

## Everest Group Ltd

# 4Q23 miss due to higher expense items; large Insurance loss reserve charge

Reiterate Rating: BUY | PO: 551.00 USD | Price: 383.94 USD

## Everest reports 4Q23 op. EPS ex-tax benefit of \$11.85

This is a miss compared to our forecast of \$14.93 and consensus of \$14.63. \$11.85 excludes a \$578mn tax benefit (\$13.33/sh) from realized deferred taxes accrued resulting from the change in Bermuda tax law. Underperformance vs. our projection stemmed from a 260bps jump in the expense ratio associated with one-time higher profit commissions due to a significant reserve release in the Reinsurance segment (just under a \$2/sh impact). The core loss ratio and the G&A expense ratio exceeded our projection by 50bps and 25bps, respectively (about \$0.65/sh).

## Reserve strengthening in insurance liability lines

With 4Q23 results, the company recorded a \$392mn reserve charge in the Insurance segment related to long-tail lines offset by a \$397mn reserve release related to mortgage and short-tail lines in Reinsurance. The Insurance charge relates principally to the "soft market" years of 2016-19. A spate of liability reserve strengthening in 4Q23 insurer results (AXIS, Cincinnati, Markel, Selective) underscores industrywide pressures. However, following new leadership in 2020, Everest took a \$400mn charge related to long-tail lines in Reinsurance and nothing in Insurance, asserting a "clean bill of health." Given the confident outlook expressed at the December 2023 investor day event, investors are likely to be negatively surprised by the magnitude of the Insurance charge.

## Top line growth exceeds expectations

Net premiums written growth of 21% materially exceeded our forecast of 12%, with beats across both segments. Insurance and Reinsurance growth of +25% and +20% compare vs our estimates of +10% and +13%, respectively. However, our forecasts did not reflect a premium reallocation between the segments introduced in 4Q23 results, somewhat limiting comparability. The company indicates that 1/1 reinsurance renewals were successful, permitting full deployment of the \$1.5bn in capital it raised in May. We expect pricing and growth expectations to remain important topics on tomorrow's call.

## Price objective to \$551, reiterate Buy

Upon integrating 4Q23 results into our model and updating our forecasts, our 2024 EPS projection increases modestly on better top line growth, whereas 2025-26 fall as a lower underwriting margins offset stronger top line growth. Our PO of \$551 ( \$522 prior) is predicated upon 80% of the peer group multiple (10.6 vs 10x prior) on our FY25E EPS estimate. Material upside vs out PO informs our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	27.08	66.44	62.75	65.05	69.90
GAAP EPS	15.22	60.22	63.26	65.40	70.22
EPS Change (YoY)	-6.5%	145.3%	-5.6%	3.7%	7.5%
Consensus EPS (Bloomberg)			61.50	67.85	76.35
DPS	6.50	6.80	7.20	7.60	8.00
Valuation (Dec)					
P/E	14.2x	5.8x	6.1x	5.9x	5.5x
GAAP P/E	25.2x	6.4x	6.1x	5.9x	5.5x
Dividend Yield	1.7%	1.8%	1.9%	2.0%	2.1%

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Timestamp: 07 February 2024 10:21PM EST

07 February 2024

### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	522.00	551.00
2024E EPS	62.05	62.75
2025E EPS	67.95	65.05
2026E EPS	75.00	69.90

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### Stock Data

Price	383.94 USD
Price Objective	551.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-7
52-Week Range	331.08 USD - 417.92 USD
Mkt Val (mn) / Shares Out (mn)	16,659 USD / 43.4
Free Float	98.7%
Average Daily Value (mn)	133.19 USD
BofA Ticker / Exchange	EG / NYS
Bloomberg / Reuters	EG US / EG.N
ROE (2024E)	18.4%
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

# iQprofile<sup>SM</sup> Everest Group Ltd

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	11,787	13,442	15,905	17,328	18,354
Net Investment Income	830	1,434	1,995	2,123	2,256
<b>Total Revenue</b>	<b>12,060</b>	<b>14,587</b>	<b>17,934</b>	<b>19,478</b>	<b>20,636</b>
Total Cost of Benefits and Claims	(8,099)	(8,427)	(10,386)	(11,421)	(12,179)
S,G & A (Including Commissions)	(2,528)	(2,952)	(3,339)	(3,613)	(3,827)
<b>Total Operating Expenses</b>	<b>(11,470)</b>	<b>(12,432)</b>	<b>(14,834)</b>	<b>(16,184)</b>	<b>(17,201)</b>
<b>Pre-Tax Operating Earnings</b>	<b>590</b>	<b>2,155</b>	<b>3,100</b>	<b>3,294</b>	<b>3,435</b>
Income Tax Expense	9	362	(356)	(495)	(515)
<b>Operating Earnings After Tax</b>	<b>1,067</b>	<b>2,777</b>	<b>2,722</b>	<b>2,784</b>	<b>2,907</b>
<b>Net Income (Reported)</b>	<b>965</b>	<b>2,754</b>	<b>2,722</b>	<b>2,784</b>	<b>2,907</b>
Diluted Shares	39	42	43	43	42
Operating Earnings Per Share	27.08	66.44	62.75	65.05	69.90
Net Income (Reported) Per Share	15.22	60.22	63.26	65.40	70.22

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	23,075	28,595	32,448	35,102	37,460
Total Cash and Investments	29,872	37,141	42,146	45,593	48,655
<b>Total Assets</b>	<b>39,966</b>	<b>49,399</b>	<b>54,404</b>	<b>57,851</b>	<b>60,913</b>
Reserves	22,094	24,604	26,162	27,304	28,278
LT Debt	3,083	3,386	3,386	3,386	3,386
<b>Total Liabilities</b>	<b>31,525</b>	<b>36,198</b>	<b>38,045</b>	<b>39,385</b>	<b>40,461</b>
<b>Total Equity</b>	<b>8,441</b>	<b>13,202</b>	<b>16,359</b>	<b>18,466</b>	<b>20,452</b>
<b>Total Equity (Ex FAS 115)</b>	<b>10,437</b>	<b>14,136</b>	<b>16,493</b>	<b>18,466</b>	<b>20,452</b>
Book Value per Share (Reported)	215.33	304.19	377.35	436.85	498.41
Book Value per Share (Ex FAS 115)	266.25	325.71	380.44	436.85	498.41

## Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	21.4%	22.0%	21.0%	20.9%	20.9%
Loss Ratio	68.7%	62.7%	65.3%	65.9%	66.4%
<b>Combined Ratio</b>	<b>90.2%</b>	<b>84.7%</b>	<b>86.3%</b>	<b>86.8%</b>	<b>87.2%</b>
Avg Assets / Avg Eq (Ex FAS 115) Ratio	3.8x	3.6x	3.4x	3.2x	3.1x

## Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	13.3%	14.0%	18.3%	8.9%	5.9%
Net Investment Income	-28.8%	72.8%	39.1%	6.4%	6.3%
Total Revenue	1.6%	21.0%	22.9%	8.6%	5.9%
Operating Earnings per Share	-6.5%	145.3%	-5.6%	3.7%	7.5%
Asset	4.7%	23.6%	10.1%	6.3%	5.3%
Reported Book Value per Share	-16.6%	41.3%	24.0%	15.8%	14.1%

## Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	12.1%	26.5%	18.4%	15.9%	14.9%
Operating ROE (Ex FAS 115)	10.4%	22.6%	17.7%	15.9%	14.9%
Operating Return on Average Assets	2.7%	6.2%	5.2%	5.0%	4.9%
Operating Margin	8.8%	19.0%	15.2%	14.3%	14.1%
Long Term Debt to Cap Ratio (Ex FAS 115)	22.8%	19.3%	17.0%	15.5%	14.2%
Net Income % Operating Income	56.2%	90.6%	100.8%	100.5%	100.5%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

## Company Sector

Insurance - Non-Life

## Company Description

Bermuda-domiciled Everest Re represents one of the P&C industry's essential global markets for reinsurance. With an industry low expense ratio and low debt-to-equity leverage the company's business model represents a strong degree of flexibility in a highly capital-consumptive business model. Over the past few years, the company has been aiming to materially grow its footprint in primary specialty commercial insurance.

## Investment Rationale

Our Buy rating is based on Everest Re having two of the three characteristics we find ideal for the currently increasing pricing trends in many P&C subsegments: a) reported "soft market" underwriting margins in '15-'18 that suggest initial pick conservatism and a base from which to improve and b) proximity to the parts of the market we believe are experiencing the most material improvements. However, its sizable "soft market" premium growth in '15-'17 partly moderates our enthusiasm.

## Stock Data

Average Daily Volume 346,909

## Quarterly Earnings Estimates

	2023	2024
Q1	11.31A	18.26E
Q2	15.21A	16.92E
Q3	14.14A	9.54E
Q4	25.18A	18.03E

## Price objective basis & risk

### Everest Group Ltd (EG)

Our price objective of \$551 is based on 80% of the year-ahead multiple for large cap property and casualty (P&C) peers (10.6x). The 20% discount is based on a reversion to the relative multiple where RE has traded in the past, which we also find likely/appropriate given the greater earnings volatility associated with the reinsurance subsector. While there is no impact from a Bermudian income tax in 2024, we are also reducing the multiple by the impact we expect such a tax to have in 2025.

Downside risks are pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations, volatility associated with catastrophes also creates the risk of missing or exceeding our EPS outlook, and lawmakers enacting what the industry sees as a retrospective change in coverage to insurance contracts, enfranchising virus-triggered business interruption.

## Analyst Certification

I, Joshua Shanker, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
<b>NEUTRAL</b>				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker



**US - Insurance Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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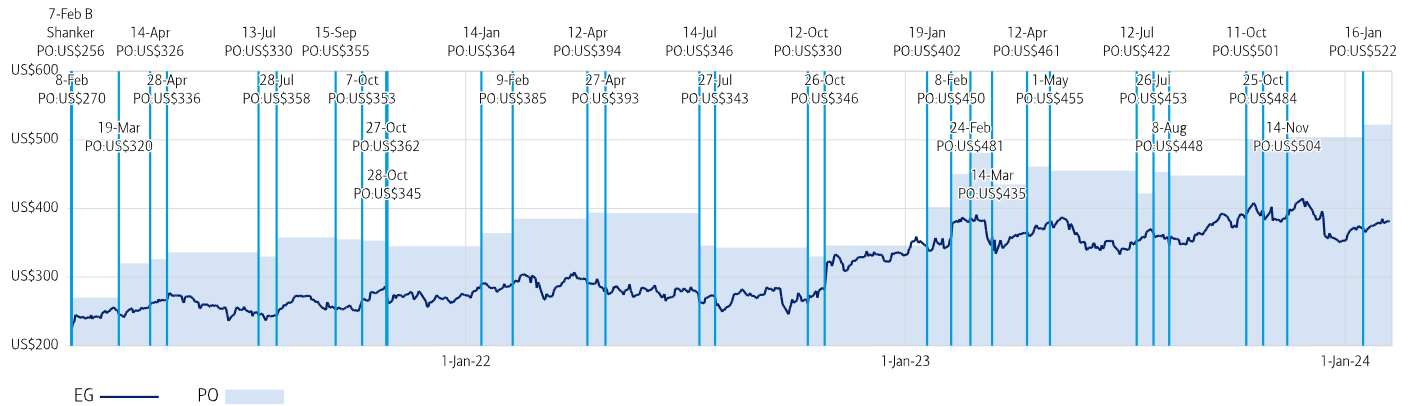
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## Important Disclosures

### Everest Group Ltd (EG) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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