

W.R. Berkley

Upgrading shares of W.R. Berkley to Buy

Rating Change: BUY | PO: 76.00 USD | Price: 61.18 USD

Sell-off makes for opportunity to own Berkley

A recent sell-off in financial and insurers more specifically gives an opportunity to upgrade shares of WRB. Over the past 20 years, W.R. Berkley has compounded book value per share at a pace greater than most peers (13%), and we believe its niche and concentrated positioning in wholesale and specialty markets augurs for continued outperformance. Shares of W.R. Berkley can be bought at an ostensibly very thin premium (10.8x consensus 2024) to the large-cap peers (10.0x). The stock has not traded this cheaply relative to peers in nearly a decade.

Well-positioned for a post-hard market world

W.R. Berkley comes into 2023 with healthily growing operating cash flows, lower-than-peer group paid-to-incurred loss ratios (75-80%) and a low-duration investment portfolio with healthy investment leverage (3.6x). We believe the company's lack of favorable prior-year loss reserve development over the past couple years represents an extended period of reserve build in anticipation of inflationary times. Berkley may be more insulated against inflationary claims pressures relative to many peers.

Optionality for a changing marketplace

Management argues that it may deploy capital into a very much improved property reinsurance marketplace, though we have nothing forecasted in our model. It is also notable that the company is operating in a depressed workers' compensation market, with nothing in our forecast assuming improvements in this line. The multi-manager structure of the Berkley business model allows it greater flexibility in extending and contracting capital through its many businesses as market conditions improve and retreat among its many often non-correlated lines of exposure.

We believe Berkley shares deserve a heady premium

Having compounded tangible book value per share at a 13% CAGR over the past two decades, we believe Berkley shares deserve a material premium to the peer group, where it has traded in the past, but the premium appears to be ignored today. Our price objective of \$76 (vs \$77) is still based on a 50% premium to the large-cap peer multiple (currently 10.0x). With material potential upside to our price objective and a demonstrated track record of superior results in the form of higher return on capital, we recommend shares as Buy.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.40	4.38	4.85	5.10	5.40
GAAP EPS	3.65	4.94	4.85	5.10	5.40
EPS Change (YoY)	119.4%	28.8%	10.7%	5.2%	5.9%
Consensus EPS (Bloomberg)			5.06	5.62	6.12
DPS	1.34	0.89	1.68	1.72	1.76
Valuation (Dec)					
P/E	18.0x	14.0x	12.6x	12.0x	11.3x
GAAP P/E	16.8x	12.4x	12.6x	12.0x	11.3x
Dividend Yield	2.2%	1.5%	2.7%	2.8%	2.9%

15 March 2023

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	B-2-7	B-1-7
Inv. Rating	NEUTRAL	BUY
Price Obj.	77.00	76.00

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Stock Data

Price	61.18 USD
Price Objective	76.00 USD
Date Established	15-Mar-2023
Investment Opinion	B-1-7
52-Week Range	59.98 USD - 76.46 USD
Mrkt Val (mn) / Shares Out (mn)	16,995 USD / 277.8
Average Daily Value (mn)	90.83 USD
BofA Ticker / Exchange	WRB / NYS
Bloomberg / Reuters	WRB US / WRB.N
ROE (2023E)	18.8%
Net Dbt to Eqty (Dec-2022A)	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"](#).

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Refer to important disclosures on page 8 to 10. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 15 March 2023 06:00AM EDT



iQprofileSM W.R. Berkley

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premiums	8,106	9,561	10,398	10,876	11,420
Net Investment Income	414	589	822	876	910
Total Revenue	9,455	11,166	11,991	12,558	13,170
Total Cost of Benefits and Claims	(4,954)	(5,862)	(6,416)	(6,734)	(7,070)
S,G & A (Including Commissions)	(2,599)	(2,962)	(3,224)	(3,372)	(3,526)
Total Operating Expenses	(8,173)	(9,447)	(10,282)	(10,768)	(11,280)
Pre-Tax Operating Earnings	1,283	1,720	1,709	1,790	1,890
Income Tax Expense	(252)	(335)	(355)	(367)	(382)
Operating Earnings After Tax	952	1,225	1,351	1,420	1,505
Net Income (Reported)	1,022	1,381	1,351	1,420	1,505
Diluted Shares	280	279	278	279	279
Operating Earnings Per Share	3.40	4.38	4.85	5.10	5.40
Net Income (Reported) Per Share	3.65	4.94	4.85	5.10	5.40

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Fixed Income Securities	16,603	17,587	0	0	0
Total Cash and Investments	23,706	24,546	25,361	26,293	27,305
Total Assets	32,048	33,861	35,334	36,958	38,692
Reserves	15,391	17,011	17,492	17,997	18,528
LT Debt	2,259	1,829	1,829	1,829	1,829
Total Liabilities	25,380	27,113	27,739	28,439	29,174
Total Equity	6,668	6,748	7,595	8,519	9,517
Total Equity (Ex FAS 115)	6,950	8,013	8,859	9,783	10,782
Book Value per Share (Reported)	25.09	25.43	28.68	32.13	35.85
Book Value per Share (Ex FAS 115)	25.51	29.57	32.82	36.26	39.98

Ratios (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Expense Ratio	32.1%	31.0%	31.0%	31.0%	30.9%
Loss Ratio	61.1%	61.3%	61.7%	61.9%	61.9%
Combined Ratio	93.2%	92.3%	92.7%	92.9%	92.8%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	4.5x	4.4x	4.1x	3.9x	3.7x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Earned Premium	17.0%	18.0%	8.8%	4.6%	5.0%
Net Investment Income	-8.3%	42.3%	39.6%	6.5%	3.8%
Total Revenue	16.7%	18.1%	7.4%	4.7%	4.9%
Operating Earnings per Share	119.4%	28.8%	10.7%	5.2%	5.9%
Asset	12.0%	5.7%	4.3%	4.6%	4.7%
Reported Book Value per Share	6.0%	1.4%	12.8%	12.0%	11.6%

Performance Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Operating ROE	14.6%	18.6%	18.8%	17.5%	16.6%
Operating ROE (Ex FAS 115)	14.2%	16.2%	16.0%	15.1%	14.6%
Operating Return on Average Assets	3.1%	3.7%	3.9%	3.9%	4.0%
Operating Margin	10.1%	11.0%	11.3%	11.3%	11.4%
Long Term Debt to Cap Ratio (Ex FAS 115)	24.5%	18.6%	17.1%	15.7%	14.5%
Net Income % Operating Income	107.4%	112.7%	100.0%	100.0%	100.0%
Amtz of DAC % Pretax Profit bef Amtz of DAC	0%	0%	0%	0%	0%

Company Sector

Insurance - Non-Life

Company Description

W.R. Berkley is a pure-play specialty insurance conglomerate with a number of businesses operating in the excess & surplus (E&S) marketplace. The company has assembled a collection of over 50 unique businesses, each run with partial autonomy by entrepreneurial management incentivized to deliver top-tier performance in their focused silos. The company has a more equity-market sensitive investment strategy with emphasis on private equity market opportunities.

Investment Rationale

Our Buy rating is based on the disappearance of a material valuation premium that WRB formerly bore relative to top-earnings peers. Where the stock currently trades, it does not have this historic and deserved premium. Further, as interest rates have risen, Berkley's superior investment leverage relative to peers—which had largely been neutered by a low interest rate environment—likely translates to higher earnings power on the company's insurance float.

Stock Data

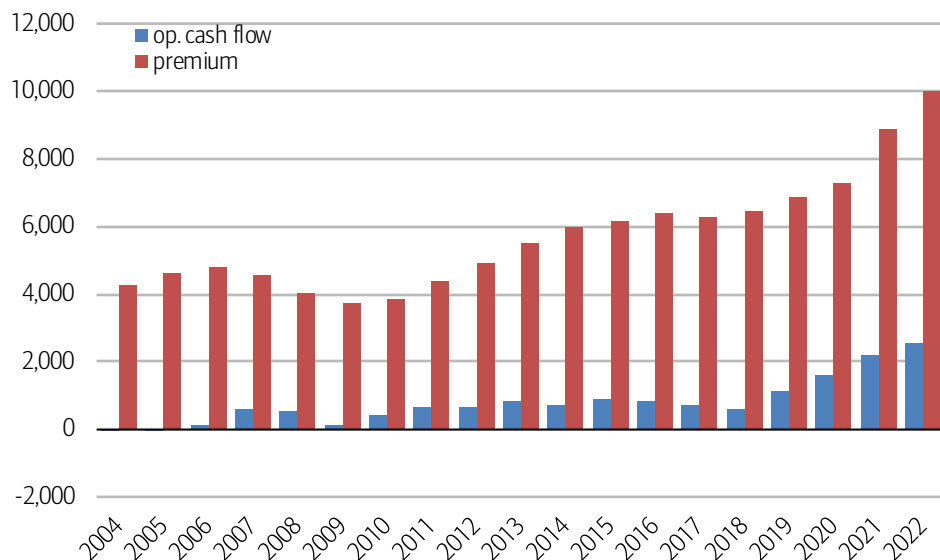
Average Daily Volume 1,484,675

Quarterly Earnings Estimates

	2022	2023
Q1	1.10A	1.21E
Q2	1.12A	1.21E
Q3	1.01A	1.18E
Q4	1.16A	1.25E

Exhibit 1: Berkley long-term growth in net written premium compared with operating cash flow

While many P&C insurers seemed to deliver operating cash flow peaks in 2020 and 2021 despite higher premium volume in 2022, Berkley's growth in premium is rising in concert with rising operating cash flows, which we believe represents healthy operations during a hard market pricing trend.

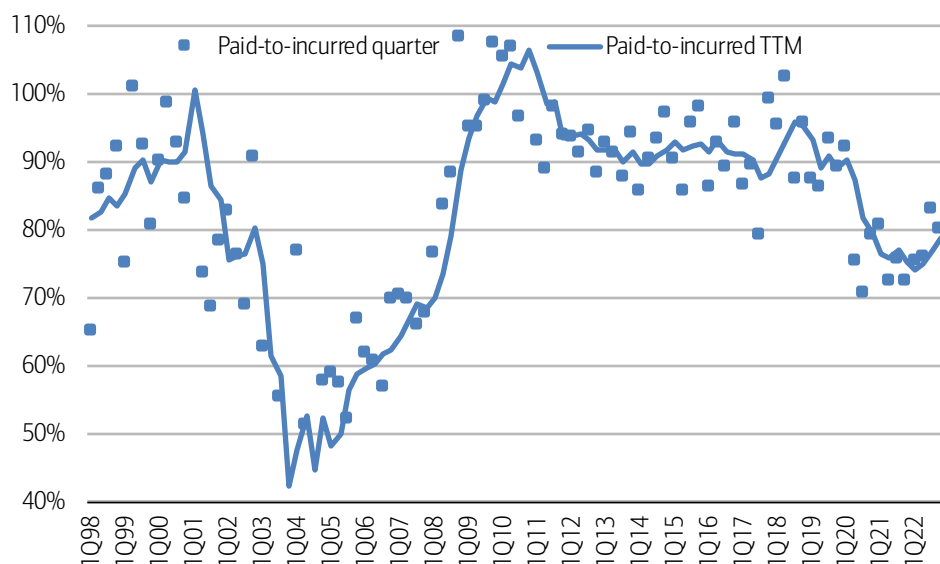


Source: Company reports

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Exhibit 2: Berkley long-term paid-to-incurred loss ratio trend

Berkley's paid-to-incurred loss ratio has hovered in the 75-80% range over the past two years. This means that for every dollar of insurance claims it has booked on the balance sheet, 20-25¢ have become as reserve for paid losses to emerge in the future. This compares with many industry peers running at 90-100% paid-to-incurred loss ratios, which we believe prepares them poorly for the volatility of inflationary losses.

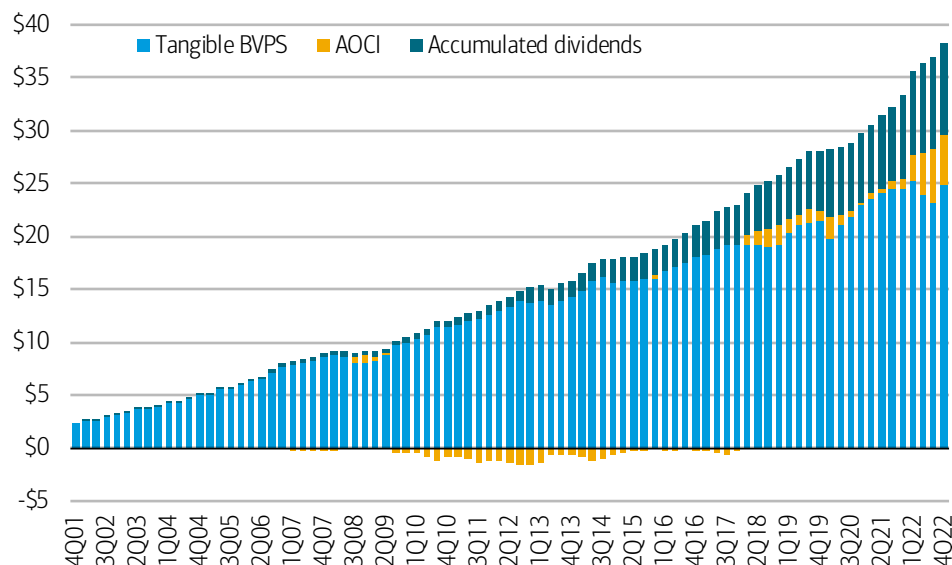


Source: Company reports

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Exhibit 3: W.R. Berkley long-term historical growth in tangible book value per share

With a 13% compounded growth rate in tangible book value per share over the past two decades, W.R. Berkley is near best-in-class. We believe its wholesale/specialty orientation augur for it to be able to maintain best-in-class results. However, it is worth noting a very sophisticated investment strategy in very bullish equity markets also contributed to Berkley's strong results. There is no certainty that the investment results of the next two decades will be as strong as those of the past two decades.

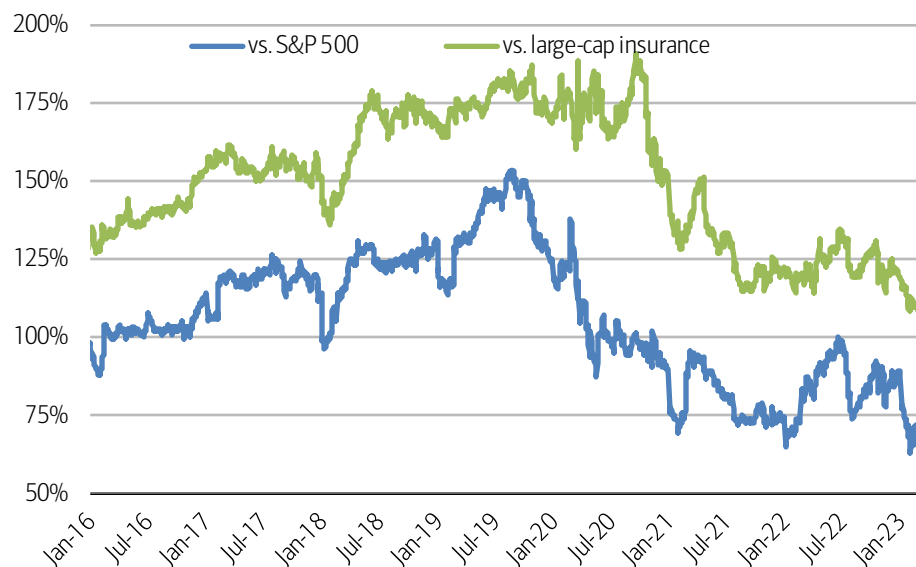


Source: Company reports

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Exhibit 4: W.R. Year-Ahead consensus P/E multiple relative to peer group

Shares of W.R. Berkley have largely traded within a 125-175% relative to peer range. At 109% of large-cap P&C insurers today, the stock briefly touched this relative valuation low in January/February 2014 and then previously in December 2009.



"Large-cap insurance" is the market-cap weighted multiple were Chubb and Travelers trade.

Source: Bloomberg

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Price objective basis & risk

W.R. Berkley (WRB)

Considering our 2024 EPS estimate, we arrive at a price objective of \$76, valued at 150% of the large-cap P&C peers' P/E multiple of 10.0x. Berkley has traditionally enjoyed a sizable premium to peer multiple valuation likely due to its long-term compounding of equity in excess of other best-in-class peers. As the premium valuation has dissipated to be being arguably negligible, this gives investors an opportunity to own a premium franchise at no premium. We would expect the stock can re-rate upward from here. That said, book value growth has been material dependent on realized investment gains during an equity bull market, which could persist as long as the bull market lasts, but also presents a risk, should those conditions change.

Upside risk comes from recent price gains manifesting themselves as widening underwriting margins in excess of our expectations. Downside risk presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The volatility associated with catastrophes also created the risk of missing and exceeding our EPS outlook. Additionally, the state of Berkley's loss reserves, be they deficient or redundant, creates a bi-direction risk for the stock.

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
BUY				
	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
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Re	RE	RE US	Joshua Shanker
	MetLife	MET	MET US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	The Hartford	HIG	HIG US	Joshua Shanker
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Axis Capital	AXS	AXS 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
	Lemonade, Inc.	LMND	LMND US	Joshua Shanker

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

IQmethodSM 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 & 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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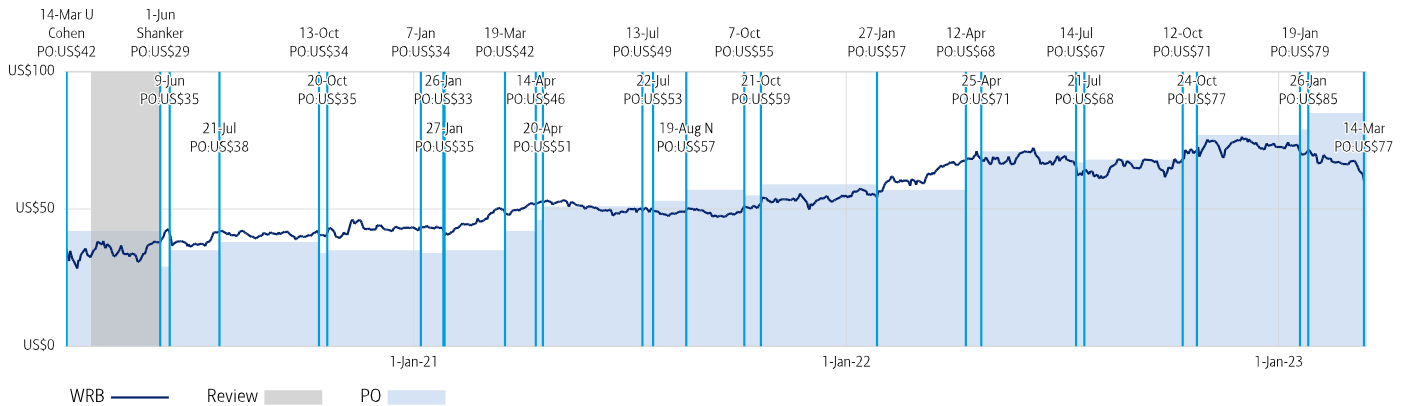
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Disclosures

Important Disclosures

W.R. Berkley (WRB) 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 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	151	53.36%	Buy	100	66.23%
Hold	71	25.09%	Hold	43	60.56%
Sell	61	21.55%	Sell	42	68.85%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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