8% | 10.4% | 10.4% | 10.4% | 10.4% | -23.8% | 10.4% | 10.4% | 10.4% |
| Net income | 2,870.3 | 795.0 | 795.0 | 860.0 | 870.0 | 2,672.0 | 912.0 | 912.0 | 870.0 | 870.0 | 2,672.0 | 912.0 | 912.0 | 870.0 | 870.0 | 2,672.0 | 912.0 | 912.0 | 870.0 | 2,672.0 | 912.0 | 912.0 | 870.0 | 2,672.0 | 912.0 | 912.0 | 870.0 | | |
| % growth (y/y) | -32.7% | 9.8% | 8.7% | 4.7% | 4.7% | -32.7% | 9.8% | 8.7% | 4.7% | 4.7% | -32.7% | 9.8% | 8.7% | 4.7% | 4.7% | -32.7% | 9.8% | 8.7% | 4.7% | 4.7% | -32.7% | 9.8% | 8.7% | 4.7% | 4.7% | -32.7% | 9.8% | 8.7% | 4.7% |
| Comprehensive income (loss) | 144.4 | 36.0 | 36.0 | 36.0 | 36.0 | 144.4 | 36.0 | 36.0 | 36.0 | 36.0 | 144.4 | 36.0 | 36.0 | 36.0 | 36.0 | 144.4 | 36.0 | 36.0 | 36.0 | 144.4 | 36.0 | 36.0 | 36.0 | 144.4 | 36.0 | 36.0 | 36.0 | | |
| Non-controlling interest | 20.0 | 5.0 | 5.0 | 5.0 | 5.0 | 20.0 | 5.0 | 5.0 | 5.0 | 5.0 | 20.0 | 5.0 | 5.0 | 5.0 | 5.0 | 20.0 | 5.0 | 5.0 | 5.0 | 20.0 | 5.0 | 5.0 | 5.0 | 20.0 | 5.0 | 5.0 | 5.0 | 20.0 | |
| Retained earnings | 84.84 | 20.0 | 20.0 | 20.0 | 20.0 | 84.84 | 20.0 | 20.0 | 20.0 | 20.0 | 84.84 | 20.0 | 20.0 | 20.0 | 20.0 | 84.84 | 20.0 | 20.0 | 20.0 | 84.84 | 20.0 | 20.0 | 20.0 | 84.84 | 20.0 | 20.0 | 20.0 | | |
| Retained earnings per share | \$84.84 | \$20.24 | \$19.26 | \$19.21 | \$19.05 | \$84.84 | \$20.24 | \$19.26 | \$19.21 | \$19.05 | \$84.84 | \$20.24 | \$19.26 | \$19.21 | \$19.05 | \$84.84 | \$20.24 | \$19.26 | \$19.21 | \$19.05 | \$84.84 | \$20.24 | \$19.26 | \$19.21 | \$19.05 | \$84.84 | \$20.24 | \$19.26 | \$19.21 |
| Common shares outstanding | 205.6 | 201.8 | 202.0 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | 202.0 | 205.6 | |
| Dividends paid | 20.2% | 5.2% | 5.2% | 5.2% | 5.2% | 20.2% | 5.2% | 5.2% | 5.2% | 5.2% | 20.2% | 5.2% | 5.2% | 5.2% | 5.2% | 20.2% | 5.2% | 5.2% | 5.2% | 20.2% | 5.2% | 5.2% | 5.2% | 20.2% | 5.2% | 5.2% | 5.2% | 20.2% | |
| EPS (diluted) | \$0.82849 | \$0.20302 | \$0.20317 | \$0.20402 | \$0.20410 | \$0.82849 | \$0.20302 | \$0.20317 | \$0.20402 | \$0.20410 | \$0.82849 | \$0.20302 | \$0.20317 | \$0.20402 | \$0.20410 | \$0.82849 | \$0.20302 | \$0.20317 | \$0.20402 | \$0.20410 | \$0.82849 | \$0.20302 | \$0.20317 | \$0.20402 | \$0.20410 | \$0.82849 | \$0.20302 | \$0.20317 | \$0.20402 |
| EPS (basic) | \$0.8284 | \$0.2024 | \$0.1926 | \$0.1921 | \$0.19105 | \$0.8284 | \$0.2024 | \$0.1926 | \$0.1921 | \$0.19105 | \$0.8284 | \$0.2024 | \$0.1926 | \$0.1921 | \$0.19105 | \$0.8284 | \$0.2024 | \$0.1926 | \$0.1921 | \$0.19105 | \$0.8284 | \$0.2024 | \$0.1926 | \$0.1921 | \$0.19105 | \$0.8284 | \$0.2024 | \$0.1926 | \$0.1921 |
| Common shares outstanding | 205.6 | 201.8 | 202.0 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | 202.0 | 202.0 | 205.6 | 201.8 | 202.0 | | | | | | | | | | | |

Price Target Basis and Risk

Price Target for ALL: \$135.00

Our price target of \$135 represents around a 1.4x multiple on our 2022 book value per share estimate of approximately \$97.

Risk for ALL

Risks to achieving the price target include large cat losses, regulatory constraints in key states, reserve strengthening, irrational competition in personal lines, and deterioration in loss cost trends. Risks to the upside include margins continuing to see benefits from low frequency and growth coming in above expectations.

Price Target for PGR: \$87.00

Our \$87 price target is based on: **(1)** about a 2.4x multiple of our 2022 GAAP book value estimate of around \$36 per share and **(2)** just under 17.5x our 2022 EPS estimate.

Risk for PGR

Risks to the upside include continued favorable frequency trends and stronger-than-anticipated premium growth.

Price Target for TRV: \$159.00 from \$155.00

Our price target of \$159 is based on around a ~1.25x multiple of our projected 2022 book value estimate of around \$127 and 13.0x our 2022 EPS estimate of \$12.15.

Risk for TRV

Risks to the downside include large catastrophe losses, adverse reserve development, increased competition, a deterioration in loss costs, and a rise in D&O claims, while risks to the upside include stronger premium growth and margins coming in better than expected.

Investment Thesis

ALL

We believe the ALL shares are fairly valued as the company most likely has seen its margins peak. As ALL takes rate and pursues more growth, we believe valuation expansion from here will be limited and rate its shares as Equal Weight as a result.

PGR

We have an Underweight rating on the shares. As Covid-19 vaccines are rolled out and driving picks up frequency should revert back to more normalized levels, causing margin compression for PGR in 2021. Further, PGR's policy growth should slow as there is less shopping in the market as virtually no players are pushing for rate due to the extremely low level of losses seen in 2020.

TRV

We believe that TRV will benefit from one of the hardest commercial pricing environment since 2003. Although we are positive on the commercial lines space as a whole, we are more cautious on TRV relative to peers due to its smaller account exposure and higher workers' comp focus as both are getting less rate than other lines/account sizes. We still believe that risk remains around social inflation, lower reserve releases, and Covid-19, but we believe that these risks are adequately reflected in shares with the risk/reward now more neutral and rate its shares as Equal Weight as a result.

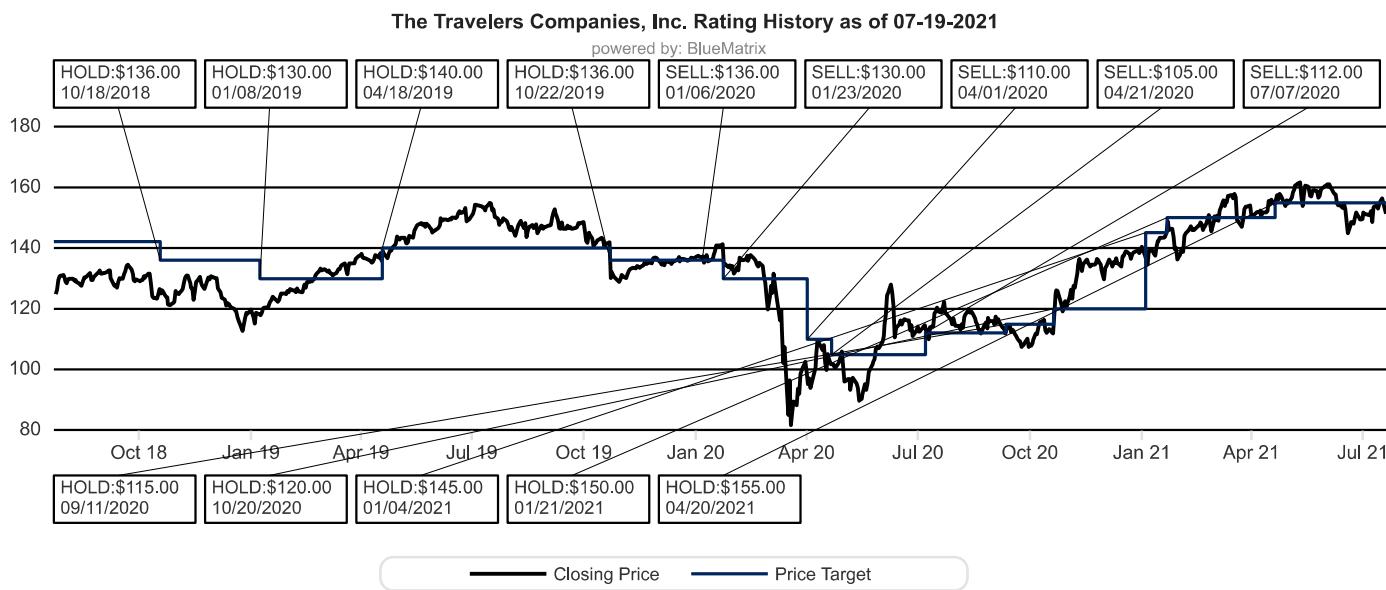
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Additional Information Available Upon Request



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

The Allstate Corporation Rating History as of 07-19-2021

powered by: BlueMatrix



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

The Progressive Corporation Rating History as of 07-19-2021

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

2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD

3=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

As of July 19, 2021

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