

W.R. Berkley

4Q23 EPS beat vs. consensus in largely in-line quarter

Reiterate Rating: BUY | PO: 90.00 USD | Price: 77.69 USD

4Q23 operating EPS of \$1.45

While EPS beat vs. consensus of \$1.37, Berkley just missed our forecast of \$1.47. Underwriting volumes and margins were in-line with our estimates, but the 4Q23's corporate overhead (\$134mn vs. our forecast of \$90mn, a \$0.13/sh variance) weighed on results, partly offset by better investment income (\$313mn vs. \$285mn, delivering an \$0.07/sh beat on coupons/dividends and a penny on investment funds/arbitrage). Corporate overhead costs have tended to be volatile and particularly high in 4Q, but we expect that the investment income beat can be rolled into future quarters. Reported renewal rate trend excl. workers' comp moderated slightly to +8.0% from +8.5% in 3Q23.

High ROE meets share repurchase done at a high premium

The company returned \$264mn in capital to shareholders in 4Q23 including \$107mn in share repurchases. This combines for over \$1.0bn in cash returned in 2023 on net income of \$1.4bn with half a billion dollars of share repurchase having been done at an average price to book ratio of 2.4x book. The company closes 2023 with an operating return on average equity of 16.5% in a year where the company notably under-earned on alternative investment strategies, which should be an ROE tailwind in 2024 vs. 2023.

Increasing our outlook for EPS on investment returns

The company saw a big jump in coupon/dividend investment income from \$249mn (a 4.26% yield on the average investment portfolio) to \$286mn (a 4.75% yield) in 4Q23. The step-up seems sizable, and there might be a one-time lift from inflation-sensitive Argentinian bonds among Berkley's investments. That said, the company indicated that 4.7% is probably close to accurate for the core yield in 4Q23, which caused a non-immaterial uptick in our forecasts estimates as we interpolate yield rising less gradually into our forecast. Our EPS forecasts rise 3-5% each across 2024-2026.

Price objective rises to \$90; reiterate Buy

The combination of peer multiple expansion on 2025 earnings (10.4x from 10.0x previously) and higher EPS leads us to increase our PO to \$90 from \$87. However, we are also reducing the premium to the peer multiple from 40% to 30%. Historically, Berkley shares have traded at a 30-40% premium to the peer average, but given deceleration in the insurance cycle, we believe the leverage to a weakening market has less value going forward. The stock nonetheless continues to have healthy upside in our opinion with a healthy capital return from both dividends and repurchases.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.38	4.92	6.30	6.70	7.25
GAAP EPS	4.94	5.05	6.30	6.70	7.25
EPS Change (YoY)	28.8%	12.3%	28.0%	6.3%	8.2%
Consensus EPS (Bloomberg)			5.79	6.28	6.54
DPS	0.89	1.93	1.97	2.01	2.05
Valuation (Dec)					
P/E	17.7x	15.8x	12.3x	11.6x	10.7x
GAAP P/E	15.7x	15.4x	12.3x	11.6x	10.7x
Dividend Yield	1.1%	2.5%	2.5%	2.6%	2.6%

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Timestamp: 24 January 2024 06:38PM EST

24 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	87.00	90.00
2024E EPS	6.05	6.30
2025E EPS	6.50	6.70
2026E EPS	6.90	7.25
2024E DPS	1.72	1.97

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Stock Data

Price	77.69 USD
Price Objective	90.00 USD
Date Established	24-Jan-2024
Investment Opinion	B-1-7
52-Week Range	54.69 USD - 78.27 USD
Mrkt Val (mn) / Shares Out (mn)	21,582 USD / 277.8
Free Float	74.5%
Average Daily Value (mn)	95.10 USD
BofA Ticker / Exchange	WRB / NYS
Bloomberg / Reuters	WRB US / WRB.N
ROE (2024E)	21.3%
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".

iQprofileSM W.R. Berkley

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premiums	9,561	10,401	11,531	12,170	12,778
Net Investment Income	589	967	1,200	1,309	1,389
Total Revenue	11,166	12,143	13,556	14,339	15,070
Total Cost of Benefits and Claims	(5,862)	(6,372)	(7,088)	(7,535)	(7,912)
S,G & A (Including Commissions)	(2,962)	(3,364)	(3,664)	(3,845)	(4,017)
Total Operating Expenses	(9,447)	(10,389)	(11,430)	(12,086)	(12,664)
Pre-Tax Operating Earnings	1,720	1,754	2,126	2,253	2,406
Income Tax Expense	(335)	(371)	(431)	(468)	(493)
Operating Earnings After Tax	1,225	1,345	1,693	1,783	1,910
Net Income (Reported)	1,381	1,381	1,693	1,783	1,910
Diluted Shares	279	273	269	266	264
Operating Earnings Per Share	4.38	4.92	6.30	6.70	7.25
Net Income (Reported) Per Share	4.94	5.05	6.30	6.70	7.25

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Fixed Income Securities	17,587	20,178	0	0	0
Total Cash and Investments	24,546	26,974	28,268	29,653	31,201
Total Assets	33,861	37,202	39,236	41,377	43,698
Reserves	17,011	18,740	19,626	20,568	21,557
LT Debt	1,829	1,828	1,828	1,828	1,828
Total Liabilities	27,093	29,732	30,890	32,053	33,275
Total Equity	6,768	7,470	8,347	9,324	10,422
Total Equity (Ex FAS 115)	8,033	8,396	8,873	9,450	10,422
Book Value per Share (Reported)	25.51	29.06	32.90	37.13	41.91
Book Value per Share (Ex FAS 115)	29.59	31.99	34.29	36.94	41.20

Ratios (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Expense Ratio	31.0%	32.3%	31.8%	31.6%	31.4%
Loss Ratio	61.3%	61.3%	61.5%	61.9%	61.9%
Combined Ratio	92.3%	93.6%	93.2%	93.5%	93.4%
Avg Assets / Avg Eq (Ex FAS 115) Ratio	4.4x	4.3x	4.4x	4.4x	4.3x

Growth Rates (YoY) (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Earned Premium	18.0%	8.8%	10.9%	5.5%	5.0%
Net Investment Income	42.3%	64.2%	24.1%	9.1%	6.1%
Total Revenue	18.1%	8.7%	11.6%	5.8%	5.1%
Operating Earnings per Share	28.8%	12.3%	28.0%	6.3%	8.2%
Asset	5.7%	9.9%	5.5%	5.5%	5.6%
Reported Book Value per Share	1.7%	13.9%	13.2%	12.9%	12.9%

Performance Metrics (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Operating ROE	18.6%	19.3%	21.3%	20.1%	19.3%
Operating ROE (Ex FAS 115)	16.2%	16.5%	19.5%	19.4%	19.2%
Operating Return on Average Assets	3.7%	3.8%	4.4%	4.4%	4.5%
Operating Margin	11.0%	11.1%	12.5%	12.4%	12.7%
Long Term Debt to Cap Ratio (Ex FAS 115)	18.5%	17.9%	17.1%	16.2%	14.9%
Net Income % Operating Income	112.7%	102.7%	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 1,224,047

Quarterly Earnings Estimates

	2023	2024
Q1	1.00A	1.55E
Q2	1.14A	1.55E
Q3	1.35A	1.55E
Q4	1.45A	1.65E



Price objective basis & risk

W.R. Berkley (WRB)

Our price objective of \$90 is based on 10.4x our 2025E EPS estimate. Our multiple represents a 30% premium to large-cap P&C peers. 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.

Upside risk comes from recent price gains manifesting themselves as widening underwriting margins in excess of our expectations.

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 creating the risk of missing (or exceeding) our EPS outlook. Additionally, the state of Berkley's loss reserves, be they deficient or redundant, creates a bi-directional 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				
	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
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	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
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA

US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

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

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

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

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

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

Basic EBIT + Depreciation + Amortization

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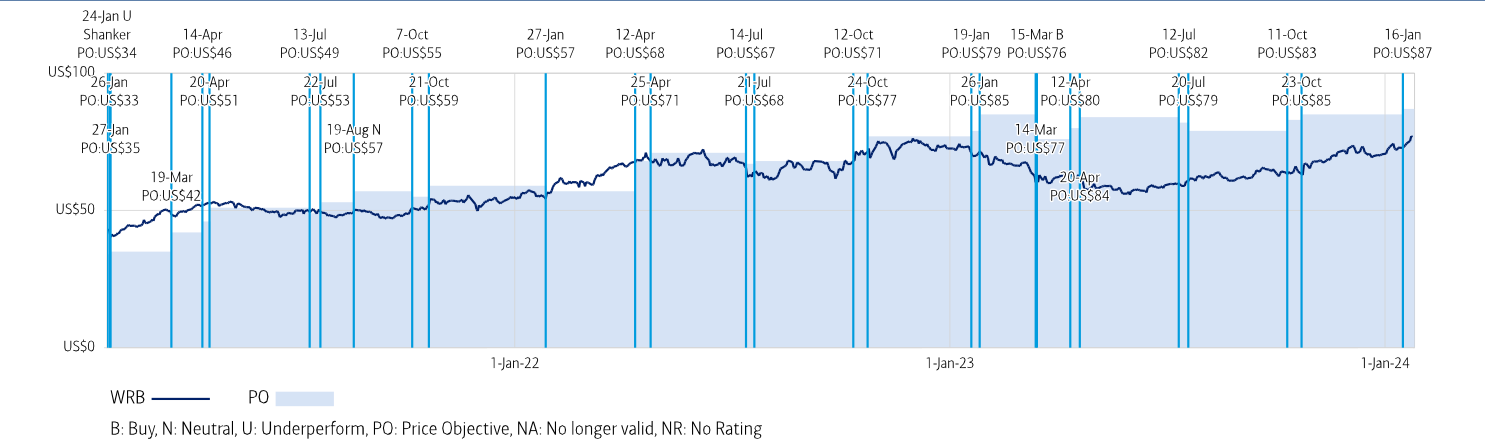
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W.R. Berkley (WRB) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{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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