Equity Research

WELLS FARGO

Price Target Change — January 24, 2023

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Strong BI Margin Overshadows Personal Lines Trouble; Conference Call Round-Up

Our Call

Travelers stock traded up due to the stronger Business Insurance (BI) margin, which was a debated topic since the preannouncement last week. Personal auto results are bad, whereas BI seems to have a tailwind on the commercial property side.

Estimate and price target changes: Our 2023 and 2024 EPS estimates are now $14.60 and $17.20 (from $15.35 and $17.95). We are also introducing a 2025 EPS estimate of $18.90. Our estimates reflect weaker personal auto results, lower fixed NII, counter-balanced by slightly better Business Insurance results. Our price target is now $181 (from $180), reflective of higher group multiples.

Read thrus: (1) commercial results remain good, with momentum in commercial property**, (2)** personal auto results are bad with loss trend the culprit (still double-digits), **(3)** the investment income guide was modestly lower for FY 2023 with an average fixed income NII of $535 million, down from $540 million, and **(4)** reinsurance rates went up—TRV increased its retention by 17% ($3 billion to $3.5 billion) and while they did not want to say how much their reinsurance costs went up, they did rise.

Positive BI discussion: Within BI, terms & conditions in property improved over the course of the quarter, which will be a tailwind to profitability. Umbrella saw some unfavorable development in the quarter, as loss costs were worse than expected, as more losses reached excess layers given inflation. Within workers' comp, renewal rates got more negative in the quarter despite RPC remaining in the mid-single digits and increasing Y/Y, reflective of the strong profitability of the business.

Personal auto discussion not so good: the underlying combined ratio in auto of 110.5%, included about one-point of current accident year adjustments and TRV did say that the Q4 is typically about 6-7 points higher than the FY (FY 2022 was 103.9%). They also noted bodily injury severity came in higher than their expectations in Q4. TRV expects to get to rate adequacy in a majority of their states by mid-year 2023, although they did not say what they are assuming for forward loss trend.

The stock from here: TRV traded up on the stronger Business Insurance results, which was a concern since the preannouncement last week. However, the personal auto results were extremely weak and show a good delta between where TRV is and their ultimate margin target. Numbers should be lower following the quarter due to weaker personal lines margins and modestly lower NII and we believe the stock could be range-bound at least until we see how results transpire from the rest of the group.

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	$181.00/$180.00
Upside/(Downside) to Target	**(6.3)%**
Price (01/24/2023)	**$193.25**
52 Week Range	$149.65 - 194.45
Shares Outstanding	234,347,525
Market Cap (MM)	$45,288
Enterprise Value (MM)	$51,805
Average Daily Volume	1,343,246
Average Daily Value (MM)	$260
Dividend (NTM)	$3.78
Dividend Yield	2.0%
Net Debt (MM) - last reported	$6,517
ROIC - Current year est.	15%
3 Yr EPS CAGR from current year (unless otherwise noted)	15%

$ EPS	2022A	2023E Curr.	2023E Prior	2024E Curr.	2024E Prior
Q1 (Mar)	4.22 A	3.94 E	3.81E	4.53 E	4.57E
Q2 (Jun)	2.56 A	2.74 E	2.79E	3.24 E	3.23E
Q3 (Sep)	2.20 A	3.04 E	3.45E	3.76 E	4.23E
Q4 (Dec)	3.40 A	4.89 E	5.33E	5.69 E	5.95E
FY	12.43 A	14.60 E	15.35E	17.20 E	17.95E
P/E	15.6x	13.2x		11.2x	

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, seemed positive about the commercial property market, and brought down their investment income guide modestly in 2023. Highlights of the laterals that we see for the group follow below:

- **Commercial lines pricing could benefit from commercial property momentum. T**RV said that its renewal rates in BI were +4.5% in Q4 as compared to 5.1% in the third quarter, 4.9% in Q2, and on par with the Q1. TRV did say that commercial property rates improved as they moved through the quarter, while the decline in workers' compensation rates got greater in the quarter. **The positive commercial property color combined with TRV taking a quota share on the Fidelis book is a positive for the commercial peers.**
- **Personal lines continue to struggle.** TRV printed a 110.5% personal auto underlying combined ratio and even when we adjust for one point of current year adverse development, it still was a pretty poor result. The company targets a mid-90s to perhaps a range above the upper-end of the mid-90s and we believe the Q4 result shows how far they are from hitting the target. **These results highlight personal auto carriers are still struggling to get enough rate to offset the elevated severity loss trends.**
- **Exposure growth remains strong.** Exposure growth remained at strong levels seeing an uptick of 5.6% in Q4, up from 5.0% in Q3, 5.3% in Q2 and even more when compared to 4.1% in Q1, which is a bullish sign for the insurance brokers. **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 good quarter for the group in general.**
- **After-tax fixed Income NII revised down modestly**. The company modestly lowered its fixed income investment income guidance by about $20 million over the course of 2023, which we believe reflects interest rates dropping modestly since the last time they provided guidance. **This is a small movement, and we believe could perhaps point to modestly lower investment income at other players, although we do not expect much to provide specific NII guidance (CB guides one quarter ahead and HIG should provide some commentary on its investment income with its 2023 guidance).**
- **Stronger-than-expected alternative investment quarter.** From the preannouncement last week we knew that TRV would see decent results from its alternative investment income. While they saw about a 2.3% return, which is below normal levels, that is still a good result given the lag within the PE portfolio. Further, ALL also saw better results than we had expected from its performance-based investments. **Given TRV results we expect other insurers could beat our alternative investment income assumptions, as we had modeled for flat results in the quarter.**

What the Companies Are Saying—TRV

Outlook. They did not quantify how much their reinsurance costs rose, but said it would not have a meaningful impact on margins and the removal of aggregate XOL property treaty should be a modest 25bp headwind to the underlying combined ratio. The uptick in retention on their reinsurance ($3.5 billion from $3.0 billion) should not have a significant impact on the business as it is rising in parallel with premiums. TRV also announced a 20% quota share with Fidelis to take advantage of the hard market in property, which should increase their international BI NPW by $550-$600 million in 2023 and said even the worst-case underwriting scenario would lead to manageable losses for TRV. In personal auto, they said bodily injury severity was higher than expected in the Q4 and that severity trends remain in the double digits for both property and auto (with frequency reaching pre-pandemic levels) with the auto underlying including about a point of current accident year reserve reestimates. Their target range for auto remains near the range of mid-90s, but they did not provide a target date on reaching those margins given the uncertainty around severity.

Pricing. In Business Insurance, TRV characterized the pricing environment as very strong and the RPC at 10.1% is spot on with the eight-quarter average and has been very stable, with some small movements between rate and exposure. For personal auto, they expect to be adequate from a written basis by mid-year 2023, which is unchanged from last quarter. For personal lines, they expect the RPC to continue to rise from these levels in both auto and home. TRV also said workers' comp RPC was in the mid single digits, but loss trend were negative with the net of the two buckets skewing toward the negative, but overall said they remain positive on the line and will be cautious with pricing.

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

- **Fixed income NII lowered for the back of 2023.** TRV is now looking for fixed income and short-term investments to average $535 million on an after-tax basis in 2023 (with range of $515 - 560 million); this is down from $540 million (with a range of $515 - $570 million with Q3 earnings).
- **Personal lines frequency/pricing.** TRV mentioned that frequency is at pre-pandemic levels and also pointed to higher bodily injury severity and higher vehicle and repair costs as driving the weaker personal auto results. They expect written pricing to reach adequate levels in a majority of their states by the middle of 2023.
- **Expense ratio of about 28.5-29%.** TRV is looking for an expense ratio in the range of 28.5-29% for 2023. The full-year 2022 expense ratio came in at 28.5%, relative to the guide of under 29%.

Investments. TRV modestly lowered their guidance for fixed income NII (post-tax) to $515 million in Q1 to $560 million by Q4 (an average NII of $535 million per quarter), from their last guide of $515 million to $570 million. They did not provide a specific reason on the modest guide down, but it could be related to the pullback in rates since the beginning of December (the 10-year is down 23 bps since end of November). The non-fixed income portfolio saw an after-tax yield of 1.9%, which was down from the 2.5% last quarter and well below the 15.2% yield in 2021, as markets have pulled back.

Liquidity and Capital. TRV has $1,452 million of capital at the holding company level with all of their capital ratios at or better than target levels (debt to capital ratio is 21.6% in target range of 15-25%). When asking about potentially changing capital return plans (i.e., dialing back repurchases), given the higher retention on their reinsurance program (raised to $3.5 billion from $3.0 billion), they said it does not have a significant impact on their view of capital adequacy. They did say they returned more capital in 2022 given the strong capital position coming out of 2021, but they do not expect to continue to be able to return nearly 100% in terms of operating earnings between buybacks and dividends.

Exhibit 1 - 2023 Guidance Tracker

2023 Guidance Tracker	2023 Outlook	
	Provided With Q3 2022 Earnings	Provided With Q4 2022 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.
Expense Ratio Outlook	No guide for 2023	Expect FY2023 Expense Ratio to be 28.5% - 29.0% (versus FY22 ratio of 28.5%)
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
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
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.

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 4Q 2022 earnings.

- **2023 EPS** goes down to $14.60 (from $15.35) to reflect worse underlying margins in personal auto and modestly lower fixed investment income given the guide down to $560 million by Q4 (versus previously guided $570 million) and to account for the change in rates YTD, partially offset by better BI margins.
- **2024 EPS** goes to $17.20 (from $17.95) to reflect worse underlying margins in personal auto and lower net investment income, partially offset by better BI margins.
- **2025 EPS** is introduced at $18.90.

Exhibit 2 - TRV Summary of Estimate Changes

($ in millions, except as noted)	2023E	2024E	2025E	Prior Estimates 2023E	Prior Estimates 2024E	Prior Estimates 2025E	Delta (Absolute) 2023E	Delta (Absolute) 2024E	Delta (Absolute) 2025E	2023 Outlook Guidance
Gross premiums written	40,559	42,809	45,189	40,125	42,350	NM	434	458	NM	
% growth (YoY)	7.1%	5.5%	5.6%	6.6%	5.5%	NM	0.5%	0.0%	NM	
Net premiums written	38,132	40,065	42,103	37,341	39,244	NM	791	821	NM	
% growth (YoY)	7.7%	5.1%	5.1%	6.1%	5.1%	NM	1.6%	(0.0%)	NM	
Increase in unearned premiums	(1,286)	(1,341)	(1,410)	(1,271)	(1,325)	NM	(16)	(16)	NM	
Net premiums earned	**36,846**	**38,725**	**40,693**	**36,071**	**37,920**	**NM**	**775**	**805**	**NM**	
% growth (YoY)	9.1%	5.1%	5.1%	7.3%	5.1%	NM	1.8%	(0.0%)	NM	
Net investment income (pre-tax)	2,935	3,177	3,341	3,024	3,301	NM	(89)	(124)	NM	Expecting $515-$560MM for each quarter in 2023 for F
Fee income	463	485	509	407	407	NM	56	78	NM	
Other income	327	336	336	327	336	NM	0	0	NM	
Total revenue	**40,571**	**42,723**	**44,878**	**39,829**	**41,964**	**NM**	**742**	**759**	**NM**	
Losses and loss adjustment expenses	24,869	25,864	27,175	24,184	25,189	NM	685	674	NM	
Amortization of deferred acquisition costs	6,075	6,429	6,755	5,950	6,297	NM	125	132	NM	
General and administrative expenses	5,213	5,438	5,656	5,055	5,300	NM	158	138	NM	
Interest expense	352	352	352	352	352	NM	0	0	NM	
Total expenses	**36,509**	**38,083**	**39,937**	**35,541**	**37,138**	NM	**968**	**944**	NM	
Pretax operating income	**4,061**	**4,640**	**4,941**	**4,288**	**4,826**	**NM**	**(227)**	**(185)**	**NM**	
% growth (YoY)	14.1%	14.3%	6.5%	20.1%	12.5%	NM	(6.0%)	1.7%	NM	
Income tax expense/(benefit)	687	800	856	730	831	NM	(42)	(31)	NM	
After-tax core income	**3,374**	**3,841**	**4,085**	**3,559**	**3,995**	**NM**	**(185)**	**(155)**	**NM**	
% growth (YoY)	12.5%	13.8%	6.4%	18.7%	12.3%	NM	(6.2%)	1.6%	NM	
Company income tax rate (%)	16.9%	17.2%	17.3%	17.0%	17.2%	NM	(0.1%)	0.0%	NM	
Weighted average number of diluted shares	230.0	222.3	215.3	230.7	221.6	NM	(0.7)	0.7	NM	
Participating share-based awards	16.0	16.0	16.0	16.0	16.0	NM	0.0	0.0	NM	
Adjusted Operating EPS	**$14.60**	**$17.20**	**$18.90**	**$15.35**	**$17.95**	**NM**	**($0.76)**	**($0.75)**	**NM**	
Profitability Metrics										
Loss and loss adjustment expense ratio	67.0%	66.3%	66.3%	66.5%	65.9%	NM	0.5%	0.4%	NM	
Underwriting expense ratio	28.6%	28.6%	28.4%	28.6%	28.7%	NM	(0.0%)	(0.1%)	NM	Expecting expense ratio of 28.5-29% for 2023
Combined ratio	**95.6%**	**94.9%**	**94.7%**	**95.1%**	**94.6%**	**NM**	**0.5%**	**0.3%**	**NM**	
Cat points on the combined ratio	5.1%	5.2%	5.2%	5.0%	5.1%	NM	0.1%	0.1%	NM	
PYD points on the combined ratio	(0.6%)	(0.3%)	(0.2%)	(0.7%)	(0.3%)	NM	0.0%	0.0%	NM	
Current accident year combined ratio	**91.1%**	**90.0%**	**89.7%**	**90.8%**	**89.9%**	**NM**	**0.3%**	**0.2%**	**NM**	
Underlying loss ratio	**62.5%**	**61.4%**	**61.3%**	**62.2%**	**61.2%**	**NM**	**0.3%**	**0.3%**	**NM**	
Segment Underwriting Income:										
Business Insurance	$932	$906	$1,116	$836	$677	NM	$96	$229	NM	
Bond & Specialty Insurance	$690	$664	$704	$695	$656	NM	($5)	$8	NM	
Personal Insurance	($436)	($54)	($168)	($208)	$243	NM	($228)	($298)	NM	
Book value per share	$99.95	$109.47	$120.75	$97.90	$108.14	NM	$2.05	$1.33	NM	
ROE	15.1%	16.4%	16.4%	16.3%	17.4%	NM	(1.2%)	(1.0%)	NM	

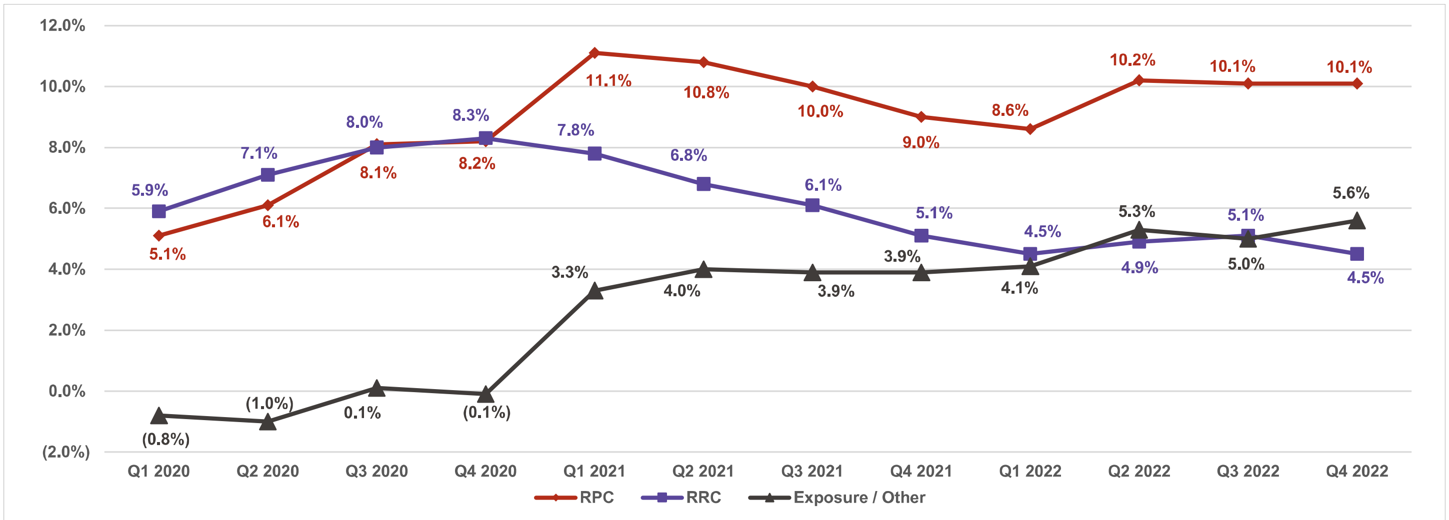
Source: Company reports and Wells Fargo Securities, LLC estimates

Pricing Highlights—Commercial Lines

Business Insurance Rating Environment—TRV Rates Flat as Exposure Growth Accelerates

- In Q4, the **Business Insurance** renewal rate change was +4.5%, decelerating from the +5.0% in the prior quarter. Exposure growth was up 5.6%, which was an acceleration from the 5.0% in the prior quarter, and shows exposure growth still has legs given inflation despite recessionary concerns. The exhibits below show the trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change since 2019.

Exhibit 3 - Pricing and Exposure Growth Seen by Travelers



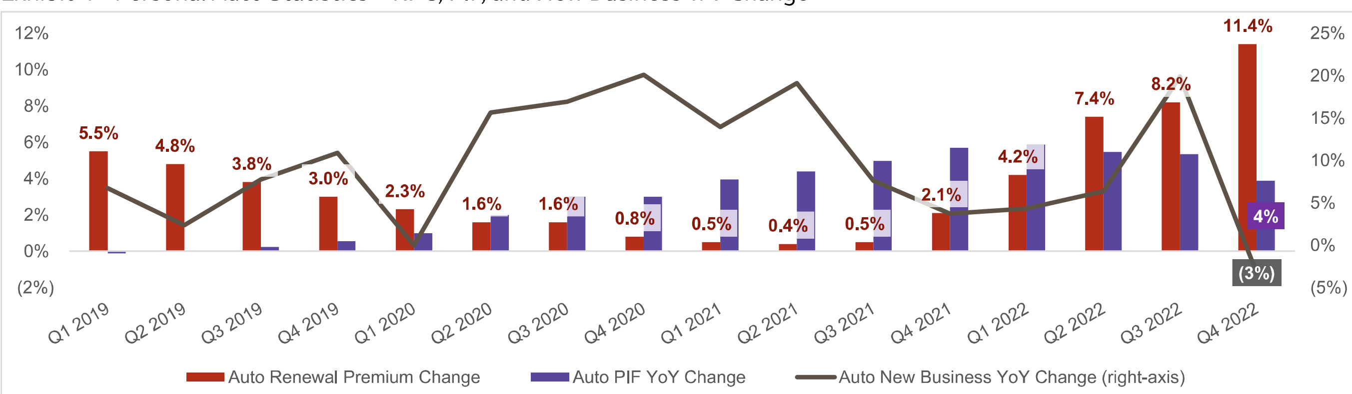
Source: Company data and Wells Fargo Securities, LLC

Pricing Highlights—Personal Lines

Personal Lines—TRV Continues to See Rate Acceleration, but Margins Show More Rate and Time Needed

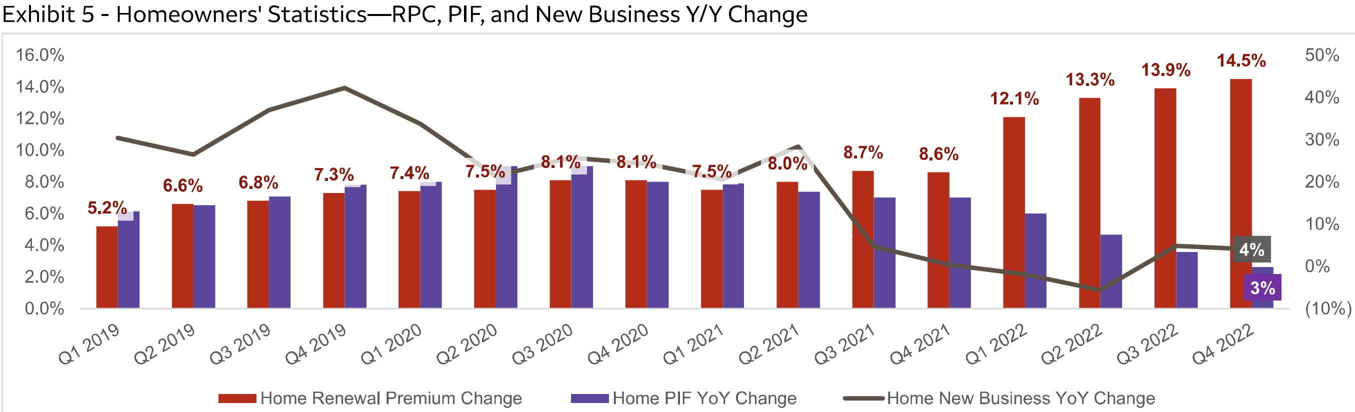
- Within ***Personal Auto***, TRV saw renewal premium change enter double digits (in line with their guide last quarter to enter double digits) at 11.4%, which was an acceleration from the 8.2% last quarter; however, their auto underlying margin was above 110%, which was the highest since Q4 2016, which shows the need for additional rate and simply more time for these rate hikes to earn into the P&L. On the auto side, they highlighted that margins continue to be impacted by higher severity and frequency returning to pre-pandemic levels. Further, they said that they expect written pricing will achieve rate adequacy in a majority of their states by mid-year 2023, although they did not say what they are assuming for forward loss trend.
- ***Homeowners'*** RPC also accelerated sequentially, jumping to a record-high 14.5% Y/Y, up from the 13.9% last quarter. They expect the RPC in home to continue to improve from here.
- **Auto new business growth declines Y/Y.** Travelers' new business in auto decreased 3% Y/Y to $270 million, after increasing 20% Y/Y last quarter showing TRV may finally be 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 0.2% sequentially, which was the first sequential decline since Q1 2019. Home new business was up 4% Y/Y to $284 million, modestly down from the 5% Y/Y growth in the prior quarter. From a PIF standpoint, home saw a 0.1% sequential increase, which was a slowdown from the 0.5% sequential increase last quarter and was the slowest sequential growth since Q1 2017.

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

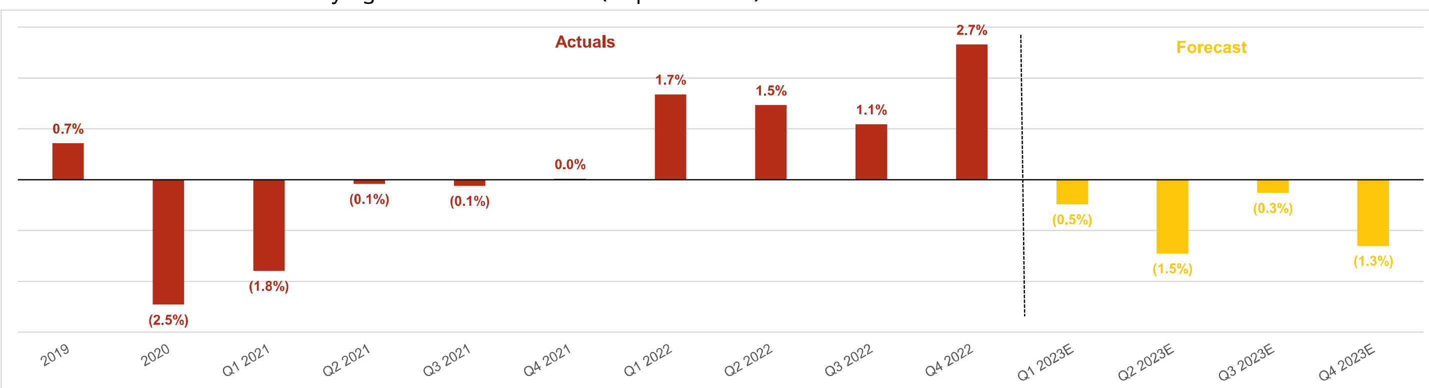
Underlying Margin Tables

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
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%
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%
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%)
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%**
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%
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%**
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%*
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%**
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%)*

Source: Company reports and Wells Fargo Securities, LLC

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



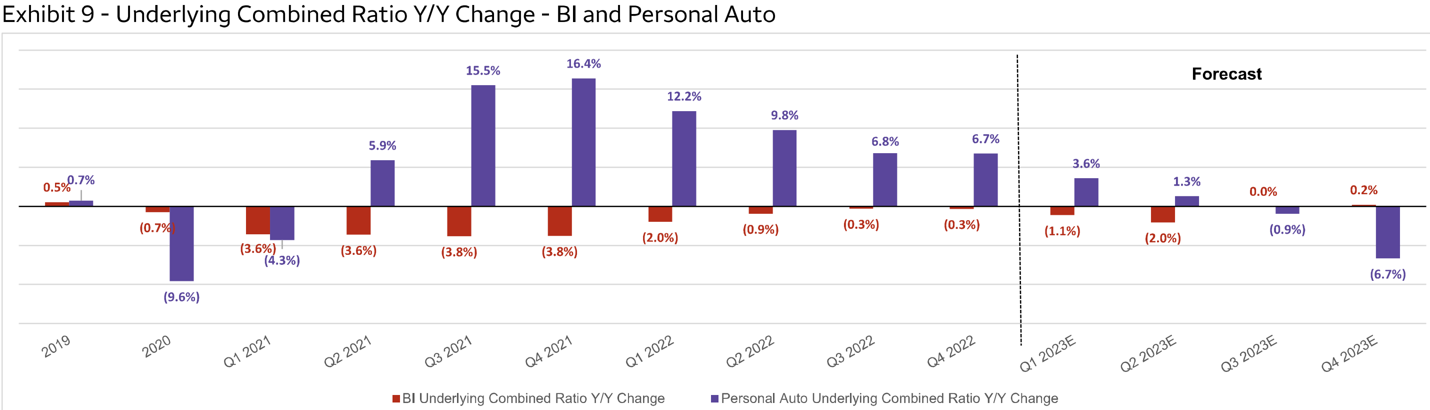
Source: Company reports and Wells Fargo Securities, LLC Estimates

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
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%**
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%)
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%**
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%)
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%**
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%
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%**
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%
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%**
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%

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

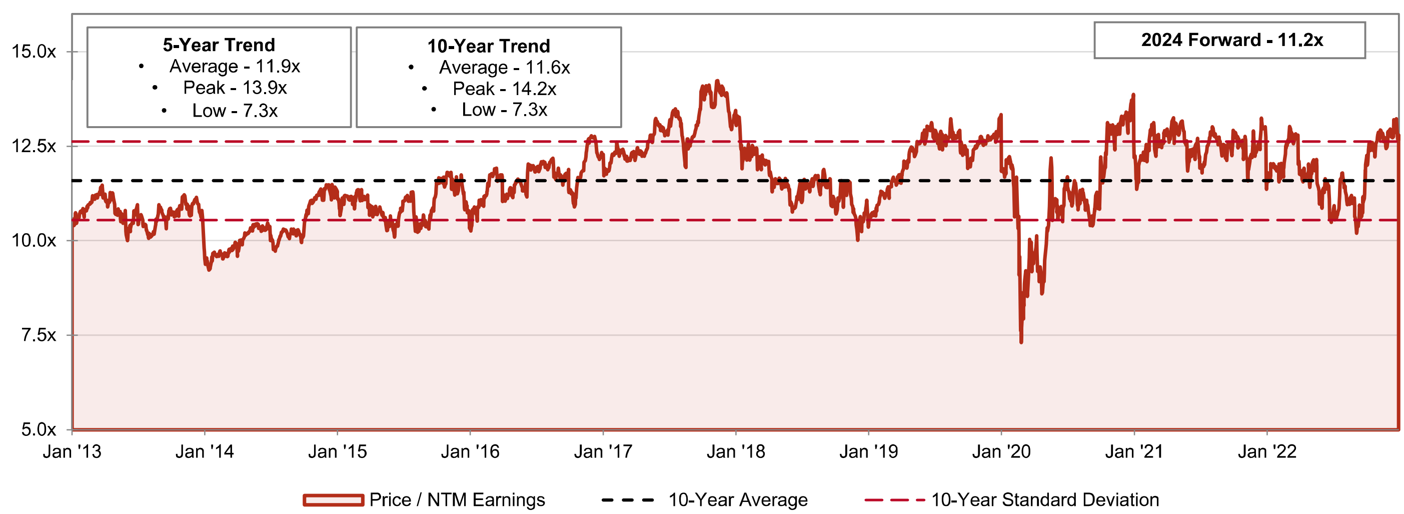
Valuation

Current valuation. The TRV shares are now trading at 2.08x Q4 book value, which is a 10-year high and well above its 5-year (1.44x) average, and its 10-year (1.38x) average multiple. The P/B multiple has increased as reported book value has seen pressure from unrealized losses on TRV's investment portfolio; when excluding unrealized losses (net), shares are currently trading at 1.60x Q4 adjusted book of $120.67 (more in line with the 5- and 10-year averages). On a price-to-earnings basis, the shares are trading at 13.2x our updated 2023 EPS estimate and 11.2x our 2024 EPS estimate versus the 5-year average of 11.9x, 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)	Q1 2021	Q2 2021	Q3 2021	Q4 2021	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022E
Summary										
Business Insurance	372	780	664	1,073	2,889	811	813	560	884	3,068
Bond & Specialty Insurance	169	235	217	212	833	239	285	304	275	1,103
Personal Insurance	394	146	(8)	407	939	252	(250)	(147)	(85)	(230)
Other	(88)	(91)	(95)	(95)	(369)	(95)	(97)	(96)	(94)	(382)
Adjusted Pre-Tax Operating Income	**847**	**1,070**	**778**	**1,597**	**4,292**	**1,207**	**751**	**621**	**980**	**3,559**
Tax Rate	17.5%	17.9%	15.8%	19.0%	17.8%	13.9%	16.9%	15.3%	17.3%	15.7%
Taxes	(148)	(191)	(123)	(303)	(765)	(168)	(127)	(95)	(170)	(560)
Adjusted After-Tax Operating Income	**699**	**879**	**655**	**1,294**	**3,527**	**1,039**	**624**	**526**	**810**	**2,999**
Adjusted Operating EPS	$2.73	$3.45	$2.60	$5.20	$13.94	$4.22	$2.56	$2.20	$3.40	$12.43
YoY Change in Adjusted After-Tax Operating Income	*3.5%*	*(1,191.8%)*	*(18.0%)*	*2.0%*	*32.7%*	*42.5%*	*(29.8%)*	*(20.2%)*	*(38.6%)*	*(17.1%)*
YoY Change in Adjusted Operating EPS	**4.2%**	**(1,799.7%)**	**(16.6%)**	**5.8%**	**33.0%**	**54.7%**	**(25.7%)**	**(15.4%)**	**(34.6%)**	**(10.9%)**
Consensus EPS									$3.40	$12.42
WFS Estimate versus Consensus										0.0%
Premiums										
YoY Change in Gross Premiums Written	3.1%	10.9%	7.7%	9.8%	7.8%	10.4%	10.9%	10.5%	10.5%	10.6%
YoY Change in Premiums Earned	**2.2%**	**9.5%**	**6.1%**	**7.3%**	**6.3%**	**8.5%**	**9.2%**	**10.0%**	**9.8%**	**9.4%**
Investment Income (Pre-Tax)										
Fixed Maturities	491	493	497	508	1,989	505	512	534	562	2,113
Fixed Maturities Pre-Tax Annualized Yield	2.7%	2.6%	2.6%	2.6%	2.6%	2.7%	2.9%	3.1%	3.2%	3.0%
Alternatives	218	335	281	243	1,077	142	197	46	34	419
Alternatives Pre-Tax Annualized Yield	17.3%	25.4%	19.7%	17.0%	18.8%	9.8%	13.6%	3.2%	2.3%	7.3%
Short-Term Securities	3	1	2	1	5	2	9	23	39	73
Invesment Expenses	(11)	(11)	(9)	(9)	(40)	(12)	(11)	(10)	(10)	(43)
Total Pre-Tax Net Investment Income	**701**	**818**	**771**	**743**	**3,031**	**637**	**707**	**593**	**625**	**2,562**
Total Pre-Tax NII Annualized Yield	3.5%	4.0%	3.7%	3.5%	3.7%	3.0%	3.3%	2.7%	2.8%	2.9%
Margins										
Loss Ratio	66.7%	65.6%	69.2%	59.5%	65.1%	62.3%	69.3%	70.1%	66.6%	67.2%
Expense Ratio	30.0%	29.7%	29.4%	28.5%	29.4%	29.0%	29.0%	28.1%	27.9%	28.5%
Combined Ratio	**96.7%**	**95.3%**	**98.6%**	**88.0%**	**94.5%**	**91.3%**	**98.3%**	**98.2%**	**94.5%**	**95.8%**
YoY Change in Combined Ratio (Favorable)	1.1%	(8.5%)	3.7%	1.3%	(0.6%)	(5.4%)	3.0%	(0.4%)	6.5%	1.3%
Catastrophe Losses	835	475	501	36	1,847	160	746	512	459	1,877
Points on Combined Ratio	11.3%	6.3%	6.4%	0.4%	6.0%	2.0%	9.0%	5.9%	5.2%	5.6%
Reserve Development	(317)	(182)	56	(95)	(538)	(153)	(291)	(20)	(185)	(649)
Points on Combined Ratio	(4.3%)	(2.4%)	0.8%	(1.2%)	(1.7%)	(1.9%)	(3.5%)	(0.2%)	(2.1%)	(1.9%)
Adjusted Margins										
Underlying Loss Ratio	59.7%	61.7%	62.0%	60.2%	60.9%	62.2%	63.8%	64.4%	63.5%	63.6%
Underlying Combined Ratio	**89.5%**	**91.4%**	**91.4%**	**88.7%**	**90.3%**	**91.2%**	**92.8%**	**92.5%**	**91.4%**	**92.1%**
YoY Change in Loss Ratio (Favorable)	(1.6%)	1.2%	(0.2%)	0.9%	0.0%	2.5%	2.1%	2.4%	3.3%	2.7%
YoY Change in Combined Ratio (Favorable)	(1.8%)	(0.1%)	(0.1%)	0.0%	(0.5%)	1.7%	1.4%	1.1%	2.7%	1.9%
Book Value and Return on Equity										
GAAP Book Value per Share	**$112.42**	**$116.86**	**$115.74**	**$119.77**	**$119.77**	**$106.40**	**$96.39**	**$84.94**	**$92.90**	**$92.90**
Operating Return on Equity	**9.6%**	**12.0%**	**8.9%**	**17.7%**	**11.8%**	**14.9%**	**10.1%**	**9.7%**	**15.3%**	**11.7%**
Share Count										
Ending Common Shares	251.5	249.5	246.0	241.2	241.2	240.0	237.3	234.4	232.1	232.1
Weighted Average Diluted Shares	**254.1**	**253.1**	**250.1**	**246.4**	**250.9**	**243.7**	**241.1**	**237.9**	**236.3**	**239.7**
Capital Return to Shareholders										
Common Dividends	216	224	220	216	876	214	225	221	221	881
Share Repurchases	356	400	600	800	2,156	500	500	500	500	2,000
Total Capital Returned	**572**	**624**	**820**	**1,016**	**3,032**	**714**	**725**	**721**	**721**	**2,881**
Total Payout Ratio (% of Operating Income)	**81.8%**	**71.0%**	**125.2%**	**78.5%**	**86.0%**	**68.7%**	**116.2%**	**137.1%**	**89.0%**	**96.1%**
Equity Rollforward and Leverage										
Beginning GAAP Equity	29,201	28,269	29,156	28,474	29,201	28,887	25,531	22,874	19,906	28,887
Net Income	733	934	662	1,338	3,667	1,020	550	454	819	2,843
Common Dividends	(216)	(224)	(220)	(216)	(876)	(214)	(225)	(221)	(221)	(881)
Share Repurchases	(356)	(400)	(600)	(800)	(2,156)	(500)	(500)	(500)	(500)	(2,000)
Change in AOCI	(1,211)	478	(603)	27	(1,309)	(3,795)	(2,553)	(2,753)	1,463	(7,638)
Other	118	99	79	64	360	133	71	52	93	349
Ending GAAP Equity	**28,269**	**29,156**	**28,474**	**28,887**	**28,887**	**25,531**	**22,874**	**19,906**	**21,560**	**21,560**
Leverage										
Debt/Capital	18.8%	20.0%	20.4%	20.2%	20.2%	22.2%	24.2%	26.8%	25.3%	25.3%

($ in millions, except as noted)	Q1 2023E	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	826	743	771	986	3,325	888	753	837	1,010	3,488	959	844	941	1,076	3,820
Bond & Specialty Insurance	257	246	274	257	1,033	262	241	271	260	1,034	277	257	287	271	1,092
Personal Insurance	132	(139)	(116)	213	88	188	(35)	(9)	362	506	202	(88)	(26)	329	417
Other	(97)	(97)	(97)	(97)	(386)	(97)	(97)	(97)	(97)	(388)	(97)	(97)	(97)	(97)	(388)
Adjusted Pre-Tax Operating Income	**1,118**	**753**	**832**	**1,358**	**4,061**	**1,242**	**861**	**1,002**	**1,536**	**4,640**	**1,340**	**916**	**1,106**	**1,579**	**4,941**
Tax Rate	17.5%	15.3%	15.8%	18.0%	16.9%	17.6%	15.6%	16.4%	18.3%	17.2%	17.7%	15.7%	16.7%	18.3%	17.3%
Taxes	(196)	(115)	(131)	(244)	(687)	(219)	(135)	(165)	(281)	(800)	(238)	(144)	(185)	(289)	(856)
Adjusted After-Tax Operating Income	**922**	**638**	**700**	**1,114**	**3,374**	**1,023**	**726**	**837**	**1,254**	**3,841**	**1,102**	**772**	**921**	**1,290**	**4,085**
Adjusted Operating EPS	$3.94	$2.74	$3.04	$4.89	$14.60	$4.53	$3.24	$3.76	$5.69	$17.20	$5.04	$3.55	$4.28	$6.04	$18.90
YoY Change in Adjusted After-Tax Operating Income	*(7.4%)*	*0.3%*	*33.9%*	*38.6%*	*14.1%*	*11.1%*	*14.3%*	*20.5%*	*13.1%*	*14.3%*	*7.9%*	*6.4%*	*10.4%*	*2.8%*	*6.5%*
YoY Change in Adjusted Operating EPS	**(6.8%)**	**7.1%**	**38.2%**	**43.8%**	**17.5%**	**14.9%**	**17.9%**	**23.8%**	**16.5%**	**17.8%**	**11.4%**	**9.8%**	**13.6%**	**6.1%**	**9.9%**
Consensus EPS	$3.79	$2.59	$3.12	$5.12	$14.49	$4.54	$3.05	$3.56	$5.91	$16.83	$5.11	$3.09	$3.28	$7.17	$18.65
WFS Estimate versus Consensus	3.8%	6.0%	(2.5%)	(4.4%)	0.8%	(0.4%)	6.0%	5.8%	(3.6%)	2.2%	(1.2%)	15.1%	30.2%	(15.7%)	1.4%
Premiums															
YoY Change in Gross Premiums Written	7.1%	7.1%	7.1%	7.1%	7.1%	5.5%	5.6%	5.6%	5.6%	5.5%	5.5%	5.6%	5.6%	5.6%	5.6%
YoY Change in Premiums Earned	**11.4%**	**9.4%**	**7.8%**	**8.1%**	**9.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**	**5.1%**
Investment Income (Pre-Tax)															
Fixed Maturities	576	590	605	619	2,391	628	637	646	656	2,568	665	668	677	681	2,691
Fixed Maturities Pre-Tax Annualized Yield	3.2%	3.3%	3.3%	3.4%	3.3%	3.4%	3.5%	3.5%	3.5%	3.5%	3.6%	3.6%	3.6%	3.6%	3.6%
Alternatives	116	119	121	124	480	126	129	131	134	520	136	139	142	145	562
Alternatives Pre-Tax Annualized Yield	8.0%	8.0%	8.0%	8.0%	8.2%	8.0%	8.0%	8.0%	8.0%	8.2%	8.0%	8.0%	8.0%	8.0%	8.2%
Short-Term Securities	25	25	25	35	110	35	35	35	35	140	35	35	35	35	140
Invesment Expenses	(11)	(11)	(12)	(12)	(46)	(12)	(12)	(13)	(13)	(50)	(13)	(13)	(13)	(13)	(53)
Total Pre-Tax Net Investment Income	**707**	**723**	**740**	**766**	**2,935**	**777**	**789**	**800**	**812**	**3,177**	**823**	**829**	**841**	**847**	**3,341**
Total Pre-Tax NII Annualized Yield	3.2%	3.3%	3.3%	3.5%	3.3%	3.5%	3.5%	3.6%	3.6%	3.6%	3.6%	3.7%	3.7%	3.7%	3.7%
Margins															
Loss Ratio	65.5%	69.7%	69.1%	63.9%	67.0%	65.1%	69.4%	68.0%	62.9%	66.3%	65.0%	69.4%	67.7%	63.4%	66.3%
Expense Ratio	28.5%	28.6%	28.6%	28.5%	28.6%	28.6%	28.5%	28.7%	28.5%	28.6%	28.4%	28.4%	28.5%	28.4%	28.4%
Combined Ratio	**94.0%**	**98.3%**	**97.7%**	**92.4%**	**95.6%**	**93.7%**	**97.9%**	**96.7%**	**91.4%**	**94.9%**	**93.4%**	**97.8%**	**96.2%**	**91.7%**	**94.7%**
YoY Change in Combined Ratio (Favorable)	2.7%	0.0%	(0.5%)	(2.1%)	(0.2%)	(0.3%)	(0.4%)	(1.0%)	(1.0%)	(0.7%)	(0.3%)	(0.1%)	(0.5%)	0.3%	(0.1%)
Catastrophe Losses	360	730	500	300	1,890	390	760	530	330	2,010	420	790	560	360	2,130
Points on Combined Ratio	4.0%	8.0%	5.4%	3.1%	5.1%	4.2%	7.9%	5.4%	3.3%	5.2%	4.3%	7.9%	5.5%	3.4%	5.2%
Reserve Development	(69)	(100)	10	(77)	(236)	(36)	(44)	3	(40)	(116)	(21)	(22)	(2)	(23)	(68)
Points on Combined Ratio	(0.8%)	(1.1%)	0.1%	(0.8%)	(0.6%)	(0.4%)	(0.5%)	0.0%	(0.4%)	(0.3%)	(0.2%)	(0.2%)	(0.0%)	(0.2%)	(0.2%)
Adjusted Margins															
Underlying Loss Ratio	62.2%	62.8%	63.6%	61.5%	62.5%	61.3%	61.9%	62.6%	60.0%	61.4%	60.9%	61.8%	62.2%	60.2%	61.3%
Underlying Combined Ratio	**90.7%**	**91.4%**	**92.2%**	**90.1%**	**91.1%**	**89.9%**	**90.4%**	**91.2%**	**88.5%**	**90.0%**	**89.4%**	**90.2%**	**90.7%**	**88.5%**	**89.7%**
YoY Change in Loss Ratio (Favorable)	(0.0%)	(1.0%)	(0.8%)	(1.9%)	(1.1%)	(0.9%)	(0.9%)	(1.1%)	(1.5%)	(1.1%)	(0.4%)	(0.1%)	(0.3%)	0.2%	(0.2%)
YoY Change in Combined Ratio (Favorable)	(0.5%)	(1.5%)	(0.3%)	(1.3%)	(1.0%)	(0.8%)	(1.0%)	(1.0%)	(1.6%)	(1.1%)	(0.6%)	(0.3%)	(0.5%)	(0.0%)	(0.3%)
Book Value and Return on Equity															
GAAP Book Value per Share	**$94.98**	**$95.82**	**$96.95**	**$99.95**	**$99.95**	**$102.58**	**$103.87**	**$105.68**	**$109.47**	**$109.47**	**$112.63**	**$114.24**	**$116.59**	**$120.75**	**$120.75**
Operating Return on Equity	**16.8%**	**11.5%**	**12.6%**	**19.9%**	**15.1%**	**17.9%**	**12.5%**	**14.4%**	**21.2%**	**16.4%**	**18.2%**	**12.5%**	**14.8%**	**20.4%**	**16.4%**
Share Count															
Ending Common Shares	229.7	227.4	225.1	222.8	222.8	220.6	218.5	216.4	214.3	214.3	212.2	210.2	208.3	206.4	206.4
Weighted Average Diluted Shares	**233.1**	**231.0**	**229.0**	**227.0**	**230.0**	**225.1**	**223.2**	**221.4**	**219.6**	**222.3**	**217.8**	**216.1**	**214.4**	**212.8**	**215.3**
Capital Return to Shareholders															
Common Dividends	216	218	216	214	864	212	216	214	212	854	204	208	206	204	822
Share Repurchases	450	450	450	450	1,800	450	450	450	450	1,800	450	450	450	450	1,800
Total Capital Returned	**666**	**668**	**666**	**664**	**2,664**	**662**	**666**	**664**	**662**	**2,654**	**654**	**658**	**656**	**654**	**2,622**
Total Payout Ratio (% of Operating Income)	**72.2%**	**104.7%**	**95.1%**	**59.6%**	**79.0%**	**64.7%**	**91.7%**	**79.3%**	**52.8%**	**69.1%**	**59.3%**	**85.2%**	**71.2%**	**50.7%**	**64.2%**
Equity Rollforward and Leverage															
Beginning GAAP Equity	21,560	21,816	21,786	21,820	21,560	22,270	22,631	22,691	22,864	22,270	23,457	23,905	24,020	24,285	23,457
Net Income	922	638	700	1,114	3,374	1,023	726	837	1,254	3,841	1,102	772	921	1,290	4,085
Common Dividends	(216)	(218)	(216)	(214)	(864)	(212)	(216)	(214)	(212)	(854)	(204)	(208)	(206)	(204)	(822)
Share Repurchases	(450)	(450)	(450)	(450)	(1,800)	(450)	(450)	(450)	(450)	(1,800)	(450)	(450)	(450)	(450)	(1,800)
Change in AOCI	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ending GAAP Equity	**21,816**	**21,786**	**21,820**	**22,270**	**22,270**	**22,631**	**22,691**	**22,864**	**23,457**	**23,457**	**23,905**	**24,020**	**24,285**	**24,921**	**24,921**
Leverage															
Debt/Capital	25.0%	25.1%	25.0%	24.7%	24.7%	24.4%	24.3%	24.2%	23.7%	23.7%	23.4%	23.3%	23.1%	22.6%	22.6%

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 its shares Equal Weight as a result.

Target Price Valuation for TRV: $181.00 from $180.00

Our price target of $181 is based on around a ~1.65x multiple of our projected 2024 book value estimate of around $109.47 and 10.5x our 2024 EPS estimate of $17.20.

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 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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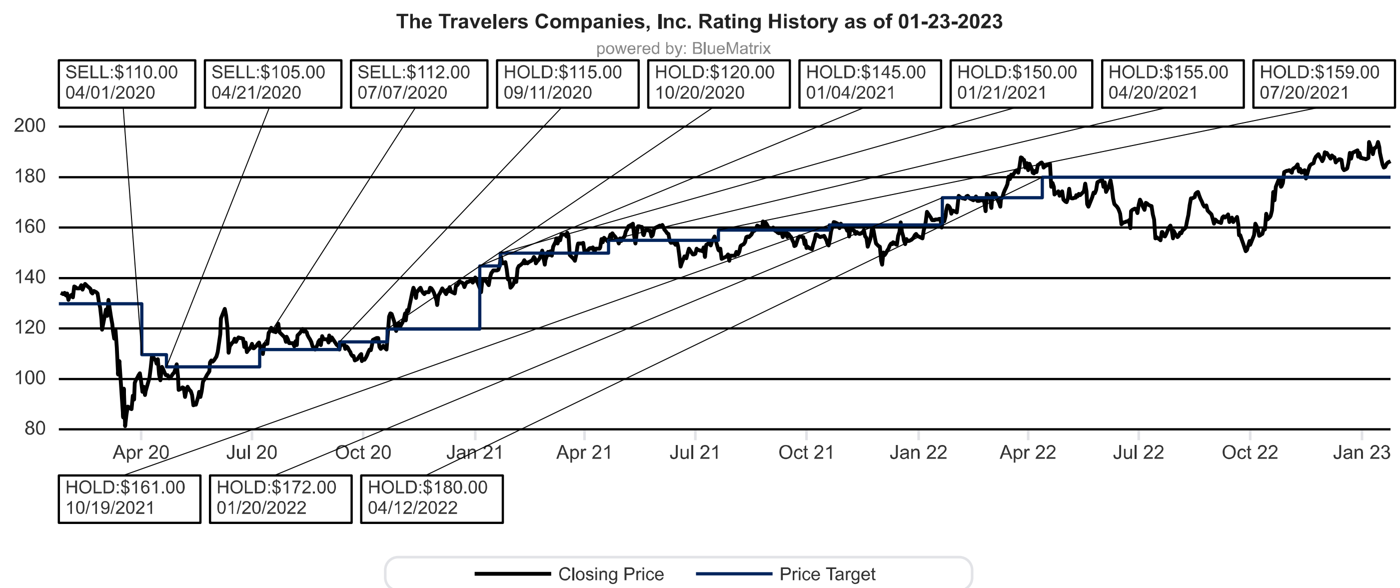
Additional Information Available Upon Request



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

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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 -10% to +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 January 23, 2023
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