

The Travelers Companies, Inc.

TRV: The Umbrella Provides Shelter From BI Claims; Conference Call Round-Up

Underweight/\$105

Commercial Lines Insurance

Price Target Change

- Summary:** Travelers hosted a conference call on 4/21 to discuss Q1 results. The call focused on Covid-19 and the impact on its different businesses, its updated outlook for net investment income, as well as thoughts surrounding capital (and the potential for a slowdown in its buyback in 2020). Our 2020 EPS estimate falls to \$9.10 (from \$10.45), 2021 falls to \$10.00 (from \$11.00), and 2022 falls to \$10.70 (from \$11.60) reflective of lower NII, lower buybacks, and adjustments to our premium and margin assumptions. Our price target moves to \$105 from \$110 based on our 2021 BV estimate. We are surprised the shares traded up post earnings (and outperformed the P&C sector), but we do view the market responding favorably to TRV's thoughts surrounding potential business interruption claims from Covid-19. Below, we highlight key takes for the rest of the insurance sector coming out of TRV's print (with some additional laterals also in the back of this note).

- Business interruption should be mostly insulated from Covid-19 claims.** TRV highlighted that for its commercial property book its policies require losses to be caused by a direct physical damage to property for it to be a covered BI loss. Additionally, its standard policy form specifically excludes losses or damages resulting from a virus. TRV did say it had some policies that include virus endorsements and that was included within the charge the company took this quarter. Additionally, within commercial TRV is seeing fewer commercial auto and slip and fall type claims and is also seeing the plaintiffs' bar move to settle claims faster.

- Workers' compensation could be impacted further by Covid-19.** Generally workers' comp claims would be triggered if the employee can demonstrate that the injury occurred over the course of employment, including healthcare workers and first responders (which does not represent a significant part of TRV's book). TRV highlighted that some states have taken steps to expand the scope of workers' comp coverage by creating presumptions of compensability. While giving this caveat on workers' comp, the company did say the frequency in the comp line has been down.

- Personal auto is benefiting from a lack of driving.** Confirming what we saw in PGR's numbers, TRV is benefiting from a lack of driving by its insurers with miles driven down 40% over the final two weeks of March. TRV did caution that there could be an offset to the favorable frequency trends as severity could rise as individuals get into accidents at higher speeds.

- Capital return could slow, reflective of conservatism in a weaker economy.** TRV pointed to being more cautious when it comes to capital return as the company was during the Global Financial Crisis. As a result, TRV to us pointed to a decent slowdown in share repurchase until there is more clarity on the economy.

Please see page 13 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 04/21/20 unless otherwise stated. 04/21/20 16:04:01 ET

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\$	2019A	2020E		2021E		
EPS		Curr.	Prior	Curr.	Prior	
Q1 (Mar.)	2.83	2.62	A	NC	2.80	3.02
Q2 (June)	2.02	1.26	1.66	1.55	1.82	
Q3 (Sep.)	1.43	1.94	2.12	2.21	2.40	
Q4 (Dec.)	3.32	3.29	3.54	3.45	3.78	
FY	9.60	9.10	10.45	10.00	11.00	
CY	9.60	9.10		10.00		
FY P/EPS	10.7x	11.3x		10.3x		
Rev.(MM)	29,151	29,614		31,187		

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile

Ticker	TRV
Price Target/Prior:	\$105/\$110
Price (04/21/2020)	\$102.88
52-Week Range:	\$76-156
Shares Outstanding: (MM)	252.8
Market Cap.: (MM)	\$26,008.1
S&P 500:	2,749.26
Avg. Daily Vol.:	3,050,550
Dividend/Yield:	\$3.28/3.2%
LT Debt: (MM)	\$6,559.0
LT Debt/Total Cap.:	21.9%
ROE:	12.0%
3-5 Yr. Est. Growth Rate:	10.0%
CY 2020 Est. P/EPS-to-Growth:	1.1x
Last Reporting Date:	04/21/2020 Before Open

NC = No Change

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Q1 2020 Earnings And Conference Call Highlights

Summary. Travelers hosted a conference call on 4/21 to discuss Q1 results. The call focused on Covid-19 and the impact on its different businesses, its updated view for net investment income, as well as thoughts surrounding capital (and the potential for a slowdown in its buyback in 2020). Our 2020 EPS estimate falls to \$9.10 (from \$10.45), 2021 falls to \$10.00 (from \$11.00), and 2022 falls to \$10.70 (from \$11.60) reflective of lower NII, lower buybacks, and adjustments to our premium and margin assumptions. Our price target moves to \$105 from \$110 based on our 2021 BV estimate. TRV highlighted that it did not believe that the 1.2 point impact from Covid-19 in the Q1 should be multiplied to give an ongoing quarterly impact (since Covid-19 only impacted about one month of the quarter) as certain items like bad debt expense (which was 0.5 points) will not necessarily continue. The company did point to potential commercial claims as well as surety losses depending on the duration of the economy slowdown and employment practices liability losses due to the increase in furloughs and laid off employees. We are surprised the shares traded up post earnings, but we do view the market responding favorably to the company's thoughts surrounding potential business interruption claims from Covid-19.

The Quarter In A Nutshell. This morning (4/21), TRV [reported](#) Q1 core EPS of \$2.62, missing our \$3.15 and consensus of \$2.82. The downside versus us reflects a lower level of favorable reserve development, higher catastrophe losses, and Covid-19 related losses (impacted Business Insurance and Bond & Specialty Insurance) of \$86 million pre-tax, and \$68 million after-tax. Weaker underlying results in Business Insurance and Bond & Specialty were offset by stronger Personal Insurance results. The underlying margin of 91.3%, beat our 92.5%, but that was due to a better margin in personal lines (both auto and home) as the margins within Business Insurance and Bond & Specialty missed us as they were both impacted by Covid-19 related charges. TRV pulled its outlook for renewal premium change and underlying margins due to the potential impact of Covid-19 on its businesses. Net investment income was \$611 million, just beating our \$606 million. TRV did update its net investment income outlook to be down \$20 million on a quarterly basis, from the prior \$5-10 million decline, which is not surprising given the drop in rates in Q1. TRV repurchased \$471 million, above our \$375 million – language in the 10Q pointed to a potential slow in buyback depending upon how Covid-19 unfolds. Book value per share declined 1.8% and the core ROE was 11.5%. TRV shares should trade down due to earnings falling short of expectations and its pulled outlook for the year.

Exhibit 1. Consolidated Results Versus Wells Fargo Securities Estimates

	Q1 2020 Actual	Q1 2020 Estimate
Net premiums written (in millions)	\$7,346	\$7,389
Growth in net premiums written	4.1%	4.7%
Growth in net premiums earned	5.5%	5.3%
Investment income (in millions)	\$611	\$606
Combined ratio	95.5%	93.6%
Catastrophe losses (in millions)	\$333	\$150
Reserve releases (in millions)	(\$27)	(\$70)
Underlying Loss Ratio	61.3%	63.0%
Expense Ratio	30.0%	29.5%
Underlying combined ratio	91.2%	92.5%
Tax rate	17.4%	16.5%
Operating EPS	\$2.62	\$3.15
Growth in operating EPS	(7.4%)	11.1%
Book value per share	\$99.69	\$103.64
Segment Underwriting Income (in millions):		
Business Insurance	(\$146)	\$41
Bond & Specialty Insurance	\$91	\$98
Personal Insurance	\$295	\$253
Operating ROE	11.5%	12.3%

Source: Wells Fargo Securities, LLC estimates and Company reports

2020 Outlook Removed Except For Net Investment Income

2020 Outlook Lowered For Investment Income, Other Components Pulled. Exhibit 2 below highlights TRV's commentary and expectations for 2020. TRV pulled its outlook for renewal premium change and its underlying margins for the remainder of 2020 as a result of the uncertainty associated with the potential impacts associated with Covid-19, but did provide an outlook for net investment income, and also provided helpful color around other line items in the model. The company's **fixed net investment income** should be down approximately \$20 million per quarter for the remaining three quarters of 2020. The company also expects alternative investments (other investment income) to be down "significantly" in Q2 2020. For **catastrophe losses**, the company highlighted that approximately 40% of its annual losses have come in the second quarter of the year. TRV did not commit to a level of **share repurchases** for the remainder of 2020 but did say that they may buy back some shares in the coming quarters or may not choose to buy back shares until there is more clarity on the state of the economy. When looking at **premium volume**, TRV expects to see more significant impacts in the economic contraction on written and earned premium. The company further highlighted that earned premium generally lags written premium and they could feel the impact on an earned basis beyond the end of the year. In **Business Insurance**, the company expects a slowdown in premiums, and claims could potentially be elevated from more workers comp (healthcare workers, etc.) related claims. In **Surety**, TRV highlighted that loss activity could be elevated depending on the length of the shutdown, although they get the sense that a vast majority of projects are still permitted to proceed. In **Personal Insurance**, TRV highlighted that lower frequency favorably impacted underlying results by 1 point in personal auto and favorable frequency should continue in the Q2 2020 with a partial offset from higher severity. TRV expects premiums (we model just an earned impact) to be approximately \$140 million lower in the Q2 2020 as a result of its rebate program. Additionally, TRV expects the **expense ratio** to be elevated in the near term as they do not expect to make significant adjustments to their fixed expense base in response to short-term fluctuations in business volumes.

Exhibit 2. 2020 Outlook Provided By Travelers

	2020 Outlook		
	Provided With Q3 2019 Earnings	Provided With Q4 2019 Earnings	Provided With Q1 2020 Earnings
Underlying Margins			
Business Insurance	Margins higher y-o-y for the first three quarters of 2020	Margins higher for 2020, but weaker in Q1 due to the adjustments taken in Q2-Q4 2019	
Bond and Specialty Insurance	Margins broadly consistent y-o-y for the first three quarters of 2020	Margins broadly consistent over all quarters of 2020	
Personal Insurance	Margins higher y-o-y for the first three quarters of 2020	Underlying combined ratio better in 2020 (in Q2-Q4 due to low non-cat weather)	TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for the remainder of 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19.
Personal auto	Margins broadly consistent y-o-y for the first three quarters of 2020	Broadly consistent underlying combined ratio	
Homeowners'	Margins higher y-o-y for the first three quarters of 2020	Underlying combined ratio better in 2020 (in Q2-Q4 due to low non-cat weather)	
Renewal Premium Growth			
Business Insurance	Positive and higher on average y-o-y for first three quarters of 2020	Positive and higher on average y-o-y for all of 2020	The company expects the decreased economic activity to weigh on premium volumes in Q2 2020 ad FY 2020. TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for the remainder of 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19.
Bond and Specialty Insurance	Management liability: Positive and higher on average y-o-y for first three quarters of 2020	Management liability: Positive and higher on average y-o-y for all of 2020	
Personal auto	Positive but lower on average y-o-y for first three quarters of 2020	Positive but lower on average y-o-y for all of 2020	
Homeowners'	Positive and higher on average y-o-y for first three quarters of 2020	Positive and higher on average y-o-y for all of 2020	
Investment Income (Fixed Income And Short-Term Investments)			
	\$10-\$15 million lower per quarter for the first three quarters of 2020	\$5-\$10 million lower per quarter for all quarters of 2020	Approx. \$20 million lower per quarter for the remainder of 2020 and "significantly negative" in Q2 2020.

Source: Wells Fargo Securities, LLC and Company data

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 include:

- (1) *Commercial lines pricing continues to firm* and picked up in the Q1 although the company is concerned about exposure growth slowing, which could offset the positive impact that rate is having on premiums. As a result, we have lowered our premium assumptions for Business Insurance for the remainder of 2020. **This is mixed for the commercial insurance (AIG, CB and HIG) as stronger pricing is being offset by potential a lower premium base.**
- (2) *Business interruption should be insulated from Covid-19 claims.* TRV highlighted that for its commercial property book its policies require losses to be caused by a direct physical damage to property for it to be a covered BI loss. Additionally, its standard policy form specifically excludes losses or damages resulting from a virus. TRV did say it had some policies that include virus endorsements and that was included within the charge the company took this quarter (with 1.5 points of losses on the Business Insurance loss ratio, or about \$58 million). Additionally within commercial lines, TRV is seeing fewer commercial auto and slip and fall type claims and is also seeing the plaintiffs' bar move to settle claims faster. **This is positive for all commercial lines insurers, but the most positive for HIG under our coverage, as HIG has a similar account footprint at TRV and has come under pressure surrounding potential BI claims from Covid-19.**
- (3) *Workers' compensation could be impacted further by Covid-19.* Generally workers' comp claims will be triggered if the employee can demonstrate that the injury occurred over the course of employment, including healthcare workers and first responders (which does not represent a significant part of TRV's book). TRV highlighted that some states have taken steps to expand the scope of workers' comp coverage by creating presumptions of compensability. While giving this caveat on workers' comp, the company did say the frequency in the comp line has been down. **The potential for workers' comp claims would be a negative for HIG, although we believe claims will most likely be confined to the impacted industries.**
- (4) Personal auto is benefiting from a lack of driving. Confirming what we saw in PGR's numbers, Travelers is benefiting from a lack of driving by its insurers with miles driven down 40% over the final two weeks of March. TRV did caution that there could be an offset to the favorable frequency trends as severity could rise as individuals get into accidents at higher speeds. **This is a positive lateral for the personal auto insurers (ALL and PGR) who should continue to benefit from favorable frequency trends in auto (which is their largest business).**
- (5) *Investment income will be pressured for the group.* TRV lowered its outlook for investment income from its fixed maturity investments and also cautioned that the Q2 will be under pressure due to weaker returns from its private equity investments, which are recorded on a one quarter lag. **This would imply to all insurers (life and non-life) as everyone will be impacted by lower interest rates and the one-quarter lag with their investment portfolios.**
- (6) *Capital return could slow.* TRV pointed to being more cautious when it comes to capital return as the company was during the Global Financial Crisis. As a result TRV to us pointed to a decent slowdown in share repurchase until there is more clarity on the economic situation. **We had previously thought that P&C insurers would continue to buyback shares, even with Covid-19 uncertainty, but given TRV's cautiousness surrounding buybacks we would not be surprised to see other insurers also suspend buybacks to conserve capital right now.**

Highlights Of Our Estimate Changes

Overview of estimate changes. Exhibit 3 highlights the changes we made to our earnings model following Q1 2020 earnings. Our 2020 EPS estimate goes to \$9.10 from \$10.45, our 2021 EPS estimate goes to \$10.00 from \$11.00, and our 2022 EPS estimate goes to \$10.70 from \$11.60. We are making broad adjustments to our model, including:

- (1) Lower written and earned premium across each segment to reflect the economic slowdown (and lower premium in personal auto to reflect the rebate);
- (2) NII from its fixed maturity portfolio that is lower by approximately \$20 million per quarter in 2020 (and lower alts in the Q2);
- (3) Loss ratio adjustments that vary by segment, although BI and surety are broadly moving higher to reflect potentially higher loss activity and personal lines moving lower to reflect lower frequency (partially offset by higher severity);
- (4) Elevated expense ratios to reflect consistent fixed expenses and declining premium volumes; and,
- (5) Removing buyback for the Q2 and including a modest amount in the Q3.

Exhibit 3. Summary Of Estimate Changes

Income Statement	2020E	Current	2022E	Prior Estimates			Delta (Absolute)		
	2020E	2021E		2020E	2021E	2022E	2020E	2021E	2022E
Gross premiums written	31,874.0	33,322.6	34,816.0	32,984.2	34,474.2	36,011.3	(1,110.2)	(1,151.7)	(1,195.3)
% growth (yr/yr)	2.6%	4.5%	4.5%	6.2%	4.5%	4.5%	(3.6%)	0.0%	0.0%
Net premiums written	29,614.1	31,186.9	32,725.1	30,481.0	31,916.0	33,436.2	(866.9)	(729.2)	(711.0)
% growth (yr/yr)	1.6%	5.3%	4.9%	4.6%	4.7%	4.8%	(3.0%)	0.6%	0.2%
Increase in unearned premiums	(780.1)	(939.1)	(934.3)	(830.2)	(799.8)	(840.2)	50.0	(139.3)	(94.1)
Net premiums earned	28,834.0	30,247.8	31,790.8	29,650.8	31,116.3	32,596.0	(816.8)	(868.5)	(805.2)
% growth (yr/yr)	2.0%	4.9%	5.1%	4.9%	4.9%	4.8%	(2.9%)	(0.0%)	0.3%
Net investment income	2,348.3	2,428.8	2,461.3	2,398.0	2,450.4	2,462.2	(49.8)	(21.7)	(1.0)
Fee income	458.0	458.0	458.0	459.0	459.0	459.0	(1.0)	(1.0)	(1.0)
Other income	257.0	276.0	284.0	265.0	277.0	285.0	(8.0)	(1.0)	(1.0)
Total revenue	31,897.2	33,410.5	34,994.1	32,772.8	34,302.7	35,802.2	(875.6)	(892.1)	(808.1)
Losses and loss adjustment expenses	19,503.1	20,581.6	21,723.8	19,926.5	21,114.1	22,255.1	(423.4)	(532.6)	(531.3)
Amortization of deferred acquisition costs	4,700.5	4,908.7	5,158.6	4,810.6	5,045.3	5,283.5	(110.2)	(136.6)	(124.9)
General and administrative expenses	4,562.0	4,673.0	4,841.0	4,511.5	4,644.0	4,814.5	50.5	29.0	26.5
Interest expense	336.0	340.0	344.0	344.0	348.0	356.0	(8.0)	(8.0)	(12.0)
Total expenses	29,101.5	30,503.2	32,067.4	29,592.6	31,151.4	32,709.1	(491.1)	(648.2)	(641.7)
Pretax operating income	2,795.7	2,907.3	2,926.7	3,180.2	3,151.3	3,093.1	(384.5)	(244.0)	(166.4)
% growth (yr/yr)	(7.6%)	4.0%	0.7%	5.1%	(0.9%)	(1.8%)	(12.7%)	4.9%	2.5%
Income tax expense/(benefit)	468.3	479.7	482.9	524.7	520.0	510.4	(56.4)	(40.3)	(27.5)
After-tax core income	2,327.4	2,427.6	2,443.8	2,655.5	2,631.3	2,582.7	(328.1)	(203.7)	(139.0)
% growth (yr/yr)	(8.3%)	4.3%	0.7%	4.7%	(0.9%)	(1.8%)	(12.9%)	5.2%	2.5%
Company income tax rate (%)	16.8%	16.5%	16.5%	16.5%	16.5%	16.5%	0.3%	0.0%	(0.0%)
Weighted average number of diluted shares	254.0	241.3	227.0	252.5	237.8	221.3	1.5	3.4	5.7
Participating share-based awards - allocated income	17.0	16.0	16.0	16.0	16.0	16.0	1.0	0.0	0.0
After-tax core income	\$9.10	\$10.00	\$10.70	\$10.45	\$11.00	\$11.60	(\$1.36)	(\$1.00)	(\$0.90)
Profitability Metrics									
Loss and loss adjustment expense ratio	67.1%	67.5%	67.7%	66.6%	67.3%	67.7%	0.4%	0.2%	0.1%
<u>Underwriting expense ratio</u>	<u>30.1%</u>	<u>29.7%</u>	<u>29.5%</u>	<u>29.4%</u>	<u>29.1%</u>	<u>29.0%</u>	<u>0.7%</u>	<u>0.5%</u>	<u>0.5%</u>
Combined ratio	97.2%	97.1%	97.2%	96.1%	96.4%	96.7%	1.1%	0.7%	0.5%
Points on the combined ratio	4.8%	4.5%	4.4%	4.0%	4.3%	4.3%	0.8%	0.1%	0.1%
Points on the combined ratio	-0.7%	-0.4%	-0.3%	-0.8%	-0.5%	-0.3%	0.2%	0.1%	0.0%
Current accident year combined ratio	93.0%	93.1%	93.1%	92.9%	92.6%	92.7%	0.2%	0.5%	0.4%
Underlying loss ratio	62.9%	63.4%	63.6%	63.4%	63.4%	63.7%	-0.5%	-0.1%	-0.1%
Segment Underwriting Income (in millions):									
Business Insurance	(\$424)	(\$350)	(\$402)	(\$113)	(\$204)	(\$273)	(\$311)	(\$147)	(\$129)
Bond & Specialty Insurance	\$442	\$492	\$526	\$473	\$489	\$496	(\$31)	\$3	\$30
Personal Insurance	\$540	\$435	\$435	\$533	\$520	\$513	\$7	(\$85)	(\$78)
Book value per share	\$103.65	\$110.40	\$118.19	\$108.67	\$117.09	\$126.72	(\$5.02)	(\$6.69)	(\$8.53)
ROE	8.9%	9.3%	9.4%	9.9%	9.7%	9.5%	-1.1%	-0.4%	-0.2%

Source: Wells Fargo Securities, LLC estimates and Company data

Pricing Improving In Commercial And Homeowners'; Slowed In Auto

Business Insurance Rating Environment –TRV Rates Picked Up As Expected, While Exposure Declined

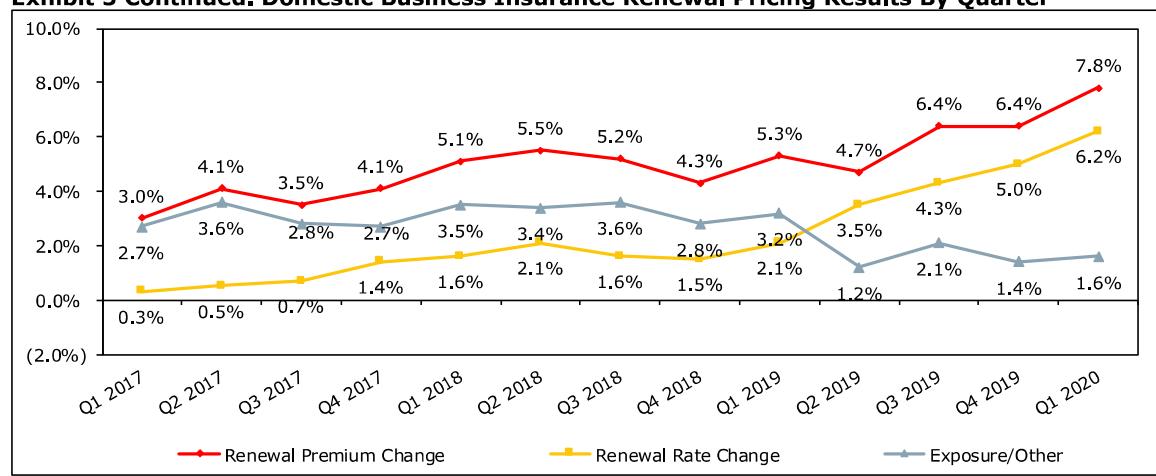
- In the Q1, the *Business Insurance renewal rate change* was +6.2%, accelerating 110 basis points from +5.1% in Q4 2019. Exposure growth was +1.6%, higher than 1.4% in Q4 (although the Q4 number was revised down from 2.7% as TRV revised down its estimate for ultimate exposure change given the impact of Covid-19).
- See Exhibit 4 below, which shows the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change. The charts shows how its rate started to move up in Q4 2017 (following the high level of hurricane losses during the 2017 hurricane season) then dropped in Q3 2018 and has since risen over the past five quarters.
- TRV stopped providing forward guidance on its RPC as the company is unsure of how the economy will be impacted from Covid-19. Our assumption is the exposure bucket of the RPC turns negative in the Q2.

Exhibit 4. Domestic Business Insurance Renewal Pricing Results By Quarter

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
RPC	3.0%	4.1%	3.5%	4.1%	5.1%	5.5%	5.2%	4.3%	5.3%	4.7%	6.4%	6.4%	7.8%
RRC	0.3%	0.5%	0.7%	1.4%	1.6%	2.1%	1.6%	1.5%	2.1%	3.5%	4.3%	5.0%	6.2%
Exposure/other	2.7%	3.6%	2.8%	2.7%	3.5%	3.4%	3.6%	2.8%	3.2%	1.2%	2.1%	1.4%	1.6%
% of BI NPW in Workers' Comp	31.3%	26.1%	26.7%	25.5%	29.8%	24.7%	24.3%	23.4%	28.6%	23.1%	23.3%	22.1%	26.2%

Source: Wells Fargo Securities, LLC and Company data

Exhibit 5 Continued. Domestic Business Insurance Renewal Pricing Results By Quarter



Source: Wells Fargo Securities, LLC and Company data

Personal Auto - TRV Continues to Secure Rate, Although The Level Is Slowing

- Within *Personal Insurance*, TRV continues to secure rate increases in auto (but the level is slowing). The RPC in auto was 2.4% in Q1 versus 2.9% in Q4, 3.7% in Q3, and 5.0% in Q2 2019. Homeowners' pricing did accelerate to 7.7% in Q1 versus 7.3% in Q4 and 6.8% in Q3 2019.
- Travelers saw its new business in auto grow for the seventh consecutive quarter (although the level did slow by a modest amount sequentially), which could be due to the impact of Covid on shopping. Auto new business premium was \$227 million in Q1 versus \$224 million in Q4, \$236 million in the Q3, and up from \$206 million last year.

Exhibit 6. Personal Insurance Business Statistics

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Agency Automobile													
Retention	86%	86%	84%	84%	83%	83%	84%	84%	84%	84%	84%	84%	84%
Renewal Premium Change	7.3%	8.8%	10.5%	11.5%	10.7%	9.6%	8.0%	6.7%	5.6%	5.0%	3.7%	2.9%	2.4%
Policies-In-Force (PIF, in thousands)	2,482	2,514	2,528	2,529	2,519	2,517	2,518	2,518	2,516	2,517	2,524	2,532	2,540
PIF Yearly Change	12%	11%	8%	4%	1%	0%	(0%)	(0%)	(0%)	0%	0%	0%	0%
PIF Sequential Change	2%	1%	1%	0%	(0%)	(0%)	0%	0%	(0%)	0%	0%	1%	1%
New Business (\$ in millions)	\$244	\$225	\$214	\$198	\$193	\$212	\$219	\$202	\$206	\$217	\$236	\$224	\$227
New Business yearly change	13%	(3%)	(17%)	(24%)	(21%)	(6%)	2%	2%	7%	2%	8%	11%	10%
Agency Homeowners & Other													
Retention	87%	87%	86%	87%	86%	86%	86%	87%	85%	86%	86%	86%	86%
Renewal Premium Change	2.6%	2.6%	2.8%	3.0%	3.2%	3.7%	3.6%	3.7%	5.2%	6.6%	6.8%	7.3%	7.7%
Policies-In-Force (PIF, in thousands)	4,222	4,283	4,352	4,402	4,453	4,530	4,601	4,652	4,726	4,825	4,927	5,016	5,111
PIF Yearly Change	4%	4%	5%	4%	5%	6%	6%	6%	7%	7%	8%	8%	8%
PIF Sequential Change	1%	1%	2%	0%	1%	2%	2%	1%	2%	2%	2%	2%	2%
New Business (\$ in millions)	\$118	\$151	\$159	\$125	\$125	\$170	\$173	\$154	\$163	\$215	\$237	\$219	\$212
New Business yearly change	17%	14%	18%	9%	6%	13%	9%	23%	30%	26%	37%	42%	30%

Source: Wells Fargo Securities, LLC and Company data

Margin Misses In Business And Bond & Specialty Insurance Due To Covid-19**Underlying Results Beat In Personal But Fell Short In Other Segments**

- The consolidated combined ratio was 95.5%, missing our 93.6% estimate largely reflective of higher catastrophe losses. The \$333 million of catastrophe losses came in above our \$150 million estimate, while prior year development slowed (and missed our estimate) due to adverse development for commercial auto. The underlying combined ratio of 91.3%, improved 30 bps from last year, but fell short of us and was impacted by Covid-19 (which negatively impacted both the Business Insurance and Bond & Specialty segments).
- Catastrophe losses of \$333 million were higher than our \$150 million estimate and stemmed primarily from tornadoes in Tennessee.
- Favorable development totaled \$27 million and fell short of our estimate for favorable development of \$70 million. The \$5 million of favorable development in Business Insurance missed our estimate for favorable development of \$20 million. Bond and Specialty did not see any development in the quarter and missed our estimate for \$2 million of favorable reserve development. Personal Lines favorable development of \$22 million missed our \$48 million estimate.
- TRV did not provide any forward guidance due to the potential impact of Covid-19 on its businesses.

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

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Reported Combined Ratio	96.0%	96.7%	103.2%	95.5%	95.5%	98.1%	96.6%	97.5%	93.7%	98.4%	101.5%	92.4%	95.5%
Catastrophe Losses, net of reinsurance	5.6%	6.4%	10.7%	7.5%	5.4%	7.3%	3.8%	8.8%	2.8%	5.3%	3.4%	1.2%	4.6%
Prior Year Reserve Development (Favorable)/Unfavorable	(1.3%)	(3.2%)	(0.3%)	(4.4%)	(2.3%)	(2.8%)	(0.2%)	(2.4%)	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)
Underlying Combined Ratio	91.7%	93.5%	92.8%	92.4%	92.4%	93.6%	93.0%	91.1%	91.6%	94.9%	94.1%	92.1%	91.3%
Underlying (improvement) deterioration	1.7%	1.2%	0.7%	0.4%	0.7%	0.1%	0.2%	(1.3%)	(0.8%)	1.3%	1.1%	0.9%	(0.3%)
Underlying Loss Ratio	61.0%	62.4%	62.4%	61.7%	61.8%	62.9%	63.3%	61.6%	61.9%	64.7%	64.5%	63.0%	61.3%
Change from last year	2.2%	2.0%	2.0%	0.9%	0.8%	0.5%	0.9%	(0.1%)	0.1%	1.8%	1.3%	1.3%	(0.6%)
Underlying Expense Ratio	30.7%	31.1%	30.4%	30.7%	30.6%	30.7%	29.7%	29.5%	29.7%	30.2%	29.5%	29.1%	30.0%
Change from last year	(0.5%)	(0.9%)	(1.3%)	(0.5%)	(0.1%)	(0.4%)	(0.7%)	(1.2%)	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%

Source: Wells Fargo Securities, LLC and Company data

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

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Business Insurance	94.4%	94.8%	96.4%	93.9%	95.5%	96.5%	95.4%	95.4%	95.0%	97.4%	95.9%	96.4%	97.3%
Underlying (improvement) deterioration	1.4%	(0.5%)	2.3%	1.1%	1.1%	1.7%	(1.0%)	1.5%	(0.5%)	0.9%	0.5%	1.0%	2.3%
Bond & Specialty	81.9%	82.0%	77.7%	91.1%	80.7%	80.5%	78.3%	78.1%	81.1%	81.0%	83.6%	81.3%	85.7%
Underlying (improvement) deterioration	0.2%	(0.4%)	(0.8%)	9.8%	(1.2%)	(1.5%)	0.6%	(13.0%)	0.4%	0.5%	5.3%	3.2%	4.6%
Personal Insurance	90.1%	94.5%	91.0%	90.4%	90.5%	92.6%	92.9%	87.8%	89.1%	94.6%	94.0%	88.4%	84.0%
Underlying (improvement) deterioration	2.9%	4.3%	(1.4%)	(3.2%)	0.4%	(1.9%)	1.9%	(2.6%)	(1.4%)	2.0%	1.1%	0.5%	(5.1%)
Personal Insurance:													
Agency Automobile	98.6%	102.4%	98.8%	104.1%	96.3%	95.5%	92.6%	96.9%	92.1%	93.8%	92.7%	99.6%	89.2%
Underlying (improvement) deterioration	4.6%	3.8%	(2.3%)	(8.1%)	(2.3%)	(6.9%)	(6.2%)	(7.2%)	(4.2%)	(1.7%)	0.1%	2.7%	(2.9%)
Agency Homeowners & Other	77.6%	82.8%	78.1%	70.2%	80.2%	85.2%	88.5%	72.5%	82.6%	92.9%	93.5%	73.6%	74.9%
Underlying (improvement) deterioration	1.4%	4.6%	(0.2%)	(0.2%)	2.6%	2.4%	10.4%	2.3%	2.4%	7.7%	5.0%	1.1%	(7.7%)

Source: Wells Fargo Securities, LLC and Company data

Investment Income And Other

Investment Income Above Our Estimate, But Forward Outlook Lowered

- Net investment income was \$611 million pre-tax, above our \$606 million estimate. Travelers' pre-tax book yield on its fixed income portfolio was 3.1%, just below the 3.2% yield for Q4 2019. Fixed income investments added \$511 million pre-tax, higher than our \$503 million estimate.
- Income from other investments was \$88 million pre-tax, missing our \$90 million estimate. Short-term investments added \$22 million, below our \$23 million estimate.
- On an after-tax basis, net investment income from fixed income and short-term investments was down \$5 million from last Q1, and in-line with its outlook for investment income to be down \$5 million to \$10 million per quarter.
- Given the low interest rate environment TRV lowered its outlook for investment income and is now looking for income from fixed maturities to be down \$20 million after-tax per quarter (as compared to the prior guidance for a decline of \$5-10 million). In the Q2, private equity income will be negative (with TRV pointing to a 15-30% decline in PE indices in the Q1 and that portfolio is recorded on a one quarter lag).

Capital Management – Above Our Estimate, But Will Be Muted From Here

- TRV returned \$635 million (including \$425 million of share repurchase), compared to the \$676 million of core earnings. The level of repurchases was higher than our \$375 million estimate, however, the company did point to slowing repurchases from here reflective of market uncertainty stemming from Covid-19.
- As a result of its more conservative posture on forward buybacks we have removed our buyback assumption for the Q2 and our Q3 estimate of \$200 million is well below last Q3 (\$375 million) and the trailing four quarter quarterly run rate (\$388 million). Our 2020 capital return estimates have the company returning approximately 80% of its core earnings while our 2021 and 2022 estimates are closer to 95%.

Premium Growth Below Us And Slowed Sequentially Due To Slowdown In Business Insurance

- Net premiums rose 4.1% versus our 4.7% estimate and slowed from 5.7% in Q4. The shortfall in premiums was due to lower Business Insurance volume, which more than offset stronger premium within both Bond and Specialty and Personal Insurance. Gross premiums rose by 4.0%. Given the timing of the Covid-19, TRV did not observe a significant impact of the pandemic on its production statistics this quarter.
- Business Insurance net premiums rose 0.6% versus our 4.3% estimate and 4.8% in the Q4. The slowdown in Business Insurance premiums was due to: **(1)** lower new business, which was down 6% due to lower workers' compensation pricing, **(2)** an 8% drop in international business, due to efforts by TRV to improve the profitability of its book at Lloyd's. Gross premiums grew by a higher 1.4%, and **(3)** lower audit premium.
- Bond and Specialty net premiums were up 12.9% versus our 2.5% estimate and 8.7% in the Q4 due to strong growth in all of their businesses.
- Personal Insurance net premiums rose by 8.1% versus our 6.0% estimate and 6.3% in the Q4. Growth was strong domestically, which more than offset a 5% decline internationally as TRV works on improving the profitability of its Canadian book. Within personal insurance, TRV saw growth of 2.9% in auto (above +2.2% in Q4) and 18.3% in home (versus +13.3% in Q4).

Highlights From Our Loss Trend Analysis

Looking at TRV loss picks versus others. Exhibit 9 highlights the statutory general liability (Other Liability - Claims Made) initial loss ratios and the total level of development for AIG, CB, HIG, TRV, and the P&C industry for the 2019 accident year and how other prior years have developed (this data was just available last month following the filing of company's annual statutory results). Exhibit 10 provides the same data for Other Liability - Claims Made and Exhibit 11 for Commercial Auto.

Exhibit 9. Other Liability Claims Made - Summary Of Loss Ratios and Total Development Relative To Initial Loss Picks

Accident Year	AIG		CB		HIG		TRV		Peer Average		Industry	
	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.						
2010	77.22	(12.11)	70.36	(8.72)	62.38	3.32	66.02	6.84	68.99	(2.66)	70.38	(6.00)
2011	76.96	0.70	72.19	(7.31)	73.85	0.77	67.39	(7.97)	72.60	(3.45)	71.09	(1.70)
2012	76.51	6.66	71.82	(1.70)	64.91	(12.33)	62.73	4.51	68.99	(0.71)	69.50	0.90
2013	73.32	(6.65)	69.51	(14.69)	57.41	(12.46)	56.69	7.34	64.23	(6.62)	65.95	(5.95)
2014	67.47	3.94	64.48	(7.52)	50.13	(4.30)	55.94	(8.09)	59.50	(3.99)	63.65	(2.06)
2015	64.85	5.70	62.16	2.98	47.26	6.16	54.27	(12.34)	57.14	0.62	62.65	(1.05)
2016	70.19	18.72	61.62	4.36	45.14	1.11	53.69	0.65	57.66	6.21	62.53	5.48
2017	73.47	4.03	58.48	1.16	43.68	7.17	55.30	(0.60)	57.73	2.94	64.76	1.46
2018	67.06	4.34	63.31	(0.95)	47.06	4.88	53.05	2.23	57.62	2.62	62.97	3.33
2019	65.61	-	61.03	-	48.56	-	54.65	-	57.46	-	62.28	-
Average	71.27	2.81	65.50	(3.60)	54.04	(0.63)	57.97	(0.83)	62.19	(0.56)	65.57	(0.62)

Source: SNL and Wells Fargo Securities, LLC

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Exhibit 10. Other Liability Claims Occurrence - Summary Of Loss Ratios and Total Development Relative To Initial Loss Picks

Accident Year	AIG		CB		HIG		TRV		Peer Average		Industry	
	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.
2010	80.37	7.97	74.71	(10.46)	54.41	8.67	60.58	(14.17)	67.52	(2.00)	68.34	(3.81)
2011	82.28	13.31	76.44	(14.75)	52.83	11.27	59.09	(10.04)	67.66	(0.05)	67.00	(0.12)
2012	78.73	8.52	71.06	(5.96)	52.33	7.77	57.20	(6.93)	64.83	0.85	64.76	(0.13)
2013	72.73	12.96	72.46	(2.07)	50.23	15.15	54.75	(1.87)	62.54	6.04	62.33	1.56
2014	73.36	13.73	71.03	0.63	51.27	4.63	53.98	0.89	62.41	4.97	61.71	2.72
2015	75.90	27.41	69.67	3.26	51.72	8.97	52.89	3.59	62.55	10.81	61.68	5.28
2016	82.10	15.27	71.15	1.95	52.30	5.81	54.62	5.23	65.04	7.07	63.75	3.05
2017	81.70	12.32	74.06	0.35	50.67	0.66	54.90	2.89	65.33	4.05	63.25	3.83
2018	79.42	(0.28)	75.54	(0.05)	51.73	0.71	58.11	2.38	66.20	0.69	64.56	1.11
2019	82.77	-	73.99	-	54.36	-	62.50	-	68.41	-	66.56	-
Average	78.94	12.36	73.01	(3.01)	52.19	7.07	56.86	(2.00)	65.25	3.60	64.40	1.50

Source: SNL and Wells Fargo Securities, LLC

Exhibit 11. Commercial Auto - Summary Of Loss Ratios and Total Development Relative To Initial Loss Picks

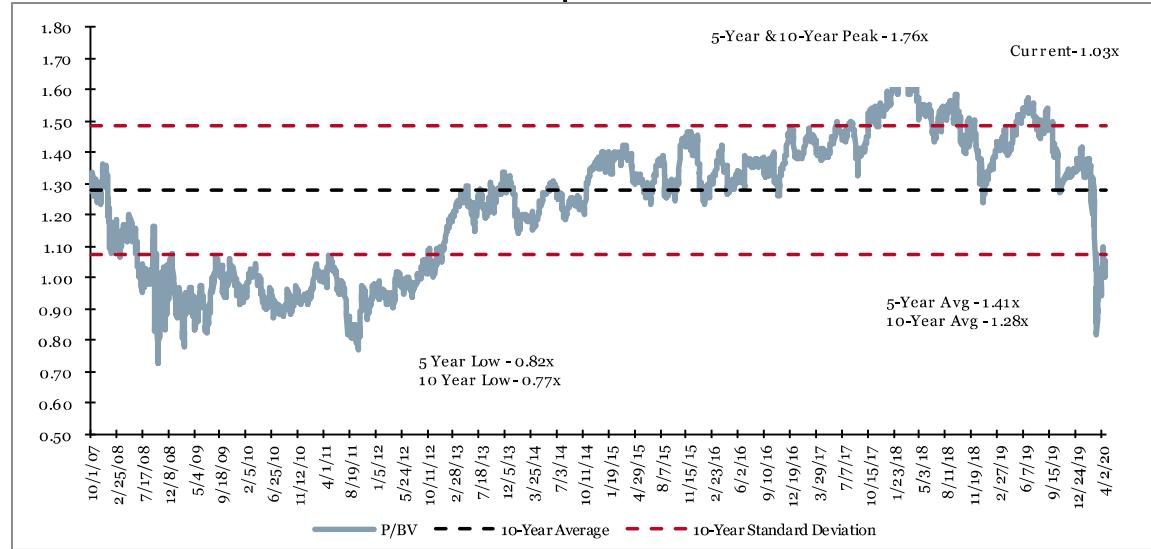
Accident Year	AIG		CB		HIG		TRV		Peer Average		Industry	
	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.
2010	65.10	16.42	69.48	(18.13)	56.72	10.58	59.06	7.05	62.59	3.98	64.70	2.75
2011	68.18	12.67	67.28	0.40	57.21	21.72	65.50	7.51	64.54	10.57	65.56	7.03
2012	71.46	21.21	65.08	(0.70)	66.45	18.18	65.01	4.55	67.00	10.81	66.14	6.60
2013	65.87	28.75	61.21	0.19	64.75	7.43	65.29	3.66	64.28	10.01	65.65	8.35
2014	76.83	31.62	64.73	1.28	62.21	8.72	61.85	3.56	66.40	11.30	65.25	9.69
2015	76.62	25.62	64.48	2.19	59.93	14.31	61.34	9.05	65.59	12.79	66.18	9.96
2016	92.34	18.13	68.34	4.68	73.28	5.49	62.89	10.41	74.21	9.68	69.39	8.78
2017	110.46	18.18	68.76	7.69	70.11	4.33	65.20	7.48	78.63	9.42	70.76	5.62
2018	92.87	9.39	67.16	5.26	63.63	10.55	69.90	1.42	73.39	6.65	69.82	3.30
2019	94.80	-	70.42	-	68.12	-	70.46	-	75.95	-	70.93	-
Average	81.45	20.22	66.69	0.32	64.24	11.26	64.65	6.08	69.26	9.47	67.44	6.90

Source: SNL and Wells Fargo Securities, LLC

Valuation

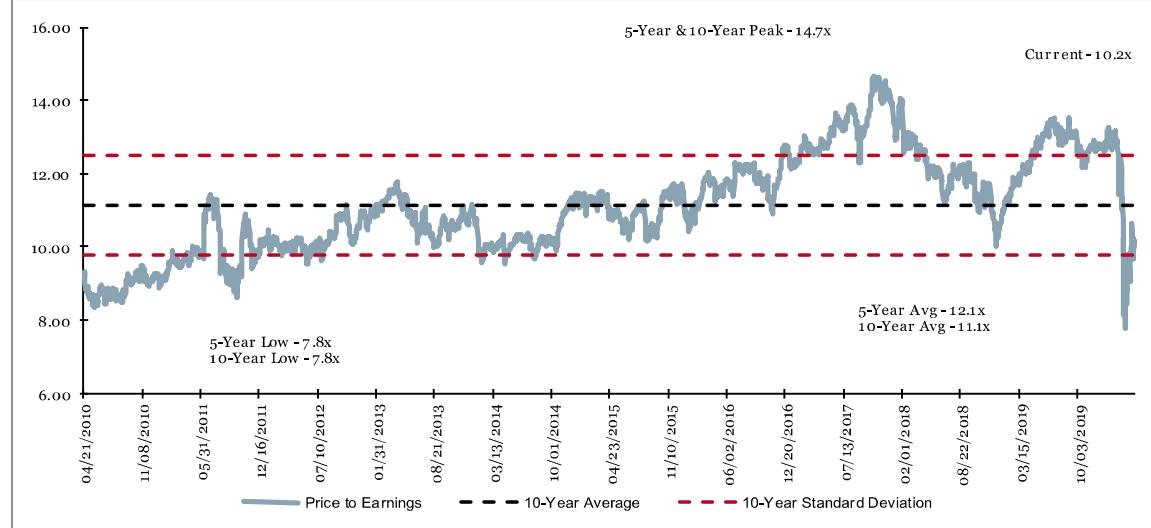
Current Valuation. The TRV shares are now trading at 1.03x book value, below its 5-year (1.41x) average and its 10-year (1.28x) average multiple. The shares are trading below peak levels of 1.76x. On a price-to-earnings basis, the shares are trading at 11.2x our 2020 EPS estimate and 10.2x our 2021 EPS estimate versus the 10-year average of 11.1x and 10-year peak of 14.7x.

Exhibit 12. TRV Historical Price-To-Book Multiples



Source: FactSet and Wells Fargo Securities, LLC

Exhibit 13. TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

Consolidated Earnings Model**Exhibit 14. Travelers Earnings Model – Consolidated**
(\$ in millions, except per share)

Consolidated Income Statement	2018	2019	Q1	Q2E	Q3E	Q4E	2020E	Q1E	Q2E	Q3E	Q4E	2021E	Q1E	Q2E	Q3E	Q4E	2022E
Gross premiums written	29,252.0	31,063.0	8,152.0	7,782.1	8,218.8	7,721.1	31,874.0	8,508.4	8,138.4	8,600.9	8,074.9	33,322.6	8,875.3	8,505.9	8,995.5	8,439.4	34,816.0
% growth (y/r/y/r)	5.8%	6.2%	4.0%	(0.5%)	2.5%	4.7%	2.6%	4.4%	4.6%	4.6%	4.5%	4.3%	4.5%	4.6%	4.5%	4.5%	
% retained	94.7%	93.8%	90.1%	94.7%	93.1%	93.8%	92.9%	90.6%	96.5%	93.3%	94.1%	93.6%	91.2%	96.8%	93.6%	94.5%	
Net premiums written	27,690.0	29,151.0	7,346.0	7,371.6	7,650.6	7,245.9	29,614.1	7,711.3	7,852.6	8,023.0	7,600.0	31,186.9	8,098.6	8,234.0	8,417.4	7,975.2	32,725.1
% growth (y/r/y/r)	5.6%	5.3%	4.1%	(1.1%)	1.1%	2.4%	1.6%	5.0%	6.5%	4.9%	4.9%	5.3%	5.0%	4.9%	4.9%	4.9%	
Increase in unearned premiums	(631.0)	(679.0)	(117.0)	(364.9)	(363.7)	65.5	(780.1)	(233.3)	(403.3)	(400.4)	97.9	(939.1)	(243.7)	(395.3)	(397.4)	102.1	(934.3)
Net premiums earned	27,059.0	28,272.0	7,229.0	7,006.7	7,286.9	7,311.4	28,834.0	7,478.1	7,449.2	7,622.5	7,698.0	30,247.8	7,854.9	7,838.6	8,019.9	8,077.3	31,790.8
% growth (y/r/y/r)	5.4%	4.5%	5.5%	0.3%	1.5%	0.8%	2.0%	3.4%	6.3%	4.6%	5.3%	4.9%	5.0%	5.2%	4.9%	5.1%	
Net investment income	2,474.0	2,468.0	611.0	535.3	600.2	601.7	2,348.3	604.5	606.5	608.4	609.4	2,428.8	612.4	614.3	616.3	618.3	2,461.3
% growth (y/r/y/r)	3.2%	(0.2%)	5.0%	(17.4%)	(3.5%)	(2.3%)	(4.9%)	(1.1%)	13.3%	1.4%	1.3%	3.4%	1.3%	1.3%	1.3%	1.5%	1.3%
Fee income	432.0	459.0	108.0	116.0	121.0	113.0	458.0	108.0	116.0	121.0	113.0	458.0	108.0	116.0	121.0	113.0	458.0
% growth (y/r/y/r)	(3.4%)	6.3%	(0.9%)	0.0%	0.0%	0.0%	(0.2%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other income	203.0	269.0	58.0	65.0	67.0	67.0	257.0	68.0	68.0	70.0	70.0	276.0	70.0	70.0	72.0	72.0	284.0
% growth (y/r/y/r)	27.7%	32.5%	(19.4%)	14.0%	(1.5%)	(6.9%)	(4.5%)	17.2%	4.6%	4.5%	7.4%	2.9%	2.9%	2.9%	2.9%	2.9%	
Total revenue	30,168.0	31,468.0	8,006.0	7,723.0	8,075.1	8,093.1	31,897.2	8,258.5	8,239.7	8,421.9	8,490.4	33,410.5	8,645.3	8,638.9	8,828.2	8,880.6	34,994.1
% growth (y/r/y/r)	5.2%	4.3%	5.1%	(1.1%)	1.0%	0.5%	1.4%	3.2%	6.7%	4.3%	4.9%	4.7%	4.7%	4.8%	4.8%	4.6%	4.7%
Losses and loss adjustment expenses	18,291.0	19,133.0	4,789.0	4,935.5	5,077.8	4,700.8	19,503.1	4,964.4	5,301.6	5,299.2	5,016.4	20,581.6	5,238.0	5,607.3	5,580.4	5,298.0	21,723.8
% growth (y/r/y/r)	4.7%	4.6%	7.8%	2.4%	(2.9%)	1.3%	1.9%	3.7%	7.4%	4.4%	6.7%	5.5%	5.5%	5.3%	5.6%	5.5%	
Amortization of deferred acquisition costs	4,381.0	4,601.0	1,178.0	1,152.4	1,182.1	1,187.9	4,700.5	1,212.7	1,208.4	1,236.2	1,251.3	4,908.7	1,273.9	1,271.5	1,300.5	1,312.8	5,158.6
% growth (y/r/y/r)	5.2%	5.0%	5.5%	1.6%	1.1%	0.6%	2.2%	2.9%	4.9%	4.6%	5.3%	4.4%	5.0%	5.2%	4.9%	5.1%	
General and administrative expenses	4,297.0	4,365.0	1,137.0	1,160.0	1,135.0	1,130.0	4,562.0	1,165.5	1,187.5	1,162.5	1,157.5	4,673.0	1,197.5	1,224.5	1,199.5	1,219.5	4,841.0
% growth (y/r/y/r)	3.0%	1.6%	7.6%	3.1%	3.4%	4.1%	4.5%	2.5%	2.4%	2.4%	2.4%	2.4%	2.7%	3.1%	3.2%	3.6%	
Interest expense	352.0	344.0	84.0	84.0	84.0	84.0	336.0	85.0	85.0	85.0	85.0	340.0	86.0	86.0	86.0	86.0	344.0
% growth (y/r/y/r)	(4.6%)	(2.3%)	(4.5%)	(5.6%)	0.0%	1.2%	(2.3%)	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	
Total expenses	27,321.0	28,443.0	7,188.0	7,331.9	7,478.9	7,102.7	29,101.5	7,427.6	7,782.5	7,510.2	30,503.2	7,795.4	8,189.3	8,166.4	7,916.3	32,067.4	
% growth (y/r/y/r)	4.4%	4.1%	7.2%	2.3%	(1.3%)	1.6%	2.3%	3.3%	6.1%	4.1%	5.7%	4.8%	5.0%	5.2%	4.9%	5.1%	
Underwriting income	522.0	632.0	233.0	(125.2)	13.0	405.7	526.4	243.4	(132.3)	45.6	385.7	542.5	253.6	(148.7)	60.5	360.0	525.4
add back: general and expense in Other	154.0	196.0	54.0	46.0	43.0	43.0	186.0	43.5	46.5	43.5	43.5	177.0	43.5	46.5	43.5	43.5	177.0
Net Underwriting Income	676.0	828.0	287.0	(79.2)	56.0	449.7	712.4	286.9	(85.8)	89.1	429.2	719.5	297.1	(102.2)	104.0	403.5	702.4
Pretax operating income	2,847.0	3,025.0	818.0	391.1	596.2	990.4	2,795.7	830.9	457.2	639.0	980.2	2,907.3	849.9	449.6	662.8	964.3	2,926.7
% growth (y/r/y/r)	13.2%	6.3%	(10.5%)	(38.9%)	45.8%	(6.7%)	(7.6%)	1.6%	16.9%	7.2%	(1.0%)	4.0%	2.3%	(1.7%)	3.7%	(1.6%)	0.7%
Income tax expense/(benefit)	417.0	488.0	142.0	64.5	98.4	163.4	468.3	137.1	75.4	105.4	111.7	479.7	140.2	74.2	109.4	159.1	482.9
After-tax core income	2,430.0	2,537.0	676.0	326.5	497.8	827.0	2,327.4	693.8	381.8	533.6	818.4	2,427.6	707.9	375.5	553.4	805.2	2,443.8
% growth (y/r/y/r)	18.9%	4.4%	(10.5%)	(39.2%)	31.7%	(4.6%)	(8.3%)	2.6%	16.9%	7.2%	(1.0%)	4.3%	2.3%	(1.7%)	3.7%	(1.6%)	0.7%
Realized gains/(losses) on investments and other, after-tax	93.0	85.0	(76.0)	0.0	0.0	0.0	(76.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income	2,523.0	2,622.0	600.0	326.5	497.8	827.0	2,251.4	693.8	381.8	533.6	818.4	2,427.6	707.9	375.5	553.4	805.2	2,443.8
% growth (y/r/y/r)	22.7%	3.9%	(24.6%)	(41.4%)	25.7%	(5.3%)	(14.1%)	15.6%	16.9%	7.2%	(1.0%)	7.8%	2.3%	(1.7%)	3.7%	(1.6%)	0.7%
Company income tax rate (%)	14.6%	16.1%	17.4%	16.5%	16.5%	16.5%	16.8%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	
Weighted average number of diluted shares	269.8	282.3	255.9	255.9	254.0	250.2	250.0	246.6	243.0	239.5	235.9	241.3	232.3	228.8	225.2	221.6	227.0
% growth (y/r/y/r)	(3.2%)	(2.8%)	(3.4%)	(3.0%)	(3.0%)	(3.4%)	(3.2%)	(3.6%)	(5.0%)	(5.7%)	(5.0%)	(5.8%)	(5.9%)	(6.0%)	(6.1%)	(5.9%)	
Participating share-based awards - allocated income	19.0	19.0	5.0	4.0	4.0	4.0	17.0	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	4.0	16.0
Per share:																	
After-tax core income	\$8.94	\$9.60	\$2.62	\$1.26	\$1.94	\$3.29	\$9.10	\$2.80	\$1.55	\$2.21	\$3.45	\$10.00	\$3.04	\$1.62	\$2.44	\$3.82	\$10.70
% growth (y/r/y/r)	22.8%	7.4%	(7.4%)	(37.8%)	35.7%	(0.9%)	(5.2%)	6.7%	23.3%	13.7%	5.0%	9.9%	8.6%	4.5%	10.3%	4.7%	7.0%
Net income	93.27	93.91	2.33	2.33	2.33	2.33	93.27	2.33	2.33	2.33	2.33	93.27	2.33	2.33	2.33	2.33	93.27
% growth (y/r/y/r)	27.0%	6.9%	(22.2%)														
GAAP ratios:	2018	2019	Q1	Q2E	Q3E	Q4E	2020E	Q1E	Q2E	Q3E	Q4E	2021E	Q1E	Q2E	Q3E	Q4E	2022E
less: Fee income - Underwriting expenses	278.0	285.0	67.0	68.9	72.8	70.6	279.4	74.1	72.4	76.1	74.1	296.7	77.6	76.1	80.0	77.6	311.3
less: Billing and policy fees	93.0	108.0	28.0	28.9	30.3	30.4	117.5	33.6	33.8	34.3	34.7	136.4	35.2	35.5	36.1	36.4	143.2
less: Fee income - Loss and loss adjustment expenses	154.0	174.0	41.0	41.4	42.6	42.5	167.4	44.1	43.6	44.7	44.7	177.1	46.3	46.0	47.2	47.0	186.5
Combined Ratio:																	
Loss and loss adjustment expense ratio	66.8%	66.9%	65.5%	69.8%	69.1%	63.7%	67.1%	65.8%	70.6%	68.9%	64.6%	67.5%	66.1%	70.9%	69.0%	65.0%	67.7%
Underwriting expense ratio	30.1%	29.6%	30.0%	31.0%	29.8%	29.7%	30.1%	29.8%	30.1%	29.4%	29.3%	29.7%	29.5%	29.8%	29.2%	29.4%	29.5%
Combined ratio	96.9%	96.5%	95.5%	100.8%	98.9%	93.4%	97.2%	95.6%	100.7%	98.4%	93.9%	97.1%	95.6%	100.8%	98.2%	94.4%	97.2%
Shareholders' equity	\$22,894.0	\$25,943.0	\$25,204.0	\$25,315.6	\$25,398.6	\$25,612.3	\$25,612.3	\$25,721.1	\$25,515.9	\$25,465.8	\$25,703.5	\$25,703.5	\$25,835.7	\$25,627.5	\$25,600.6	\$25,828.6	\$25,828.6
Book value per share	\$86.84	\$101.55	\$98.69	\$100.13	\$101.22	\$103.65	\$103.65	\$105.61	\$106.33	\$107.73	\$110.40	\$110.40	\$112.70	\$113.56	\$115.26	\$118.19	\$118.19
Common shares outstanding	263.6	255.5	252.8	252.8	250.9	247.1	247.1	243.5	240.0	238.4	232.8	232.8	229.3	225.7	222.1	218.5	218.5
Operating ROAE	10.3%	10.2%	10.4%	5.0%	7.7%	12.8%	8.9%	10.7%	5.9%	8.3%	12.7%	9.3%	10.9%	5.7%	8.5%	12.4%	9.4%

Source: Company data and Wells Fargo Securities, LLC estimates

Price Target

Price Target: \$105 from \$110

Our price target of \$105 is based on around a 0.95x multiple of our projected 2021 book value estimate of around \$110 and 10.5x our 2021 EPS estimate of \$10.00. Risks to achieving our price target include large catastrophe losses, adverse reserve development, increased competition, a deterioration in loss costs, and a rise in D&O claims.

Investment Thesis

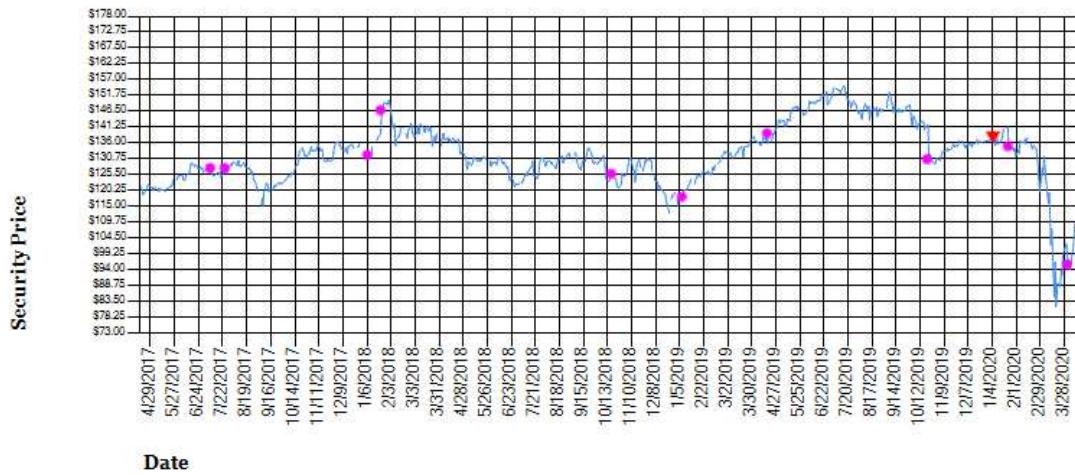
TRV has seen its loss picks within Business Insurance move higher primarily related to social inflation. We think the shares could underperform peers moving forward if it does not hit its 2020 margin target and/or if its reserve releases continue to slow down. In addition, TRV is less exposed to price increases due to its higher workers' comp exposure and also lacks the exposure to large accounts which have seen the strongest price increases. We rate the TRV shares Underweight.

Company Description

The Travelers Companies, Inc. (TRV) is the second largest writer of commercial lines in the United States and also the second-largest writer of personal insurance through independent agents. The company is organized into three business segments: Business Insurance (54% of 2019 net premiums written); Personal Insurance (37%); and Bond & Specialty Insurance (9%), which sell a wide range of insurance and surety products, as well as risk management services. Products are distributed primarily through independent agents and brokers in all 50 states and in select international markets.

Required Disclosures

The Travelers Companies, Inc. (TRV) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
4/17/2017		Greenspan				
4/17/2017	NA	2	NE	108.00	112.00	121.92
● 7/9/2017	127.17	2	119	NE	NE	127.17
● 7/25/2017	127.46	2	125	NE	NE	127.46
● 1/8/2018	131.45	2	133	NE	NE	131.45
● 1/23/2018	146.26	2	142	NE	NE	146.26
● 10/18/2018	124.80	2	136	NE	NE	125.14
● 1/8/2019	118.30	2	130	NE	NE	117.84
● 4/18/2019	138.93	2	140	NE	NE	138.93
● 10/22/2019	130.15	2	136	NE	NE	130.15
▼ 1/6/2020	137.02	3	136	NE	NE	137.17
● 1/23/2020	134.31	3	130	NE	NE	134.19
● 4/1/2020	99.35	3	110	NE	NE	95.20

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Price Target/Val Range Change

- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- | | |
|---------------------|----------------|
| 1 Overweight/Buy | SR Suspended |
| 2 Equal Weight/Hold | NR Not Rated |
| 3 Underweight/Sell | NE No Estimate |

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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

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As of: April 21, 2020

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