



CNA Financial Corporation: (NYSE: CNA)

Financial Services: Property & Casualty Insurance

Analysts: Mitchell Hall, Bryce Hansen and Ryan Shaughnessy

Investment Thesis

Drivers of Thesis:

Improved Premium Pricing Conditions: The overall hardening of the insurance market has resulted in increased demand for insurance products and the reduction of available capacity, enabling insurers to charge higher premiums. Increased adoption of technology and automation is also allowing insurers to better understand risk exposure and price their policies more accurately.

Increasing Dividend Payout: CNA has a proven track record of consistently paying and increasing dividends over time, demonstrating the company's commitment to delivering value to shareholders and its strong financial position. Additionally, CNA has implemented a share buyback program, which can potentially enhance the value of its shares and make it an appealing investment choice for those seeking both income and potential capital appreciation.

Thesis Risk:

Increase in Cost of Operations: The persistent high inflation and frequent replacement costs for insurers could lead to a significant reduction in underwriting capacity and overall written premiums, thereby adversely impacting our model's positive continuing growth rate for net earned premiums.

Interest Rate Fluctuation: CNA's significant investment in fixed-income securities exposes the company to interest rate fluctuations. A rise in interest rates will decrease the value of these securities, resulting in a decrease in CNA's investment income. This could lead to a decline in revenue growth and prevent the achievement of our target price.

2 – Year Performance of CNA to S&P 500



Krause Fund Research

Spring 2023

Date: April 13th, 2023

Stock Rating:

BUY

Price Projection

Target Price: \$48.77 - \$58.01

DCF/EP Model: \$58.01

DDM Model: \$50.57

Relative Valuation (AVG): \$48.77

Key Statistics

Stock Data

Current Price: \$39.45

52-Week Range: \$35.90 – \$50.33

Market Cap (B): \$10.806

Shares Outstanding (M): 271.6

Model Beta: 0.78

Cost of Equity: 7.21%

PE Ratio (TTM): 12.19x

Financial Metrics:

2022 Revenue (B): \$11.88

2022 EPS: \$3.29

Dividend Yield: 4.28%

ROE: 9.60%

ROA: 1.45%

Net Income (M): \$894

Combine Ratio: 93.7%

Loss Ratio: 51.95%

Company Overview

CNA Financial Corporation is a leading commercial insurance company headquartered in Chicago, Illinois. CNA offers a wide range of property and casualty insurance solutions to businesses of all sizes, with a renewed focus on managing risks associated with natural catastrophes and climate change. The firm has been around since 1853 and does business in the U.S., Canada, and Europe. They are one of the largest property and casualty insurance companies in the U.S. and is dedicated to corporate social responsibility and making a positive impact on the community it serves.

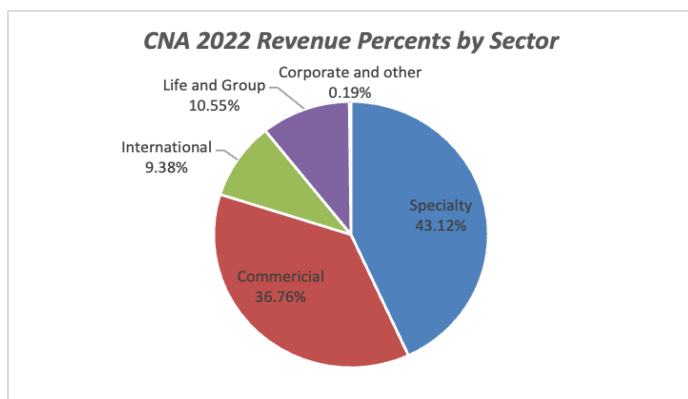
Executive Summary

CNA Financial (NYSE: CNA) is a leading insurance company with a long history of success and a strong reputation for excellence. Our team of analysts believes that CNA's strategic objective to remain a top quartile underwriting company in the property and casualty insurance industry, combined with its focus on managing risks associated with natural catastrophes and climate change, positions the company for continued success. ⁱThese risks factors are critical for CNA's enterprise capital model, which is designed to cover the high costs of potential catastrophic events. CNA's commitment to corporate social responsibility and its track record of reliability will ensure its position as a major player in the insurance industry. Overall, we believe that CNA Financial Corporation is an excellent investment opportunity with strong potential for long-term growth and success.

Company Description

Founded in 1853 and now a subsidiary of Loews Corporation, CNA Financial is a well-established and respected property and casualty insurance company. Formerly known as Continental Casualty Company (CCC), CNA offers a diverse range of insurance products across three main categories: Specialty, Commercial and International. With a commitment to delivering exceptional services to its clients, CNA also manages two other segments: Life & Group and Corporate & Other – in addition to its property and casualty insurance operations. The company's comprehensive suite of services includes liability coverage, risk management coverage, information services, warranty, and claims administration. While primarily operating in the United States, CNA has expanded its offerings to include international services in Canada and Europe, further solidifying its position as a leading player in the insurance industry. ⁱⁱ

Revenue Segment Analysis



Specialty Segment Analysis

CNA's Specialty segment provides an extensive range of coverage options, including Management & Professional Liability, Warranty & Alternative Risks, and Surety. Under the Management & Professional Liability coverage, CNA offers protection for directors and officers, fiduciary responsibilities for small and medium-sized businesses, as well as skilled labor liability coverage for professional firms. CNA also offers insurance products for medical facilities, dentists, physicians, hospitals, and other healthcare professionals. ⁱⁱⁱThe Surety operation includes commercial surety bonds of all sizes, as well as surety and fidelity bonds in all 50 states. CNA's Warranty & Alternative Risks products cater to the financial burden of mechanical breakdown, mainly for vehicles, electronics, and other consumer goods. These coverages are sold wholesale to auto dealers and retailers in North America through a network of brokers, independent agencies, and general underwriters.

In 2022, the Specialty segment experienced an increase of \$81 million in net written premiums in 2022 compared to 2021, and the trends in net earned premiums remained consistent. However, there was a \$36 million decrease in core income, primarily due to lower net investment income resulting from limited partnership and common stock performance, despite improved current accident year underwriting results. The combined ratio of 88.6% in 2022 showed a slight improvement of 0.1 point compared to 2021, mainly due to a 0.7-point improvement in the loss ratio from better current accident year underwriting results. Catastrophe losses were \$2 million in 2022 compared to \$12 million in 2021. However, the expense ratio increased by 0.5 points primarily due to higher underwriting expenses resulting from investing in technology and talent. ^{iv}

Commercial Segment Analysis

The Commercial segment collaborates with a network of brokers and independent agents to promote a wide range of property and casualty insurance products to various types of policyholders, specifically targeting small businesses, construction firms, middle markets, and other commercial clients. Property-related products consist of standard and excess property, marine, and boiler and machinery coverage. Casualty-related products include typical insurance products such as workers' compensation, general and product liability, commercial auto, umbrella, and excess and surplus coverage. Most of the insurance programs offered on a guaranteed cost basis, while also providing specialized loss-sensitive insurance programs and complete risk management services pertaining to claim and information services for large commercial insurance market.

	2022	2021	2020
Loss Ratio (Excluding catastrophes and development)	61.5%	61.0%	60.4%
Effect of Catastrophe impacts	5.6%	10.0%	10.7%
Effect of Development-related impacts	(0.7%)	0.5%	0.5%
Loss Ratio	66.4%	71.5%	71.6%

Source: CNA 10-K

In 2022, there was a significant increase in net written premiums for the Commercial segment, driven by higher new business and retention. Net written premiums increased by \$598 million in 2022, which included a one-time written premium catch-up from a quota share treaty added to the property reinsurance program in the prior year. Excluding the impact of the catch-up, net written premiums increased by \$486 million in 2022. The combined ratio improved significantly in 2022, due to improvements in the loss ratio and expenses ratio. The loss ratio improved by 5.1 points due to lower catastrophe losses and higher favorable net prior year loss reserve development. Catastrophe losses decreased to \$222 million in 2022 from \$358 million in 2021. The expense ratio improved by 0.7 points due to higher net-earned premiums and lower acquisition costs, partially offset by an increase in underwriting expenses.^v

International Segment Analysis

CNA underwrites property and casualty coverage for its international segment, which includes branch operations in Canada, Europe (with insurance companies based in the U.K. & Luxembourg), and Hardy (Lloyd's syndicate). The Canada branch specializes in marine, oil, and gas, construction, and life science industries. The European operations offer a wide range of coverage, including marine, property, financial services, healthcare, and technology. Through Lloyd's syndicate 382, CNA provides underwriting energy, marine, property, casualty, and specialty lines in the Hardy Market.

In 2022, the net written premiums for the international segment increased by \$63 million compared to 2021. The trend in net earned premiums was consistent with the increased net written premiums. Core income increased by \$20 million in 2022 compared to 2021, mainly due to improved underwriting results, partially offset by an unfavorable impact from changes in foreign currency exchange rates. The combined ratio of 91.8% improved by 3.0 points in 2022 compared to 2021 due to a 2.2 point

improvement in the loss ratio and a 0.8 point improvement in the expense ratio. Catastrophe losses were \$23 million in 2022 compared to \$27 million in 2021. The improvement in the expense ratio was primarily due to lower acquisitions.^{vi}

Life & Group Segment Analysis

The Life & Group segment encompasses the discontinued long-term care operations, in addition to structured settlement liabilities that are not backed by annuities for specific property and casualty claimants. The long-term care policies are sold through both individual and group channels.

In 2022, the core results of the Life & Group segment decreased by \$135 million compared to 2021 mainly due to a \$167 million decline in net investment income from limited partnership before taxes. The 2022 results include \$25 million favorable impact before taxes from the reduction in long term care claim reserves and a \$5 million favorable impact before taxes from the reduction in structured settlement claim reserves, which resulted from the annual claim reserve reviews conducted in the third quarter of 2022.^{vii}

Corporate & Other Segment Analysis

Corporate & Other consists mainly of specific corporate expenses such as interest on corporate debt. It also includes the outcomes of specific property and casualty businesses that are in run-off which include CNA Re, A&EP, a legacy portfolio of EWC policies, and some legacy mass tort reserves.

In 2022 core loss for the Corporate & Other segment shows an improvement of \$21 million when compared to 2021. The improvement was mainly due to the A&EP Loss Portfolio Transfer (LPT) and the recognition of a \$12 million after-tax loss resulting from the legacy of EWC LPT in the prior period. However, this improvement was partially offset by increased expenses due to continued investments in technology infrastructure and security. There was an after-tax benefit of \$3 million in 2022 due to the application of retroactive reinsurance accounting to additional cessions to the A&EP LPT, which had no economic impact.^{viii}

Industry Analysis

Industry Description

The property and casualty insurance industry provides coverage for damages to property, liability-related losses, and other risks. This is an industry that is highly regulated and is dominated by a few large well-established players, but there is also a significant amount of competition from smaller and regional companies.

Over the last five years, the property and casualty industry has seen revenue increase at a compound annual growth rate of 1.5%, reaching \$873.7 billion. However, there was a 2.6% decrease in 2023 which went with the economic downturn we saw occur. Despite the pandemic's impact on the entire economy, the industry's demand for services remained relatively stable as we have seen in past downturns as well. This stability allowed for an increase in net premiums, mainly due to the rise in new home purchases when the housing market was in high demand. Additionally, the industry's profit has grown from 11.9% in 2018 to 12.6% in 2023, helped by a hardening price cycle throughout most of the current period. ^{ix}



The property and casualty insurance industry is highly competitive, with many companies vying for market share. Many companies are successful through brand recognition as the overall products tend to be similar more than not. This industry's competitive landscape is shaped by several factors, including regulatory requirements, customer preferences, and technological advancements. ^x

Top 10 Writers Of Property/Casualty Insurance By Direct Premiums Written, 2022 (\$'000)

Rank	Group/company	Direct premiums written (1)	Market share (2)
1	State Farm	\$78,643,121	9.2%
2	Berkshire Hathaway Inc.	55,930,316	6.6
3	Progressive Corp.	52,326,628	6.1
4	Allstate Corp.	45,512,585	5.3
5	Liberty Mutual	43,876,546	5.1
6	Travelers Companies Inc.	34,273,833	4.0
7	Chubb Ltd.	29,266,847	3.4
8	USAA Insurance Group	26,828,296	3.1
9	Farmers Insurance Group of Companies	26,416,672	3.1
10	Nationwide Mutual Group	20,306,711	2.4

(1) Before reinsurance transactions, includes state funds.
(2) Based on U.S. total, includes territories.
Source: NAIC data, sourced from S&P Global Market Intelligence, Insurance Information Institute.

Industry Trends

The property and casualty insurance industry is undergoing significant changes, driven by advances in technology, shifts in customer expectations, and emerging risks such as cyber threats and climate change. Insurers that can adapt to these trends and innovate to meet changing customer needs will be well-positioned to succeed in the years ahead.

Digital Transformation

The property and casualty industry is undergoing a digital transformation, driven by the growing adoption of digital technologies such as artificial intelligence (AI), machine learning, and the internet of things (IoT). ^{xi} These technologies are being used to enhance underwriting, improve claims processing, and provide personalized products and services to customers. Property and casualty insurance companies are investing more in information technology and technology to keep pace with the changing needs of their customers and remain competitive in the industry. ^{xii}

US Property and Casualty Insurance IT/Technology Expenses, 2018-2026
billions



Note: includes expenses by insurance providers for creation and maintenance of technology for their property and casualty insurance products; expenses include core systems maintenance, modernization, innovation, transformative technology, data processing, equipment, software, digital initiatives, compliance, and cybersecurity, but does not include salary
Source: Insider Intelligence, Aug 2022
279211 InsiderIntelligence.com

^{xiii}

Data Analytics

Property and casualty insurers are investing heavily in data analytics to better understand and assess risk. They are leveraging advanced data analytics techniques such as predictive modeling, data mining, and natural language processing to identify patterns and trends in data that can help inform pricing and underwriting decisions. ^{xiv}

Cybersecurity

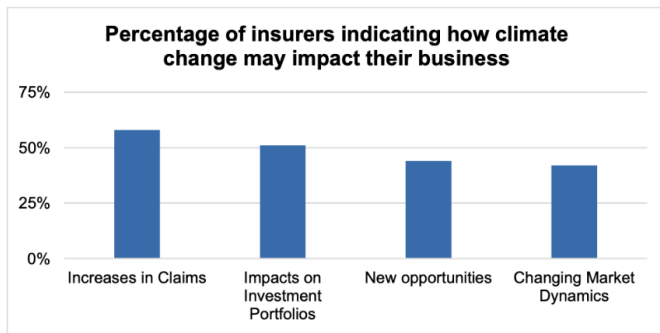
With the rise of cyber threats, the property and casualty insurance industry is placing a greater emphasis on cybersecurity. Insurers are offering cyber insurance products that provide coverage for losses due to cyber-attacks, as well as providing risk management services to help prevent such attacks.

Climate Change

Climate change is having a significant impact on the property and casualty insurance industry, with an increase in natural disasters such as hurricanes, floods, and wildfires. Insurers are investing in climate risk modeling

and incorporating climate-related factors into their underwriting and pricing decisions.

Figure 1: Expected Impacts of Climate Change on Insurers



Source: Georgetown Journal of International Affairs^{xv}

Peer Comparisons

Financial Metrics

Our team has identified Cincinnati Financial (CINF), American Financial Group (AFG), Erie Indemnity Company (ERIE), Assurant Inc. (AIZ), Market Corporation (MKL), Axis Capital Holding Limited (AXS), The Hanover Insurance (THG), and Arch Capital Group Ltd (ACGL) as the top companies that are comparable to CNA. We chose to compare the 2022 operating margin, combined ratio, and revenue growth rate for each of the comparable companies.

	Operating Margin	Combined Ratio	Revenue Growth Rate
AFG	18.12%	86.60%	7.50%
AIZ	5.10%	99.17%	3.00%
AXS	3.50%	96.40%	3.90%
CINF	-9.76%	94.90%	-6.30%
MKL	-0.11%	91.70%	12.00%
THG	3.26%	108.00%	7.30%
CNA	10.04%	93.70%	1.90%

Source: Yahoo Finance

Operating Margin

The operating margin is an essential gauge of a company's profitability, reflecting its management efficiency and overall risk. Ideally, a business should aim for an operating margin of around 15%, whereas CNA's average margin presently stands at 10.04%. Nevertheless, compared to its primary competitors, CNA's operating margin is quite impressive, owing to the company's expert handling of efficiency. In contrast, Markel Corp and Cincinnati Financial Corp display lower operating margins than their competitors, indicating that CNA excels in minimizing operating expenses.

Combined Ratio

Our team also focused on industry-specific metrics in our analysis, and the combined ratio emerged as the most effective metric to evaluate a company's financial health. For property and casualty insurance firms, a ratio below 100% indicates underwriting profits, while a ratio exceeding 100% suggests that a company pays out more in claims than it receives from premiums. Except for THG, all of CNA's competitors have a combined ratio below 100%. CNA's combined ratio stands at 93.70%, demonstrating the company's unwavering profitability. In contrast to the other firms listed in the table, CNA's operations have consistently generated profits based on the combined ratio.

Revenue Growth Rate

Lastly, our team assessed the revenue growth rate as a crucial metric. While companies employ revenue for investments and expansion, this metric may not always paint the complete picture. For instance, CNA's revenue growth rate of 1.90% is considered satisfactory by many standards, as the company has consistently grown its revenue with its business model and refrained from significant acquisitions recently. In contrast, Markel Corporation boasts the second-highest growth rate among these companies, standing at 12.0%, due to several acquisitions. Meanwhile, Kinsale Capital Group Inc. leads the competitors with the highest revenue growth rate, courtesy of its position as a growing company. In terms of the industry outlook, CNA maintains a favorable position with a healthy revenue growth rate.

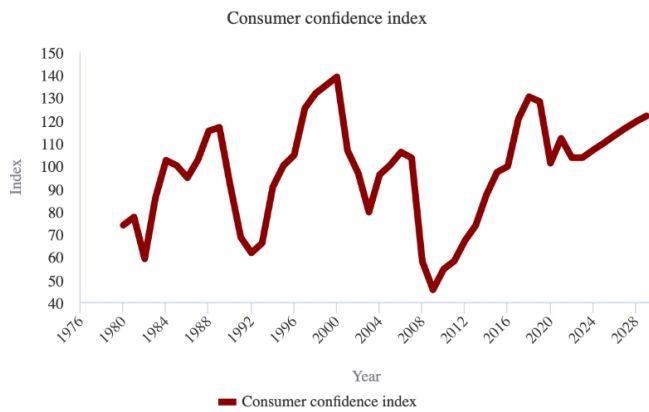
Economic Analysis

Despite the recent raises in interest rates and widespread layoffs, there are still hopeful signs that consumers are beginning to regain their confidence after the economic hit consumers suffered during the COVID-19 pandemic, particularly among lower income households. While there has been more unemployment and inflation rates has been going up, there is room to be optimistic. For example, in December 2022, consumer confidence saw a significant boost, with the number of consumers who reported good business conditions soaring from 1.2% to 19%.

Looking ahead, in the rest of 2023 and continuing in 2024, the Federal Reserve is expected to tighten its policies, which should help to reduce inflation and hopefully then promote job growth, further solidifying consumer confidence. While the current economy may be in a downturn, the history of the American economy suggests that consumers can continue to rebuild their confidence over time, even in the face of economic challenges such that we are in.

With the insurance industry tending to do well or at the very least be stable during a recession, many of these

economic factors should be independent of CNA. It has historically continued performance during downturns and adjusted well to different economic conditions.



Source: IBIS world

Capital Markets Outlook

The financials industry has the second-largest market capitalization right behind the information technology sector. With a total value of \$8.26 trillion, the financials industry is a key component to the economy. However, over the past year, the financial sector experienced a decline of 5.57%, with the banking sector being hit the hardest, dropping by over 15%. This impact has been felt across most industries as the economy has gone into a downturn.

The economic downturn has been felt throughout the economy, as all but five of the economy's industries declined over the past year, resulting in an 8.02% drop in the S&P 500 during that same period. Despite these challenges, there are indications that the financial industry will be able to recover soon as well as other industries. With the right policies and strategies in place by regulators and politicians, the economy could get back to its success it had pre-covid.

As the economy continues to recover over the next year or two, the insurance and banking industries are likely to become even more critical players in the financial sector. With many consumers seeking loans and insurance to support new businesses, these industries are set up to experience growth in the coming years even after the recent banking failures they are needed to support the economy and continue growth.

Artificial Intelligence & Technology

As technology advances it is important that businesses take any challenges head on and except/adapt to the rapid developments. Artificial intelligence will give companies the opportunity to quickly change the landscape of their industry if they are quicker than their competitors. Some experts predict that AI could potentially contribute up to

\$15.7 trillion to the global economy in the coming years. With recent news trends, it does not appear that the AI boom is slowing down anytime soon.

One area within the financial services industry that is likely to be impacted by automation is personalized financial planning, especially for the average person. With AI, financial planning will become more accessible and affordable to a wider audience, not just high-net-worth individuals. This increased accessibility will enable more people to benefit from these services and provide a greater level of support to individuals and families looking to secure their financial futures. This technology can be taken advantage of by the insurance industry and used on smaller customers and allow for more customers overall. Being one of the first to use this technology could allow for middle players to become large players.

It's clear that AI is becoming a powerful tool for businesses if it is used correctly. By embracing these technological advancements, companies can position themselves to gain position in their respected marketplace by adapting quicker, while also providing greater value to their customers and stakeholders.

Valuation Analysis

Methodology

We arrived at our assessment of CNA Financial Corporation by analyzing various factors that have an impact not just on CNA, but on the insurance industry as a whole. We examined CNA's financial performance over the past decade, considering the prevailing economic and industry conditions. Based on our analysis of both current and future conditions, we projected CNA's future financials to inform our valuation. Finally, we assessed CNA's worth by utilizing various models, such as discounted cash flow, economic profit, discount dividend, and relative valuation, to determine whether to sell, hold, or buy CNA's stock.

Revenue Breakdown

Net Earned Premiums

CNA Financial categorizes their revenue into net earned premiums, investment income, and other non-insurance warranty revenues, with net earned premium revenue being the area on which the company relies most heavily. This net earned premium revenue is derived from CNA's five business segments of Specialty, Commercial, International, Life & Group, and Corporate & Other.

Our team forecasted the premium revenue for CNA from 2023 to 2027 using year-over-year average growth rates and current economic conditions. Our projections indicate that all of CNA's premium segments will experience

positive growth rates. The Specialty and Commercial insurance lines are the largest, comprising 82% of premiums. Our projections suggest that the total net premiums will rise by 11%, from \$8.67 billion to \$9.64 billion by 2027. Our team expects this growth to persist due to factors such as inflation, an increase in the number of insured people, and a decrease in replacement costs claims.

Investment Income

Net investment income for CNA Financial comes primarily from the interest, dividends, and realized capital gains earned on its investment portfolio, which is made up of a mix of fixed income securities, equities, and alternative investments. The company invests primarily in investment-grade bonds, including government and corporate bonds, as well as in stocks and other assets such as real estate and private equity.

CNA relies on investment income to accumulate funds that can be used to cover significant claims from policyholders. Fixed maturity securities represent the vast majority of CNA's investment income, followed by equity securities, limited partnership investments, mortgage loans, trading portfolio, and other sources of investment income. Our forecast of these investments involved applying a year-over-year average growth rate, which we were then able to use to determine our ROI. Our findings reveal a decline in all investments except equity securities, trading portfolio, and other investment income for 2023. This investment income is crucial to CNA's operations and enables the company to manage its financial risks effectively.

Non-Insurance Warranty Revenue

Our valuation of CNA also takes into account the significant contribution of non-insurance warranty revenue. This revenue is primarily derived from separately priced service contracts that cover mechanical breakdowns. Non-insurance warranty revenue represents about 13% of the total revenue and is therefore a crucial part of CNA's operations. The first time CNA reported non-insurance warranty revenue was in 2017. To forecast this revenue, we used the average year-over-year growth rate from 2017 to 2022, multiplied by the average non-insurance warranty revenue. While we anticipate a decline in non-insurance warranty revenue in 2023, we expect it to rebound between 2024 as consumers start purchasing more goods and services, leading to a drop in inflation.

Total Claims and Policyholders' benefits

Insurance Claims & Policyholders' Benefits

Approximately 59% of CNA's total expenses are accounted for by insurance claims paid out and

policyholders' benefits. Our team forecasted the insurance claims expense by calculating the average year-over-year growth rate of insurance claims paid out as a percentage of total net earned premium revenue. We then projected the insurance claims expense from 2023 to 2027 by multiplying the average year over year growth rate by our estimated earned premiums for each year.

Amortization of Deferred Acquisition Costs

Our team utilized the same approach to determine the amortization expense as we did for insurance claims paid out. We computed the amortization of deferred acquisition costs as a percentage of total premium revenue, obtaining the average year-over-year growth rate from 2014 to 2022. We then multiplied this average by the total net earned premiums for the corresponding year. Based on our calculations, we project that by 2027, insurance claims and amortization of deferred acquisition costs will comprise approximately 78% of CNA's total claims, benefits, and expenses.

Non-Insurance Warranty Expense

Other expenses incurred by CNA include non-insurance warranty expense. The first time CNA reported non-insurance warranty expenses was in 2018. To forecast this expense, we took the average year over year growth percentage of warranty expense and divided it by the total non-insurance warranty revenue for the correlated year.^{xvi} We expect this non-insurance warranty expense to decrease by around 37% from 2022 – 2026.

Model Valuations

Cost of Equity

To calculate the cost of equity for CNA Financial, we employed the CAPM model. We utilized the 10-year U.S. Treasury Yield of 3.40% as the risk-free rate and our equity risk premium of 4.88% from the 1928-2022 geometric average over 10-year Treasury. The beta was computed as an average of the 1-year, 3-year, and 5-year raw beta at 0.78. We derived the cost of equity by multiplying our beta with the equity risk premium and adding the risk-free rate, which resulted in a cost of equity of 7.21%.

Discounted Cash Flow and Economic Profit Analysis

Share Price: 58.01

Our group used two methods, the DCF and EP, to determine the implied share price for CNA. In the DCF model, we first calculated the free cash flow to equity for 2023-2027, and then computed the continuing value based on the 2027 free cash flow value. After discounting the free cash flow to equity by our cost of equity (7.21%), we obtained the value of equity, which we divided by CNA's shares outstanding to get the intrinsic value of our

Sensitivity Analysis

stock price. We adjusted this stock price to derive the implied price. For the EP valuation, we computed the equity economic profit values for 2023-2027, and found the continuing value using the 2027 value. We then calculated the present value of economic profit for our forecasted years and added it to obtain the total present value of economic profit. Finally, we added the invested capital to this present value to determine the value of equity, which we divided by the shares outstanding. Our analysis resulted in an implied price of \$58.01, which exceeds CNA's 52-week high, indicating that we anticipate greater returns for the next five years.

Dividend Discount Model

Share Price: 50.57

Our valuation of CNA also included the use of the dividend discount model (DDM) to determine an implied stock price. This model considers the future dividends that CNA is expected to pay out. Based on the historical dividend payouts and the company's intention to continue paying dividends, we estimated future dividends per share and used them to calculate a future stock price of \$57.53. We then discounted the dividends and future stock price to arrive at an intrinsic value of \$50.11. After adjusting for the current market conditions, we determined an implied stock price of \$50.57. We believe that with our forecasts, CNA is likely to generate consistent returns over the next five years, as the implied stock price is just above its 52-week high.

Relative Valuation

For our relative valuation model, we selected a group of competitors that we deemed most suitable for comparison with CNA. Our chosen companies included Cincinnati Financial (CINF), American Financial Group (AFG), Assurant Inc. (AIZ), Markel Corporation (MKL), Axis Capital Holdings (AXS), The Hanover Insurance Group, Inc. (THG), and Arch Capital Group Ltd (ACGL). We evaluated the P/E ratios of these companies for 2023 and 2024 and derived an implied share price of \$44.54 for 2023 and \$44.21 for 2024. We excluded Erie Indemnity Company (ERIE) from our analysis since their P/E ratios for 2023 and 2024 were outliers and would have an impact on the overall implied share price. We also calculated the P/B (price-to-book) ratios for the remaining competitors of CNA, excluding ERIE. Using the P/B ratio, we obtained an implied share price of \$57.58 for 2023 and a tangible P/B implied stock price of \$84.77. However, we determined that the tangible P/B implied stock price did not accurately reflect our target price, so we averaged the other implied stock prices, resulting in a target price of \$48.77. We believe that this average is a fair representation of our expected target price for CNA, as it closely aligns with the estimates for its comparable competitors.

Beta vs. Risk-Free Rate

We examined the impact of the varying risk-free rate and beta on the calculation of the cost of equity. These two variables play a crucial role in determining the cost of equity. Specifically, the risk-free rate is particularly significant for property and casualty companies, as they typically invest in short-term securities.

Cost of Equity vs. CV Growth Rate of Net Income

The sensitivity analysis between the cost of equity and the CV growth rate of net income shows the effect that the two variables have on the stock price. The cost of equity and net income are crucial factors in measuring the value of an insurance company. As the cost of equity decreases and the coefficient of variation (CV) of net income increases, the intrinsic value of CNA's stock price rises. This is because the cost of equity negatively affects a company's economic profit if its return on equity (ROE) is lower than the cost of equity. Additionally, when a company's growth rate is anticipated to be significant in the future, the stock price is likely to increase.

EPS vs. Dividend

The calculation of a company's DDC final price is directly influenced by its dividend and earnings per share. A slight variation in the EPS can impact the final price by as much as a dollar and similarly, the final price will change with an increase in the dividend.

Equity Risk Premium vs. CV ROE

The continuing value return on equity and equity risk premium both play a significant role in calculating the final price when using the DCF model. A change in the equity risk premium will have a greater impact on the final price in comparison to the CV ROE.

CV ROI% Fixed Maturity Securities vs. CV ROI% Other Investment Income

The CV ROI% for fixed maturity securities and other investment income is a significant metric for CNA. Given that a significant portion of its investment revenue is derived from fixed income, they highlight the importance of these variables in determining the DCF final price.

CV Specialty Premium Growth vs. CV Commercial Premium Growth

CNA's commercial and specialty lines generate the majority of their earned premiums at a combined ratio of 82%. Given this high percentage, we thought a sensitivity table comparing the two would be a good representation for the DCF final price.

Important Disclaimer

This report was created by students enrolled in the Security Analysis (6F:112) class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge, and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

Sources

Company Analysis

ⁱ CNA Financial: Loews Corporation. CNA Financial | Loews Corporation. (n.d.). Retrieved April 18, 2023, from <https://loews.com/sustainability/cna>

ⁱⁱ CNA Financial Corporation 10-K 02-07-2023 pg. 39

ⁱⁱⁱ CNA Financial Corporation 10-K 02-08-2022 pg. 34-35

^{iv} CNA Financial Corporation 10-K 02-08-2022 pg. 35

^v CNA Financial Corporation 10-K 02-08-2022 pg. 37

^{vi} CNA Financial Corporation 10-K 02-08-2022 pg. 39

^{vii} CNA Financial Corporation 10-K 02-08-2022 pg. 41

^{viii} CNA Financial Corporation 10-K 02-08-2022 pg. 43

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CNA Financial Corp
Revenue Decomposition
(in millions)

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	CV 2027E
Net Earned Premiums:															
Specialty	\$ 2,795	\$ 2,838	\$ 2,782	\$ 2,743	\$ 2,712	\$ 2,732	\$ 2,773	\$ 2,883	\$ 3,076	\$ 3,203	\$ 2,898	\$ 2,882	\$ 2,889	\$ 2,905	\$ 2,921
Commercial	3,004	2,906	2,788	2,840	2,881	3,050	3,162	3,323	3,552	3,923	3,241	3,237	3,263	3,309	3,339
International	916	913	804	806	857	100	974	940	1,057	1,070	1,584	1,879	2,101	2,379	2,873
Life & Group	559	556	548	536	539	530	520	504	491	473	516	518	516	512	510
Corporate & Other	(3)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(1)	(1)	(1)	(1)	(1)
Total Earned Premiums	7,271	7,212	6,921	6,924	6,988	6,411	7,428	7,649	8,175	8,667	8,238	8,514	8,768	9,104	9,641
Investment Income:															
Fixed maturity securities	1,998	1,803	1,751	1,819	1,812	1,795	1,817	1,728	1,707	1,787	1,781	1,778	1,781	1,777	1,773
Equity securities	12	12	12	10	12	18	85	65	83	23	46	55	63	72	81
Limited partnership investments	451	263	92	155	207	(22)	180	121	362	(12)	(14)	(2)	(4)	4	(17)
Mortgage loans	23	31	33	41	34	50	51	57	61	54	49	49	51	52	54
Trading portfolio	17	10	8	10	12	7	9	18	9	4	10	11	12	12	12
Other Investment Income	5	6	7	12	16	30	39	10	1	21	34	42	50	59	70
Investment expense	(53)	(58)	(63)	(59)	(59)	(61)	(63)	(64)	(64)	(72)	(64)	(63)	(63)	(64)	(64)
Net Investment Income	2,282	2,067	1,840	1,988	2,034	1,817	2,118	1,935	2,159	1,805	1,842	1,871	1,890	1,912	1,908
Non-insurance warranty revenue	-	-	-	-	390	1,007	1,161	1,252	1,430	1,574	722	1,181	1,307	1,349	1,372
Other revenues	359	356	407	404	37	50	31	26	24	32	159	208	190	159	133
Net investment gains (losses)	20	57	(67)	50	93	(52)	29	(54)	120	(199)	0	2	(6)	(1)	(2)
Total Revenues	9,932	9,692	9,101	9,366	9,542	9,233	10,767	10,808	11,908	11,879	10,961	11,776	12,148	12,524	13,052
Net Earned Premium YOY Growth Rate:															
Specialty	-3.55%	1.54%	-1.97%	-1.40%	-1.13%	0.74%	1.50%	3.97%	6.69%	4.13%	-9.51%	-0.57%	0.26%	0.55%	0.54%
Commercial	-9.13%	-3.26%	-4.06%	1.87%	1.44%	5.87%	3.67%	5.09%	6.89%	10.44%	-17.40%	-0.10%	0.80%	1.41%	0.89%
International	663.33%	-0.33%	-11.94%	0.25%	6.33%	-88.33%	874.00%	-3.49%	12.45%	1.23%	48.08%	18.56%	11.83%	13.25%	20.75%
Life & Group	-0.18%	-0.54%	-1.44%	-2.19%	0.56%	-1.67%	-1.89%	-3.08%	-2.58%	-3.67%	9.09%	0.35%	-0.42%	-0.75%	-0.36%
Corporate & Other	50.00%	-66.67%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	-32.59%	-9.52%	0.93%	2.10%	2.40%
Return on Investment:															
Fixed maturity securities	4.69%	4.37%	4.30%	4.60%	4.43%	4.33%	4.59%	4.09%	3.82%	4.03%	4.73%	4.35%	4.31%	4.28%	4.26%
Equity securities	4.82%	6.49%	5.41%	5.08%	10.91%	2.59%	10.90%	7.51%	8.37%	2.22%	6.88%	6.16%	6.16%	6.19%	5.94%
Limited partnership investments	18.32%	9.67%	3.13%	6.08%	8.73%	-0.93%	9.08%	6.91%	22.36%	-0.65%	-0.73%	-0.08%	-0.20%	0.19%	-0.88%
Mortgage loans	5.74%	6.10%	5.61%	6.05%	5.75%	5.96%	6.08%	5.73%	5.71%	5.55%	4.67%	5.53%	5.64%	5.60%	5.59%
Other Investment Income	26.00%	0.41%	0.40%	0.70%	1.11%	2.03%	2.91%	0.52%	0.05%	1.01%	1.79%	2.35%	2.87%	3.36%	3.88%
Total Investment	5.14%	4.48%	3.98%	4.45%	4.48%	3.88%	4.76%	4.05%	4.29%	3.59%	4.27%	4.01%	4.01%	4.03%	4.00%
Asset Amount Invested:															
Fixed maturity securities	41,233	40,768	39,572	40,905	41,487	39,546	42,207	44,631	44,380	37,627	40,903	41,321	41,557	41,629	41,644
Equity securities	185	222	197	110	695	780	865	992	1,035	674	898	1,018	1,163	1,372	1,040
Limited partnership investments	2,720	2,937	2,548	2,371	2,369	1,982	1,752	1,619	1,859	1,926	2,136	2,087	2,029	1,988	1,945
Mortgage loans	508	588	678	591	839	839	994	1,068	973	1,040	888	900	920	960	960
Other Investment Income	1,461	1,747	1,704	1,443	1,480	1,339	1,926	1,983	2,081	1,910	1,780	1,762	1,767	1,803	1,840
Total Investment	46,107	46,262	44,699	45,420	46,870	44,486	47,744	50,293	50,328	43,177	46,605	47,088	47,437	47,752	47,429

CNA Financial Corp*Income Statement*

(in millions)

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue:										
Net earned premiums	7,271	7,212	6,921	6,924	6,988	7,312	7,428	7,649	8,175	8,667
Net investment income	2,282	2,067	1,840	1,988	2,034	1,817	2,118	1,935	2,159	1,805
Non-insurance warranty revenue	-	-	-	-	390	1,007	1,161	1,252	1,430	1,574
Other revenues	359	356	407	404	37	50	31	26	24	32
Net investment gains (losses)	20	57	(67)	50	93	(52)	29	(54)	120	(199)
Total Revenues	9,932	9,692	9,101	9,366	9,542	10,134	10,767	10,808	11,908	11,879
Expenses:										
Claims, Benefits, and Expenses										
Insurance claims & policyholders' benefits	5,947	5,591	5,384	5,283	5,310	5,572	5,806	6,170	6,349	6,386
Amortization of deferred acquisition costs	1,362	1,317	1,540	1,235	1,233	1,335	1,383	1,410	1,443	1,490
Non-insurance warranty expense	-	-	-	-	-	923	1,082	1,159	1,328	1,471
Other operating expenses	1,325	1,394	1,473	1,552	1,528	1,202	1,142	1,126	1,191	1,339
Interest	166	183	155	159	161	138	131	122	113	112
Total Claims, Benefits & Expenses	8,800	8,485	8,552	8,229	8,232	9,170	9,544	9,987	10,424	10,798
Income (loss) before income tax	1,313	1,207	549	1,137	1,310	964	1,223	821	1,484	1,081
Income tax expense (benefit)	376	319	70	278	411	151	223	131	282	187
Net Income (Loss)	937	691	479	859	899	813	1,000	690	1,202	894
Net Earnings (Loss) Per Share - Basic EPS	3.48	2.56	1.77	3.18	3.32	2.99	3.68	2.54	4.42	3.29
Weighted Average Shares Outstanding - Basic	269.70	269.90	270.20	270.40	271.10	271.50	271.60	271.60	271.80	271.60

CNA Financial Corp

Balance Sheet

(in millions)

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Assets:															
Investments															
Fixed maturity securities at fair value	\$ 41,233	\$ 40,768	\$ 39,572	\$ 40,905	\$ 41,487	\$ 39,546	\$ 42,207	\$ 44,631	\$ 44,380	\$ 37,627	\$ 40,903	\$ 41,321	\$ 41,557	\$ 41,629	\$ 41,644
Equity securities at fair value	185	222	197	110	695	780	865	992	1,035	674	898	1,018	1,163	1,372	1,040
Limited partnership investments	2,720	2,937	2,548	2,371	2,369	1,982	1,752	1,619	1,859	1,926	2,136	2,087	2,029	1,988	1,945
Mortgage loans	508	588	678	591	839	839	994	1,068	973	1,040	888	900	920	960	960
Other invested assets	1,461	1,747	1,704	1,443	1,480	1,339	1,926	1,983	2,081	1,910	1,780	1,762	1,767	1,803	1,840
Total Investments	46,107	46,262	44,699	45,420	46,870	44,486	47,744	50,293	50,328	43,177	46,605	47,088	47,437	47,752	47,429
Cash	195	190	387	271	355	310	242	419	536	475	837	3,168	3,571	4,186	5,947
Reinsurance receivables	6,017	4,694	4,453	4,416	4,261	4,426	4,179	4,457	5,463	5,416	5,113	5,256	5,387	5,569	5,900
Insurance receivables	1,979	1,936	2,078	2,209	2,292	2,323	2,449	2,607	2,945	3,158	2,681	2,824	2,939	3,068	3,259
Accrued investment income	443	405	404	405	411	391	395	380	377	402	372	379	379	383	382
Deferred acquisition costs	624	600	598	600	634	633	662	708	737	806	731	761	786	819	867
Deferred income taxes	220	191	638	379	137	392	199	66	142	1,178	524	647	392	373	374
Property & equipment at cost	304	295	343	310	326	324	282	252	226	226	290	289	288	282	279
Goodwill	155	152	150	145	148	146	147	148	148	144	144	144	144	144	144
Deferred non-insurance warranty acquisition expense	-	-	-	-	-	2,513	2,840	3,068	3,476	3,671	4,205	2,359	2,901	3,328	3,760
Other assets	969	841	1,297	1,078	1,133	1,208	1,473	1,628	2,261	2,274	1,592	1,684	1,791	1,854	1,950
Total Assets	57,194	55,566	55,047	55,233	56,567	57,152	60,612	64,026	66,639	60,927	63,093	64,599	66,015	67,760	70,291
Liabilities:															
Insurance Reserves															
Claim & claim adjustment expenses	24,089	23,271	22,663	22,343	22,004	21,984	21,720	22,706	24,174	25,099	25,289	25,990	26,547	27,364	28,824
Unearned premiums	3,718	3,592	3,671	3,762	4,029	4,183	4,583	5,119	5,761	6,374	4,986	5,254	5,495	5,790	6,195
Future policy benefits	10,471	9,490	10,152	10,326	11,179	10,597	12,311	13,318	13,236	10,151	12,368	12,958	13,398	13,948	14,698
Short term debt	549	-	350	-	150	-	-	-	-	243	115	117	77	90	76
Long term debt	2,011	2,559	2,212	2,710	2,708	2,680	2,679	2,776	2,779	2,538	3,590	3,190	3,335	3,404	3,492
Deferred non-insurance warranty revenue	-	-	-	-	-	3,402	3,779	4,023	4,503	4,714	4,239	4,365	4,500	4,614	4,649
Other liabilities	3,408	3,833	4,243	4,123	4,253	3,089	3,325	3,377	3,377	2,983	3,908	4,147	4,124	4,111	4,115

CNA Financial Corp
Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Cash Flows from Operating Activities:										
Net income (loss)	\$ 937	\$ 691	\$ 479	\$ 859	\$ 899	\$ 813	\$ 1,000	\$ 690	\$ 1,202	\$ 894
Adjustments to reconcile net income to net cash flows provided by operating activities:										
Deferred income tax expense (benefit)	77	3	(150)	136	168	(20)	(46)	(49)	47	(34)
Trading portfolio activity	(10)	16	17	(9)	9	-	(16)	(5)	20	6
Net investment losses (gains)	(31)	(60)	67	(50)	(93)	52	(29)	54	(120)	199
Equity method investees	(323)	83	195	238	84	330	11	(8)	(127)	250
Net amortization of investments	(24)	3	17	(27)	(40)	(70)	(89)	(67)	(81)	(129)
Depreciation & amortization	101	83	84	77	88	79	68	60	54	51
Changes in:										
Receivables, net	44	731	82	(130)	92	(229)	137	(409)	(1,358)	(226)
Accrued investment income	(9)	-	(1)	(3)	(4)	19	(3)	16	3	(29)
Deferred acquisition costs	2	44	311	(8)	(24)	(6)	(26)	(43)	(30)	(79)
Insurance reserves	(68)	(363)	241	237	22	482	358	1,681	2,463	1,791
Other cash flows from operating activities, net	-	-	-	-	-	-	(225)	(145)	(76)	(192)
Net Cash Flows from Operating Activities	1,204	1,440	1,387	1,416	1,254	1,227	1,140	1,775	1,997	2,502
Cash Flow from Investing Activities:										
Dispositions of fixed maturity securities - sales	6,869	4,914	4,390	5,328	5,438	8,408	5,842	5,904	3,816	5,909
Dispositions of fixed maturity securities - maturities, calls & redemptions	3,271	3,983	4,095	3,219	3,641	2,370	2,997	3,760	4,464	2,358
Dispositions of equity securities	103	31	57	81	46	89	214	355	316	509
Dispositions of limited partnerships	108	167	174	290	192	343	479	373	246	138
Dispositions of mortgage loans	22	57	26	207	26	128	143	74	190	125
Purchases:										
Purchases of fixed maturity securities	(11,197)	(9,365)	(8,675)	(9,827)	(9,065)	(10,785)	(8,661)	(10,269)	(9,307)	(9,821)
Purchases of equity securities	(77)	(67)	(62)	-	(166)	(258)	(186)	(452)	(304)	(294)
Purchases of limited partnerships	(223)	(271)	(188)	(252)	(171)	(419)	(198)	(224)	(440)	(337)
Purchases of mortgage loans	(129)	(137)	(123)	(120)	(274)	(128)	(298)	(172)	(95)	(200)
Change in other investments	(22)	15	4	7	(3)	(12)	(11)	(8)	(6)	8
Change in short term investments	425	(388)	34	258	(6)	168	(535)	(39)	(83)	155
Purchases of property & equipment	(91)	(71)	(125)	(146)	(102)	(99)	(26)	(23)	(26)	(52)
Other investing activities, net	11	16	21	2	20	18	15	16	1	(10)
Net Cash Flows from Investing Activities	(898)	(918)	(372)	(846)	(424)	(177)	(225)	(705)	(1,228)	(1,512)
Cash Flows from Financing Activities:										
Dividends paid to common stockholders	(216)	(541)	(811)	(813)	(842)	(896)	(929)	(950)	(621)	(982)
Proceeds from the issuance of debt	-	546	-	498	496	-	496	495	-	-
Repayment of debt	(13)	(549)	-	(358)	(391)	(180)	(520)	(419)	-	-
Purchase of treasury stock	-	-	-	-	-	-	(23)	(18)	(18)	(39)
Other financing activities, net	(37)	25	4	-	(18)	(9)	(12)	(10)	(9)	(11)
Net cash flows from financing activities	(264)	(519)	(807)	(673)	(755)	(1,085)	(988)	(902)	(648)	(1,032)
Effect of foreign exchange rate changes on cash	(3)	(8)	(11)	(13)	9	(10)	5	9	(4)	(19)
Net Change in Cash	39	(5)	197	(116)	84	(45)	(68)	177	117	(61)
Cash, Beginning of Year	156	195	190	387	271	355	310	242	419	536
Cash, End of Period	195	190	387	271	355	310	242	419	536	475

CNA Financial Corp*Forecasted Cash Flow Statement*

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E
Cash Flows from Operating Activities:					
Net income (loss)	\$ 935	\$ 1,060	\$ 1,075	\$ 1,031	\$ 946
Depreciation & amortization	(54)	(52)	(53)	(51)	(51)
Cash Flows from Operating Activities					
Reinsurance receivables	303	(143)	(131)	(183)	(331)
Insurance receivables, gross	477	(144)	(115)	(129)	(191)
Deferred income taxes	654	(122)	255	19	(1)
Other assets	682	(92)	(107)	(64)	(95)
Claim & claim adjustment expenses	190	700	558	816	1,460
Unearned premiums	(1,388)	269	241	295	405
Future policy benefits	2,217	590	440	551	750
Deferred non-insurance warranty revenue	(475)	126	135	114	36
Other Liabilities	925	239	(23)	(13)	3
Change in Operating Revenues	4,466	2,433	2,274	2,386	2,933
Cash Flows from Investing Activities:					
Fixed maturity securities at fair value	(3,276)	(418)	(237)	(71)	(15)
Equity securities at fair value	(224)	(121)	(145)	(208)	332
Limited partnership investments	(210)	49	57	42	42
Mortgage loans	152	(13)	(20)	(40)	0
Other invested assets	130	18	(4)	(37)	(36)
Accrued Investments	30	(7)	(0)	(4)	1
Property & equipment	(64)	1	1	6	3
Deferred non-insurance warranty acquisition expense	(534)	1,846	(541)	(427)	(432)
Change in Investing Activities	(3,996)	1,356	(889)	(740)	(105)
Cash Flows from Financing Activities:					
Total Dividends	(1,032)	(1,059)	(1,086)	(1,114)	(1,141)
Short term debt	(128)	2	(41)	13	(14)
Long term debt	1,052	(400)	146	69	88
Change in Financing Activities	(108)	(1,458)	(982)	(1,031)	(1,067)
Net Change in Cash	362	2,331	404	615	1,761
Cash, Beginning of Year	475	837	3,168	3,571	4,186
Cash, End of Period	837	3,168	3,571	4,186	5,947

CNA Financial Corp
Common Size Income Statement

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<i>Computed as a % of assets</i>															
Revenues:															
Net earned premiums	12.71%	12.98%	12.57%	12.54%	12.35%	12.79%	12.25%	11.95%	12.27%	14.23%	13.06%	13.18%	13.28%	13.44%	13.72%
Net investment income	3.99%	3.72%	3.34%	3.60%	3.60%	3.18%	3.49%	3.02%	3.24%	2.96%	2.92%	2.90%	2.86%	2.82%	2.71%
Net investment gains (losses)	0.03%	0.10%	-0.12%	0.09%	0.16%	-0.09%	0.05%	-0.08%	0.18%	-0.33%	0.00%	0.00%	-0.01%	0.00%	0.00%
Total Revenues	17.37%	17.44%	16.53%	16.96%	16.87%	17.73%	17.76%	16.88%	17.87%	19.50%	17.37%	18.23%	18.40%	18.48%	18.57%
Expenses:															
Claims, Benefits, and Expenses															
Insurance claims & policyholders' benefits	10.40%	10.06%	9.78%	9.56%	9.39%	9.75%	9.58%	9.64%	9.53%	10.48%	10.07%	10.16%	10.22%	10.35%	10.59%
Amortization of deferred acquisition costs	2.38%	2.37%	2.80%	2.24%	2.18%	2.34%	2.28%	2.20%	2.17%	2.45%	2.41%	2.44%	2.40%	2.43%	2.49%
Non-insurance warranty expense						1.61%	1.79%	1.81%	1.99%	2.41%	0.47%	0.94%	1.11%	1.23%	1.33%
Other operating expenses	2.32%	2.51%	2.68%	2.81%	2.70%	2.10%	1.88%	1.76%	1.79%	2.20%	2.30%	2.38%	2.38%	2.32%	2.26%
Interest	0.29%	0.33%	0.28%	0.29%	0.28%	0.24%	0.22%	0.19%	0.17%	0.18%	0.22%	0.21%	0.21%	0.20%	0.18%
Total Claims, Benefits & Expenses	15.39%	15.27%	15.54%	14.90%	14.55%	16.04%	15.75%	15.60%	15.64%	17.72%	15.47%	16.12%	16.32%	16.53%	16.84%
Income (loss) before income tax	2.30%	2.17%	1.00%	2.06%	2.32%	1.69%	2.02%	1.28%	2.23%	1.77%	1.90%	2.10%	2.09%	1.95%	1.73%
Income tax expense (benefit)	0.66%	0.57%	0.13%	0.50%	0.73%	0.26%	0.37%	0.20%	0.42%	0.31%	0.42%	0.46%	0.46%	0.43%	0.38%
Net Income (Loss)	1.64%	1.24%	0.87%	1.56%	1.59%	1.42%	1.65%	1.08%	1.80%	1.47%	1.48%	1.64%	1.63%	1.52%	1.35%
<i>Computed as a % of sales</i>															
Revenues:															
Net earned premiums	73.21%	74.41%	76.05%	73.93%	73.23%	72.15%	68.99%	70.77%	68.65%	72.96%	75.16%	72.30%	72.17%	72.69%	73.86%
Net investment income	22.98%	21.33%	20.22%	21.23%	21.32%	17.93%	19.67%	17.90%	18.13%	15.19%	16.81%	15.89%	15.56%	15.27%	14.62%
Net investment gains (losses)	0.20%	0.59%	-0.74%	0.53%	0.97%	-0.51%	0.27%	-0.50%	1.01%	-1.68%	0.00%	0.01%	-0.05%	-0.01%	-0.02%
Total Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Expenses:															
Claims, Benefits, and Expenses															
Insurance claims & policyholders' benefits	59.88%	57.69%	59.16%	56.41%	55.65%	54.98%	53.92%	57.09%	53.32%	53.76%	57.95%	55.72%	55.56%	56.02%	57.00%
Amortization of deferred acquisition costs	13.71%	13.59%	16.92%	13.19%	12.92%	13.17%	12.84%	13.05%	12.12%	12.54%	13.87%	13.36%	13.04%	13.15%	13.40%
Non-insurance warranty expense	0.00%	0.00%	0.00%	0.00%	0.00%	9.11%	10.05%	10.72%	11.15%	12.38%	2.71%	5.17%	6.03%	6.66%	7.15%
Other operating expenses	13.34%	14.38%	16.19%	16.57%	16.01%	11.86%	10.61%	10.42%	10.00%	11.27%	13.26%	13.03%	12.91%	12.56%	12.15%
Interest	1.67%	1.89%	1.70%	1.70%	1.69%	1.36%	1.22%	1.13%	0.95%	0.94%	1.26%	1.17%	1.12%	1.06%	1.00%
Total Claims, Benefits & Expenses	88.60%	87.55%	93.97%	87.86%	86.27%	90.49%	88.64%	92.40%	87.54%	90.90%	89.06%	88.46%	88.66%	89.45%	90.71%
Income (loss) before income tax	13.22%	12.45%	6.03%	12.14%	13.73%	9.51%	11.36%	7.60%	12.46%	9.10%	10.94%	11.54%	11.34%	10.55%	9.29%
Income tax expense (benefit)	3.79%	3.29%	0.77%	2.97%	4.31%	1.49%	2.07%	1.21%	2.37%	1.57%	2.41%	2.54%	2.50%	2.32%	2.04%
Net Income (Loss)	9.43%	7.13%	5.26%	9.17%	9.42%	8.02%	9.29%	6.38%	10.09%	7.53%	8.53%	9.01%	8.85%	8.23%	7.25%

CNA Financial Corp

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:		<i>ASSUMPTIONS:</i>
Risk-Free Rate	3.40%	<i>Risk Free Rate: 10-year Treasury bond as of 4/12/2023</i>
Beta	0.78	<i>Average of 1, 3, and 5-year raw beta</i>
Equity Risk Premium	4.88%	<i>Equity Risk Premium: Geometric Average from 1928-2022</i>
Cost of Equity	7.21%	

CNA Financial Corp*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E
Key Inputs:					
CV Growth of NI	2.50%				
CV Year ROE	11.21%				
Cost of Equity	7.21%				
DCF Model:					
Free Cash Flow (FCFE)	1,161.30	1,081.59	1,113.46	1,131.23	1,143.73
Continuing Value (CV)					15,624.15
PV of FCFE	1,083.24	941.07	903.68	856.38	11,828.06
Value of Operating Assets:	15,612.42				
Value of Equity	15,612.42				
Shares Outstanding	271.60				
Intrinsic Value of Last FYE	\$ 57.48				
Implied Price as of Today	\$ 58.01				
EP Model:					
Equity Economic Profit (EEP)	299.26	440.73	456.49	415.26	338.20
Continuing Value (CV)					7,185.86
PV of EP	279.14	383.47	370.49	314.37	5,439.96
Total PV of EP	6,787.42				
Invested Capital (last FYE)	8,825.00				
Value of Operating Assets:	15,612.42				
Value of Equity	15,612.42				
Shares Outstanding	271.60				
Intrinsic Value of Last FYE	\$ 57.48				
Implied Price as of Today	\$ 58.01				

CNA Financial Corp*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

Fiscal Years Ending Dec. 31	2023E	2024E	2025E	2026E	2027E
EPS	\$ 3.44	\$ 3.90	\$ 3.96	\$ 3.79	\$ 3.48
Key Assumptions					
CV growth of EPS	2.50%				
CV Year ROE	11.21%				
Cost of Equity	7.21%				
Future Cash Flows					
P/E Multiple (CV Year)					16.51
EPS (CV Year)					3.48
Future Stock Price					57.53
Dividends Per Share	1.73	1.88	2.03	2.20	
Discounted Cash Flows	1.62	1.63	1.65	1.67	43.55
Intrinsic Value as of Last FYE	\$ 50.11				
Implied Price as of Today	\$ 50.57				

CNA Financial Corp

Relative Valuation Models

Ticker	Company	Price	EPS	EPS	P/E 23	P/E 24	BV Equity	Tangible	P/B	Tangible
			2023E	2024E				BV Equity		P/B
CINF	Cincinnati Financial	110.43	5.31	5.99	20.80	18.44	67.01	66.65	1.65	1.66
AFG	American Financial Group	122.31	11.98	12.37	10.21	9.89	47.56	43.72	2.57	2.80
ERIE	Erie Indemnity Company	234.89	6.93	7.32	33.89	32.09	23.10	27.70	10.17	8.48
AIZ	Assurant Inc.	118.17	11.60	13.58	10.19	8.70	79.91	18.68	1.48	6.33
MKL	Markel Corporation	1342.51	78.36	90.07	17.13	14.91	979.07	602.50	1.37	2.23
AXS	AXIS Capital Holdings Limited	55.30	7.62	8.71	7.26	6.35	46.95	44.78	1.18	1.23
THG	The Hanover Insurance Group, Inc.	128.26	9.94	12.31	12.90	10.42	65.38	60.30	1.96	2.13
ACGL	Arch Capital Group Ltd	70.50	5.85	6.67	12.05	10.57	32.62	30.63	2.16	2.30
Average					12.93	11.32			1.77	2.67

CNA	CNA Financial Corp	39.45	3.44	3.90	11.46	10.10	32.58	31.78	1.21	1.24
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Implied Relative Value:	
P/E (EPS23)	\$ 44.54
P/E (EPS24)	\$ 44.21
P/B	\$ 57.58
P/Tangible BV	\$ 84.77

CNA Financial Corp
Key Management Ratios

Fiscal Years Ending Dec. 31	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Liquidity Ratios:															
Current ratio (Current Asset/Current Liability)	0.25	0.22	0.23	0.22	0.23	0.29	0.28	0.28	0.31	0.34	0.30	0.27	0.28	0.29	0.29
Quick ratio (Cash+Cash Equivalents)+Marketable Securities+Receivables)/Current Liabilities	1.19	1.20	1.15	1.17	1.17	1.08	1.08	1.07	1.05	0.95	0.97	1.00	0.99	0.98	0.97
Cash Ratio (Cash /Current Liabilities)	0.0044	0.0044	0.0089	0.0063	0.0080	0.0067	0.0050	0.0082	0.0100	0.0091	0.0154	0.0565	0.0621	0.0706	0.0958
Asset-Management Ratios:															
Premium Receivables		0.92	0.86	0.81	0.78	0.79	0.78	0.76	0.74	0.71	0.71	0.77	0.76	0.76	0.76
Asset Turnover Ratio (Revenue/Total Assets)	17.37%	17.44%	16.53%	16.96%	16.87%	17.73%	17.76%	16.88%	17.87%	19.50%	17.37%	18.23%	18.40%	18.48%	18.57%
Fixed Asset Turnover Ratio	32.67	32.85	26.53	30.21	29.27	31.28	38.18	42.89	52.69	52.56	37.74	40.74	42.16	44.34	46.71
Financial Leverage Ratios:															
Debt-to-asset Ratio (Total debt/Total assets)	0.04	0.05	0.05	0.05	0.05	0.05	0.04	0.04	0.04	0.05	0.06	0.05	0.05	0.05	0.05
Debt-to-equity ratio (Total debt/total equity)	0.20	0.20	0.22	0.23	0.23	0.24	0.22	0.22	0.22	0.32	0.43	0.39	0.40	0.41	0.43
Asset-to-equity ratio	4.52	4.34	4.68	4.61	4.62	5.10	4.96	5.04	5.20	6.90	7.34	7.53	7.73	8.03	8.53
Profitability Ratios:															
Return on Equity (NI/Beg TSE)	7.41%	5.40%	4.07%	7.18%	7.34%	7.25%	8.19%	5.43%	9.38%	10.13%	10.88%	12.36%	12.59%	12.21%	11.48%
Net profit margins (Net income/net sales)	9.43%	7.13%	5.26%	9.17%	9.42%	8.02%	9.29%	6.38%	10.09%	7.53%	8.53%	9.01%	8.85%	8.23%	7.25%
Return on asset (Net income/total assets)	1.64%	1.24%	0.87%	1.56%	1.59%	1.42%	1.65%	1.08%	1.80%	1.47%	1.48%	1.64%	1.63%	1.52%	1.35%
Payout Policy Ratios:															
Dividend Payout Ratio (Dividend/EPS)	22.99%	39.06%	56.50%	31.45%	33.13%	43.48%	38.04%	58.27%	34.39%	48.63%	50.32%	48.05%	51.34%	57.97%	68.37%
Total Payout Ratio ((Divs. + Repurchases)/NI)	22.99%	39.06%	56.50%	31.45%	33.13%	43.48%	38.04%	58.27%	34.39%	48.63%	50.32%	48.05%	51.34%	57.97%	68.37%
Free cash flow to Equity	600.00	548.00	1,517.00	646.00	624.00	1,840.00	2.00	198.00	1,100.00	4,878.00	1,161.30	1,081.59	1,113.46	1,131.23	1,143.73

