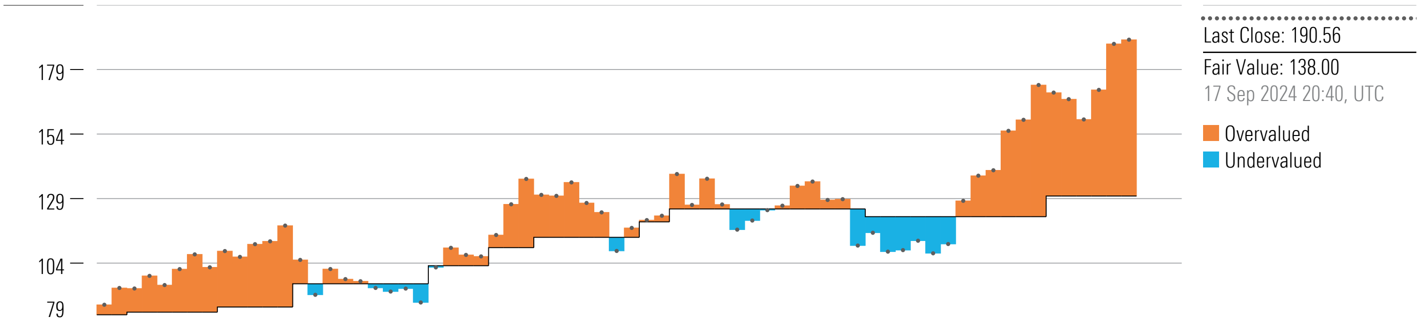
Morningstar Equity Analyst Report | Report as of 17 Sep 2024 20:47, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

Allstate Corp ALL ★ 17 Sep 2024 20:45, UTC

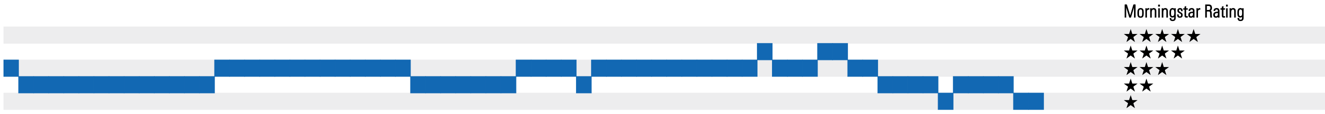
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
190.56 USD 16 Sep 2024	138.00 USD 17 Sep 2024 20:40, UTC	1.38	50.24 USD Bil 17 Sep 2024	None	Mid Growth	Medium	Standard	7 Aug 2024 05:00, UTC

Price vs. Fair Value



	2019	2020	2021	2022	2023	YTD	
	1.29	1.07	1.03	1.08	1.15	1.38	Price/Fair Value
	38.51	-0.32	9.97	18.15	5.86	38.11	Total Return %

Morningstar Rating



Total Return % as of 16 Sep 2024. Last Close as of 16 Sep 2024. Fair Value as of 17 Sep 2024 20:40, UTC.

Contents

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The primary analyst covering this company does not own its stock.

[1] The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Allstate Is Enjoying Multiple Tailwinds

Business Strategy & Outlook Brett Horn, CFA, Senior Equity Analyst, 17 Sep 2024

The coronavirus boosted personal auto results, as quarantine efforts led to a stark decline in miles driven and claims and the company saw a dramatic short-term boost to underwriting margins while social distancing efforts were in effect. Ultimately, though, this benefit waned as vaccination efforts took hold, and the pandemic appears to have restarted the pricing cycle at a less attractive point. Further, insurers are absorbing a rise in claims costs due to multiple factors beyond the impact of drivers returning to the road. Auto insurers have endured a very difficult period recently, which has pushed Allstate to significant underwriting losses. Outside of this issue, Allstate was buffeted by relatively high catastrophe losses recently. These two trends pushed the company into meaningful losses for 2022 and 2023.

However, pricing has improved significantly, and the industry has shown an ability to recover from negative claims trends fairly quickly historically. The magnitude of recent claims issues made normalization a longer process this time around, but we see signs that underwriting profitability is starting to improve, and we expect underwriting results in the near term to be unusually strong.

Longer term, growth is an issue. Allstate's captive agent model is out of fashion, as industry growth has been concentrated in the direct channel. In our view, the customers that Allstate serves are less likely to shop their policies and value the service an agent can provide. As such, we believe any fears that captive agents will disappear are overblown. Allstate occupies a solid position in this mature niche,

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Allstate Corp ALL ★ 17 Sep 2024 20:45, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
190.56 USD 16 Sep 2024	138.00 USD 17 Sep 2024 20:40, UTC	1.38	50.24 USD Bil 17 Sep 2024	None	Mid Growth	Medium	Standard	7 Aug 2024 05:00, UTC

Sector	Industry
Financial Services	Insurance - Property & Casualty

Business Description

Allstate is one of the largest US property and casualty insurers in the US. Personal auto represents the largest percentage of revenue, but the company offers homeowners insurance and other insurance products. Allstate products are sold in North America primarily by about 10,000 company agencies.

which management estimates is about half the market, and we think it can generate reasonable returns. But top-line growth will be difficult to achieve absent pricing increases, given the ongoing industry shift, and policies in force growth has been meager in recent years. Allstate has made a number of attempts to expand outside the captive agent channel, generally with little success. Given management's response, we are less concerned with the lack of growth than the potential for value to be destroyed through attempts to increase growth.

Bulls Say Brett Horn, CFA, Senior Equity Analyst, 17 Sep 2024

- Allstate has historically had a differentiated approach through its use of captive agents and its bundling strategy.
- The company has been increasing prices on many of its policies, which should lead to improved underlying profitability.
- Allstate should benefit from higher interest rates.

Bears Say Brett Horn, CFA, Senior Equity Analyst, 17 Sep 2024

- Allstate's growth prospects are quite limited, given its dependence on the declining captive agent channel, and the maturity of the insurance industry.
- Despite reducing its exposure to some coastal areas, Allstate may experience large loss years caused by Midwestern catastrophes.
- Autonomous cars could make auto insurance obsolete over time.

Economic Moat Brett Horn, CFA, Senior Equity Analyst, 17 Sep 2024

In general, property-casualty insurers do not benefit from favorable competitive positions. Industry competition is fierce, and the products are essentially commodities. Furthermore, participants do not know their cost of goods sold for a number of years, allowing them to underprice policies without knowing it. Firms have a large incentive to chase growth without regard for profitability, a cycle that repeats itself as competitors are forced to match artificially low prices or risk losing business.

In our view, Allstate has historically had a differentiated model through its use of captive agents and its bundling strategy. That said, the company's historical returns suggest the advantage it gains through this strategy is fairly meager. Further, while the captive agent channel still dominates results, the company has expanded into both the independent agent and direct channel in recent years. We don't believe it has a meaningful advantage in these channels, and results have been generally disappointing.

We continue to believe that Allstate has a defensible position in its core captive agent channel. As customers add policies, they are more likely to rely on an agent who can help them customize their policies and save them money through bundling. Each additional policy will allow the customer to save money, as it has been actuarially proved that these policyholders are lower risk, and each incremental

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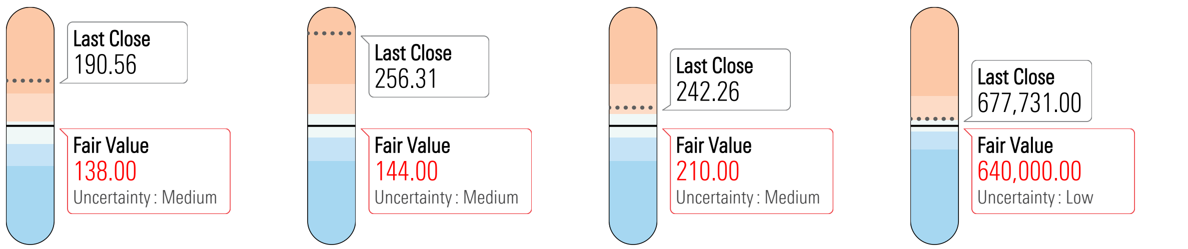
Competitors



	Allstate Corp ALL	Progressive Corp PGR	The Travelers Companies Inc TRV	Berkshire Hathaway Inc Class A BRK.A
Economic Moat	None	Narrow	Narrow	Wide
Currency	USD	USD	USD	USD
Fair Value	138.00 17 Sep 2024 20:40, UTC	144.00 9 Jul 2024 17:45, UTC	210.00 5 Apr 2024 17:37, UTC	640,000.00 29 Apr 2024 23:36, UTC
1-Star Price	96.60	194.40	283.50	800,000.00
5-Star Price	186.30	100.80	147.00	512,000.00
Assessment	Significantly Overvalued 17 Sep 2024	Significantly Overvalued 17 Sep 2024	Overvalued 17 Sep 2024	Overvalued 17 Sep 2024
Morningstar Rating	★17 Sep 2024 20:45, UTC	★16 Sep 2024 21:28, UTC	★★16 Sep 2024 21:28, UTC	★★16 Sep 2024 21:28, UTC
Analyst	Brett Horn, Senior Equity Analyst	Brett Horn, Senior Equity Analyst	Brett Horn, Senior Equity Analyst	Greggory Warren, Strategist
Capital Allocation	Standard	Exemplary	Standard	Exemplary
Price/Fair Value	1.38	1.78	1.15	1.06
Price/Sales	0.84	2.22	1.27	2.44
Price/Book	3.03	6.43	2.22	1.62
Price/Earning	16.72	21.94	14.88	23.23
Dividend Yield	1.92%	0.45%	1.69%	0.00%
Market Cap	50.24 Bil	150.50 Bil	55.05 Bil	984.50 Bil
52-Week Range	108.16—191.33	137.59—260.46	157.33—243.48	502,000.00—741,971.40
Investment Style	Mid Growth	Large Growth	Mid Blend	Large Blend

policy creates stickier customers. As these customers have multiple policies for a car (or two), a home, and possibly a boat, price shopping becomes more burdensome, making them less likely to switch companies in order to save a small amount on premiums. Whereas many of its competitors use independent agents to source sales, Allstate's captive agents sell only company policies. This allows Allstate to benefit from the stickiness of the customer relationship, rather than an independent agent.

Fair Value and Profit Drivers Brett Horn, CFA, Senior Equity Analyst, 17 Sep 2024

We are increasing our fair value estimate for Allstate to $138 per share from $130 due to time value since our last update and some adjustments to our near-term assumptions based on an improving industry backdrop. Our fair value estimate is equivalent to 2.2 times 2023 year-end book value and 2.7 times book value excluding goodwill and AOCI.

We think the market shift away from the captive agent channel and Allstate's leading position in a mature industry limit its long-term growth prospects. We assume earned premiums for P&C operations to increase at a fairly modest 4% compound annual growth rate, with much of that growth being driven by price increases in the near term.

Allstate produced very strong underwriting results in the early part of the pandemic, but results have deteriorated significantly since, and the company endured significant underwriting losses in 2022 and 2023. We expect underwriting results to improve in 2024 and that underwriting results will be relatively strong over the next couple of years as recent pricing increases flow through. We expect near-term results will be boosted by higher interest rates and stronger investment income as well.

In the back half of our projection period, we expect the combined ratio to start to creep up, as higher interest rates and improved investment income reduce the need for underwriting income. Our projections include one large catastrophe loss year to reflect the volatility of the company's operations. Overall, this leads to our assumption for an average combined ratio of 97% in P&C operations during our forecast horizon, a bit better than the company's average over the past five years.

We use a cost of equity of 9% in our valuation.

Risk and Uncertainty Brett Horn, CFA, Senior Equity Analyst, 17 Sep 2024

We assign Allstate a Medium Morningstar Uncertainty Rating.

Like other insurers, Allstate's biggest risks are claims in excess of the amount reserved or material impairments in its investment portfolio. Over 40% of its investment portfolio is composed of corporate bonds, exposing it to corporate defaults in the event of a major recession. Because of its mixed model, Allstate has retained a higher amount of balance sheet leverage compared with many of its property-casualty insurance peers. Allstate has significant exposure to natural catastrophes and weather-related losses, which introduces material volatility into its results. Climate change introduces a new point of uncertainty for insurers with catastrophe exposure, and future returns could be impaired if the price response is not adequate. Any eventual adoption of driverless cars could completely upend the auto insurance industry.

Some environmental, social, and governance issues for P&C insurers arise in a secondhand fashion, as an insurer can draw criticism on the extent to which it incorporates ESG into its investment decisions. Personal lines insurance is highly regulated. Insurers' pricing and practices are closely controlled by state regulators, and the company could face material consequences if its behavior is judged to be inappropriate. The biggest issue for P&C insurers is climate change, as insurers typically cover weather-related losses, and climate change is likely to increase the frequency and severity of extreme weather events. Insurers could significantly impair their profitability if they do not recognize these risks and adjust their underwriting practices accordingly. While Allstate faces all of these issues, we do not see any particular flags for the company.

Capital Allocation Brett Horn, CFA, Senior Equity Analyst, 17 Sep 2024

Our Morningstar Capital Allocation Rating for Allstate is Standard. In our opinion, the company's balance sheet is sound, its capital investment decisions are fair, and its capital return strategy is appropriate.

Tom Wilson has been CEO and chairman since 2007 and 2008, respectively. Heading into the financial crisis, management expanded too aggressively into noncore lines of business, especially in its Allstate Financial segment. This overexpansion hurt shareholders, as equity fell more than 40% during the financial crisis, and the company was forced to cut its dividend. Since then, management has actively derisked its operations and refocused the firm's business lines toward its strengths, which we think were the right steps.

On the other hand, we are concerned that the company's current multichannel strategy might lead it to stray too far from its core captive agent model in order to maintain top-line growth.

We believe the acquisition of Esurance in 2011 was strategically unsound, and management appears to have given up on this business. With hindsight, it is questionable if Allstate had a valid plan for this business at the time of the acquisition. Allstate acquired SquareTrade, a provider of protection plans for consumer electronics, for approximately $1.4 billion in 2017. We fail to see a valid strategic connection between Allstate's legacy operations and SquareTrade. Late in 2018, Allstate acquired InfoArmor for $525 million in cash. InfoArmor provides identity protection services to over 1 million employees across more than 1,400 companies. We question the strategic fit of this acquisition, as we see the connection between identity protection and Allstate's current operations as tangential at best.

In early 2021, Allstate acquired National General, which offers personal lines insurance through the independent agent channel, with a focus on nonstandard auto policies. We are not enthusiastic about the deal, as the purchase price seemed a bit rich and we are skeptical about Allstate's continued attempts to prop up growth through acquisitions. We do, however, think that this deal makes more strategic sense than Allstate's other recent acquisitions.

In 2021, Allstate sold the bulk of its life insurance business to Blackstone for $2.8 billion. From a strategic point of view, we like this move, as we don't believe there are any material benefits to combining P&C and life insurance operations. That said, the purchase price appeared to be at a slight discount to book value. This valuation doesn't strike us as unreasonable, given the prospects of this business, but it is also not a level that creates any value for Allstate, in our view. In August 2024, Allstate announced it has reached a deal to sell its employer voluntary benefits business to StanCorp

Financial for $2.0 billion. The price for this business looks reasonable to us and should result in a gain of $600 million.

Overall, we think management's scorecard is mixed. While management has made strides in repositioning the business since the crisis, it was also responsible for the mistakes that created the company's issues, and the current strategy raises some questions. We believe shareholders might be better served if management simply accepted the company's limited growth prospects.

Analyst Notes Archive

Allstate: Sale of Employer Voluntary Benefits Business Is a Good Move Brett Horn, CFA, Senior Equity Analyst, 14 Aug 2024

Allstate announced it has reached a deal to sell its employer voluntary benefits business to StanCorp Financial for $2.0 billion. This is part of management’s plan to sell its health and benefits businesses. We like this move, as we don’t see a good strategic connection between this segment and the company’s core property-casualty insurance operations. The price for this business looks reasonable to us and should result in a gain of $600 million. It will also free up about $1.6 billion in capital, which we see as a positive, since Allstate’s balance sheet is recovering from losses over the last two years. While we like this move, it is not large enough to materially affect our valuation, and we will maintain our $130 fair value estimate for the no-moat company. We see the shares as overvalued at the moment, as we believe the market is overly focused on near-term tailwinds for the business.

Allstate Earnings: Improved Market Conditions Lead to Strong Results Brett Horn, CFA, Senior Equity Analyst, 1 Aug 2024

Allstate’s results have shown a quick turnaround as market conditions have flipped from adverse to favorable. The annualized ROE of 19% for the first six months of the year is well above the company’s historical average, and we think near-term prospects remain strong as pricing increases and higher interest rates provide dual tailwinds for the business. However, insurance is an inherently mean-reverting industry, and we do not believe this favorable backdrop will persist. We will maintain our $130 fair value estimate for the no-moat company and see shares as materially overvalued. We think the market is overly focused on near-term returns.

Underwriting results continue to improve on the back of strong pricing increases. The combined ratio for auto lines came in at 95.9%, compared with 108.3% last year and 96.0% last quarter. The quick transition from sizable underwriting losses to solid underwriting gains has been impressive, and we’ve seen a similar trend from peers. Homeowners is also seeing improvement, with the underlying combined ratio falling to 63.5%, compared with 67.6% last year. We think pricing increases have restored underwriting profitability across both lines and would note that pricing has a tendency to overshoot, which could lead to further improvement in the near term.

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190.56 USD 16 Sep 2024	138.00 USD 17 Sep 2024 20:40, UTC	1.38	50.24 USD Bil 17 Sep 2024	None	Mid Growth	Medium	Standard	7 Aug 2024 05:00, UTC

Net investment income increased 17% year over year, as Allstate benefited from higher interest rates. While this should remain a meaningful tailwind in the near term, history strongly suggests that if interest rates stay elevated, industry underwriting margins will weaken over time as an offset. However, this adjustment will take time, leaving Allstate is in strong position for now.

Despite the Interest Rate Tailwind, P&C Insurers Are Overvalued Brett Horn, CFA, Senior Equity Analyst, 22 May 2024
Higher interest rates have boosted investment income and have had a material positive impact on overall returns for our domestic property-casualty insurance coverage. While insurers with low fixed-income duration have seen the largest impact, the effect has flowed through our coverage. Interest rates and investment income are only part of the story for insurers, but the outlook for underwriting is strong as well, in our view. Following a few years of solid price increases, commercial insurers have seen underwriting margins stabilize at an attractive level. Personal auto insurers have endured some difficulties recently, but strong pricing increases have improved combined ratios. With both sides of the profit picture already strong or improving, we expect our P&C insurers to generate unusually attractive results in the near term. However, we believe the market has overreacted to these tailwinds, and we see our coverage as generally overvalued. Investigating historical underwriting results for a P&C insurance peer group strongly suggests that underwriting results adjust over time to changes in interest rates, and underwriting margins have improved over the past few decades as interest rates fell. If interest rates stay high, we expect underwriting margins will compress, and returns will normalize. Our fair value estimates hinge on the idea that returns for our coverage will ultimately return to a level roughly in line with historical averages. If the industry does mean-revert over the next few years, investors will pay an overly rich price today for most of our coverage.

Allstate Earnings: Getting Back on Track Brett Horn, CFA, Senior Equity Analyst, 2 May 2024
Allstate's first-quarter results were encouraging, as the company continues to move the past the underwriting issues that have plagued it over the past couple of years. The adjusted annualized return on equity of 11% in the quarter suggests the no-moat company has brought returns back to an acceptable level. We will maintain our $130 fair value estimate.

Premiums written for P&C operations increased 12% year over year. That improvement appears to have come almost entirely from better pricing, as policies in force for auto declined 2% and homeowners was up only 1%. Within auto, Allstate-branded policies in force were down 5% year over year, and the recently acquired National General business provided some offset with growth of 13%. We think pulling back during the period of poor underwriting profitability made sense but would expect the company to start getting more aggressive.

The auto combined ratio for the quarter came in at 96.0%, compared with 104.4% last year and 98.9%

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last quarter. Stronger pricing appears to be pushing underwriting margins back in line with historical averages, and we've seen a similar trend at peers. We note that pricing historically has a tendency to overshoot, which could potentially set up Allstate for strong underwriting results going forward.

Net investment income increased 33% year over year. Like its peers, Allstate is seeing significant benefits from higher interest rates. We think this, combined with stronger pricing and better underwriting results, could potentially allow the company to generate unusually strong returns in the near future. However, we believe the market is overly focused on this near-term outlook, and shares are overvalued as a result.

Allstate Earnings: Finishing the Year on a Strong Note Brett Horn, CFA, Senior Equity Analyst, 8 Feb 2024

Allstate endured a difficult 2023, but fourth-quarter results were largely positive, in our view. The company saw improvement in auto lines and benefited from a minimal level of catastrophes. A solid profit for the quarter allowed the company to close out the full year with a modest loss of $316 million. We will maintain our $122 fair value estimate and see the shares as materially overvalued. While Allstate is likely on an upswing, we don't think the company has a moat, and we believe it is challenged when it comes to long-term growth. As such, we think the current market book multiple, which is materially higher than the company's historical average, is not fully warranted.

Premiums written grew 10% year over year. This growth appears to be coming almost entirely from better pricing, as auto policies in force declined 3% year over year and homeowners policies in force were up only 1%. We think pulling back in auto lines makes sense, given recent underwriting difficulties. But we remain concerned that Allstate's relative reliance on the declining captive agent channel limits its growth prospects outside of the pricing cycle.

The combined ratio for auto came in at 98.9%, compared with 112.6% last year and 102.1% last quarter. We are pleased to see the company return to underwriting profitability and believe that industry pricing actions are finally catching up to negative claims trends. We've seen improvement at peers as well, suggesting that the worst may be in the rearview mirror for the industry. But underwriting profitability remains poor on an absolute basis, with the company still having a ways to go.

Homeowners insurance also had a strong quarter, with the combined ratio improving to 62.0% from 92.8% last year. This was mainly due to a very lower level of catastrophe losses during the fourth quarter. But the underlying loss ratio did improve, suggesting that recent pricing actions are having the intended effect.

Better Prices for P&C Insurers but They Have Different Outlooks Brett Horn, CFA, Senior Equity Analyst, 13 Nov 2023

P&C insurers have had substantial pricing increases across lines recently, but otherwise, commercial and personal insurers are in very different places. For commercial insurers, an extended period of strong price increases has them in a hard market and realizing attractive underwriting margins. Underlying combined ratios have flattened out recently, and we don't expect any significant improvement. Still, this should leave commercial insurers in a strong position over the next couple of years. Personal auto insurers have endured a difficult period in the wake of the pandemic, due to a variety of negative claims trends, and have been pushing pricing to catch up. While they are not out of trouble yet, we think the third quarter could mark the start of a turn toward more normalized underwriting results.

Outside of the cycle, climate-related losses have been an issue in recent years. While the impact of catastrophes in 2023 varied across our coverage, the potential increase in climate-related losses is a meaningful long-term point of uncertainty. However, we are encouraged by recent actions that suggest insurers are approaching this issue with the appropriate amount of discipline. Pricing in lines affected by catastrophes has improved significantly, and insurers have shown a willingness to walk away if pricing is not adequate. On the investment side, insurers that tactically lowered their fixed-income duration are enjoying a relative boost due to higher interest rates, but we believe the time has come to return to matching fixed-income and claims duration, as interest-rate risk is more balanced. We don't see a lot of bargains in the space at the moment, but Travelers is our favorite idea. We think Travelers enjoys a narrow moat but has underperformed a bit in recent years because of a variety of temporary issues. We think the market now underestimates the long-term quality of the business as a result.

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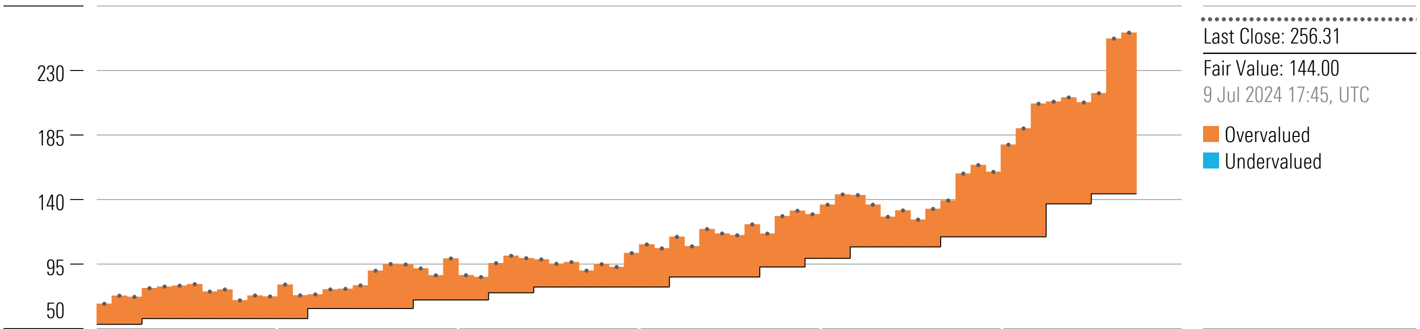
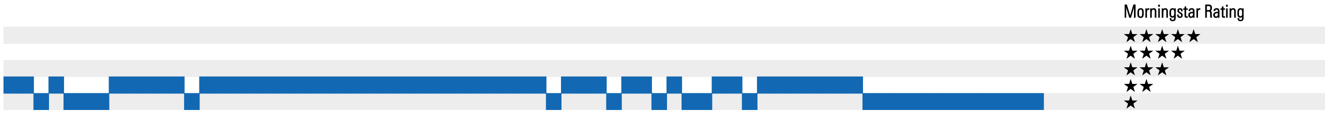
Competitors Price vs. Fair Value

Progressive Corp PGR



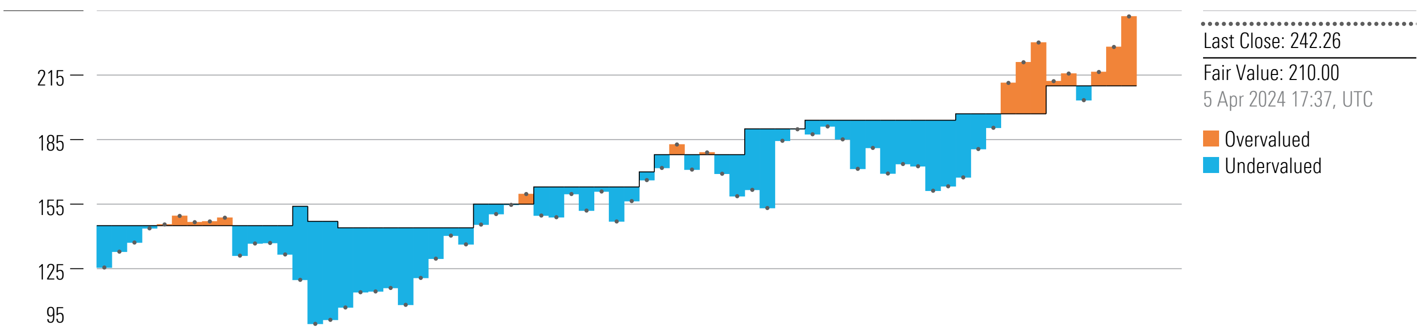
	2019	2020	2021	2022	2023	YTD
Price/Fair Value	1.27	1.41	1.30	1.31	1.40	1.78
Total Return %	24.65	37.15	10.29	26.75	23.11	61.58

Morningstar Rating



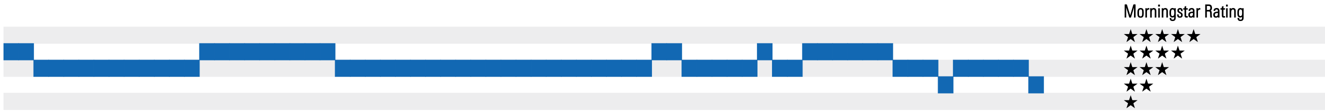
Total Return % as of 16 Sep 2024. Last Close as of 16 Sep 2024. Fair Value as of 9 Jul 2024 17:45, UTC.

The Travelers Companies Inc TRV



	2019	2020	2021	2022	2023	YTD
Price/Fair Value	0.94	0.97	0.96	0.97	0.97	1.15
Total Return %	17.06	4.96	13.93	22.20	3.70	28.80

Morningstar Rating



Total Return % as of 16 Sep 2024. Last Close as of 16 Sep 2024. Fair Value as of 5 Apr 2024 17:37, UTC.

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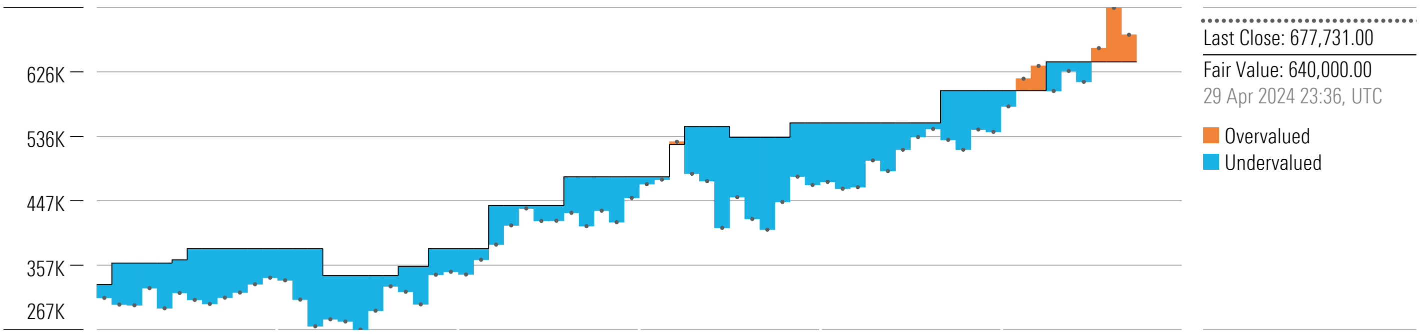
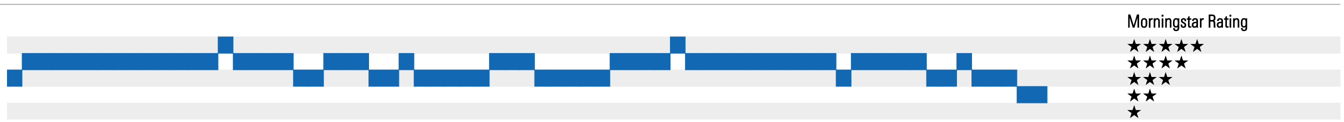
Competitors Price vs. Fair Value

Berkshire Hathaway Inc Class A BRK.A



2019	2020	2021	2022	2023	YTD	
0.89	0.92	0.94	0.84	0.90	1.06	Price/Fair Value
10.98	2.42	29.57	4.00	15.77	24.90	Total Return %



Total Return % as of 16 Sep 2024. Last Close as of 16 Sep 2024. Fair Value as of 29 Apr 2024 23:36, UTC.

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Morningstar Historical Summary

Financials as of 30 Jun 2024

Fiscal Year, ends 31 Dec	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	TTM
Net Earned Premium												
Net Earned Premium Growth %												
Revenue (USD Bil)	35	36	37	39	40	42	42	51	51	57	31	60
Revenue Growth %	2.1	1.2	4.9	5.4	1.0	4.3	0.9	20.7	1.6	11.1	11.6	10.4
Operating Income (USD Tril)	—	—	—	—	—	—	—	—	—	—	—	—
Operating Margin %	—	—	—	—	—	—	—	—	—	—	—	—
Net Income (USD Mil)	2,850	2,171	1,877	3,554	2,160	4,847	5,576	1,614	-1,289	-188	1,549	3,033
Net Margin %	7.8	5.8	4.7	8.7	5.1	11.3	13.0	3.0	-2.7	-0.5	4.8	4.8
Diluted Shares Outstanding (Mil)	438	407	377	368	353	334	316	299	271	263	267	264
Diluted Earnings Per Share (USD)	6.27	5.05	4.67	9.35	5.70	14.03	17.31	5.01	-5.14	-1.20	5.58	10.97
Dividends Per Share (USD)	1.12	1.20	1.32	1.48	1.84	2.00	2.16	3.24	3.40	3.56	1.84	3.62

Valuation as of 30 Aug 2024

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Recent Qtr	TTM
Price/Earnings	11.4	10.9	20.1	14.6	8.1	15.0	7.7	5.7	-769.2	-17.5	35.0	17.2
Dividend Yield %	1.59	1.93	1.78	1.41	2.23	1.78	1.96	2.75	2.51	2.54	2.27	1.93
Price/Book	1.4	1.3	1.4	1.8	1.3	1.6	1.3	1.3	2.0	2.9	2.5	3.0
Price/Tangible Book	1.5	1.3	1.5	2.1	1.4	1.7	1.5	1.5	2.5	4.0	3.2	—

Operating Performance / Profitability as of 30 Jun 2024

Fiscal Year, ends 31 Dec	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD	TTM
ROA %	2.4	1.9	1.7	3.1	1.8	4.0	4.4	1.3	-1.4	-0.3	1.4	2.8
ROE %	13.3	10.6	9.5	17.3	10.0	21.7	21.0	5.8	-7.2	-2.0	9.2	19.3

Financial Leverage

Fiscal Year, ends 31 Dec	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Recent Qtr	TTM
Debt/Capital %	18.7	20.4	23.6	22.0	23.2	20.3	20.6	24.1	31.3	30.9	30.3	—
Equity/Assets %	19.0	17.5	17.3	18.5	17.3	19.8	22.4	23.3	15.8	15.3	15.3	—

Morningstar Analyst Historical/Forecast Summary as of 17 Sep 2024

Financials

			Estimates		
Fiscal Year, ends 31 Dec 2023	2022	2023	2024	2025	2026
Net Earned Premium (USD Mil)	45,904	50,670	53,803	56,355	57,742
Net Earned Premium Growth %	8.7	10.4	6.2	4.7	2.5
Investment Income (USD Mil)	2,403	2,478	2,784	3,008	3,198
Investment Yield %					
Revenue (USD Mil)	51,412	57,094	60,683	63,654	65,303
Revenue Growth %	1.6	11.1	6.3	4.9	2.6
Operating Income (USD Mil)	-1,858	-348	4,856	5,578	6,325
Operating Margin %					
Net Income (USD Mil)	-1,416	-316	3,757	4,334	4,932
Net Margin %	-2.8	-0.5	6.2	6.8	7.6
Diluted Shares Outstanding (Mil)	271	263	256	249	241
Diluted Earnings Per Share(USD)	-5.22	-1.20	14.65	17.37	20.44
Dividends Per Share(USD)	3.41	3.52	3.72	3.93	4.19

Forward Valuation

			Estimates		
	2022	2023	2024	2025	2026
Price/Earnings	-26.0	-116.7	13.0	11.0	9.3
Dividend Yield %	2.5	2.5	2.0	2.1	2.2
Price/Book	—	—	—	—	—
Price/Tangible Book	—	—	—	—	—

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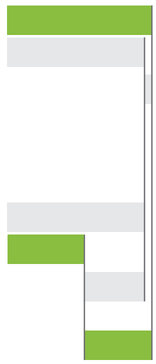
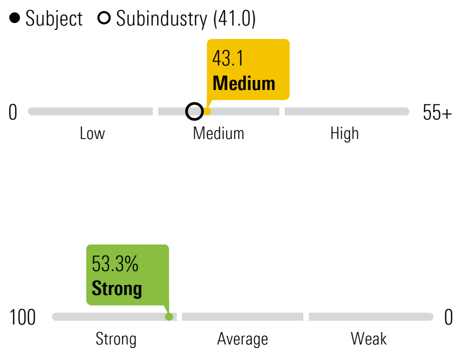
Allstate Corp ALL ★ 17 Sep 2024 20:45, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
190.56 USD 16 Sep 2024	138.00 USD 17 Sep 2024 20:40, UTC	1.38	50.24 USD Bil 17 Sep 2024	None	Mid Growth	Medium	Standard	7 Aug 2024 05:00, UTC

ESG Risk Rating Breakdown

Exposure		
Company Exposure[1]	43.1	
– Manageable Risk	40.9	
Unmanageable Risk[2]	**2.2**	
Management		
Manageable Risk	40.9	
– Managed Risk[3]	21.8	
Management Gap[4]	**19.1**	
Overall Unmanaged Risk	**21.3**	

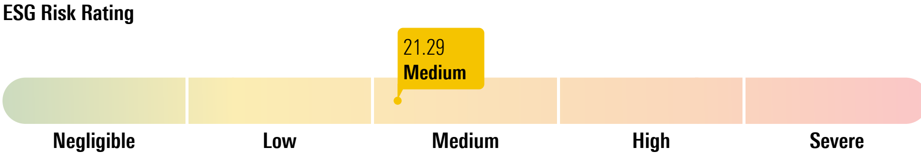




- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating



ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 53.3% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Aug 07, 2024. Highest Controversy Level is as of Sep 08, 2024. Sustainalytics Subindustry: Property and Casualty Insurance. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 07 Aug 2024

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure		Management		ESG Risk Rating	
Allstate Corp	43.1 | Medium	0 – 55+	53.3 | Strong	100 – 0	21.3 | Medium	0 – 40+
Berkshire Hathaway Inc	32.5 | Low	0 – 55+	16.3 | Weak	100 – 0	27.3 | Medium	0 – 40+
Progressive Corp	40.8 | Medium	0 – 55+	54.1 | Strong	100 – 0	19.8 | Low	0 – 40+
The Travelers Companies Inc	40.8 | Medium	0 – 55+	52.3 | Strong	100 – 0	20.5 | Medium	0 – 40+
The Baldwin Insurance Group Inc	45.6 | Medium	0 – 55+	34.3 | Average	100 – 0	30.7 | High	0 – 40+

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Appendix
Historical Morningstar Rating

Allstate Corp ALL 16 Sep 2024 21:26, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
—	—	—	★	★	★★	★★	★★	★★	★	★★	★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★	★★	★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★	★★	★★	★★	★★	★★	★★	★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★	★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★★

Progressive Corp PGR 16 Sep 2024 21:28, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
—	—	—	★	★	★	★	★	★	★	★	★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★	★	★	★★	★★	★★	★★	★★	★★	★★	★	★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★	★	★	★★	★	★★	★★	★	★★	★★	★★	★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★	★★	★★	★★	★★	★	★	★	★★	★	★★	★★

The Travelers Companies Inc TRV 16 Sep 2024 21:28, UTC

Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
—	—	—	★★	★★★	★★★	★★★	★★★	★★★	★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★

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Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
—	—	—	★★	★★	★★★	★★★	★★★	★★★★	★★★	★★★	★★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★★	★★★★	★★★★	★★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★	★★★★	★★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★	★★★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group (”we,” “our”) believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested (”RONIC”)—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

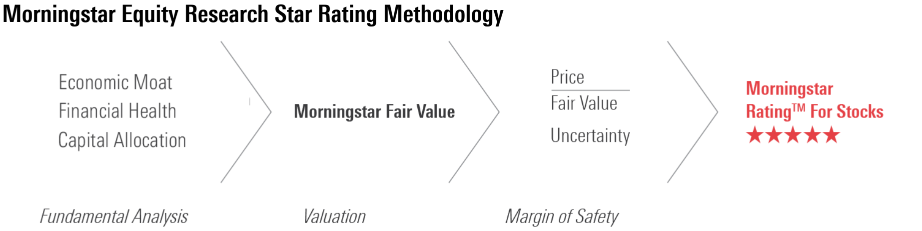
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and any-

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

thing that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

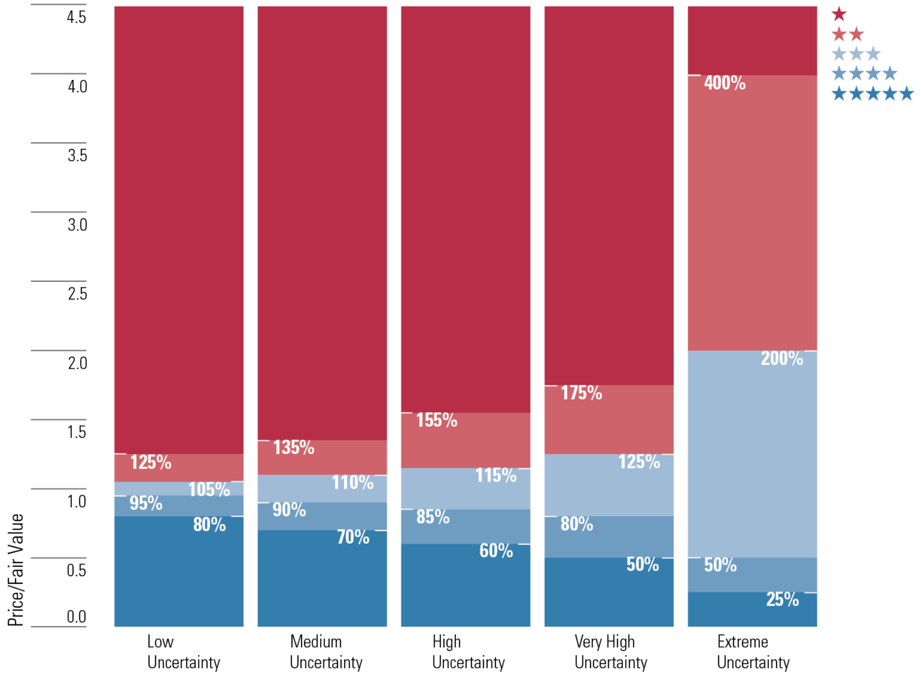
4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Star Rating for Stocks

Morningstar Equity Research Star Rating Methodology



Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider compan-

Research Methodology for Valuing Companies

ies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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