

The Hanover Insurance Group (THG): EV/EBITDA 7.9x and EV/FCF 6.1x Price Mean Reversion Against 30.2% ROIC

THG | The Hanover Insurance Group, Inc. | Financial Services | Insurance - Property & Casualty | FY 2025 | 2026-06-17T06:58:57.212Z

At EV/EBITDA of 7.9x and EV/FCF of 6.1x, the market is pricing skepticism that THG's 56.2% EPS growth and 30.2% ROIC are durable, despite a 17.9% FCF yield and 87.5% EPS beat rate supporting ongoing earnings resilience.

SIGNALCORE VIEW	SIGNAL SCORE	FUNDAMENTAL QUALITY	EXPANSION POTENTIAL	THESIS RISK
Interesting research candidate	67 / 100	76 / 100	80 / 100	0 / 100
Value / Quality Candidate			Derived from growth, expectations and execution evidence	

PRIMARY DEBATE — The debate is whether EPS growth of 56.2% and free cash flow growth of 47.0% are cyclical peaks that revert toward revenue growth of 6.1%, or whether ROE of 20.9% and ROIC of 30.2% represent a sustained underwriting and capital allocation regime. Evidence: revenue beat rate is 50.0% while EPS beat rate is 87.5%. Interpretation: earnings execution has exceeded top-line execution. Implication: the market assumption appears to be that margin-driven gains will normalize, justifying EV/EBITDA of 7.9x.

INVESTMENT NARRATIVE

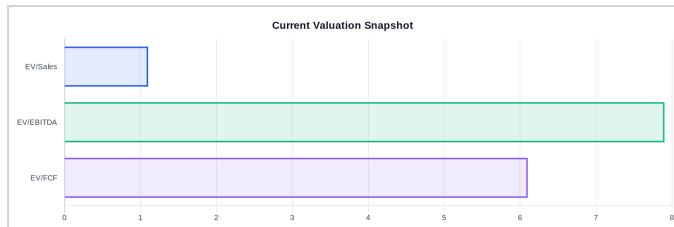
Archetype	Peak-earnings skepticism vs. underappreciated quality	<p>Core Tension: Can THG sustain recent EPS/FCF strength and high returns, or will performance revert given modest top-line growth?</p> <p>Market Assumption: Current earnings and cash flow are not durably repeatable; growth is driven more by non-revenue factors and could normalize, warranting a low multiple.</p> <p>Trajectory: Steady mid-single-digit revenue growth with outsized EPS/FCF expansion and high returns; company focus areas (analyst revisions, product strategy, AI) suggest ongoing optimization efforts.</p> <p>Mispricing Hypothesis: The market is over-discounting mean reversion and underappreciating the sustainability of improved economics. If THG maintains high ROE/ROIC and supported EPS/FCF (even with mid-single-digit revenue growth), a valuation reassessment from EV/FCF ~6 and earnings yield ~10% is plausible.</p>
Company Type	U.S. P&C insurer (commercial and personal lines) distributed via independent agents/brokers	
Key Monitoring Metric	Direction and magnitude of EPS estimate revisions over the next 3-6 months	

EVIDENCE MAP

SUPPORTING EVIDENCE	CONTRADICTING EVIDENCE
Revenue growth is modest at 6.1% latest and 6.5% 5Y, suggesting a mature growth profile relative to EPS gains	Very supported profitability/quality: ROE 20.9% and ROIC 30.2%
Revenue beat rate is only 50%, implying top-line outperformance is inconsistent	supported by supplied metrics EPS trend: +56.2% latest; +209.4% over 5Y
Valuation is cheap despite supported prints (EV/EBITDA 7.88; EV/FCF 6.06; earnings yield ~10%), consistent with market skepticism on durability	High FCF metrics: FCF yield 17.9% and FCF growth 47%
	Solid balance sheet: Net Debt/EBITDA 0.62
	Execution signal: EPS beat rate 87.5%
	Coverage clusters include analyst_revision, product_strategy, ai_technology, indicating active levers that could support ongoing performance

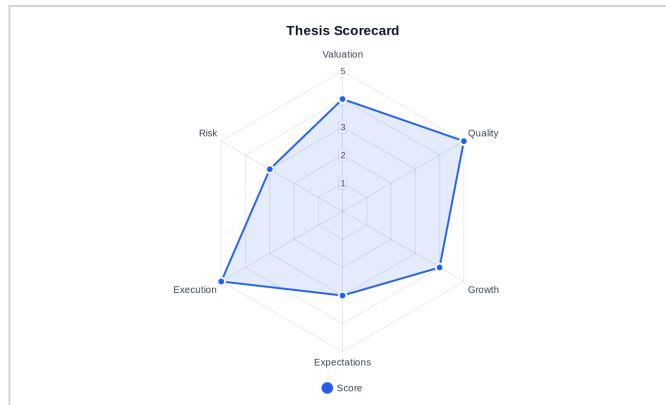
SCORECARD

VALUATION	QUALITY	GROWTH	EXPECTATIONS	EXECUTION	RISK	OVERALL
4	5	4	3	5	3	4
SUPPORTED	SUPPORTED	SUPPORTED	MIXED	SUPPORTED	MODERATE	SUPPORTED



CURRENT VALUATION SNAPSHOT

Current multiples are shown separately from historical fiscal-year trend metrics.



THEESIS SCORECARD RADAR

Evidence scores summarise valuation, quality, growth, expectations, execution, and risk.

KEY METRICS

CURRENT EV/EBITDA	CURRENT EV/FCF	FCF YIELD	ROIC	REVENUE GROWTH	EPS GROWTH	FCF GROWTH	EPS BEAT RATE
7.9x	6.1x	17.9%	30.2%	6.1%	56.2%	47.0%	87.5%

EXECUTIVE SUMMARY

Core Tension	Can THG sustain recent EPS/FCF strength and high returns, or will performance revert given modest top-line growth?
Market Assumption	Current earnings and cash flow are not durably repeatable; growth is driven more by non-revenue factors and could normalize, warranting a low multiple.
Current Pricing	At a price of \$199.2 and earnings yield of 10.2%, the market is pricing earnings durability below recent growth rates of 56.2% EPS growth.
Valuation	Current EV/EBITDA of 7.9x and EV/FCF of 6.1x compare to fiscal-year latest EV/EBITDA of 7.5x versus a 3Y average of 25.6x.
Quality	Quality metrics reflect high capital efficiency.
Growth	Growth is margin-led rather than revenue-led.
Cash Flow	Cash flow growth supports earnings growth.
Execution	Execution at the earnings line has been consistent.
Primary Monitor	Can ROIC remain at 30.2% given revenue growth of 6.1%?

THEESIS DRIVERS

SUPPORTING DRIVERS			CONSTRAINTS / MONITORS		
1	EPS Beat Rate	87.5%			
2	FCF Growth	47.0%			
3	EPS Growth	56.2%			
4	ROIC	30.2%			
5	FCF Yield	17.9%			
6	Revenue Growth	6.1%			

COMPANY & BUSINESS MODEL

The Hanover Insurance Group, Inc. (THG) is a U.S.-based insurer offering a wide array of property and casualty coverage through its various operating units. Its operations are organized into three main divisions: Commercial Lines, Personal Lines, and an "Other" segment. The Commercial Lines division delivers a comprehensive suite of business insurance solutions, including multi-peril, commercial auto, and workers' compensation policies. It also provides management and professional liability, marine, specialized industrial and commercial property, standalone general liability, surety bonds, umbrella liability, fidelity, crime, and additional commercial protection. Within Personal Lines, customers can access auto and homeowners' insurance, alongside other individual coverages like personal umbrella policies, inland marine, fire, personal watercraft, and personal cyber protection. The "Other" segment focuses on delivering investment management expertise to institutions, pension funds, and a range of other organizational clients. Distribution of Hanover's offerings is primarily facilitated by a network of independent agents and brokers. Originally incorporated as Allmerica Financial Corp., the company adopted its current name, The Hanover Insurance Group, Inc., in December 2005. Established in 1852, The Hanover Insurance Group, Inc. maintains its corporate headquarters in Worcester, Massachusetts.

INVESTMENT THESIS

THG, a U.S. P&C insurer distributed through independent agents and brokers, trades at an enterprise value of \$7.6B and EV/FCF of 6.1x despite generating a free cash flow yield of 17.9% and ROIC of 30.2%. Evidence: EPS growth of 56.2% and free cash flow growth of 47.0% exceed revenue growth of 6.1%. Interpretation: recent performance has been margin and capital-efficiency driven rather than revenue-led. Implication: the core tension centers on whether underwriting and capital discipline reflected in ROE of 20.9% and ROIC of 30.2% can persist in a business growing revenue at 6.1%. Valuation is below historical norms while quality metrics are above historical averages. Evidence: fiscal-year EV/EBITDA is 7.5x versus a 3Y average of 25.6x, and latest ROE is 18.5% versus a 3Y average of 11.6%. Interpretation: the multiple has compressed even as return metrics improved relative to recent history. Implication: the current EV/EBITDA of 7.9x implies skepticism that current return levels are repeatable. Balance sheet and cash generation metrics further frame the debate. Evidence: net debt to EBITDA is 0.6x and free cash flow to firm is \$1.3B. Interpretation: leverage is limited relative to cash generation capacity. Implication: if free cash flow growth of 47.0% sustains near its 3Y average of 41.4%, the valuation case would be supported by internal funding capacity rather than external leverage. The mispricing hypothesis rests on durability of returns. Evidence: ROIC of 30.2% exceeds the 3Y average of 5.0%, while EV/FCF of 6.1x is below the 3Y average of 8.9x. Interpretation: returns have improved while the multiple is below its recent norm. Implication: if ROIC remains above 11.6% (latest fiscal-year level) and cash flow remains near \$1.3B, the current valuation embeds a conservative view of normalized earnings.

INVESTABLE DEBATE

The debate is whether EPS growth of 56.2% and free cash flow growth of 47.0% are cyclical peaks that revert toward revenue growth of 6.1%, or whether ROE of 20.9% and ROIC of 30.2% represent a sustained underwriting and capital allocation regime. Evidence: revenue beat rate is 50.0% while EPS beat rate is 87.5%. Interpretation: earnings execution has exceeded top-line execution. Implication: the market assumption appears to be that margin-driven gains will normalize, justifying EV/EBITDA of 7.9x.

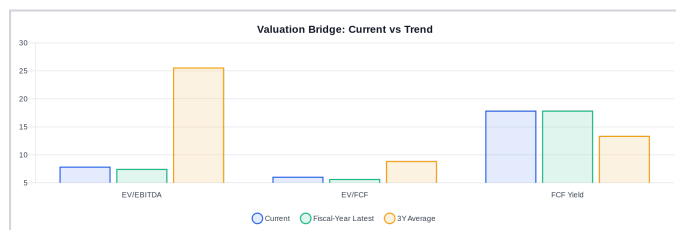
MARKET EXPECTATIONS

At a price of \$199.2 and earnings yield of 10.2%, the market is pricing earnings durability below recent growth rates of 56.2% EPS growth. Evidence: EV/Sales is 1.1x despite net income growth of 55.5%. Interpretation: the multiple suggests expectations of mid-cycle profitability rather than continuation of elevated margins. Implication: the current valuation embeds mean reversion toward revenue growth of 6.1% rather than EPS growth above 50%.

CURRENT VALUATION VS HISTORICAL TREND

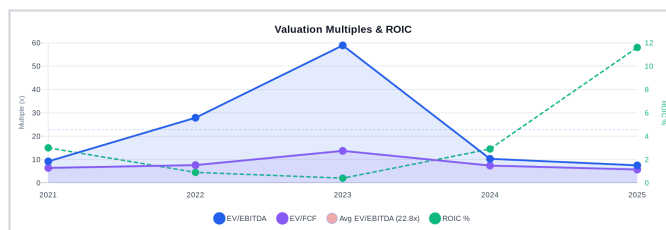
METRIC	CURRENT	FISCAL-YEAR LATEST	3Y AVG	5Y AVG
EV/EBITDA	7.9x	7.5x	25.6x	22.8x
EV/FCF	6.1x	5.7x	8.9x	8.2x
FCF Yield	17.9%	17.9%	13.4%	14.4%

Current EV/EBITDA is 7.9x, while fiscal-year trend data shows latest EV/EBITDA of 7.5x versus a 3Y average of 25.6x. Current EV/FCF is 6.1x, while fiscal-year trend data shows latest EV/FCF of 5.7x versus a 3Y average of 8.9x.



VALUATION BRIDGE: CURRENT VS HISTORICAL TREND

Current EV/EBITDA is 7.9x, while fiscal-year trend data shows latest EV/EBITDA of 7.5x versus a 3Y average of 25.6x.



VALUATION MULTIPLES & ROIC OVERLAY

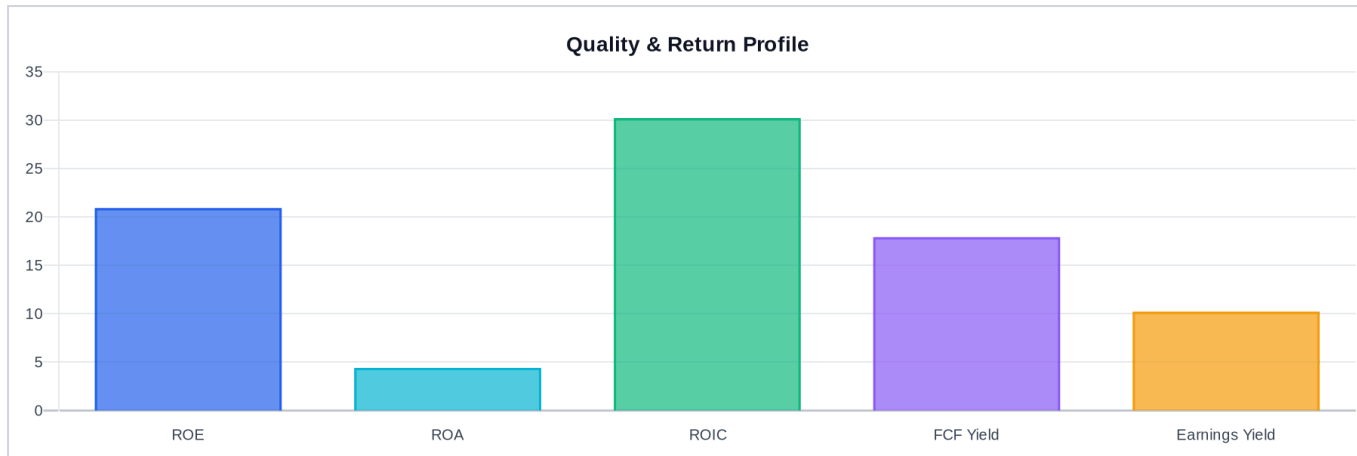
Current EV/EBITDA of 7.9x and EV/FCF of 6.1x compare to fiscal-year latest EV/EBITDA of 7.5x versus a 3Y average of 25.6x.

VALUATION ANALYSIS

Current EV/EBITDA of 7.9x and EV/FCF of 6.1x compare to fiscal-year latest EV/EBITDA of 7.5x versus a 3Y average of 25.6x. Evidence: free cash flow yield is 17.9% versus a 3Y average of 13.4%. Interpretation: valuation multiples are below historical averages while cash generation yield is above its 3Y norm. Implication: the current price is not aligned with the supplied return and cash-flow profile if those metrics persist.

QUALITY & CAPITAL EFFICIENCY

Quality metrics reflect high capital efficiency. Evidence: ROE is 20.9% and ROIC is 30.2%, with income quality of 1.7 and net debt to EBITDA of 0.6x. Interpretation: earnings are supported by cash conversion and modest leverage. Implication: in a P&C model reliant on underwriting discipline and investment income, these metrics indicate returns above recent historical averages such as 3Y average ROE of 11.6%.



QUALITY & RETURN PROFILE

Quality metrics reflect high capital efficiency.

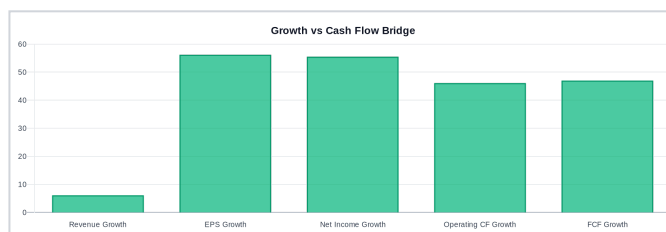
GROWTH TRAJECTORY

Growth is margin-led rather than revenue-led. Evidence: revenue growth is 6.1% versus EPS growth of 56.2% and net income growth of 55.5%. Interpretation: underwriting margins and expense leverage have driven profitability expansion. Implication: if revenue growth remains near the 5Y average of 6.5% while EPS growth moderates toward that level, the valuation case depends on sustaining elevated margins.



HISTORICAL GROWTH TRENDS

Growth is margin-led rather than revenue-led.



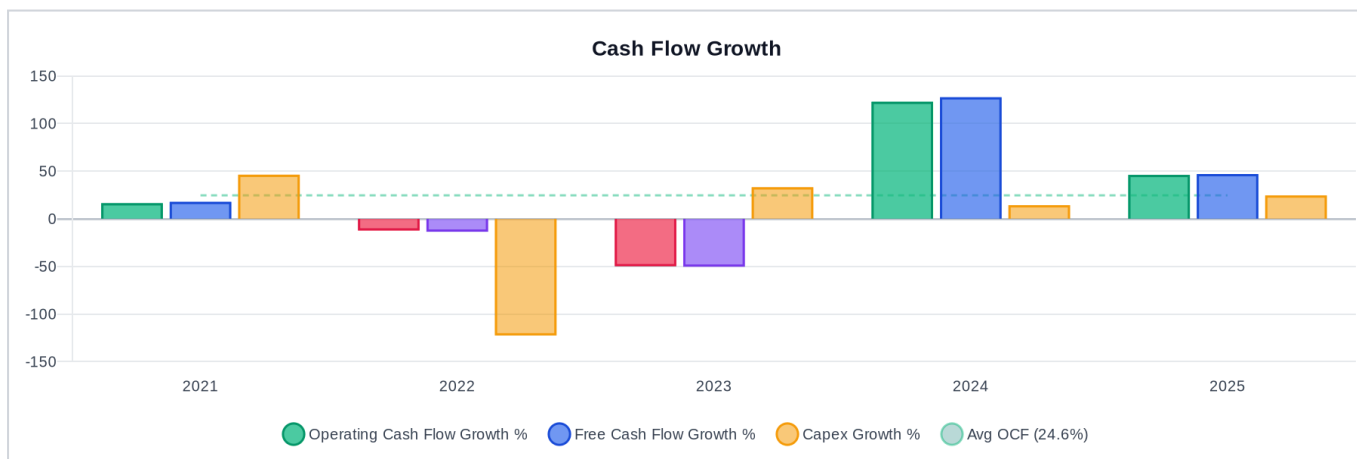
GROWTH VS CASH FLOW BRIDGE

Growth is margin-led rather than revenue-led.

CASH FLOW GROWTH & CONVERSION

Cash flow growth supports earnings growth. Evidence: operating cash flow growth is 46.1% and free cash flow growth is 47.0%, compared to 3Y average free cash flow growth of 41.4%. Interpretation: cash generation is keeping pace with accounting earnings. Implication: the durability question centers on whether FCF growth can remain near the 5Y average of 25.7% rather than reverting below it.

Conversion is supported by limited capital intensity. Evidence: capex growth is 24.5% while free cash flow growth is 47.0%, and capex to revenue is 0.1% versus a 3Y average of 0.2%. Interpretation: capital expenditure is not absorbing operating cash flow growth. Implication: free cash flow to firm of \$1.3B is available for dividends and buybacks without balance sheet strain.



CASH FLOW GROWTH — OCF, FCF & CAPEX

Cash flow growth supports earnings growth.

ANALYST EXPECTATIONS

Next Revenue Estimate **\$7.5B**

Revenue Bull Case **\$7.5B**

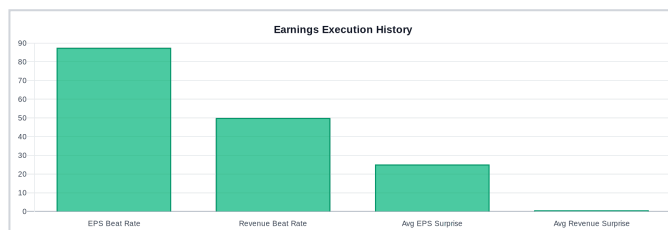
Revenue Bear Case	\$7.5B
Next EPS Estimate	18.01
EPS Bull Case	18.56
EPS Bear Case	17.74
Revenue Dispersion	0%
EPS Dispersion	4.57%
Revenue Coverage	1
EPS Coverage	2

Analyst expectations appear Reasonable with contained dispersion. Evidence: next EPS estimate is \$18.01 with EPS dispersion of 4.6% and analyst coverage of 2 for EPS. Interpretation: dispersion is limited but coverage is narrow. Implication: expectations are not stretched relative to EPS growth of 56.2%, but limited coverage reduces estimate supported by supplied metricsness.



ANALYST EXPECTATIONS RANGE

Analyst expectations appear Reasonable with contained dispersion.



EXECUTION HISTORY

Execution at the earnings line has been consistent.

EXECUTION QUALITY

Quarters Analysed	8
EPS Beat Rate	87.5%
Revenue Beat Rate	50.0%
Avg EPS Surprise	25.1%
Avg Revenue Surprise	0.6%
EPS Beats / Misses	7 / 1
Revenue Beats / Misses	4 / 4

Execution at the earnings line has been consistent. Evidence: EPS beat rate is 87.5% over 8 quarters with average EPS surprise of 25.1%, while revenue beat rate is 50.0%. Interpretation: profitability has outperformed estimates more reliably than revenue. Implication: current EPS estimates of \$18.01 have historical support from execution trends.

Credibility is supported by repeated EPS beats. Evidence: 7 EPS beats out of 8 quarters and average revenue surprise of 0.6%. Interpretation: earnings surprises have been larger and more consistent than revenue surprises. Implication: forward EPS expectations are supported by execution history, though revenue volatility remains evident.

BULL / BASE / BEAR SCENARIOS

BULL CASE	BASE CASE	BEAR CASE
If EPS reaches \$18.56 and ROIC remains at 30.2% while EV/FCF stays near 6.1x, then earnings durability would be evidenced against a valuation implying mean reversion.	If revenue remains near 6.1% growth and EPS aligns with the \$18.01 estimate while EV/EBITDA remains near 7.9x, then valuation reflects mid-cycle underwriting profitability.	If EPS declines toward \$17.74 and ROE falls toward the 3Y average of 11.6% while EV/EBITDA remains 7.9x, then the multiple would reflect normalization of returns.
<div style="display: flex; gap: 5px;"> <div>EPS Bull Case \$18.56</div> <div>ROIC 30.2%</div> <div>EV/FCF 6.1x</div> </div>	<div style="display: flex; gap: 5px;"> <div>Revenue Growth 6.1%</div> <div>Next EPS Estimate \$18.01</div> <div>EV/EBITDA 7.9x</div> </div>	<div style="display: flex; gap: 5px;"> <div>EPS Bear Case \$17.74</div> <div>ROE 20.9%</div> <div>3Y Avg ROE 11.6%</div> </div>

SCENARIO PROBABILITY MATRIX

BULL SCENARIO	BASE SCENARIO	BEAR SCENARIO	WEIGHTED THESIS SCORE
37%	50%	13%	70 / 100

12-24 MONTH CONDITIONAL OUTLOOK

Revenue growth of 6.1% suggests mid-single-digit expansion consistent with the 5Y average of 6.5%.

EPS growth of 56.2% versus revenue growth of 6.1% indicates margin sensitivity will drive earnings over the next 12-24 months.

EV/FCF of 6.1x and earnings yield of 10.2% imply the market prices normalization rather than continuation of 47.0% FCF growth.

An 87.5% EPS beat rate over 8 quarters supports estimate credibility of \$18.01.

If ROIC remains above 11.6% and FCF yield remains above 13.4%, the valuation case would be supported by sustained capital efficiency.

THESIS MONITOR

TRACK QUARTERLY	THESIS CHANGES IF	THESIS WEAKENS IF
Can ROIC remain at 30.2% given revenue growth of 6.1%?	If ROIC remains above 30.2% while EV/FCF remains at 6.1x, then the durability argument gains support.	If ROE falls below the 3Y average of 11.6%, then the capital efficiency case challengedens.
Will Free Cash Flow Growth remain near 47.0% versus the 5Y average of 25.7%?	If Free Cash Flow Growth remains above the 3Y average of 41.4%, then cash generation durability would be reinforced.	If Free Cash Flow Growth falls below the 5Y average of 25.7%, then the cash-flow durability thesis challengedens.
Does EV/EBITDA of 7.9x reflect sustainable ROE of 20.9%?	If EPS dispersion falls below 4.6% while EPS beats continue above 87.5%, then estimate stability would improve.	If EPS Growth falls below 0.0% from 56.2%, then the profitability expansion thesis fails.



RISK & THESIS MONITOR

Can ROIC remain at 30.2% given revenue growth of 6.1%?

RISK ASSESSMENT

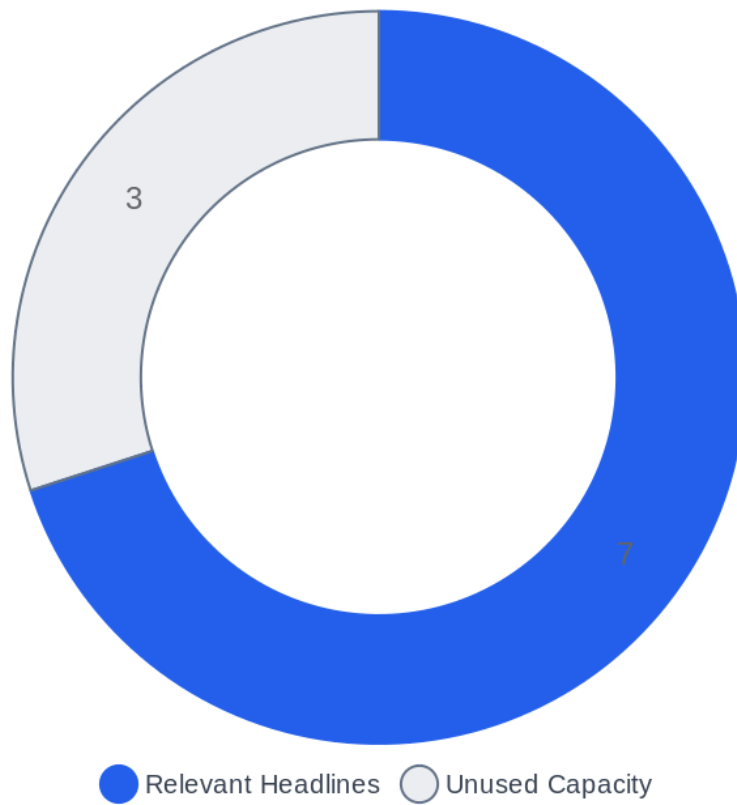
DIMENSION	SCORE	LEVEL
Valuation Risk	2 / 5	Low
Growth Risk	2 / 5	Low
Execution Risk	1 / 5	Low
Forecast Risk	3 / 5	Moderate
Quality Risk	1 / 5	Low
Overall Risk	3 / 5	Moderate
Composite Risk Score	2.0 / 5	

- Net Debt/EBITDA 0.6x
- Free Cash Flow Yield 17.9%
- EV/Sales 1.1x

NEWS NARRATIVE

The headline "The Hanover Reports Record First Quarter Net Income and Operating Income of \$5.20 and \$5.25 per Diluted Share, Respectively; Record Net and Operating Return on Equity of 20.9% and 20.3%, Respectively" is relevant to monitoring ROE of 20.9%, but additional evidence is required to determine financial impact. The headline "The Hanover Insurance Group, Inc. Announces New Share Repurchase Authorization" referencing up to \$700 million is relevant to capital allocation relative to free cash flow to firm of \$1.3B, but additional evidence is required to determine financial impact.

News Context Coverage



NEWS CONTEXT COVERAGE

Recent relevant coverage clusters around: analyst_revision, product_strategy, ai_technology.

INVESTMENT VIEW

EVIDENCE BALANCE

Positive evidence balance

CONVICTION

High

RISK LEVEL

Moderate

CLASSIFICATION

Value / Quality Candidate

Core Thesis: At EV/EBITDA of 7.9x and EV/FCF of 6.1x, the market is pricing skepticism that THG's 56.2% EPS growth and 30.2% ROIC are durable, despite a 17.9% FCF yield and 87.5% EPS beat rate supporting ongoing earnings resilience.

Primary Risk: Revenue Beat Rate 50.0%

Monitor: Can ROIC remain at 30.2% given revenue growth of 6.1%?