

Equity Research

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Earnings Revised — October 18, 2023

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Lots to Dissect; Conference Call Round-Up

Our Call

TRV shares were unchanged as big picture takes were mixed - they pointed to still pushing for price in BI, auto rate slowing (more states are rate adequate), and did not provide much color on loss ratio or reserve movements as they have in the past.

The stock from here: We think how Travelers trades depends on the results we get from other commercial lines insurers. We were cautious on TRV into the print because we thought the RRC could slow sequentially (it didn't), they could take another reserve charge in their ongoing commercial lines (they added to commercial auto but did not quantify the amount), and the underlying loss ratio could disappoint (it did but was attributed to Y/Y movements that offset earned rate over loss trend).

Estimate and price target changes: Our 2023 EPS estimate goes to \$10.85 (from \$12.65), 2024 EPS goes to \$18.55 (from \$18.60) and our 2025 EPS goes to \$21.10 (from \$21.35) to reflect the Q3 shortfall, the expected Q4 seasonality in auto, adjustments to our investment income estimates, counter-balanced by changes to our BI margins (underlying as well as reserve development). Our price target is unchanged at \$172. See inside for highlights of key issues for [TRV](#).

Read thrus: **(1)** still bullish on commercial lines pricing - TRV is continuing to push for price given weather, hardening reinsurance market, and inflationary environment; **(2)** in personal lines, the RPC should slow as more states are at rate adequate levels (though the Q4 underlying loss ratio should be about 6-7 points higher than other quarters of the year due to seasonality); **(3)** investment income guidance raised and initial 2024 guide laid out to reflect the higher interest rate environment.

Reserve color: Within BI, there was \$132 million of favorable development in ongoing businesses (away from the charges for A&E and reviver statutes), which included releases in workers' compensation, offset by adverse development in commercial auto (the level of which was not quantified, but it was due to the lengthening of development patterns for bodily injury claims). BSI favorable development (\$72M was driven by surety and management liability; while PI (\$37M) was due to homeowners.

BI margin discussion: TRV continues to get a good amount of price in BI (+7.9% RRC and +12.9% RPC) yet the underlying loss ratio was virtually stable this year (60.6% vs 60.5% in Q3 2022) as the impact of earned rate over trend was offset by other things that tend to move around in any given quarter (and could include mix, base year adjustments, non-cat weather). The net impact of all of these items was a modest unfavorable number which offset the impact of earned rate over trend in the quarter.

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$172.00/NC
Upside/(Downside) to Target	1.6%
Price (10/17/2023)	\$169.36
52 Week Range	\$159.21 - 194.51
Shares Outstanding	228,942,328
Market Cap (MM)	\$38,774
Enterprise Value (MM)	\$45,291
Average Daily Volume	1,670,405
Average Daily Value (MM)	\$283
Dividend (NTM)	\$3.93
Dividend Yield	2.3%
Net Debt (MM) - last reported	\$6,517
ROIC - Current year est.	12%
3 Yr EPS CAGR from current year (unless otherwise noted)	19%

\$	2022A	2023E	2023E	2024E	2024E
EPS	Curr.	Prior	Curr.	Prior	
Q1 (Mar)	4.22 A	4.11 A	NC	4.81 E	4.61E
Q2 (Jun)	2.56 A	0.06 A	0.05A	3.79 E	3.57E
Q3 (Sep)	2.20 A	1.95 A	3.43E	4.05 E	4.27E
Q4 (Dec)	3.40 A	4.71 E	5.04E	5.91 E	6.17E
FY	12.43 A	10.85 E	12.65E	18.55 E	18.60E
P/E	13.6x	15.6x			9.1x

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

Wells Fargo Express Takeaways

The Travelers Companies, Inc. (TRV) | Rating: Equal Weight | Price Target: \$172.00

Analyst: Elyse Greenspan

Financials

FY (Dec)	2022A	2023E	2024E
ESTIMATES			
EPS			
Q1	4.22 A	4.11 A	4.81 E
Q2	2.56 A	0.06 A	3.79 E
Q3	2.20 A	1.95 A	4.05 E
Q4	3.40 A	4.71 E	5.91 E
AN	12.43 A	10.85 E	18.55 E
Rev. (MM)	37,089.0 A	41,495.8 E	45,300.5 E
Net Premiums Written (MM)	35,414.0 A	40,207.6 E	42,250.1 E
Underlying Loss Ratio	63.6% A	62.6% E	61.1% E
Underlying Combined Ratio	92.1% A	91.0% E	89.7% E
Book Value/Share	92.90 A	90.71 E	101.71 E

WELLS FARGO vs. CONSENSUS

Consensus Estimate	-	12.23 E	17.16 E
Difference from Consensus		(11.3)%	8.1%

VALUATION

P/E	13.6x	15.6x	9.1x
EV/Revenue	1.2x	1.1x	1.0x

EPS: Operating EPS

Rev. (MM): Excludes realized gains/losses

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.

NA = Not Available, NE = No Estimate

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 Equal Weight TRV 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.

Risk vs. Reward – Upside/Downside Price Target Scenarios



*As of 10/17/23

Source: Wells Fargo Securities, LLC estimates and Refinitiv.

Base Case | \$172.00

- Our price target of \$172** is based on just over 9x our 2024 EPS estimate of \$18.60
- Implies around a ~1.65x multiple of our projected 2024 book value estimate of ~\$105

Upside Scenario | \$208.00

- Our upside scenario is \$208 and assumes a multiple of ~11x our 2024 EPS estimate and 2.05x our 2024 book value estimate of ~\$102
- A continued firm commercial pricing environment with no material changes to loss cost trends
- No material reserve builds
- Catastrophe losses returning to normalized levels
- Share repurchase also returning to normalized levels in 2024

Downside Scenario | \$139.00

- Our downside scenario is \$139 and is based on 7.5x our 2024 EPS estimate and over 1.37x our 2024 book value estimate of ~\$102
- Commercial pricing softens causing the RRC in BI to slow
- Loss cost trends continue to rise and we see further additions to reserves
- Personal lines loss trends get worse, causing TRV to push for another round of elevated rate increases

Upcoming Catalysts

- Commercial pricing survey data from MarketScout and Ivans to track movement in rate across various commercial lines, including workers' compensation
- Commentary from other peers around loss cost trends and rate adequacy in lines including commercial and personal insurance lines

Company Description

Travelers Companies, Inc. (TRV) is the second largest writer of commercial lines, the eight largest personal insurance writer, and biggest writer of workers' comp in the United States (as of 2022). The company is organized into three business segments: Business Insurance (50% of 2022 net premiums written); Personal Insurance (39%); and Bond & Specialty Insurance (11%). Products are distributed primarily through independent agents and brokers in all 50 states and in select international markets.

What the Companies Are Saying—TRV

Outlook

In Business Insurance, written margins are expanding. Pricing has been strong and while core goods inflation is moderating and medical inflation remains benign, Travelers is incorporating medical inflation based on higher longer-term trends given the duration of its liabilities. Returns in BI remain strong given continued firm pricing and higher fixed income investment income. However, given the uncertainty in terms of weather volatility, economic and social inflation, hardening reinsurance market and the geopolitical landscape TRV will continue to push for price increases to achieve its return objectives.

Pricing

Within Business Insurance, the RRC accelerated sequentially in all lines but workers' comp. Within comp, the RPC remains positive and appropriate given returns in the business line. Travelers also provided guidance around its personal lines RPC, which we highlight in the guidance section below.

Guidance

The [exhibit](#) below highlights TRV's commentary and expectations for 2023/2024.

- **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 \$615 million in Q4 (up from \$595 million). For 2024, the company is looking for quarterly fixed income investment income to range between \$630-690 million with the full year coming in at more than \$2.6 billion.
- **Personal lines RPC guide.** Within personal auto, the RPC should remain strong but begin to move down from here (18.2% in Q3 as more of the book reaches rate adequacy on a written basis). Within homeowners', the RPC (19.4% in Q3) should remain consistent through the end of the year, and then it should moderate into the low double-digits as automatic increase in limit factors returns to more normal levels reflective of stabilizing industry estimates of replacement costs.
- **Personal lines Q4 underlying loss ratio.** Travelers highlighted that its Q4 underlying loss ratio is typically about 6-7 points higher than the other quarters of the year due to winter weather and holiday driving.

Investments

As of 9/30, new money rates are about 180 basis points higher than rates embedded within the portfolio. The changes to unrealized investment gains and losses do not change how TRV manages its investment portfolio. The company generally holds fixed income investments to maturity.

Liquidity and Capital

TRV has \$1.75 billion of capital at the holding company (up from just under \$1.5 billion at the end of 2022 and the \$2.0B at end of Q2) with all of their capital ratios at or better than target levels. The catastrophe losses this year have results in lower YTD earnings than TRV expected and as a result they expect the Q4 repurchases will likely be lower than the level of average quarterly repurchases in the first half of the year. TRV has \$6.1B left under its repurchase authorization as of 9/30.

Highlights of TRV's call included commentary around pricing (in BI and PI), reserve movements, and its underlying loss ratio in BI.

Guidance was given around: (1) fixed income investment income, (2) PI RPC, (3) Q4 buyback, and (4) Q4 PI underlying loss ratio.

Exhibit 1 - 2023 Guidance Tracker

	2023 Guidance Tracker	Provided With Q3 2022 Earnings	Provided With Q4 2022 Earnings	2023 Outlook	Provided With Q1 2023 Earnings	Provided With Q2 2023 Earnings	Provided With Q3 2023 Earnings
Underlying Margin Outlook	Bond & Specialty: No outlook commentary 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 outlook commentary Business Insurance: Did not give specific guide but said earned pricing exceeded loss trend in all three segments	Bond & Specialty: No outlook commentary 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.	Bond & Specialty: No outlook commentary Personal Lines: Expect to reach or at least be close to rate adequacy in auto in the majority of states by mid-year. TRV noted the loss environment is incrementally more challenging	Bond & Specialty: No outlook commentary Personal Lines: Did not reach written price adequacy in auto by mid-year, did not provide an updated timeline on reaching rate adequacy	Bond & Specialty: No outlook commentary Personal Lines: Q4 underlying loss ratio is typically about 6-7 points higher than the other quarters of the year due to winter weather and holiday driving.	Bond & Specialty: No outlook commentary Business Insurance: No outlook commentary
Expense Ratio Outlook	No outlook commentary for 2023	Expect FY2023 Expense Ratio to be 28.5% - 29.0% (versus FY22 ratio of 28.5%)	No change to previous guide	No change to previous guide	No change to previous guide	No change to previous guide	No change to previous guide
Renewal Premium Growth	Bond & Specialty: No outlook commentary Business Insurance: Frequency continues to return towards pre-pandemic levels and expect to reach written adequacy by now and mid-2023	Bond & Specialty: No outlook commentary Business Insurance: RRCC 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: No outlook commentary Business Insurance: TRV saw continued acceleration of pricing in property given hardening reinsurance market and capacity constraint.	Bond & Specialty: No outlook commentary Personal Lines: Expect auto RPC to modestly rise 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 (19.2% in Q2).	Bond & Specialty: No outlook commentary Personal Lines: Expect auto RPC to rise from these levels (16.0% in Q2) in the remainder of the year. Expect home RPC to remain in the high-teens for the remainder of the year (19.2% in Q2).	Bond & Specialty: No outlook commentary Personal Lines: Given the uncertainty in terms of weather volatility, economic and social inflation, hardening reinsurance market and the geopolitical landscape TRV will continue to push for price increases to achieve its return objectives.	Bond & Specialty: No outlook commentary Business Insurance: Auto RPC should remain strong but begin to move down from here as more of the book becomes adequacy on a written basis. Homeowners' RPC (19.4% in Q3) should remain consistent through the end of the year, and then it should moderate into the low double-digits.
Investment Income	Alternatives: No outlook commentary Fixed Book: Expect after-tax fixed NII to be from a range of \$5.15 million in Q1 to \$57.0 million in Q4 (with an average of \$54.0 million per quarter). Mentioned new money yields through mid-October are 20bps higher than current embedded rates.	Alternatives: No outlook commentary Fixed Book: Expect after-tax fixed NII to be from a range of \$530 million in Q2 2023 to \$570 million in Q4 (with an average of \$535 million per quarter)	Alternatives: No outlook commentary Fixed Book: Expect after-tax fixed NII to be from a range of \$570 million in Q3 and \$595M in Q4.	Alternatives: No outlook commentary Fixed Book: Expect after-tax fixed NII to be from a range of \$530 million in Q2 2023 to \$570 million in Q4 (with an average of \$535 million per quarter)	Alternatives: No outlook commentary Fixed Book: Expect after-tax fixed NII to be from a range of \$570 million in Q3 and \$595M in Q4.	Alternatives: No outlook commentary Fixed Book: Expect after-tax fixed NII to be from a range of \$570 million in Q3 and \$595M in Q4.	Alternatives: No outlook commentary Fixed Book: Expect after-tax fixed NII to be from a range of \$570 million in Q3 and \$595M in Q4.
Capital Management	No outlook commentary for 2023	They do not expect 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 \$6.0B repurchase authorization is open-ended with no targeted time horizon	They expect repurchases to lower in the second half vs the first half (first half saw \$862M of repurchases).	They expect repurchases to lower in the second half vs the first half (first half saw \$862M of repurchases).	Q4 repurchases will likely be lower than the level of average quarterly repurchases in the first half of the year.	Q4 repurchases will likely be lower than the level of average quarterly repurchases in the first half of the year.

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 Q3 2023 earnings.

- **2023 EPS** goes down to \$10.85 (from \$12.65) to reflect the Q3 shortfall, combined with the updated Q4 investment income guidance and the seasonality within its auto margin
- **2024 EPS** goes down to \$18.55 (from \$18.60) to reflect the initial 2024 investment income guidance, combined with changes to our BI margins (underlying loss ratio as well as around reserve development)
- **2025 EPS** goes down to \$21.10 (from \$21.35) to reflect higher fixed income investment income, combined with changes to our BI margins (underlying loss ratio as well as around reserve development)

Exhibit 2 - TRV Summary of Estimate Changes

(\$ in millions, except as noted)	2023E	2024E	2025E	Prior Estimates			Delta (Absolute)			2023 Outlook Guidance
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	
Gross premiums written	42,980	45,371	47,902	42,781	45,161	47,680	199	210	221	
% growth (YoY)	13.5%	5.6%	5.6%	13.0%	5.6%	5.6%	0.5%	(0.0%)	(0.0%)	
Net premiums written	40,208	42,250	44,402	40,097	42,133	44,279	110	117	123	
% growth (YoY)	13.5%	5.1%	5.1%	13.2%	5.1%	5.1%	0.3%	0.0%	0.0%	
Increase in unearned premiums	(2,492)	(1,409)	(1,482)	(2,503)	(1,407)	(1,480)	10	(2)	(2)	
Net premiums earned	37,715	40,841	42,920	37,594	40,726	42,799	121	115	121	
% growth (YoY)	11.7%	8.3%	5.1%	11.3%	8.3%	5.1%	0.4%	(0.0%)	0.0%	
Net investment income (pre-tax)	2,981	3,620	4,052	2,929	3,520	3,941	53	100	111	Q4 2023: \$615M for Fixed NII; FY 2024 should be over \$2,6B
Fee income	440	491	515	450	489	513	(10)	2	2	
Other income	359	348	348	348	348	348	11	0	0	
Total revenue	41,496	45,301	47,835	41,321	45,084	47,601	175	217	234	
Losses and loss adjustment expenses	26,837	27,289	28,735	26,150	27,190	28,585	687	99	149	
Amortization of deferred acquisition costs	6,221	6,764	7,113	6,204	6,745	7,094	17	19	20	
General and administrative expenses	5,280	5,719	5,981	5,328	5,718	5,979	(48)	1	2	
Interest expense	376	392	392	376	393	393	(0)	(1)	(1)	
Total expenses	38,714	40,165	42,221	38,058	40,046	42,051	655	119	170	
Pretax operating income	2,782	5,136	5,614	3,263	5,038	5,550	(481)	98	64	
% growth (YoY)	(21.8%)	84.6%	9.3%	(8.3%)	54.4%	10.2%	(13.5%)	30.2%	(0.9%)	
Income tax expense/(benefit)	258	947	1,030	329	864	948	(71)	83	83	
After-tax core income	2,524	4,189	4,584	2,934	4,174	4,602	(410)	15	(19)	
% growth (YoY)	(15.8%)	65.9%	9.4%	(2.2%)	42.3%	10.3%	(13.7%)	23.7%	(0.8%)	
Company income tax rate (%)	9.3%	18.4%	18.4%	10.1%	17.2%	17.1%	(0.8%)	1.3%	1.3%	
Weighted average number of diluted shares	231.3	224.8	216.3	230.7	223.3	214.7	0.5	1.4	1.6	
Participating share-based awards	15.0	19.0	19.0	16.0	19.0	19.0	(1.0)	0.0	0.0	
Adjusted Operating EPS	\$10.85	\$18.55	\$21.10	\$12.65	\$18.60	\$21.35	(\$1.80)	(\$0.05)	(\$0.25)	
Profitability Metrics										
Loss and loss adjustment expense ratio	70.7%	66.4%	66.5%	69.1%	66.3%	66.3%	1.6%	0.1%	0.2%	
Underwriting expense ratio	28.5%	28.5%	28.5%	28.6%	28.6%	28.5%	(0.2%)	(0.0%)	(0.0%)	Expecting expense ratio of 28.5-29% for 2023
Combined ratio	99.2%	94.9%	95.0%	97.7%	94.9%	94.9%	1.4%	0.0%	0.1%	
Cat points on the combined ratio	8.4%	5.3%	5.2%	7.1%	5.3%	5.3%	1.2%	(0.0%)	(0.0%)	
PYD points on the combined ratio	(0.2%)	(0.0%)	(0.1%)	(0.7%)	(0.3%)	(0.2%)	0.5%	0.3%	0.1%	
Current accident year combined ratio	91.0%	89.7%	89.8%	91.3%	89.9%	89.8%	(0.3%)	(0.2%)	0.0%	
Underlying loss ratio	62.6%	61.1%	61.3%	62.7%	61.3%	61.3%	(0.1%)	(0.2%)	0.1%	
Segment Underwriting Income:										
Business Insurance	\$458	\$1,034	\$1,133	\$781	\$1,026	\$1,090	(\$323)	\$7	\$43	
Bond & Specialty Insurance	\$778	\$652	\$681	\$735	\$647	\$676	\$43	\$5	\$5	
Personal Insurance	(\$1,380)	(\$90)	(\$172)	(\$1,118)	(\$75)	(\$76)	(\$263)	(\$15)	(\$96)	
Book value per share	\$90.71	\$101.71	\$115.33	\$93.63	\$104.91	\$119.03	(\$2.92)	(\$3.20)	(\$3.70)	
ROE	11.8%	19.3%	19.4%	13.6%	18.7%	19.1%	(1.7%)	0.5%	0.4%	

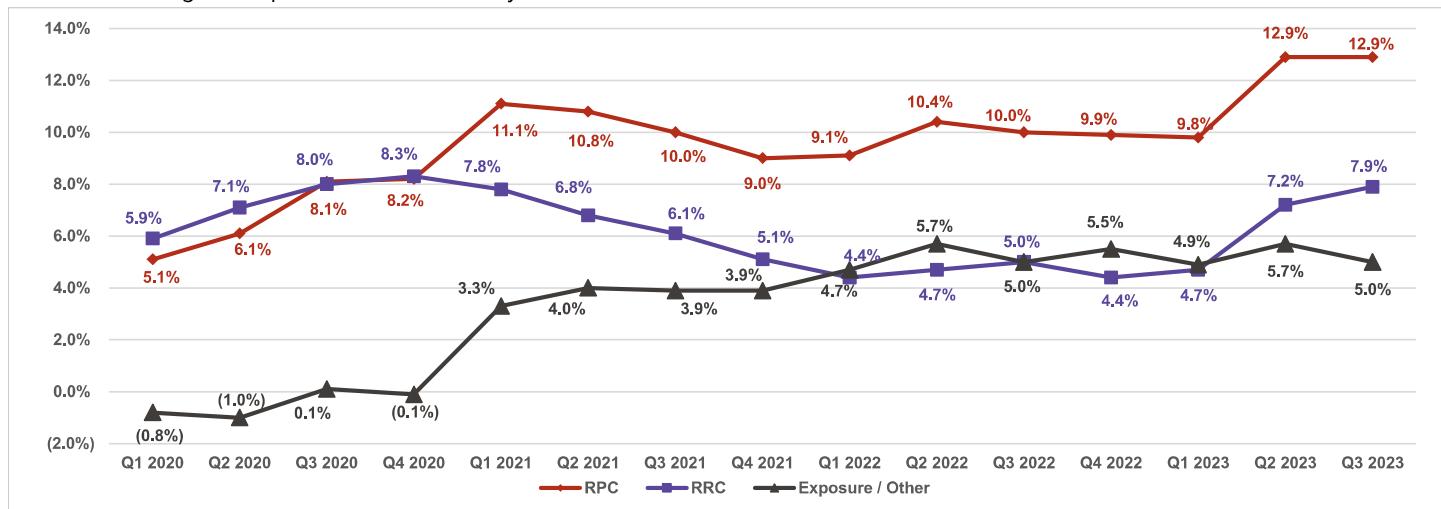
Source: Company reports and Wells Fargo Securities, LLC estimates

Pricing Highlights—Commercial Lines

Business Insurance Rating Environment—RRC Up; Exposure Slows Modestly

- In Q3, the **Business Insurance** renewal rate change was +7.9%, a acceleration from the +7.2% in the prior quarter. Exposure growth was up 5.0%, down from the 5.7% in Q2, but remaining at strong levels. The 12.9% of RPC in Q3 was in line with Q2 and was a record-high for TRV. 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



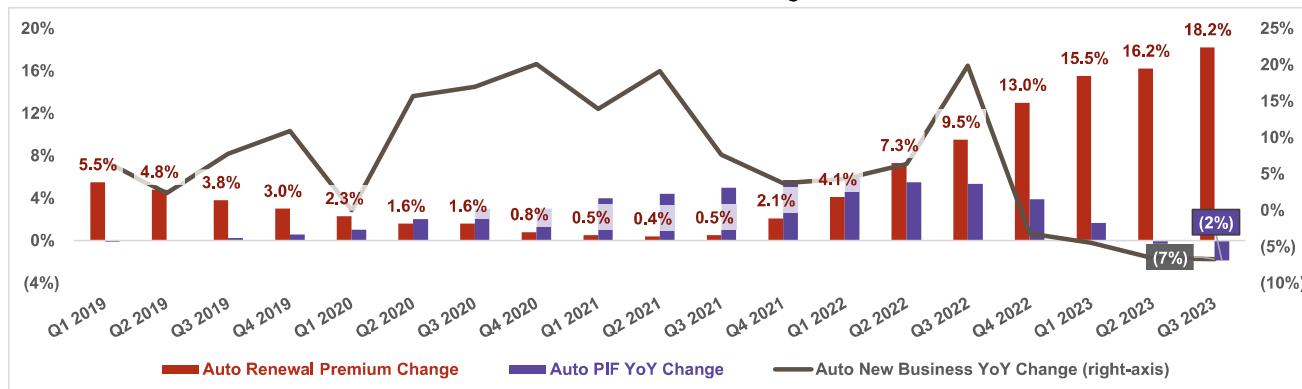
Source: Company data and Wells Fargo Securities, LLC

Pricing Highlights—Personal Lines

Personal Lines—TRV Continues to See Rate Acceleration, Margins Remain Elevated

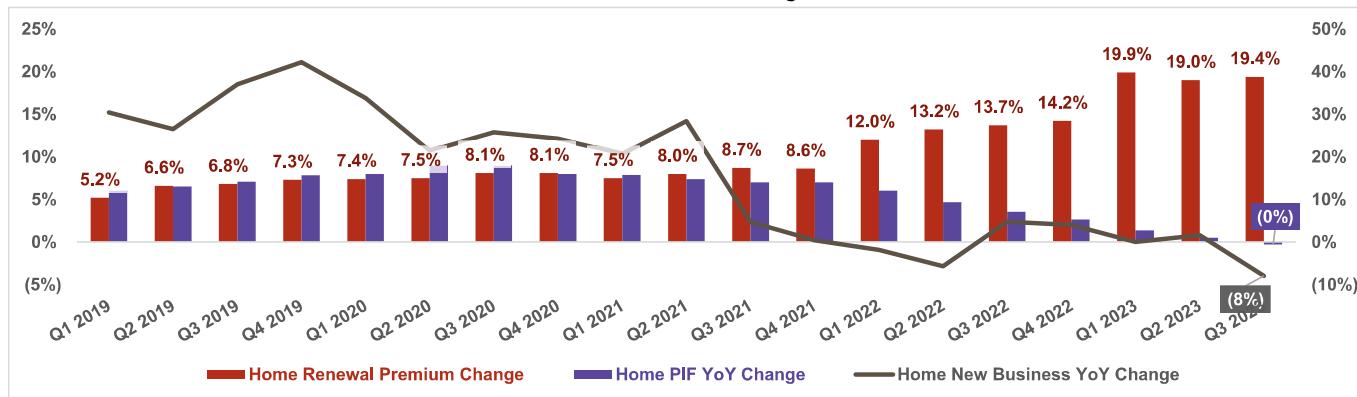
- Within **Personal Auto**, TRV saw renewal premium change continue to accelerate sequentially at 18.2%, which was up from the 16.2% last quarter; however, their auto underlying margin remained above 100% for the sixth straight quarter (100.6% in Q3) but this did improve 330 basis points Y/Y and 290 basis points from Q2. TRV did highlight that seasonality will cause the auto underlying loss ratio to rise in Q4 (the Q4 underlying loss ratio in auto is typically 6-7 points higher than the other quarters of the year due to winter weather and holiday driving).
- Homeowners'** RPC accelerated modestly sequentially to a record-high 19.4% from the previous record-high 19.0% in Q2.
- Auto PIFs decline sequentially, while home was close to flat.** Travelers' new business in auto decreased 7% Y/Y to \$332 million, after also decreasing 7% Y/Y last quarter and marked the fourth straight quarter with Y/Y declines as TRV continues to pull new business away from states where they are not getting enough rate and abiding by stricter underwriting standards. Auto PIFs declined 0.1% sequentially (better than the 0.7% sequential decline in Q2). Home new business was down 8% in the Q3 (a deceleration from growth of 2% in Q2). From a PIF standpoint, home was close to flat, which was a slowdown from the 0.5% sequential increase last quarter.

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

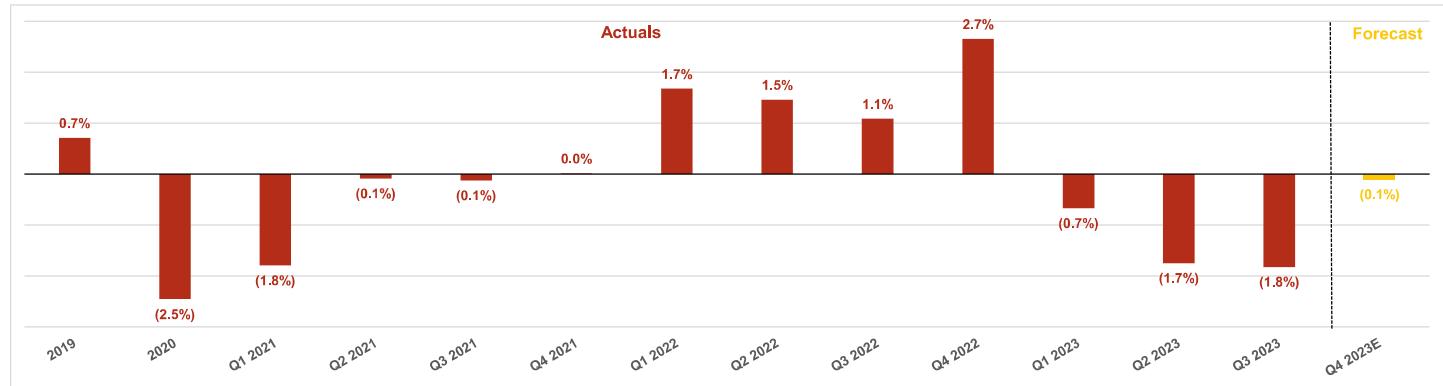
Underlying Margin Tables

Exhibit 6 - Consolidated Underlying Margin Trends

Underlying 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	Q2 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%	106.5%
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%	6.0%	16.1%
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%)	(0.7%)
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%	91.1%
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%)	(1.7%)
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%	62.5%
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%	(0.4%)	(1.3%)
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%	28.7%	28.6%
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%)	(0.4%)

Source: Company reports and Wells Fargo Securities, LLC

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



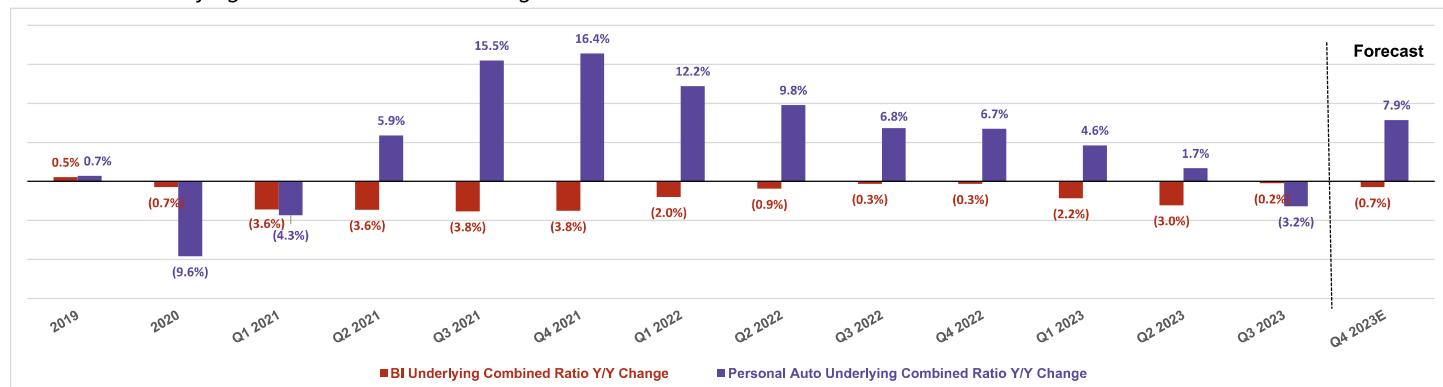
Source: Company Reports and Wells Fargo Securities, LLC Estimates

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	Q2 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%	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%)	(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%	82.1%
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%	(0.1%)
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%	92.9%	94.1%
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%	(1.9%)
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%	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%	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%	85.2%
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%	(4.2%)	(5.0%)

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 1.93x Q3 2023 book value, which is above its 5-year (1.49x) average, and its 10-year (1.43x) 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 1.38x Q3 adjusted book of \$122.55, which is just above the 1.37x 5-year average ex AOCI. On a price-to-earnings basis, the shares are trading at 9.1x our 2024 EPS estimate versus the 5-year average of 11.6x, 10-year average of 11.5x and the 5-year and 10-year peak of 14.2x.

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

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Commercial Lines Insurance

Equity Research

Exhibit 12 - TRV Consolidated Earnings Model

Source: Company Reports, Factset and Wells Fargo Securities, 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 Equal Weight TRV 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.

Target Price Valuation for TRV: \$172.00 from NC

- **Our price target of \$172** is based on just over 9x our 2024 EPS estimate of \$18.60
- Implies around a ~1.65x multiple of our projected 2024 book value estimate of ~\$105

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.

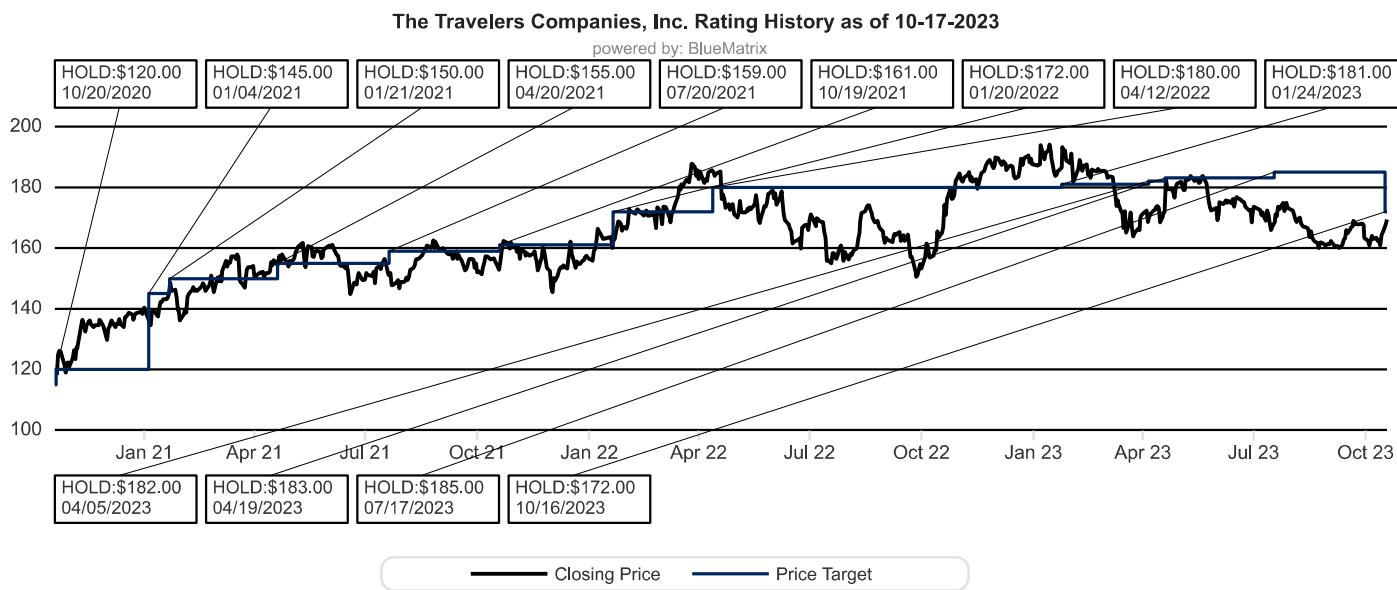
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As of October 17, 2023

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