WELLS FARGO

Price Target Change — April 19, 2023

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Surprised with the Move in the Shares Post Earnings; Conference Call Round-Up

Our Call

TRV was bullish on commercial pricing and is focusing on improving its auto results and saw a better-than-expected underlying margin in Business Insurance (BI). With that being said, we were surprised with the move in the shares.

Surprised with the move in the shares today: TRV traded up given the strong BI margins and bullish commentary around commercial pricing, which was well-received given that HIG previewed weaker commercial results. Further, TRV numbers should go higher as the better BI margin and higher NII, counter-balance weaker personal auto results. With that being said, we were still surprised with the 7.6% move (vs. flat S&P) but believe the stock may have also been shorted into the print.

Estimate and price target changes: Our 2023 EPS estimate goes to $14.85 (from $14.95), 2024 EPS goes up to $18.10 (from $18.00) and our 2025 EPS goes to $20.55 (from $20.30) to reflect weaker personal auto results, counter-balanced by slightly better Business Insurance results and higher earned premiums. Our price target is now $183 (from $182) reflective of similar multiples on slightly higher EPS/book value.

Read thrus: (1) Strong commercial pricing as shown by the sequential acceleration in the BI RRC, **(2)** exposure decelerated in the quarter but remains at historically high levels, **(3)** personal auto margins continue to struggle despite uptick in RPC as TRV still needs more rate to reach rate adequate levels, and **(4)** Travelers took a modest level of D&O losses within its BSI book, which drove the Y/Y deteriorating in margin, and we believe points to manageable exposure for the industry.

Strong results in BI: BI saw a 89.6% underlying combined ratio, with the underlying loss ratio improving 1.8 points and benefiting from more favorable non-cat weather and earning in price increases. TRV did not quantify the magnitude of the non-cat weather but said the Q1 2023 underlying loss ratio was a good starting point for forward modeling. TRV noted the pricing environment remains strong and property saw a continued acceleration given hardening reinsurance market and capacity constraints.

Personal auto continues to struggle: TRV maintained they expect to reach written price adequacy in the majority of states by mid-year, but noted it would take time to show in the margins. Further, they said that they now need more price than they had previously thought to get to rate adequate levels as vehicle replacement / repair costs and BI severity remain elevated. TRV said they expect to see more pressure on PIF growth as they push for more rate and work to get back to their target margins.

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Rating	Equal Weight
Ticker	**TRV**
Price Target/Prior:	**$183.00/$182.00**
Upside/(Downside) to Target	**(0.2)%**
Price (04/19/2023)	**$183.28**
52 Week Range	$149.65 - 194.51
Shares Outstanding	230,973,427
Market Cap (MM)	$42,333
Enterprise Value (MM)	$48,851
Average Daily Volume	2,298,936
Average Daily Value (MM)	$421
Dividend (NTM)	$3.93
Dividend Yield	2.1%
Net Debt (MM) - last reported	$6,518
ROIC - Current year est.	15%
3 Yr EPS CAGR from current year (unless otherwise noted)	18%

$ EPS	2022A	2023E Curr.	2023E Prior	2024E Curr.	2024E Prior
Q1 (Mar)	4.22 A	4.11 A	4.08E	4.74 E	4.69E
Q2 (Jun)	2.56 A	2.71 E	2.79E	3.31 E	3.42E
Q3 (Sep)	2.20 A	3.00 E	3.11E	4.06 E	3.97E
Q4 (Dec)	3.40 A	5.05 E	4.98E	6.01 E	5.95E
FY	12.43 A	14.85 E	14.95E	18.10 E	18.00E
P/E	14.8x	12.3x		10.1x	

ROIC - Current year est.: Represents return on equity (ROE)3 Yr EPS CAGR from current year (unless otherwise noted): Using 2019-2022 for CAGR calculationEPS: Operating EPS
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

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 takes are that TRV continues to see pretty poor personal auto results, commercial lines continue to see strong rate (despite some exposure deceleration), and investment income continues to be a strong tailwind for earnings as they raised their NII guide. Highlights of the laterals that we see for the group follow below:

- **Commercial lines pricing benefiting from commercial property momentum.** TRV said that its renewal rates in BI were +4.7% in Q1, accelerating sequentially from +4.5% in Q4 showing pricing still has legs despite seeing exposure start to come down. TRV did say that commercial property rates continued to improve sequentially. **The still strong pricing and strong new business growth in commercial in addition to TRV not change in loss cost assumptions is a positive for the commercial peers, especially after HIG previewed commercial lines results that were short of expectations.**
- **Exposure growth starting to show slowdown but still at good level.** Exposure growth saw a sequential downtick in BI in Q1 as TRV saw exposure growth of 4.9% vs the 5.6% in Q4, 5.1% in Q3, and 5.2% in Q2 2022. When looking at the RPC, the lower exposure was only partially offset by higher renewal rate change (TRV usually says that most of its exposure counts as rate). **The still good exposure levels should be a good sign for all insurance brokers. Further, TRV is more of a small-middle market insurer (exposure in their select business actually accelerated), it is the best take for AJG and BRO, but does point to a good quarter for the brokerage group in general. A focus of other commercial insurers (AIG and CB) is usually on pure price (rate plus exposure) so the slowdown in the BI RPC at TRV could imply lower price from others (with the caveat that TRV did see a slowdown due to its heavier workers' comp concentration in Select).**
- **As expected, personal auto continue to struggle.** TRV printed a 103.4% personal auto underlying combined ratio well above the company target of mid-90s to perhaps a range above the upper-end of the mid-90s. We believe the Q1 result shows that despite the big uptick in RPC, these rates take time to earn in and inflation has been higher for longer than carriers expected. A positive was that TRV got a 19% rate in California, which is state that has started to get more rates approved but the 19% was still well below the 40%+ indicated rate. **These results highlight personal auto carriers still need more rate and will take time to show in margins as most carriers are still not near written price adequacy.**
- **Some D&O losses from the banking crisis, but level should be manageable.** Within Bond & Specialty, TRV attributed the 3.9 point Y/Y increase in its underlying combined ratio to financial losses related to the banking crisis. Our sense is these were one off in nature and not expected to continue in the Q2 and beyond. **This means there losses were around $34 million and since they have around a 4% share of the D&O market translates into an industry loss of just under $900 million, which we believe is modest and more than absorbable by the industry.**
- **After-tax fixed Income NII revised modestly up**. The company modestly revised its fixed income investment income guidance (after lowering it modestly last quarter), highlighting the volatility of interest rates over the last few quarters. We believe this could perhaps point to modestly higher investment income at other players, although we do not expect much to provide specific NII guidance as most carriers don't provide specific guidance.**CB guides one quarter ahead and HIG preannounced NII that was also better than us.**
- **Weaker alternative investment quarter.** TRV saw modestly worse alts versus us at they saw a pre-tax yield of 3.6% vs our estimate of 5.0% (real estate is only 2% of their total portfolio and the majority is wholly owned properties carried at their depreciated historical cost i.e. not written up when appraisal values are higher) and HIG also preannounced better than expected NII seeing a 2.5% return in their alt investments. **Given TRV results and HIG's preannouncement, we expect other insurers could beat our alternative investment income assumptions.**

What the Companies Are Saying—TRV

Outlook. Within Business Insurance, Travelers was asked about rate picking up in the Q2 as there is a higher percentage of property business within the book, and they said they are trying not to forecast / provide guidance but did say that they are responding to the loss environment. Within personal lines, Travelers said they are confident in the actions that they have taken / continue to take to improve the profitability of the business as they move through 2023 and beyond. They noted the uptick in Florida lawsuits did not have a major impact on their results as Florida is only 2% of their exposure but noted the recent Florida legislation is encouraging and the state is being watched as a potential growth opportunity.

Pricing. In Business Insurance, TRV said that within Business Insurance the renewal rate ticked up in property, umbrella and auto. Pure rate did slow in Select (small accounts) in the quarter reflective of a higher concentration of workers' compensation business in the Q1, although they did say that the Select RPC was 10.0% and that a meaningful portion of the exposure behaves like rate. Broadly within BI, TRV pointed to environmental factors helping with rate. These factors include: higher reinsurance pricing, economic inflation, weather (including frequency and severity of events) and the tight labor market. For personal lines, they expect the RPC to continue to rise in auto and to be modestly higher than the 13.9% in Q1 during the other quarters of the year. In homeowners', they expect the RPC to remain at these elevated levels (the RPC in homeowners' was 20.2% in Q1). Travelers did call out the 19% rate increase they received approval for in California last Friday (the 19% is versus an indicated needed rate of 42%). Within Bond and Specialty, Travelers said that the 3.9% year-over year increase in the underlying combined ratio was due to a higher expense ratio (1.8 points), with the remainder (2.1 points) due to losses from banking sector, partially offset by higher earned pricing.

Guidance. The exhibit below highlights TRV's commentary and expectations for 2023.

- **Fixed income investment guide raised.** The only precise guidance that Travelers provides is around its quarterly view for fixed income plus short-term investment income, on an after-tax basis. TRV is now looking for fixed income and short-term investment income to be $530 million after-tax in Q2, $555 million in Q3 and $575 million in Q4. This is up from a range of $515 million - $560 million provided with Q4 earnings.
- **Personal auto needs more price.** Within personal auto, TRV still expect to be at a rate adequate level in the majority of their states by the middle of this year (at least close to it), but given the elevated losses they are filing for more price than they previously had expected. On the homeowners' side, Travelers expects its RPC to remain at levels that are consistent with the Q1.

Investments. TRV raised their fixed income and expects after-tax investment income of $575 million in Q4 (up from the prior $560 million). The non-fixed income portfolio delivered positive returns (2.8% in the quarter), but lower than last year (7.5% return in Q1 2021). Further, TRV said that only 10% of its portfolio turns over on an annual basis, so it will take a while for the higher rates to fully impact the run-rate of net investment income. Their non-fixed real estate exposure accounts for only about 2.4% of their total portfolio, but 33% of their non-fixed portfolio, but the majority of the assets are wholly owned properties (50% of real estate non-fixed exposure) that are carried at historical depreciated values rather than market value (i.e. they have not adjusted those values for the uptick in appraisal values over the years). They also have an additional 2.0% exposure to CMBS and REITs on the fixed side with an average credit rate of Aa1.

Liquidity and Capital. TRV has $1.6 billion of capital at the holding company (up from just under $1.5 billion at the end of 2022) with all of their capital ratios at or better than target levels (debt to capital ratio is 21.3% in target range of 15-25%). They added $5 billion to their share repurchase program with earnings (bringing the authorization up to $6.6 billion) and increased their dividend by 8% to $1.00. Overall, they said their capital strategy is unchanged and there is no time horizon associated with the buyback program.

Exhibit 1 - 2023 Guidance Tracker

2023 Guidance Tracker	2023 Outlook		
	Provided With Q3 2022 Earnings	**Provided With Q4 2022 Earnings**	**Provided With Q1 2023 Earnings**
Underlying Margin Outlook	**Business Insurance:** Pointed to loss trends being unchanged from 5.5% to 6.0% with pricing remaining less than one point ahead **Bond & Specialty:** No guide **Personal Lines:** Frequency continues to return towards pre-pandemic levels **and** expect to reach written adequacy by now and mid-2023	**Business Insurance:** Did not give specific guide but said earned pricing exceeded loss trend in all three segments **Bond & Specialty:** No guide **Personal Lines:** Severity is in the double-digits for both auto and home with auto frequency returning to pre-pandemic levels in Q4 2022. Bodily injury severity came in above their expectations in the Q4. TRV expects to reach written rate adequacy by mid-2023.	**Business Insurance:** No guide **Bond & Specialty:** No guide **Personal Lines:** Expect to reach or at least be close to rate adequacy in the majority of states by mid-year. TRV noted the loss environment is incrementally more challenging
Expense Ratio Outlook	No guide for 2023	Expect FY2023 Expense Ratio to be 28.5% - 29.0% (versus FY22 ratio of 28.5%)	No change to previous guide
Renewal Premium Growth	**Business Insurance:** **Bond & Specialty:** **Personal Lines:** Expectations for personal auto RPC is to be in the mid-teens throughout 2023	**Business Insurance:** RRC in workers' comp was more negative than expected and property pricing improved from a price per unit of risk standpoint as terms and conditions improved along with pricing **Bond & Specialty:** Written premium contracted modestly in their international business due to tougher Y/Y compares and a significant decline in M&A activity **Personal Lines:** Expect RPC to rise from these levels	**Business Insurance:** TRV saw continued acceleration of pricing in property given hardening reinsurance market and capacity constraint. **Bond & Specialty:** No guide **Personal Lines:** Expect **auto** RPC to modestly raise from these levels (13.9% in Q1) and remain there for the remainder of the year. Expect **home** RPC to remain at these elevated levels for the remainder of the year (20.2% in Q1).
Investment Income	**Fixed Book:** Expect after-tax fixed NII to be from a range of $515 million in Q1 to $570 million in Q4 (with an average of $540 million per quarter). Mentioned new money yields through mid-October are 200bps higher than current embedded rates. **Alternatives:** No guide	**Fixed Book:** Expect after-tax fixed NII to be from a range of $515 million in Q1 2023 to $560 million in Q4 (with an average of $535 million per quarter) **Alternatives:** No guide	**Fixed Book:** Expect after-tax fixed NII to be from a range of $530 million in Q2 2023 to $570 million in Q4 **Alternatives:** No guide
Capital Management	No guide for 2023	They do not expect to continue to be able to return nearly 100% in terms of operating earnings between buybacks and dividends and the higher reinsurance retention does not impact their view of capital adequacy.	They said the new $5.0B repurchase authorization is open-ended with no targeted time horizon

Source: Company reports and Wells Fargo Securities, LLC

Highlights of Our Estimate Changes

Overview of our estimate changes. The exhibit below highlights the changes we made to our earnings model following 1Q 2023 earnings.

- **2023 EPS** goes down to $14.85 (from $14.95) to reflect worse underlying margins in personal auto partially offset by higher premiums earned in BI and PI and better results in BI.
- **2024 EPS** goes to $18.10 (from $18.00) to reflect worse underlying margins in personal auto partially offset by higher premiums earned in BI and PI and better margins in BI.
- **2025 EPS** is revised up to $20.55 (from $20.30) to mainly reflect higher premiums earned in BI and PI.

Exhibit 2 - TRV Summary of Estimate Changes

($ in millions, except as noted)				Prior Estimates			Delta (Absolute)			2023 Outlook Guidance
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	
Gross premiums written	42,030	44,372	46,852	40,559	42,809	45,189	1,471	1,564	1,663	
% growth (YoY)	11.0%	5.6%	5.6%	7.1%	5.5%	5.6%	3.9%	0.0%	0.0%	
Net premiums written	39,550	41,558	43,672	38,132	40,065	42,103	1,418	1,492	1,570	
% growth (YoY)	11.7%	5.1%	5.1%	7.7%	5.1%	5.1%	4.0%	0.0%	0.0%	
Increase in unearned premiums	(2,111)	(1,395)	(1,467)	(1,286)	(1,341)	(1,410)	(825)	(55)	(57)	
Net premiums earned	**37,439**	**40,162**	**42,205**	**36,846**	**38,725**	**40,693**	**593**	**1,438**	**1,512**	
% growth (YoY)	10.9%	7.3%	5.1%	9.1%	5.1%	5.1%	1.8%	2.2%	0.0%	
Net investment income (pre-tax)	2,928	3,337	3,641	2,947	3,343	3,634	(19)	(6)	6	Expecting $530-$575MM from Q2 to Q4 2023 for Fixed NII
Fee income	468	500	525	463	485	509	5	15	16	
Other income	332	345	345	327	336	336	5	9	9	
Total revenue	**41,167**	**44,345**	**46,716**	**40,583**	**42,889**	**45,172**	**584**	**1,456**	**1,544**	
Losses and loss adjustment expenses	25,463	26,824	28,156	24,789	25,864	27,175	674	961	981	
Amortization of deferred acquisition costs	6,179	6,652	7,005	6,072	6,418	6,759	107	233	247	
General and administrative expenses	5,279	5,629	5,844	5,217	5,438	5,656	62	191	189	
Interest expense	352	352	352	352	352	352	0	0	0	
Total expenses	**37,273**	**39,457**	**41,358**	**36,429**	**38,072**	**39,941**	**843**	**1,385**	**1,416**	
Pretax operating income	**3,894**	**4,888**	**5,358**	**4,153**	**4,817**	**5,231**	**(259)**	**71**	**128**	
% growth (YoY)	9.4%	25.5%	9.6%	16.7%	16.0%	8.6%	(7.3%)	9.5%	1.0%	
Income tax expense/(benefit)	446	842	924	704	826	896	(257)	16	27	
After-tax core income	**3,448**	**4,046**	**4,435**	**3,449**	**3,992**	**4,334**	**(2)**	**55**	**100**	
% growth (YoY)	15.0%	17.4%	9.6%	15.0%	15.7%	8.6%	(0.1%)	1.6%	1.0%	
Company income tax rate (%)	11.5%	17.2%	17.2%	16.9%	17.1%	17.1%	(5.5%)	0.1%	0.1%	
Weighted average number of diluted shares	230.9	222.5	214.9	229.6	220.8	212.7	1.3	1.7	2.2	
Participating share-based awards	19.0	19.0	19.0	16.0	16.0	16.0	3.0	3.0	3.0	
Adjusted Operating EPS	**$14.85**	**$18.10**	**$20.55**	**$14.95**	**$18.00**	**$20.30**	**($0.10)**	**$0.10**	**$0.25**	
Profitability Metrics										
Loss and loss adjustment expense ratio	67.5%	66.3%	66.3%	66.8%	66.3%	66.3%	0.7%	0.0%	(0.1%)	
Underwriting expense ratio	28.5%	28.5%	28.4%	28.6%	28.5%	28.4%	(0.0%)	(0.0%)	(0.1%)	Expecting expense ratio of 28.5-29% for 2023
Combined ratio	**96.1%**	**94.8%**	**94.6%**	**95.4%**	**94.9%**	**94.8%**	**0.7%**	**(0.0%)**	**(0.1%)**	
Cat points on the combined ratio	5.5%	5.0%	5.1%	4.9%	5.2%	5.2%	0.6%	(0.1%)	(0.1%)	
PYD points on the combined ratio	(0.7%)	(0.3%)	(0.2%)	(0.6%)	(0.3%)	(0.2%)	(0.1%)	0.0%	0.0%	
Current accident year combined ratio	**91.3%**	**90.1%**	**89.7%**	**91.1%**	**90.0%**	**89.7%**	**0.2%**	**0.1%**	**(0.0%)**	
Underlying loss ratio	**62.8%**	**61.6%**	**61.3%**	**62.5%**	**61.4%**	**61.3%**	**0.2%**	**0.1%**	**0.0%**	
Segment Underwriting Income:										
Business Insurance	$968	$950	$1,170	$964	$906	$1,116	$4	$44	$54	
Bond & Specialty Insurance	$676	$643	$680	$690	$664	$704	($14)	($20)	($24)	
Personal Insurance	($623)	$1	($90)	($389)	($43)	($172)	($234)	$44	$82	
Book value per share	$105.06	$115.82	$129.05	$104.22	$115.29	$128.81	$0.84	$0.54	$0.24	
ROE	15.0%	16.4%	16.8%	15.2%	16.4%	16.6%	(0.2%)	(0.0%)	0.1%	

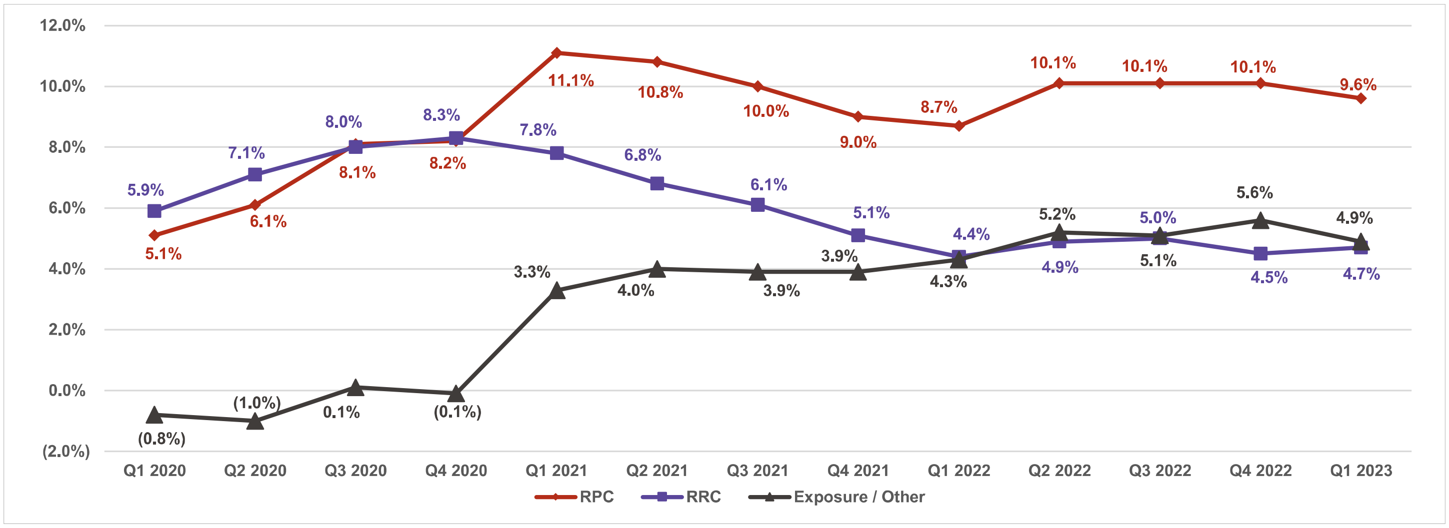
Source: Company reports and Wells Fargo Securities, LLC estimates

Pricing Highlights—Commercial Lines

Business Insurance Rating Environment—TRV Rates Modestly Up but Exposure Shows Deceleration

- In Q1, the **Business Insurance** renewal rate change was +4.7%, modestly accelerating from the +4.5% in the prior quarter. Exposure growth was up 4.9%, down from the 5.6% in Q4 and the first time below 5% since last year's Q1 but still remains at strong levels. 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



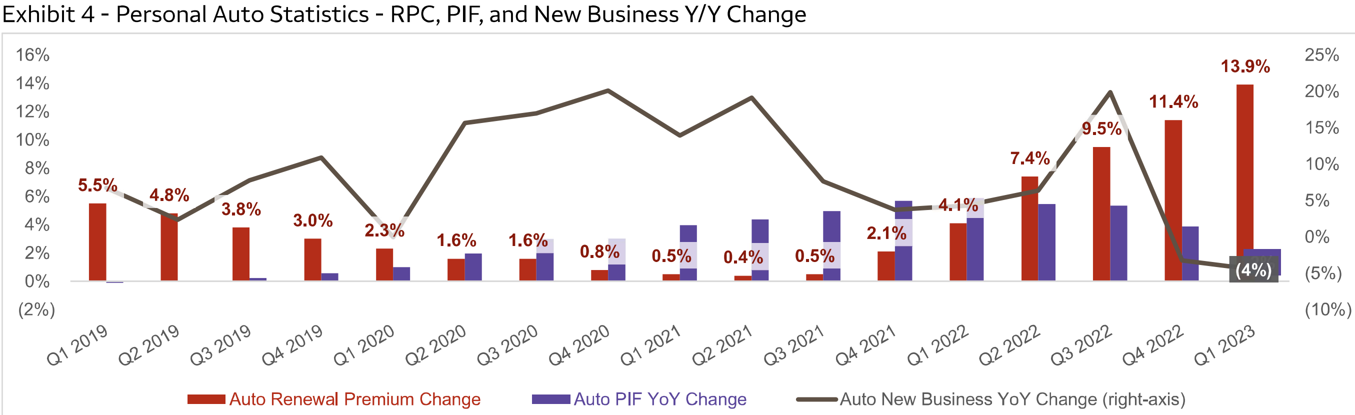
Source: Company data and Wells Fargo Securities, LLC

Pricing Highlights—Personal Lines

Personal Lines—TRV Continues to See Rate Acceleration, but Margins Still Short Of Targets

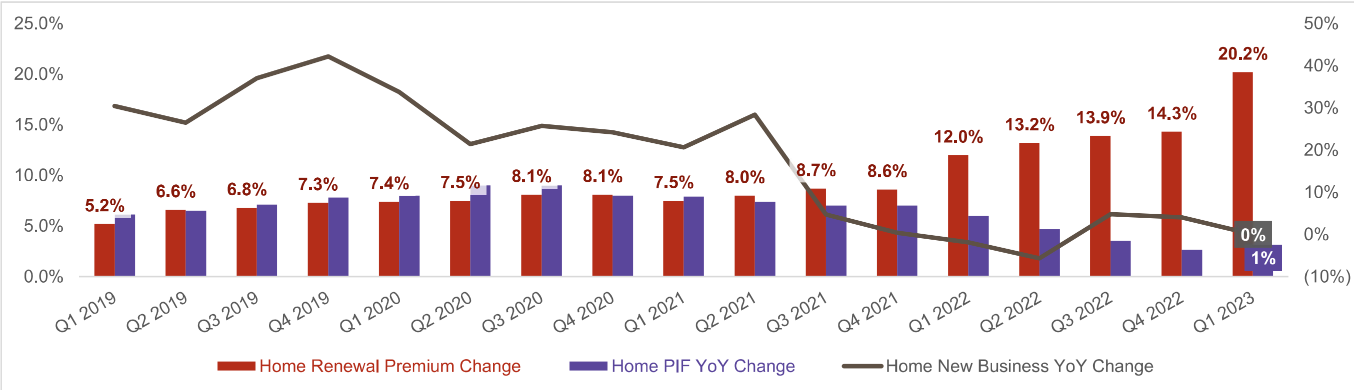
- Within ***Personal Auto***, TRV saw renewal premium change continue to accelerate sequentially at 13.9%, which was up from the 11.4% last quarter; however, their auto underlying margin remained above 100% for the fourth straight quarter and was up 4.6 points Y/Y highlighting the need for additional rate (and the lag in these rates earning through), but did pull back from the 110.5% last quarter (which was the highest CR since Q4 2016) as Q1 is a seasonally favorable quarter. They said RPC should modestly increase from the 13.9% in Q1 and remain there for the remainder of the year. They also said that they still expect written pricing will achieve rate adequacy (at least be close to) in a majority of their states by mid-year 2023, but did not disclose their loss trend assumptions other than noting that inflation has been higher for longer than they previously thought. They also said they expect to see further headwinds to PIF growth as they focus on getting to target margins. They highlighted they received a 19% rate in California last week, which will come through in May 2023.
- ***Homeowners'*** RPC also accelerated sequentially, jumping to a record-high 20.2%, up from 14.3% last quarter. They expect the RPC in home to remain at these elevated levels for the remainder of the year.
- **Auto and Home PIFs decline sequentially showing new business pullback.** Travelers' new business in auto decreased 4% Y/Y to $277 million, after decreasing 3% Y/Y last quarter and marked the second straight quarter with Y/Y declines as TRV is pulling new business away from states where they are not getting enough rate and introducing stricter underwriting standards. This is also reflected in the PIF numbers, as auto PIFs declined 1.0%, which was the biggest sequential drop since Q1 2014. Home new business was flat Y/Y at $258 million and down from the 4% Y/Y growth in the prior quarter. From a PIF standpoint, home saw a 0.3% sequential decrease, which was a slowdown from the 0.2% sequential increase last quarter and the first sequential decline since Q1 2015.

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

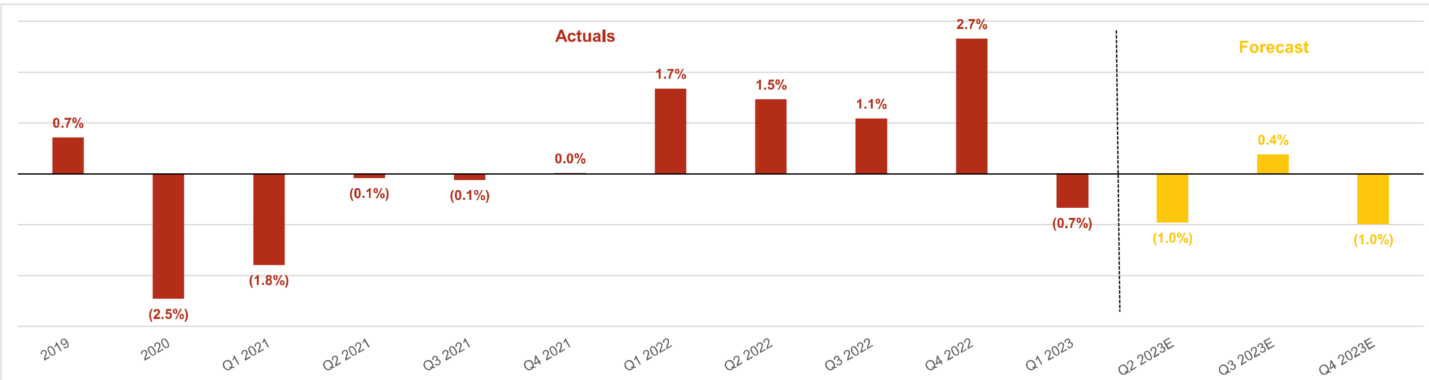
Underlying Margin Tables

Exhibit 6 - Consolidated Underlying Margin Trends

Underling Margin Trends	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Reported Combined Ratio	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%	94.9%	86.7%	96.6%	95.3%	98.6%	88.0%	91.3%	98.3%	98.2%	94.5%	95.4%
Catastrophe Losses, net of reinsurance	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%	5.3%	0.4%	11.3%	6.3%	6.4%	0.4%	2.0%	9.0%	5.9%	5.2%	6.0%
Prior Year Reserve Development (Unfavorable)/Favorable	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)	(1.9%)	(2.4%)	(4.3%)	(2.4%)	0.8%	(1.2%)	(1.9%)	(3.5%)	(0.2%)	(2.1%)	(1.2%)
Underlying Combined Ratio	**91.6%**	**94.9%**	**94.1%**	**92.1%**	**91.3%**	**91.4%**	**91.5%**	**88.7%**	**89.5%**	**91.4%**	**91.4%**	**88.7%**	**91.2%**	**92.8%**	**92.5%**	**91.4%**	**90.5%**
Underlying (improvement)/deterioration	(0.8%)	1.3%	1.1%	0.9%	(0.3%)	(3.5%)	(2.5%)	(3.3%)	(1.8%)	(0.1%)	(0.1%)	0.0%	1.7%	1.5%	1.1%	2.7%	(0.7%)
Underlying Loss Ratio	**61.9%**	**64.7%**	**64.5%**	**63.0%**	**61.3%**	**60.4%**	**62.2%**	**59.3%**	**59.7%**	**61.7%**	**62.0%**	**60.2%**	**62.2%**	**63.8%**	**64.4%**	**63.5%**	**61.8%**
YoY Change	*0.1%*	*1.8%*	*1.3%*	*1.3%*	*(0.7%)*	*(4.3%)*	*(2.3%)*	*(3.6%)*	*(1.6%)*	*1.2%*	*(0.2%)*	*0.9%*	*2.5%*	*2.1%*	*2.4%*	*3.3%*	*(0.4%)*
Underlying Expense Ratio	**29.7%**	**30.2%**	**29.5%**	**29.1%**	**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%**
YoY Change	*(0.9%)*	*(0.5%)*	*(0.2%)*	*(0.4%)*	*0.3%*	*0.8%*	*(0.2%)*	*0.3%*	*(0.0%)*	*(1.3%)*	*0.1%*	*(0.9%)*	*(0.9%)*	*(0.7%)*	*(1.3%)*	*(0.6%)*	*(0.3%)*

Source: Company reports and Wells Fargo Securities, LLC

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



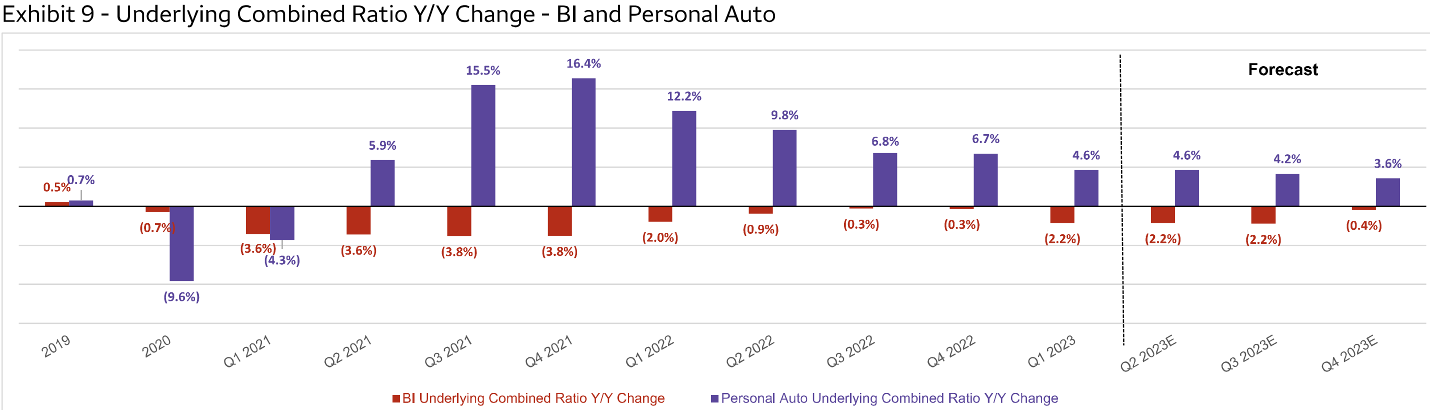
Source: Company Reports and Wells Fargo Securities, LLC Estimates

Exhibit 8 - Underlying Combined Ratio Trends by Segment

Underlying Combined Ratio Trends	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Business Insurance	**95.0%**	**97.4%**	**95.9%**	**96.4%**	**97.3%**	**97.0%**	**94.0%**	**93.6%**	**93.7%**	**93.4%**	**90.2%**	**89.9%**	**91.7%**	**92.4%**	**89.9%**	**89.5%**	**89.6%**
Underlying (improvement) deterioration	(0.5%)	0.9%	0.5%	1.0%	2.3%	(0.4%)	(1.8%)	(2.8%)	(3.6%)	(3.6%)	(3.8%)	(3.8%)	(2.0%)	(0.9%)	(0.3%)	(0.3%)	(2.2%)
Bond & Specialty	**81.1%**	**81.0%**	**83.6%**	**81.3%**	**85.7%**	**88.1%**	**89.0%**	**85.0%**	**84.2%**	**83.4%**	**83.4%**	**83.3%**	**82.2%**	**82.2%**	**82.2%**	**82.2%**	**82.2%**
Underlying (improvement) deterioration	0.4%	0.5%	5.3%	3.2%	4.6%	7.1%	5.5%	3.7%	(1.5%)	(4.7%)	(5.6%)	(1.7%)	(2.0%)	(1.2%)	(1.2%)	(1.1%)	0.0%
Personal Insurance	**89.1%**	**94.6%**	**94.0%**	**88.4%**	**84.0%**	**84.0%**	**88.7%**	**83.1%**	**85.4%**	**91.0%**	**95.2%**	**88.7%**	**92.8%**	**96.0%**	**99.3%**	**96.2%**	**92.9%**
Underlying (improvement) deterioration	(1.4%)	2.0%	1.1%	0.5%	(5.1%)	(10.7%)	(5.3%)	(5.3%)	1.4%	7.0%	6.5%	5.6%	7.4%	5.0%	4.2%	7.5%	0.1%
Personal Insurance Breakdown:																	
Automobile	**92.1%**	**93.8%**	**92.7%**	**99.6%**	**90.9%**	**86.1%**	**81.5%**	**87.4%**	**86.6%**	**92.0%**	**97.0%**	**103.8%**	**98.8%**	**101.8%**	**103.8%**	**110.5%**	**103.4%**
Underlying (improvement) deterioration	(4.2%)	(1.7%)	0.1%	2.7%	(1.2%)	(7.7%)	(11.2%)	(12.2%)	(4.3%)	5.9%	15.5%	16.4%	12.2%	9.8%	6.8%	6.7%	4.6%
Homeowners & Other	**82.6%**	**92.9%**	**93.5%**	**73.6%**	**75.7%**	**82.0%**	**96.8%**	**78.5%**	**84.1%**	**89.9%**	**93.3%**	**73.4%**	**86.9%**	**90.3%**	**94.9%**	**82.2%**	**82.7%**
Underlying (improvement) deterioration	2.4%	7.7%	5.0%	1.1%	(6.9%)	(10.9%)	3.3%	5.0%	8.4%	7.9%	(3.5%)	(5.1%)	2.8%	0.3%	1.6%	8.8%	(4.2%)

Source: Company data and Wells Fargo Securities, LLC

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

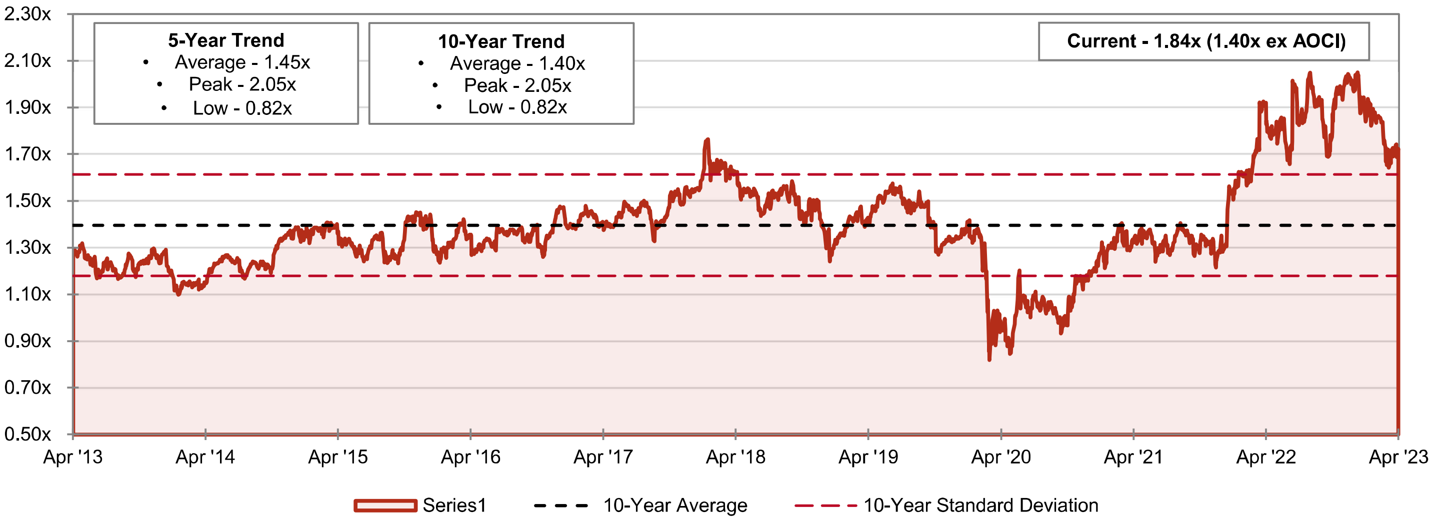


Source: Company Reports and Wells Fargo Securities, LLC

Valuation

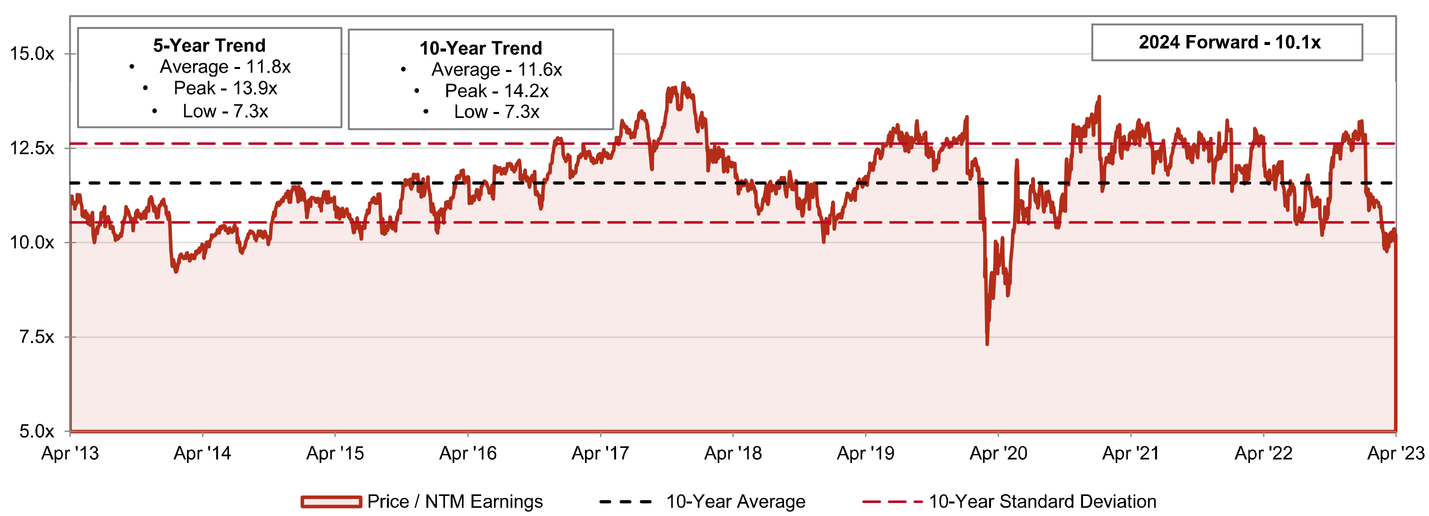
Current valuation. The TRV shares are now trading at 1.84x Q1 2023 book value, which is above its 5-year (1.45x) average, and its 10-year (1.40x) average multiple but below the peak level of 2.05x. The P/B multiple continues to be elevated as reported book value has higher unrealized losses on TRV's investment portfolio vs historical averages; when excluding unrealized losses (net), shares are currently trading at 1.40x Q1 adjusted book of $123.11 (more in line with the 5- and 10-year averages). On a price-to-earnings basis, the shares are trading at 12.3x our updated 2023 EPS estimate and 10.1x our 2024 EPS estimate versus the 5-year average of 11.8x, 10-year average of 11.6x and the 5-year and 10-year peak of 13.9x.

Exhibit 10 - TRV Historical P/BV



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

($ in millions, except as noted)	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023E	Q3 2023E	Q4 2023E	2023E	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Summary																					
Business Insurance	2,889	811	813	560	884	3,068	713	766	814	1,042	3,335	926	784	881	1,060	3,651	1,032	899	1,011	1,154	4,096
Bond & Specialty Insurance	833	239	285	304	275	1,103	248	241	271	255	1,015	251	238	273	263	1,025	267	260	292	276	1,095
Personal Insurance	939	252	(250)	(147)	(85)	(230)	58	(166)	(168)	206	(69)	227	(44)	26	391	600	234	(68)	5	385	555
Other	(369)	(95)	(97)	(96)	(94)	(382)	(97)	(97)	(97)	(97)	(387)	(97)	(97)	(97)	(97)	(388)	(97)	(97)	(97)	(97)	(388)
Adjusted Pre-Tax Operating Income	**4,292**	**1,207**	**751**	**621**	**980**	**3,559**	**922**	**745**	**821**	**1,407**	**3,894**	**1,307**	**881**	**1,083**	**1,618**	**4,888**	**1,436**	**994**	**1,211**	**1,718**	**5,358**
Tax Rate	17.8%	13.9%	16.9%	15.3%	17.3%	15.7%	(5.2%)	15.2%	15.6%	18.0%	11.5%	17.7%	15.4%	16.5%	18.3%	17.2%	17.7%	15.6%	16.7%	18.2%	17.2%
Taxes	(765)	(168)	(127)	(95)	(170)	(560)	48	(113)	(128)	(254)	(446)	(231)	(136)	(179)	(295)	(842)	(254)	(155)	(202)	(312)	(924)
Adjusted After-Tax Operating Income	**3,527**	**1,039**	**624**	**526**	**810**	**2,999**	**970**	**632**	**693**	**1,153**	**3,448**	**1,076**	**745**	**904**	**1,322**	**4,046**	**1,182**	**838**	**1,009**	**1,405**	**4,435**
Adjusted Operating EPS	**$13.94**	**$4.22**	**$2.56**	**$2.20**	**$3.40**	**$12.43**	**$4.11**	**$2.71**	**$3.00**	**$5.05**	**$14.85**	**$4.74**	**$3.31**	**$4.06**	**$6.01**	**$18.10**	**$5.40**	**$3.87**	**$4.70**	**$6.60**	**$20.55**
YoY Change in Adjusted After-Tax Operating Income	*32.7%*	*42.5%*	*(29.8%)*	*(20.2%)*	*(38.6%)*	*(17.1%)*	*(23.6%)*	*(0.8%)*	*32.2%*	*43.5%*	*9.4%*	*41.8%*	*18.3%*	*31.9%*	*15.0%*	*25.5%*	*9.9%*	*12.8%*	*11.8%*	*6.2%*	*9.6%*
YoY Change in Adjusted Operating EPS	**33.0%**	**54.7%**	**(25.7%)**	**(15.4%)**	**(34.6%)**	**(10.9%)**	**(2.8%)**	**5.7%**	**36.3%**	**48.5%**	**19.5%**	**15.4%**	**22.5%**	**35.4%**	**18.9%**	**21.9%**	**13.9%**	**16.7%**	**15.6%**	**10.0%**	**13.5%**
Consensus EPS								$2.58	$3.11	$4.99	$14.26	$4.62	$3.18	$3.62	$5.71	$16.77	$5.16	$3.54	$4.23	$6.93	$19.60
WFS Estimate versus Consensus								4.9%	(3.4%)	1.3%	4.1%	2.5%	4.3%	12.3%	5.2%	7.9%	4.6%	9.3%	11.1%	(4.7%)	4.8%
Premiums																					
YoY Change in Gross Premiums Written	7.8%	10.4%	10.9%	10.5%	10.5%	10.6%	11.5%	10.8%	10.8%	10.8%	11.0%	5.5%	5.6%	5.6%	5.6%	5.6%	5.5%	5.6%	5.6%	5.6%	5.6%
YoY Change in Premiums Earned	**6.3%**	**8.5%**	**9.2%**	**10.0%**	**9.8%**	**9.4%**	**10.5%**	**11.5%**	**10.3%**	**11.3%**	**10.9%**	**10.4%**	**7.0%**	**6.3%**	**5.6%**	**7.3%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**
Investment Income (Pre-Tax)																					
Fixed Maturities	1,989	505	512	534	562	2,113	575	597	617	637	2,427	657	675	693	710	2,735	727	743	758	773	3,001
Fixed Maturities Pre-Tax Annualized Yield	2.6%	2.7%	2.9%	3.1%	3.2%	3.0%	3.2%	3.3%	3.4%	3.4%	3.3%	3.5%	3.6%	3.7%	3.8%	3.6%	3.8%	3.9%	4.0%	4.0%	3.9%
Alternatives	1,077	142	197	46	34	419	53	118	120	122	413	125	127	130	132	514	135	138	140	143	557
Alternatives Pre-Tax Annualized Yield	18.8%	9.8%	13.6%	3.2%	2.3%	7.3%	3.6%	8.0%	8.0%	8.0%	7.1%	8.0%	8.0%	8.0%	8.0%	8.2%	8.0%	8.0%	8.0%	8.0%	8.2%
Short-Term Securities	5	2	9	23	39	73	47	25	30	34	136	35	35	35	35	140	35	35	35	35	140
Invesment Expenses	(40)	(12)	(11)	(10)	(10)	(43)	(12)	(11)	(12)	(12)	(48)	(13)	(13)	(13)	(14)	(53)	(14)	(14)	(14)	(15)	(57)
Total Pre-Tax Net Investment Income	**3,031**	**637**	**707**	**593**	**625**	**2,562**	**663**	**728**	**756**	**782**	**2,928**	**804**	**825**	**845**	**864**	**3,337**	**883**	**902**	**920**	**937**	**3,641**
Total Pre-Tax NII Annualized Yield	3.7%	3.0%	3.3%	2.7%	2.8%	2.9%	3.0%	3.3%	3.4%	3.5%	3.3%	3.6%	3.7%	3.8%	3.8%	3.7%	3.9%	4.0%	4.0%	4.1%	4.0%
Margins																					
Loss Ratio	65.1%	62.3%	69.3%	70.1%	66.6%	67.2%	66.7%	69.9%	69.6%	64.0%	67.5%	65.1%	69.7%	67.8%	62.9%	66.3%	64.9%	69.4%	67.6%	63.2%	66.3%
Expense Ratio	29.4%	29.0%	29.0%	28.1%	27.9%	28.5%	28.7%	28.6%	28.5%	28.3%	28.5%	28.5%	28.5%	28.6%	28.5%	28.5%	28.4%	28.4%	28.5%	28.3%	28.4%
Combined Ratio	**94.5%**	**91.3%**	**98.3%**	**98.2%**	**94.5%**	**95.8%**	**95.4%**	**98.5%**	**98.1%**	**92.3%**	**96.1%**	**93.5%**	**98.1%**	**96.4%**	**91.4%**	**94.8%**	**93.3%**	**97.8%**	**96.0%**	**91.5%**	**94.6%**
YoY Change in Combined Ratio (Favorable)	(0.6%)	(5.4%)	3.0%	(0.4%)	6.5%	1.3%	4.1%	0.2%	(0.1%)	(2.2%)	0.3%	(1.9%)	(0.4%)	(1.6%)	(0.9%)	(1.2%)	(0.2%)	(0.3%)	(0.4%)	0.1%	(0.2%)
Catastrophe Losses	1,847	160	746	512	459	1,877	535	730	500	300	2,065	390	775	530	330	2,025	420	820	560	360	2,160
Points on Combined Ratio	6.0%	2.0%	9.0%	5.9%	5.2%	5.6%	6.0%	7.9%	5.3%	3.1%	5.5%	4.0%	7.8%	5.2%	3.2%	5.0%	4.1%	7.9%	5.3%	3.3%	5.1%
Reserve Development	(538)	(153)	(291)	(20)	(185)	(649)	(105)	(100)	10	(77)	(272)	(36)	(44)	3	(40)	(117)	(21)	(22)	(2)	(23)	(68)
Points on Combined Ratio	(1.7%)	(1.9%)	(3.5%)	(0.2%)	(2.1%)	(1.9%)	(1.2%)	(1.1%)	0.1%	(0.8%)	(0.7%)	(0.4%)	(0.4%)	0.0%	(0.4%)	(0.3%)	(0.2%)	(0.2%)	(0.0%)	(0.2%)	(0.2%)
Adjusted Margins																					
Underlying Loss Ratio	60.9%	62.2%	63.8%	64.4%	63.5%	63.6%	61.8%	63.1%	64.2%	61.7%	62.8%	61.4%	62.3%	62.5%	60.1%	61.6%	61.0%	61.8%	62.3%	60.1%	61.3%
Underlying Combined Ratio	**90.3%**	**91.2%**	**92.8%**	**92.5%**	**91.4%**	**92.1%**	**90.5%**	**91.7%**	**92.7%**	**90.0%**	**91.3%**	**89.9%**	**90.7%**	**91.1%**	**88.6%**	**90.1%**	**89.4%**	**90.2%**	**90.8%**	**88.4%**	**89.7%**
YoY Change in Loss Ratio (Favorable)	0.0%	2.5%	2.1%	2.4%	3.3%	2.7%	(0.4%)	(0.7%)	(0.2%)	(1.8%)	(0.8%)	(0.4%)	(0.8%)	(1.7%)	(1.6%)	(1.2%)	(0.4%)	(0.5%)	(0.2%)	(0.0%)	(0.3%)
YoY Change in Combined Ratio (Favorable)	(0.5%)	1.7%	1.4%	1.1%	2.7%	1.9%	(0.7%)	(1.2%)	0.2%	(1.4%)	(0.9%)	(0.6%)	(0.9%)	(1.5%)	(1.4%)	(1.2%)	(0.5%)	(0.6%)	(0.4%)	(0.2%)	(0.4%)
Book Value and Return on Equity																					
GAAP Book Value per Share	**$119.77**	**$106.40**	**$96.39**	**$84.94**	**$92.90**	**$92.90**	**$99.80**	**$100.68**	**$101.83**	**$105.06**	**$105.06**	**$108.00**	**$109.44**	**$111.64**	**$115.82**	**$115.82**	**$119.42**	**$121.41**	**$124.24**	**$129.05**	**$129.05**
Operating Return on Equity	**11.8%**	**14.9%**	**10.1%**	**9.7%**	**15.3%**	**11.7%**	**17.1%**	**10.8%**	**11.8%**	**19.5%**	**15.0%**	**17.8%**	**12.2%**	**14.7%**	**21.1%**	**16.4%**	**18.4%**	**12.8%**	**15.3%**	**20.9%**	**16.8%**
Share Count																					
Ending Common Shares	241.2	240.0	237.3	234.4	232.1	232.1	231.0	228.5	226.0	223.6	223.6	221.3	219.0	216.7	214.5	214.5	212.3	210.2	208.1	206.0	206.0
Weighted Average Diluted Shares	**250.9**	**243.7**	**241.1**	**237.9**	**236.3**	**239.7**	**234.4**	**231.9**	**229.7**	**227.6**	**230.9**	**225.5**	**223.5**	**221.5**	**219.5**	**222.5**	**217.6**	**215.8**	**214.0**	**212.2**	**214.9**
Capital Return to Shareholders																					
Common Dividends	876	214	225	221	221	881	218	231	228	226	903	224	228	226	223	900	221	225	223	221	889
Share Repurchases	2,156	559	500	501	501	2,061	462	450	450	450	1,812	450	450	450	450	1,800	450	450	450	450	1,800
Total Capital Returned	**3,032**	**773**	**725**	**722**	**722**	**2,942**	**680**	**681**	**678**	**676**	**2,715**	**674**	**678**	**676**	**673**	**2,700**	**671**	**675**	**673**	**671**	**2,689**
Total Payout Ratio (% of Operating Income)	**86.0%**	**74.4%**	**116.2%**	**137.3%**	**89.1%**	**98.1%**	**70.1%**	**107.8%**	**97.9%**	**58.6%**	**78.8%**	**62.6%**	**91.0%**	**74.8%**	**50.9%**	**66.7%**	**56.8%**	**80.5%**	**66.7%**	**47.7%**	**60.6%**
Equity Rollforward and Leverage																					
Beginning GAAP Equity	29,201	28,887	25,531	22,874	19,906	28,887	21,560	23,052	23,003	23,017	21,560	23,494	23,896	23,963	24,191	23,494	24,840	25,351	25,515	25,851	24,840
Net Income	3,667	1,020	550	454	819	2,843	975	632	693	1,153	3,453	1,076	745	904	1,322	4,046	1,182	838	1,009	1,405	4,435
Common Dividends	(876)	(214)	(225)	(221)	(221)	(881)	(218)	(231)	(228)	(226)	(903)	(224)	(228)	(226)	(223)	(900)	(221)	(225)	(223)	(221)	(889)
Share Repurchases	(2,156)	(559)	(500)	(501)	(501)	(2,061)	(462)	(450)	(450)	(450)	(1,812)	(450)	(450)	(450)	(450)	(1,800)	(450)	(450)	(450)	(450)	(1,800)
Change in AOCI	(1,309)	(3,795)	(2,553)	(2,753)	1,463	(7,638)	1,059	0	0	0	1,059	0	0	0	0	0	0	0	0	0	0
Other	360	192	71	53	94	410	138	0	0	0	138	0	0	0	0	0	0	0	0	0	0
Ending GAAP Equity	**28,887**	**25,531**	**22,874**	**19,906**	**21,560**	**21,560**	**23,052**	**23,003**	**23,017**	**23,494**	**23,494**	**23,896**	**23,963**	**24,191**	**24,840**	**24,840**	**25,351**	**25,515**	**25,851**	**26,586**	**26,586**
Leverage																					
Debt/Capital	20.2%	22.2%	24.2%	26.8%	25.3%	25.3%	24.0%	24.1%	24.1%	23.7%	23.7%	23.4%	23.3%	23.2%	22.7%	22.7%	22.3%	22.2%	22.0%	21.5%	21.5%

Source: Company Reports, Factset and Wells Fargo Securiites, LLC estimates

Investment Thesis, Valuation and Risks

The Travelers Companies, Inc. (TRV)

Investment Thesis

We believe that TRV will continue to benefit from the hard commercial market as pricing should continue to have legs given inflation and higher weather volatility. Although we are positive on the commercial lines space as a whole, we are more cautious on TRV relative to peers due to its smaller account exposure, higher workers' comp focus as both are getting less rate than other lines/account sizes, and personal lines exposure, particularly auto, which is well above target margins of mid-90s. We still believe that risk remains around social inflation, lower reserve releases, but we believe that these risks are adequately reflected in shares with the risk/reward now more neutral and rate the shares Equal Weight as a result.

Target Price Valuation for TRV: $183.00 from $182.00

Our price target of $183 is based on around a ~1.6x multiple of our projected 2024 book value estimate of around $115.82 and just around 10x our 2024 EPS estimate of $18.10.

Risks to Our Price Target and Rating for TRV

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

Required Disclosures

I, Elyse Greenspan, certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and

2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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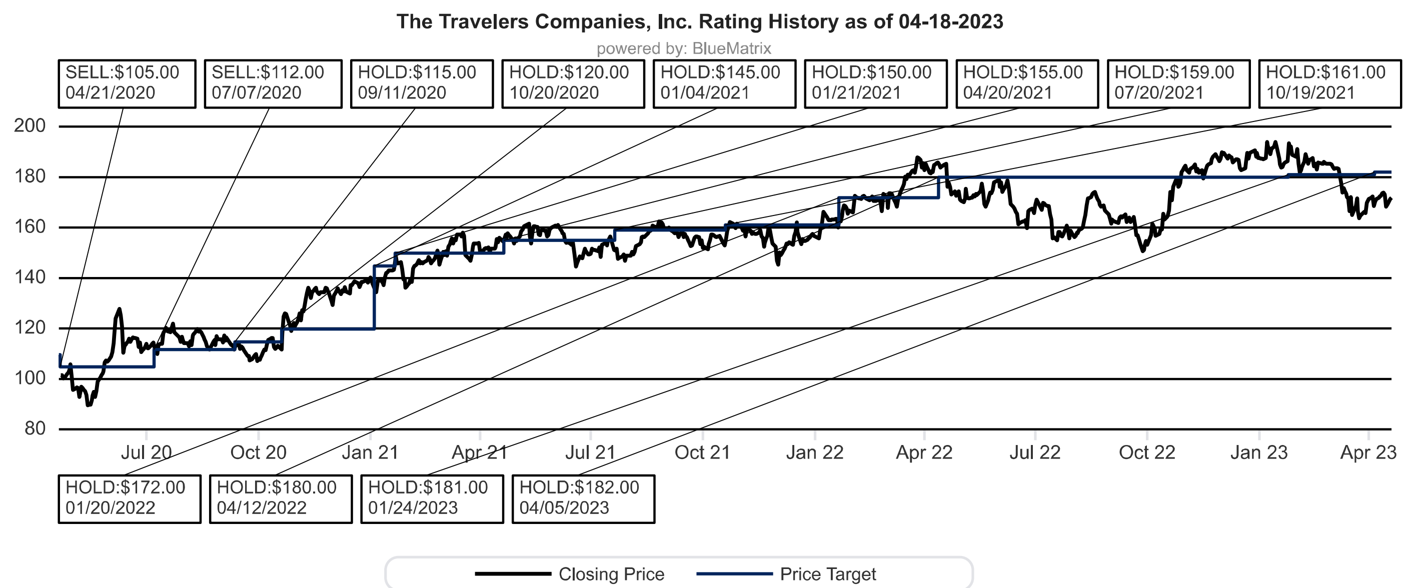

Initiation (I); Drop Coverage (D); Overweight (BUY); Equal Weight (HOLD); Underweight (SELL); Suspended (SR); Not Rated (NR); No Estimate (NE)

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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

As of April 18, 2023
50.6% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.
40.1% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

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