

The Hartford(HIG)

\$40.50 (As of 07/30/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/30/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: F

Momentum: B

Summary

Hartford Financial's second-quarter 2020 adjusted operating earnings of \$1.22 per share came in line with the Zacks Consensus Estimate but fell 8% year over year due to reduced investment income, benefits and losses linked with COVID-19 plus higher CAY CATs due to civil unrest. It has been putting in efforts to boost its portfolio through acquisitions. Divestitures also poise it well for long-term growth. Its capital appreciations, repayment of government funds and measures to de-risk its balance sheet has increased the company's financial strength. However, its shares have underperformed its industry in a year's time. It is exposed to catastrophic loss, which impacted underwriting results. Softness in Personal Lines segment and escalating expenses are other concerns. Its premiums are likely to take a hit from COVID-19 pandemic.

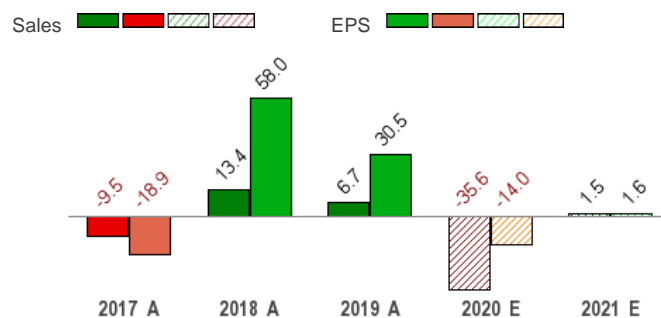
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$62.75 - \$19.04
20 Day Average Volume (sh)	1,822,625
Market Cap	\$14.5 B
YTD Price Change	-33.4%
Beta	0.97
Dividend / Div Yld	\$1.30 / 3.2%
Industry	Insurance - Multi line
Zacks Industry Rank	Bottom 25% (190 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	1.6%
EPS F1 Est- 4 week change	5.0%
Expected Report Date	11/02/2020
Earnings ESP	1.9%
P/E TTM	7.4
P/E F1	8.3
PEG F1	0.9
P/S TTM	0.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,291 E	3,313 E	3,332 E	3,356 E	13,293 E
2020	5,187 A	3,201 A	3,276 E	3,279 E	13,095 E
2019	4,777 A	5,012 A	5,258 A	5,298 A	20,345 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.29 E	\$1.10 E	\$1.13 E	\$1.32 E	\$4.94 E
2020	\$1.34 A	\$1.22 A	\$1.09 E	\$1.24 E	\$4.86 E
2019	\$1.39 A	\$1.33 A	\$1.50 A	\$1.43 A	\$5.65 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/30/2020. The reports text is as of 07/31/2020.

Overview

Founded in 1810 and headquartered in Connecticut, The Hartford Financial Services Group Inc. is one of the major multi-line insurance and investment companies in the country, providing investment products, group life and group disability insurance, property and casualty (P&C) insurance and mutual funds in the U.S.

The Hartford strives to improve its position as a market leader within the financial services industry.

It sells various innovative products through multiple distribution channels to individuals and businesses and is considered a leading property and casualty and employee group benefits insurer.

As of Dec 31, 2019, it had total assets and total stockholders' equity of \$70.8 billion and \$16.3 billion, respectively.

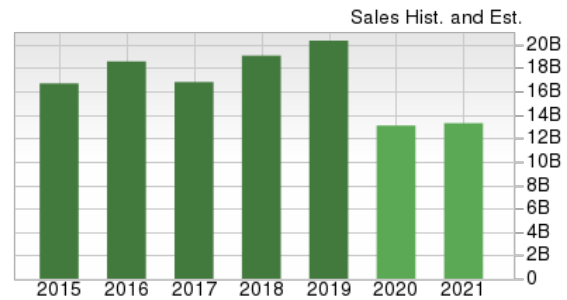
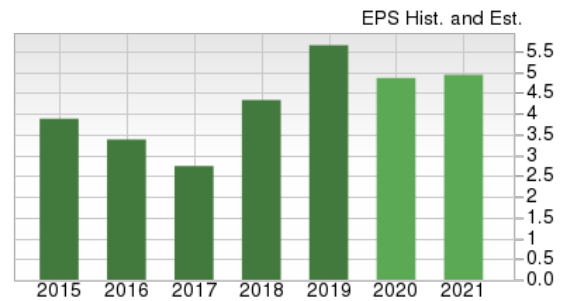
The company reports through the following segments:

The Commercial Lines segment (73% of the total revenue in 2019), formerly known as Property & Casualty Commercial offers workers' compensation, property, automobile, liability, umbrella, marine and livestock coverages mainly in the U.S. The segment also offers various customized insurance products and risk management services including automobile, general liability, professional liability, bond, and specialty casualty coverages.

The **Personal Lines (26.5%)**, formerly known as Consumer Markets segment offers automobile, homeowners and personal umbrella coverages to individuals across the United States, including a special program designed exclusively for members of AARP.

The **P & C Other Ops** reported 0.5% of 2019 total revenues.

It has two other reporting segments, namely Group Benefits and Hartford Funds, as well as a Corporate category.



Reasons To Buy:

- ▲ **Strategic Initiatives:** We favorably view a number of strategic initiatives to improve its risk profile from a number of well-executed strategic dispositions of its legacy run-off businesses. Hartford Financial has been vending non-core businesses to concentrate on its U.S. operations and enhance its operating leverage. Apart from lowering expenses, boosting profitability and improving returns to shareholders, these divestitures are enhancing financial flexibility by freeing up more capital. The company has been putting in efforts to boost its portfolio through acquisitions. All these strategic initiatives poise the company well for long-term growth.
- ▲ **Acquisition of Navigators:** On May 23, 2019, the company closed the pending buyout of Navigators Group, a specialty insurer for a deal value of around \$2.1 billion. The move has helped it expand the company's product offerings and geographic reach plus strengthen its commercial business lines. It is also expected to widen the company's underwriting strength in product capabilities.
- ▲ **Effective Capital Utilization:** Hartford Financial's capital appreciations, repayment of government funds and measures to de-risk its balance sheet has increased its financial strength. It also has an intelligent capital management strategy, featuring share buybacks and dividend hikes. The company's dividend has been hiked 200% over 2013-2018. It raised its quarterly dividend by 8% to 3.25 cents per share, which was paid out on Apr 2, 2020. Its dividend yield stands at 3.2%, above the industry's average of 2.5%. Although the company paused its share buyback program in response to the current volatile environment, it is continuing with dividend payout, which makes us positive about its capital deployment strategy.
- ▲ **Profitability:** Its return-on-equity (ROE) reflects growth potential. The company's trailing 12-month ROE of 12.9% compares favorably with the industry average of 8.6%, reflecting the company's efficiency in using shareholders' funds.
- ▲ **Balance Sheet Strength:** The company's capital position remains impressive. Total debt is 28.5% (almost unchanged from the sequential figure) of its total equity, lower than the industry average of 43.5%. It has taken several initiatives to improve its liquidity. Thus, its financial flexibility looks encouraging.
- ▲ **Price Performance:** Shares of the company have underperformed its industry in a year's time. However, its solid fundamentals will likely help it bounce back going forward.

Strategic initiatives, sound financial flexibility and efficient capital management position the company for long term growth.

Reasons To Sell:

- ▼ **Catastrophe Challenges:** As a property and casualty insurer, the company is substantially exposed to catastrophic events, weighing on its underwriting results. The company suffered a catastrophe loss of \$821 million in 2018. Although in 2019, the company's current accident-year cat loss of \$463 million was down 43.6% from the 2018-level, it poses a threat to the company. In the first six months of 2020, it faced a cat loss of \$322 million due to tornado, wind and hail events in the Midwest, and South and Great Plains along with civil unrest that took place in late May and June.
- ▼ **Reduction in Premium:** Premiums of the company might get impacted by the coronavirus outbreak due to exposure, business closures and reductions. Lower customer payroll might affect its results. The company also took certain initiatives, such as a 15% refund of April and May's personal auto premium on account of reduction in miles driven and lower reported claims, which in turn, might dent its revenues. Although for the first six months of 2020, earned premiums rose 6% year over year, the concern regarding the same remains. The metric declined 11% in the second quarter reflecting lower new business across lines, soft premium retention in the Middle Market, a \$100-million reduction in estimated audit premiums receivable, etc.
- ▼ **Challenging Interest Rate Environment:** The current challenging interest rate scenario continues to pose a threat to the company. It anticipates that the same will affect the new cash flows, reinvestment rates and the overall portfolio yield.
- ▼ **Challenges from Personal Lines:** The segment has been generating loss on higher auto liability loss costs since the past few years. In 2018, the segment incurred a loss of \$32 million, wider than 2017's loss of \$9 million. In 2019 and the first six months of 2020, earned premiums were down 5.9% and 8.2% year over year each. Weak performance by this segment raises a concern for the company.
- ▼ **Escalating Expenses:** The company has been witnessing a rise in expenses since 2015. Total benefits and expenses of the company increased 5.7% and 3.3% in 2019 and during the first six months of 2020, respectively, due to higher benefits, losses and loss adjustment expenses, amortization of deferred acquisition costs, insurance operating costs and other expenses, etc. Escalating expenses weigh on the company's margins.

Exposure to catastrophe events and softness in Personal Lines segments raise concern. Rising costs also bother.

Last Earnings Report

Hartford Financial Q2 Earnings In Line, Revenues Beat

Hartford Financial reported second-quarter 2020 adjusted operating earnings of \$1.22 per share, which matched the Zacks Consensus Estimate.

However, the bottom line fell 8% year over year primarily due to reduced investment income, incurred benefits and losses pertaining to COVID-19, and higher CAY CATs due to civil unrest. Nevertheless, the results were partially offset by effect of lower claim incidence and net favorable P&C PYD.

Total operating revenues of \$3.2 billion plunged 36.1% year over year on account of weak revenues led by the company's Personal Lines, P&C Other Ops, Group Benefits and Hartford Funds segments. However, decline in revenues has been partially offset by uptick in the Commercial Lines and Corporate segments. The top line also surpassed the Zacks Consensus Estimate by 1.6%.

Net investment income declined 31% year over year to \$339 million in the second quarter. The downside was due to reduced yield on fixed income maturity investments and losses on limited partnerships, and other alternative investments (LPs).

Segmental Results

Property & Casualty (P&C)

Commercial Line

During the quarter under review, the segment's total revenues of \$2.4 billion were up 4.2% year over year.

Net loss of \$66 million compared unfavorably with the prior-year quarter's net income of \$191 million. This was primarily due to incurred losses related to COVID-19 and an increase in CAY CATs stemming from losses on account of civil unrest in late May and June. It also reported core loss of \$57 million against the year-ago quarter's core earnings of \$304 million. This can be attributed to incurred underwriting loss, higher CAY CATs and increased net unfavourable reserve development.

The segment's underlying combined ratio was 102.9%, deteriorating 970 basis points (bps) in the quarter under review.

Personal Lines

Total revenues were \$760 million, down 14.4% year over year.

Net income of \$371 million soared 498.4% year over year on the back of lower auto frequency claim and favorable PYD linked with subrogation recoveries.

Core earnings of \$364 million skyrocketed 561.8% from the year-ago quarter, courtesy of a stronger underwriting gain and lower non-CAT weather-related losses in homeowners. Underlying combined ratio of the segment contracted 1030 bps to 80.7% in the quarter under review.

P&C Other Ops

Revenues grossed \$12 million, down 52% year over year.

Group Benefits

Group Benefits' total revenues of \$1.5 billion decreased 2.1% year over year.

Net income of \$101 million declined 11% year over year. Core earnings of \$102 million in the second quarter also fell 11% year over year. This downside was due to incurred benefits and losses related to COVID-19, softer net investment income and higher operating expenses pertaining to increased allowance for credit losses on premium receivable.

Total loss ratio of 72% improved 260 bps from the year-earlier quarter, riding on better group disability loss ratio. However, the same was partly offset by COVID-19 group life claims.

Hartford Funds

Hartford Funds' operating revenues of \$236 million decreased 6.7% year over year.

Hartford Funds reported net income of \$39 million, which improved 3% year over year driven by higher net realized capital gains and reduced operating costs. Core earnings of \$33 million plunged 13% year over year due to lower fee income.

Average daily AUM of \$111 billion was down 6% from the year-ago figure.

Corporate

Operating revenues were \$113 million, which soared 151.1% year over year.

The segment's core loss of \$6 million was narrower than the \$35 million loss incurred in the prior-year quarter. This was mainly owing to improved income derived from the company's retained equity interest in Talcott Resolution.

The segment reported net income of \$18 million against the year-ago quarter's net loss of \$43 million. This was mainly driven by increased net

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	1.62%
EPS Surprise	0.00%
Quarterly EPS	1.22
Annual EPS (TTM)	5.49

realized capital gains.

Dividend Update

On Jul 16, Hartford Financial declared quarterly dividend of 32.5 cents per share. The dividend will be paid on Oct 2, 2020 to shareholders of record as of Sep 1.

Financial Update

Book value per share as of Jun 30, 2020 was up 6% to \$46.59 from the level as of Dec 31, 2019.

Core earnings' return on equity improved 100 bps year over year to 12.7%.

Recent News

Hartford Financial Provides Q2 Preliminary Report — Jul 16, 2020

Hartford Financial announced its preliminary results for the second quarter of 2020. Preliminary estimate for net income available to common stockholders is \$1.29 per share and for core earnings is \$1.22 per share. The results include the estimated effect of losses induced by the COVID-19 pandemic along with rise in credit allowance, current accident year catastrophes, net prior accident year reserve development, net investment income and other items.

Hartford Financial expects incurred losses of \$198 million, after tax, from COVID-19 for the to-be-reported quarter.

Hartford Financial's second-quarter net investment income is expected to be \$339 million, before tax, mainly due to loss from limited partnerships and other investments.

Hartford Financial's Program Extension to Aid AARP Members — Jun 2, 2020

Hartford Financial unveiled the renewal of its auto and home insurance program until Jan 1, 2033. The program, launched in 1984, has largely benefitted AARP members for more than 35 years. For people above 50 years of age, it offers auto, homeowners and personal umbrella insurance. The company also revealed plans to make further investments in technological upgradations. In line with this, Duck Creek OnDemand has been chosen as the company's new technology platform.

Valuation

Hartford Financial shares are down 32.4% and 27% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 25% and 17% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 20% and 9.1%, respectively.

The S&P 500 index is up 2.4% in the year-to-date period and 12.9% in the past year.

The stock is currently trading at 8.25x forward 12-month earnings, which compares to 8.12x for the Zacks sub-industry, 16.35x for the Zacks sector and 22.69x for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.77x and as low as 4.86x, with a 5-year median of 10.97x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 8.66x forward earnings.

The table below shows summary valuation data for HIG

Valuation Multiples - HIG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.25	8.12	16.35	22.69
	5-Year High	15.77	12.61	16.35	22.69
	5-Year Low	4.86	6.62	11.58	15.25
	5-Year Median	10.97	9.99	14.21	17.55
P/S F12M	Current	1.1	0.81	6.04	3.59
	5-Year High	1.33	1.74	6.65	3.59
	5-Year Low	0.67	0.81	4.95	2.54
	5-Year Median	1.06	1.26	6.06	3.01
P/B TTM	Current	0.97	1.03	2.39	4.46
	5-Year High	1.56	1.98	2.91	4.55
	5-Year Low	0.59	0.85	1.71	2.84
	5-Year Median	1.15	1.48	2.53	3.72

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Bottom 25% (190 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Old Republic International Corporation (ORI)	Outperform	1
Aflac Incorporated (AFL)	Neutral	3
The Allstate Corporation (ALL)	Neutral	3
Chubb Limited (CB)	Neutral	3
CNO Financial Group, Inc. (CNO)	Neutral	3
Kemper Corporation (KMPR)	Neutral	4
MetLife, Inc. (MET)	Neutral	3
American International Group, Inc. (AIG)	Underperform	5

Industry Comparison Industry: Insurance - Multi Line				Industry Peers		
	HIG	X Industry	S&P 500	AIG	CB	MET
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	C	-	-	C	C	A
Market Cap	14.50 B	3.05 B	22.57 B	27.37 B	58.68 B	34.08 B
# of Analysts	4	3	14	6	6	4
Dividend Yield	3.21%	2.48%	1.83%	4.03%	2.40%	4.90%
Value Score	B	-	-	B	B	A
Cash/Price	0.19	0.36	0.07	1.03	0.09	1.19
EV/EBITDA	5.03	4.18	12.96	3.02	10.30	1.15
PEG Ratio	0.90	1.22	3.04	1.22	1.91	4.38
Price/Book (P/B)	0.97	0.80	3.13	0.45	1.07	0.48
Price/Cash Flow (P/CF)	5.84	7.26	12.61	3.04	11.03	6.40
P/E (F1)	8.51	9.80	22.06	12.22	19.05	6.83
Price/Sales (P/S)	0.70	0.78	2.42	0.53	1.64	0.48
Earnings Yield	12.00%	10.06%	4.31%	8.18%	5.25%	14.62%
Debt/Equity	0.29	0.25	0.75	0.58	0.25	0.21
Cash Flow (\$/share)	6.94	3.45	6.94	10.45	11.78	5.87
Growth Score	F	-	-	D	C	B
Hist. EPS Growth (3-5 yrs)	8.64%	9.41%	10.85%	-1.48%	-0.23%	4.04%
Proj. EPS Growth (F1/F0)	-13.94%	-4.49%	-7.75%	-43.32%	-32.51%	-10.07%
Curr. Cash Flow Growth	20.19%	7.19%	5.39%	41.46%	0.06%	6.34%
Hist. Cash Flow Growth (3-5 yrs)	2.69%	1.69%	8.55%	-3.88%	8.77%	-4.47%
Current Ratio	0.29	0.48	1.31	0.27	0.33	0.16
Debt/Capital	22.17%	21.45%	44.32%	36.41%	20.93%	17.08%
Net Margin	8.80%	5.09%	10.44%	8.59%	6.10%	12.37%
Return on Equity	12.86%	6.71%	14.73%	4.31%	5.98%	8.85%
Sales/Assets	0.30	0.20	0.52	0.10	0.20	0.10
Proj. Sales Growth (F1/F0)	-35.64%	0.00%	-1.95%	-5.72%	2.59%	-4.03%
Momentum Score	B	-	-	D	F	B
Daily Price Chg	-2.27%	-1.69%	-0.92%	-2.72%	-1.47%	-2.92%
1 Week Price Chg	-1.12%	0.00%	0.37%	-2.52%	-0.76%	-0.65%
4 Week Price Chg	8.00%	1.60%	4.14%	6.22%	3.53%	5.33%
12 Week Price Chg	16.01%	9.55%	12.21%	24.53%	31.33%	9.03%
52 Week Price Chg	-28.82%	-19.99%	-1.73%	-41.91%	-14.00%	-22.31%
20 Day Average Volume	1,822,625	147,073	1,887,986	5,844,134	1,587,494	4,841,041
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.51%	0.00%
(F1) EPS Est 4 week change	5.02%	0.00%	0.38%	-11.96%	-30.43%	0.87%
(F1) EPS Est 12 week change	-1.77%	-3.40%	-0.07%	-34.44%	-31.51%	-5.19%
(Q1) EPS Est Mthly Chg	1.86%	0.00%	0.16%	-6.33%	-1.34%	10.12%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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