Price Target Change — July 20, 2023

Commercial Lines Insurance

W.R. Berkley Corporation (WRB)

WRB: Lower Cats Drives EPS Beat at Berkley; Q2 and Conference Call Roundup

Our Call

WRB reported Q2 EPS of $1.14, beating our $1.10 and consensus of $1.08 as lower cat losses, more than offset a weaker underlying margin than we had expected. Growth picked up in the quarter to 9% (from 7%) and WRB pointed to stronger momentum in H2.

Estimate and price target changes: We are slightly raising our 2023 EPS estimate to $4.75 (from $4.74) as the Q2 upside is counter-balanced by a lower margin, while our 2024 estimate goes to $5.95 from $6.05 and our 2025 EPS estimate falls to $6.80 (from $7.00). Our forward numbers reflect higher underlying combined ratio counter-balanced by higher investment income (current yields remain a good amount above the book yield). Our price target goes to $75 (from $76), which is 12.7x our 2024 EPS.

The good: WRB saw low cat losses (in a high cat loss quarter) of $53.5 million, beating our $85 million estimate and lower than $54.9 million last Q2. Premium growth picked up to 8.7%, from 6.7% in Q1 and beat our 7.4% estimate. This was the strongest premium growth quarter since Q3 2022. Further, WRB pointed to growth picking up from here and flagged business continues to flow into the E&S market.

The bad: The current accident year combined ratio remains above 87% (at 87.6% in the quarter), which was close to the 87.7% in Q1, but did rise from 86.2% last Q2, reflective of elevated non-cat fire losses plus shifting business mix. WRB continues to see elevated non-cat fire losses (the level was not quantified) and they said the magnitude slowed from recent quarters, but remains above historical levels. WRB expects the property drag to persist through this year, but at a decelerating clip.

The ugly: WRB did not provide the reserve development by line (the color comes in the 10-Q) but they said it was modest in both. If the development were modest in both segments it implies that WRB saw a good level of accident year deterioration in its insurance book, while showing a good amount of improvement in reinsurance. Some of the accident year deterioration in insurance reflects the non-cat fire losses, but we believe it also reflects business mix, and perhaps WRB using higher loss picks.

The stock from here: Shares are mostly unchanged after-hours, as we believe the earnings beat and pick-up in growth is being counter-balanced by the weaker current accident year combined ratio. The shares seem cheap to us (10.4x 2024 EPS) and WRB has shown it is willing to step in when the shares are cheap (buying back $293 million in Q2), and we expect a pick-up in top-line growth in Q3 could help serve as a catalyst for shares, combined with the non-cat fire losses continuing to decline.

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Rating	Overweight
Ticker	**WRB**
Price Target/Prior:	**$75.00/$76.00**
Upside/(Downside) to Target	**21.7%**
Price (07/20/2023)	**$61.64**
52 Week Range	$55.50 - 76.17
Shares Outstanding	260,774,686
Market Cap (MM)	$16,074
Enterprise Value (MM)	$16,022
Average Daily Volume	603,994
Average Daily Value (MM)	37
Dividend (NTM)	$0.93
Dividend Yield	1.5%
Net Debt (MM) - last reported	$(52)
ROIC - Current year est.	18%
3 Yr EPS CAGR from current year (unless otherwise noted)	16%

$ EPS	2022A	2023E Curr.	2023E Prior	2024E Curr.	2024E Prior
Q1 (Mar)	1.10 A	1.00 A	NC	1.44 E	NC
Q2 (Jun)	1.12 A	1.14 A	1.10E	1.44 E	1.45E
Q3 (Sep)	1.01 A	1.25 E	1.26E	1.48 E	1.51E
Q4 (Dec)	1.16 A	1.37 E	1.40E	1.61 E	1.66E
FY	4.39 A	4.75 E	4.74E	5.95 E	6.05E
P/E	14.0x	13.0x		10.4x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Q2 Beats On Lower Cats

In a Nutshell. WRB reported Q2 EPS of $1.14, beating our $1.10 and consensus of $1.08. The upside was due to catastrophe loses, which came in at $53.5 million and was lower than our $85 million and down relative to $54.9 million last Q2. Prior year adverse favorable reserve development was $3 million, relative to estimate for $3 million of adverse development. WRB does not call out the level of prior year development by segment until the 10-Q, but the company did say that it was not material in either segment. Investment income came in at $245.2 million, versus our $245.1 million estimate, with the core portfolio and arbitrage trading account coming in above us and investment funds falling short of us. There were FX losses of $11.2 million that offset earnings by $0.03 per share.

The underlying combined ratio of 87.6% was above our 87.3% estimate; the underlying loss ratio came in 70bps higher than us due to higher non-cat property losses and business mix. The expense ratio was 40 basis points better than our estimate. WRB bought back $292.5 million shares in the quarter, relative to our $60 million estimate, and the average diluted share count of 273.1 million was lower than our 276.0 million estimate. The operating ROE was 18.1%, and the net income ROE was 21.1%. Book value per share grew 1.3% QoQ.

Exhibit 1 - WRB Q2 2023 Estimates Versus Actual

	Q2 2023		Delta Vs. WFS	
($ in millions, except as noted)	Actual	WFS Estimate	Absolute Delta	% Delta
Summary				
Insurance	199.1	198.1	1.0	0.5%
Reinsurance & Monoline Excess	65.2	38.5	26.7	69.3%
Underwriting Income	**264.3**	**236.7**	**27.7**	**11.7%**
Net Investment Income	245.2	245.1	0.1	0.0%
Corporate & Other Ex. Realized Gains/(Losses)	(110.2)	(98.0)	(12.2)	12.4%
Pre-Tax Operating Income	**399.3**	**383.7**	**15.6**	**4.1%**
Taxes	(89.0)	(80.6)	(8.5)	10.5%
Noncontrolling Interest	0.6	(0.6)	1.2	(193.4%)
Adjusted After-Tax Operating Income	**310.9**	**302.5**	**8.3**	**2.8%**
Operating EPS	**$1.14**	**$1.10**	**$0.04**	**3.8%**
YoY Change in Operating EPS	1.5%	(2.2%)	3.8%	-
Tax Rate	22.3%	21.0%	+130bps	6.2%
GAAP Book Value per Share	**$26.74**	**$27.41**	**($0.66)**	**(2.4%)**
Operating Return on Equity	**18.1%**	**17.2%**	**0.9%**	**5.3%**
Net Income ROE	21.1%	19.4%	+171bps	8.8%
Revenues				
Gross premiums written	3,336.8	3,312.6	24.2	0.7%
y/y change	9.3%	8.5%	0.8%	-
Net premiums written	2,811.5	2,778.0	33.5	1.2%
y/y change	8.7%	7.4%	1.3%	-
Net premiums earned	**2,552.7**	**2,565.5**	**(12.7)**	**(0.5%)**
y/y change	8.3%	8.8%	(0.5%)	-
Net investment income	**245.2**	**245.1**	**0.1**	**0.0%**
y/y change	42.9%	42.8%	0.1%	-
Total revenues	**2,995.9**	**2,967.4**	**28.5**	**1.0%**
Underwriting Profitability				
Loss Ratio	61.5%	62.3%	(0.8pts)	(1.3%)
Expense Ratio	28.1%	28.5%	(0.4pts)	(1.3%)
Combined Ratio	**89.6%**	**90.8%**	**(1.1pts)**	**(1.3%)**
Cats Points on Combined Ratio	2.1%	3.3%	(1.2pts)	(36.7%)
PYD Points on Combined Ratio	(0.1%)	0.1%	(0.2pts)	(167.0%)
Underlying Loss Ratio	***59.5%***	***58.8%***	***+0.6pts***	***1.1%***
Underlying Combined Ratio	***87.6%***	***87.3%***	***+0.3pts***	***0.3%***
Catastrophe Losses ($)	53.5	85.0	(31.5)	(37.0%)
Reserve Development ($)	(2.0)	3.0	(5.0)	(166.7%)
Capital Return				
Common Dividends	28.3	26.1	2.2	0.1
Share Repurchases	292.5	60.0	232.5	3.9
Total Capital Return	**320.8**	**86.1**	**234.7**	**2.7**
Total Payout Ratio (% of Operating Income)	103.2%	28.5%	74.7%	-

Source: Company reports and Wells Fargo Securities, LLC estimates

What the Companies Are Saying - WRB

WRB's call focused on pricing, margins, prior year reserve development, submission flow to the E&S market, capital return and investments

Outlook. WRB said that there continues to be a bifurcation in the standard market and E&S market. Within the standard market, where National carriers do not have an appetite to write business that is leading to opportunities on the E&S side. WRB said that submission flow remains robust, and they are encouraged about activity over the balance of the year, and flagged good results in July. They said liability lines pricing is the most competitive in larger size accounts, which is helping them as they are more of a small and middle market player compared to peers. Overall WRB's view is that the industry is struggling with the balance between rate needs and keeping up with loss trend versus their desire to grow.

Pricing. WRB saw rate of 8.2% (ex workers' comp), which was relatively stable with the Q1 (at 8.3%) and reflective of its business mix. Lines that WRB called out included public D&O where pricing is eroding at a very rapid pace. They also flagged the plaintiff's bar as being challenging and impacting commercial auto, general liability and umbrella. Property losses are spilling over into non-cat or risk-property coverages where additional rate is needed. Within workers' comp, WRB expects medical inflation to rise and to have a bigger impact as frequency has returned to more traditional norms, post Covid-19.

Guidance. WRB only provided guidance around the expense ratio, which they said should be below 30.0% in 2023. The Q2 expense ratio was 28.1%, rising 40 basis points from last year due to: **(1)** change in reinsurance structures, and **(2) i**ncreased compensation costs and start-up operating unit expenses. The expense ratio did improve sequentially from 28.8% in Q1.

They did point to non-cat weather continuing to have an impact on the underlying margin for the remainder of the year but diminishing with each quarter. They did not provide an exact point impact from the non-cat weather in Q2 but said it was lower than recent quarters but still elevated vs historical averages. The last disclosed point impact was in Q4 2022, which was around 1.25 points.

While the company does not provide top-line growth guidance, they did allude to premium growth picking up in H2 (which is similar to comments on last quarter's conference call) as they flagged robust submission flow to the E&S market and said that they were encouraged with July results.

Investments. WRB saw investment income of $245.2 million in the quarter as the core fixed portfolio saw a yield of 4.01% in the quarter, higher than 3.80% estimate. Investment income should continue to be a tailwind for WRB as new money rates are well above the 4.2% book yield (new money yields are 5.25+%). Investment funds returned a ($1.2 million) loss, below our $20.3 million estimate. The investment funds are recorded on a one quarter lag, and they pointed to the underperformance due to some private equity investments seeing some mark downs.

Liquidity and Capital. WRB's debt to capital ratio ended Q2 at 29.2%, which is below the YE 2022 level of 29.6%, but higher than 29.0% at the end of the Q1 2023. Repurchases in the quarter totaled $292.5 million, which was higher than our $60 million estimate and a pick-up from $135.2 million in Q1.

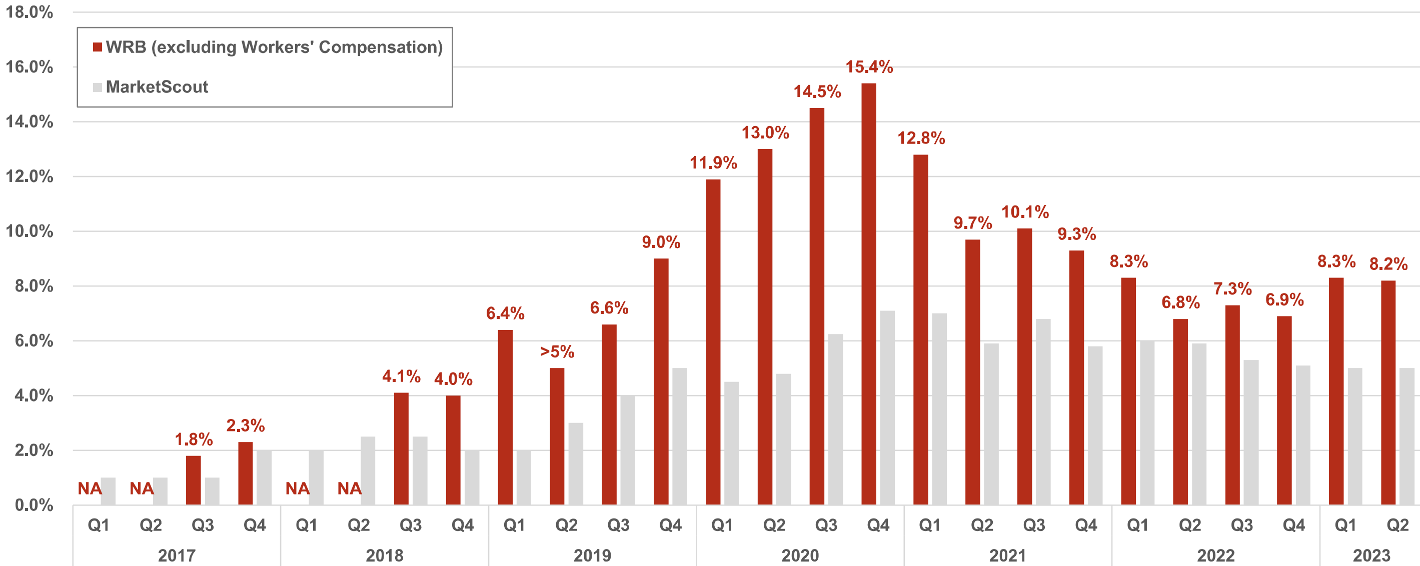
Exhibit 2 - WRB Historical Pricing Commentary

Period	Pricing Comments
Q2 2023	WRB saw rate of 8.2% (ex workers' comp), which was relatively stable with the Q1 (at 8.3%) and reflective of its business mix. WRB said that there continues to be a bifurcation in the standard market and E&S market. Within the standard market, where National carriers do not have an appetite to write business that is leading to opportunities on the E&S side. WRB said that submission flow remains robust, and they are encouraged about activity over the balance of the year, and flagged good results in July. Overall WRB's view is that the industry is struggling with the balance between rate needs and keeping up with loss trend versus their desire to grow.
Q1 2023	Regarding property, the company noted that its disappointment in Q4 pricing discipline has improved month over month, resulting in what is regards as real progressing being made on the pricing front in April. The company feels the rationalization of pricing in the property market, while more pronounced on the cat side, is broad-based overall. The company called out public D&O, certain professional liability lines, and commercial auto as being the most irrational parts of the market. Still, WRB does see pockets of opportunities even within professional liability, especially if written on an E&S basis.
Q4 2022	WRB said they were disappointed in the discipline in property pricing in the Q4 as they said many carriers failed to take into account limited reinsurance capacity and higher reinsurance costs. They believe that property pricing should continue to improve as 2023 develops. For workers' comp, they said they missed the timing on when the market would begin to harden and they expect pricing to be bumpy in 2023 with expectation for considerable firming in 2024 and beyond given severity trends, particularly medical inflation. For auto, they said there is rate to be had but remains the most susceptible line to social inflation and requires thought and judgement in underwriting for loss costs. Umbrella and general liability excess are amongst the brighter opportunities with one area on the cautious watchlist being large account excess lines. Professional liability is a tale of two stores with D&O being pressured given the rising competitive landscape but other lines within professional liability should provide good opportunities. WRB said they participated at 1/1 renewals and said the clock is right to lean in with good discipline with the US offering more attractive returns than international.
Q3 2022	The marketplace remains an interesting one from their perspective - there are pockets of the market that remain extremely attractive and there are others where there is a surprising level of competition. In the specialty space, and in particular the E&S market remains extremely attractive to WRB. Berkley said that they have the ability to pivot into product lines as opportunities emerge and that they could become a more active participant (for perhaps a year or two). They did flag both workers' compensation and professional lines (particularly public company D&O) as lines become increasingly competitive.
Q2 2022	Top line remains very healthy. WRB is seeing continued growth in submissions within Specialty and E&S and is beginning to see resilience in the reinsurance market. WRB does not see short-term headwinds to de-rail growth off of their 15-25% growth target, which they have been achieving. Within Insurance, seeing good growth in Other Liability and commercial auto is robust. In workers' comp, WRB expects the market to bottom and start to firm over the next 12-24 months, reflecting loss cost severity and erosion of pricing power we have seen; medical inflation is likely to increase rapidly and workers' comp is not insulated from that. Despite concerns around the economy and a recession, WRB noted that audit premiums are seeing considerable momentum, up 45% YoY.
Q1 2022	Continue to see rate increases that outpace trend by something measured in the hundreds of basis points. New business pricing is currently outpacing renewal pricing by about 2 points. Retention remains well within range and will continue to take rate as weeded. Submission flow in the E&S market is very strong & encouraging, not seeing standard carriers entering the market eroding any current opportunities. Feel that WC is still facing a difficult pricing environment but will eventually come back.
Q4 2021	There's nothing that leads us to believe that we will not continue to see rate increases that outpace trend by something measured in the hundreds of basis points. Opportunities remain in the workers comp market, but one needs to be very cautious and most of the growth seen is really being driven by payroll growth. We are starting so to see some folks being very aggressive on WC pricing in addition to leaning through on commissions. Submission flow in the E&S market is pretty overwhelming at this stage, particularly in January, and we don't really see standard carriers entering the market eroding any current opportunities.
Q3 2021	It's a good moment for the P&C space. Quite frankly, most of the workers' comp market, which continues to feel a bit of a growing headwind. Obviously, property felt some pain in the quarter, but just general market conditions are reasonably attractive. And we don't see that trend changing. More specifically, it is a good moment for specialty writers, particularly casualty-related specialty writers and even more so the E&S market. We continue to see a growing flow of opportunities, both in specialty and even more so in E&S, and there's nothing that leads us to believe that, that tide is going to reverse anytime soon. So that's definitely encouraging.
Q2 2021	And as far as drilling down into the market a little bit more, when we look at the major product lines with the exception of workers; compensation all of them continued to get rate increases that outpace our view of loss trend. And that is even as we have been factoring in a bit more for financial inflation. It's important that people not read too deeply into as I suspect some might as the rate increase and what does this mean relative to what the rate increase was last quarter or the same time in the prior year. The simple fact is that when we think about our economic model it is multi-dimensional. We look at the margins that are available in the business. And as we become pleased with the available margins we start to think about possibly how we re-prioritize exposure of growth versus pushing further on rate.
June 2021 Non-Deal Roadshow (6/21/21)	WRB described the current market environment as one that it has only seen two times previously, with the prior two being the early 2000's hard market and the 1985-1986 hard market. The company sounded very optimistic about its outlook and looks to take advantage of the hardening market environment where some lines are seeing rate on rate compounding for just shy of three years, while most lines are approaching rate adequacy. Further, the company called out seeing continued tailwinds in the E&S market, driven by: (1) the standard market revisiting its appetite for the specialty market; (2) expectations for increased audit premiums; and (3) new ventures. In addition to E&S tailwinds, WRB indicated that most all lines are at or approaching rate adequacy with the exception of workers' comp. Not all of the lines, however, are seeing the same increases and gave the example of professional liability having seen rate increases for quite some time, while commercial auto has started to firm more recently and workers' comp is in a soft market.
Q1 2021	We are coming up for some of the major product lines on a third year in a row where we are getting meaningful rate increases. And at this stage, we are seeing, as Rich suggested, rate on rate and in many product lines where we have been getting rate on rate in excess of loss cost trend, again, we think that is very encouraging for what that means for margin.
Q4 2020	The market is clearly in the throes of firming. When WRB looks at the marketplace overall, they think that is very appropriate. And whether it proves to be similar to what we saw in sort of late 2001 and 2002 and 2003, we will only see with time. But the reality is, no cycle looks like any other cycle. When WRB looks at Q4 every product line at this stage, with the exception of workers' compensation, is achieving rate in excess of loss cost trends, which they view as appropriate and necessary. They are seeing meaningful firming continuing in much of the PL market as well as the excess and umbrella market, while property continues to be notably hard and auto is also quite firm. One of the laggards has been primary GL and but over the past couple of quarters that seems to be building some momentum.

Source: Company reports and Wells Fargo Securities, LLC

The exhibit below shows WRB's pricing trends (excluding Workers' Compensation) relative to MarketScout since 2017. In Q2, WRB's rate (ex. WC) was 8.2% vs. MarketScout of 5.0%. This compares to Q1 2023 WRB rate of 8.3%, Q4 2022 rate of 6.9%, Q3 2022 rate of 7.3%, Q2 2022 WRB rate of 6.8%, and the 2022 average rate of 7.5%.

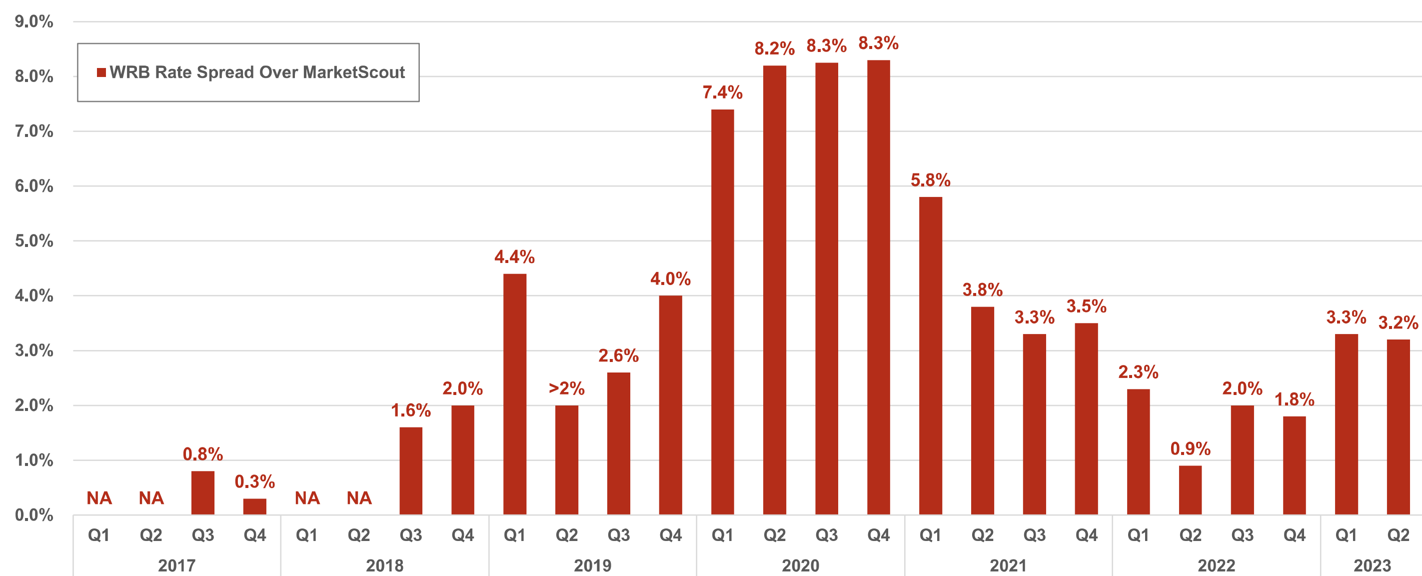
Exhibit 3 - WRB Pricing (excluding Workers' Compensation) vs. MarketScout



Source: Company reports, MarketScout, and Wells Fargo Securities, LLC

The exhibit below shows WRB's pricing trends (excluding Workers' Compensation) as a spread over the MarketScout pricing index since 2017. In Q2, WRB's rate (ex. WC) was 320bps above the MarketScout index. This compares to the Q1 2023 spread of 330 bps, Q4 2022 spread of 180 bps, Q3 2022 spread of 200 bps, Q2 2022 spread of 90 basis points, the Q1 2022 spread of 230 bps, and the average 2021 spread of 410 bps.

Exhibit 4 - WRB Pricing (excluding Workers' Compensation) Spread Over MarketScout



Source: Company reports, MarketScout, and Wells Fargo Securities, LLC

Summary of Estimate Changes

Estimates lowered. See below for an overview of our estimate changes following Q2 2023 earnings.

- **2023 EPS estimate is fairly unchanged at $4.75 (vs prior $4.74)** driven by lower cats in the Q2 fully offset by weaker underlying assumptions.
- **2024 EPS is revised down to $5.95 (vs prior $6.05)** reflecting weaker underlying margin assumptions in insurance, which more than offsets higher investment income and a better margin in reinsurance.
- **2025 EPS goes down to $6.80 (vs prior $7.00)** to reflect weaker underlying margin assumptions in insurance, which more than offsets higher investment income and a better margin in reinsurance.

Our 2023 estimate is up by $0.01 reflective of the Q2 beat, which more than offsets a weaker underlying combined ratio for Q3/Q4. 2024 and 2025 go down reflective of a higher underlying combined ratio in insurance, counter-balanced by a better reinsurance margin and higher investment income.

Summary of Estimate Changes

Exhibit 5 - WRB Estimate Changes

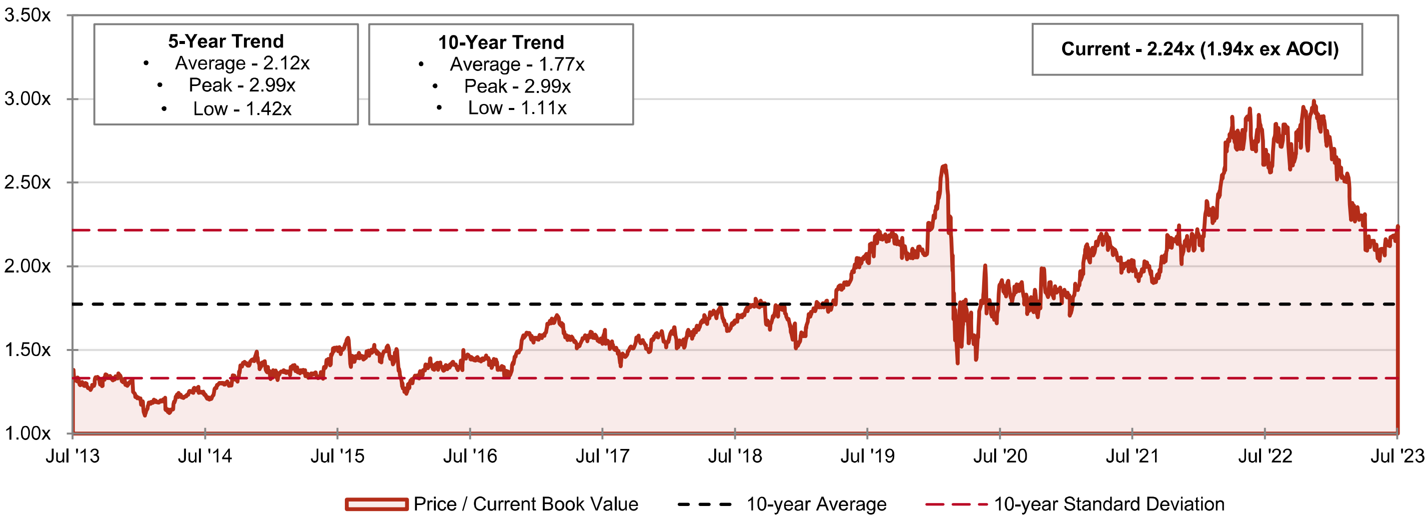
	Current			Prior			*Absolute Change*			*Percentage Change*		
($ in millions, except as noted)	2023E	2024E	2025E	2023E	2024E	2025E	*2023E*	*2024E*	*2025E*	*2023E*	*2024E*	*2025E*
Summary												
Insurance	846.8	993.5	1,110.4	899.2	1,123.0	1,280.3	*(52.4)*	*(129.5)*	*(169.9)*	*(5.8%)*	*(11.5%)*	*(13.3%)*
Reinsurance & Monoline Excess	204.3	220.2	249.1	171.7	200.5	219.3	*32.6*	*19.8*	*29.8*	*19.0%*	*9.9%*	*13.6%*
Underwriting Income	**1,051.1**	**1,213.7**	**1,359.5**	**1,070.9**	**1,323.5**	**1,499.6**	***(19.8)***	***(109.7)***	***(140.1)***	***(1.8%)***	***(8.3%)***	***(9.3%)***
Net Investment Income	1,015.8	1,226.7	1,385.4	995.8	1,195.6	1,363.8	*19.9*	*31.1*	*21.6*	*2.0%*	*2.6%*	*1.6%*
Corporate & Other Ex. Realized Gains/(Losses)	(416.8)	(420.9)	(461.7)	(405.0)	(425.6)	(467.3)	*(11.8)*	*4.7*	*5.5*	*2.9%*	*(1.1%)*	*(1.2%)*
Pre-Tax Operating Income	**1,650.1**	**2,019.6**	**2,283.2**	**1,661.7**	**2,093.5**	**2,396.1**	***(11.6)***	***(73.9)***	***(112.9)***	***(0.7%)***	***(3.5%)***	***(4.7%)***
Taxes	(353.0)	(424.1)	(479.5)	(350.3)	(439.6)	(503.2)	*(2.7)*	*15.5*	*23.7*	*0.8%*	*(3.5%)*	*(4.7%)*
Noncontrolling Interest	(2.3)	(2.5)	(2.5)	(3.5)	(2.5)	(2.5)	*1.2*	*0.0*	*0.0*	*(34.8%)*	*0.0%*	*0.0%*
Adjusted After-Tax Operating Income	**1,294.7**	**1,593.0**	**1,801.2**	**1,307.9**	**1,651.4**	**1,890.5**	***(13.2)***	***(58.4)***	***(89.2)***	***(1.0%)***	***(3.5%)***	***(4.7%)***
Operating EPS	**$4.75**	**$5.95**	**$6.80**	**$4.74**	**$6.05**	**$7.00**	***$0.01***	***($0.09)***	***($0.20)***	***0.1%***	***(1.6%)***	***(2.8%)***
YoY Change in Operating EPS	*8.3%*	*25.3%*	*14.2%*	*8.1%*	*27.5%*	*15.7%*	*0.2%*	*(2.2%)*	*(1.4%)*	*-*	*-*	*-*
Tax Rate	21.4%	21.0%	21.0%	21.1%	21.0%	21.0%	*+31bps*	*+0bps*	*+0bps*	*1.5%*	*0.0%*	*0.0%*
GAAP Book Value per Share	**$29.26**	**$35.13**	**$41.93**	**$29.96**	**$35.93**	**$42.98**	***($0.71)***	***($0.79)***	***($1.05)***	***(2.4%)***	***(2.2%)***	***(2.4%)***
Operating Return on Equity	**18.4%**	**19.8%**	**19.0%**	**18.1%**	**19.5%**	**18.9%**	***0.3%***	***0.2%***	***0.0%***	***1.7%***	***1.3%***	***0.2%***
Net Income ROE	20.9%	22.9%	21.8%	20.8%	22.6%	21.7%	*+11bps*	*+35bps*	*+7bps*	*0.5%*	*1.5%*	*0.3%*
Revenues												
Gross premiums written	12,963.4	14,251.1	15,697.2	13,117.4	14,539.9	16,010.0	*(154.0)*	*(288.8)*	*(312.8)*	*(1.2%)*	*(2.0%)*	*(2.0%)*
y/y change	8.9%	9.9%	10.1%	10.1%	10.8%	10.1%	*(1.3%)*	*(0.9%)*	*0.0%*	*-*	*-*	*-*
Net premiums written	10,860.4	11,940.5	13,148.6	10,940.7	12,096.1	13,308.0	*(80.3)*	*(155.6)*	*(159.4)*	*(0.7%)*	*(1.3%)*	*(1.2%)*
y/y change	8.6%	9.9%	10.1%	9.4%	10.6%	10.0%	*(0.8%)*	*(0.6%)*	*0.1%*	*-*	*-*	*-*
Net premiums earned	**10,360.6**	**11,406.3**	**12,543.0**	**10,383.6**	**11,539.3**	**12,698.9**	***(23.0)***	***(132.9)***	***(155.8)***	***(0.2%)***	***(1.2%)***	***(1.2%)***
y/y change	8.4%	10.1%	10.0%	8.6%	11.1%	10.0%	*(0.2%)*	*(1.0%)*	*(0.1%)*	*-*	*-*	*-*
Net investment income	**1,015.8**	**1,226.7**	**1,385.4**	**995.8**	**1,195.6**	**1,363.8**	***19.9***	***31.1***	***21.6***	***2.0%***	***2.6%***	***1.6%***
y/y change	30.4%	20.8%	12.9%	27.8%	20.1%	14.1%	*2.6%*	*0.7%*	*(1.1%)*	*-*	*-*	*-*
Total revenues	**12,118.4**	**13,306.7**	**14,602.0**	**12,080.3**	**13,408.5**	**14,736.3**	***38.1***	***(101.8)***	***(134.2)***	***0.3%***	***(0.8%)***	***(0.9%)***
Underwriting Profitability												
Loss Ratio	61.6%	60.9%	60.8%	61.1%	60.1%	59.8%	*+0.5pts*	*+0.8pts*	*+1.0pts*	*0.8%*	*1.3%*	*1.6%*
Expense Ratio	28.3%	28.5%	28.4%	28.6%	28.4%	28.4%	*(0.3pts)*	*+0.0pts*	*+0.0pts*	*(1.1%)*	*0.1%*	*0.0%*
Combined Ratio	**89.9%**	**89.4%**	**89.2%**	**89.7%**	**88.5%**	**88.2%**	***+0.2pts***	***+0.8pts***	***+1.0pts***	***0.2%***	***0.9%***	***1.1%***
Cats Points on Combined Ratio	2.0%	1.9%	1.8%	2.3%	1.8%	1.7%	*(0.3pts)*	*+0.1pts*	*+0.1pts*	*(13.1%)*	*3.2%*	*6.0%*
PYD Points on Combined Ratio	0.3%	0.1%	0.1%	0.3%	0.1%	0.1%	*(0.1pts)*	*+0.0pts*	*+0.0pts*	*(18.0%)*	*1.2%*	*1.2%*
Underlying Loss Ratio	***59.3%***	***58.9%***	***58.9%***	***58.5%***	***58.1%***	***58.0%***	***+0.8pts***	***+0.7pts***	***+0.9pts***	***1.4%***	***1.3%***	***1.5%***
Underlying Combined Ratio	***87.6%***	***87.3%***	***87.3%***	***87.1%***	***86.6%***	***86.4%***	***+0.5pts***	***+0.8pts***	***+0.9pts***	***0.6%***	***0.9%***	***1.0%***
Catastrophe Losses ($)	204.6	217.6	227.6	236.1	213.4	217.4	*(31.5)*	*4.2*	*10.2*	*(13.3%)*	*2.0%*	*4.7%*
Reserve Development ($)	27.0	12.0	12.0	33.0	12.0	12.0	*(6.0)*	*0.0*	*0.0*	*(18.2%)*	*0.0%*	*0.0%*
Capital Return												
Common Dividends	242.6	110.0	115.8	236.6	102.7	101.2	*6.0*	*7.3*	*14.6*	*0.0*	*0.1*	*0.1*
Share Repurchases	627.7	240.0	240.0	315.2	240.0	240.0	*312.5*	*0.0*	*0.0*	*1.0*	*0.0*	*0.0*
Total Capital Return	**870.3**	**350.0**	**355.8**	**551.8**	**342.7**	**341.2**	***318.5***	***7.3***	***14.6***	***0.6***	***0.0***	***0.0***
Total Payout Ratio (% of Operating Income)	67.2%	22.0%	19.8%	42.2%	20.8%	18.0%	*25.0%*	*1.2%*	*1.7%*	*-*	*-*	*-*

Source: Company reports and Wells Fargo Securities, LLC estimates

Valuation

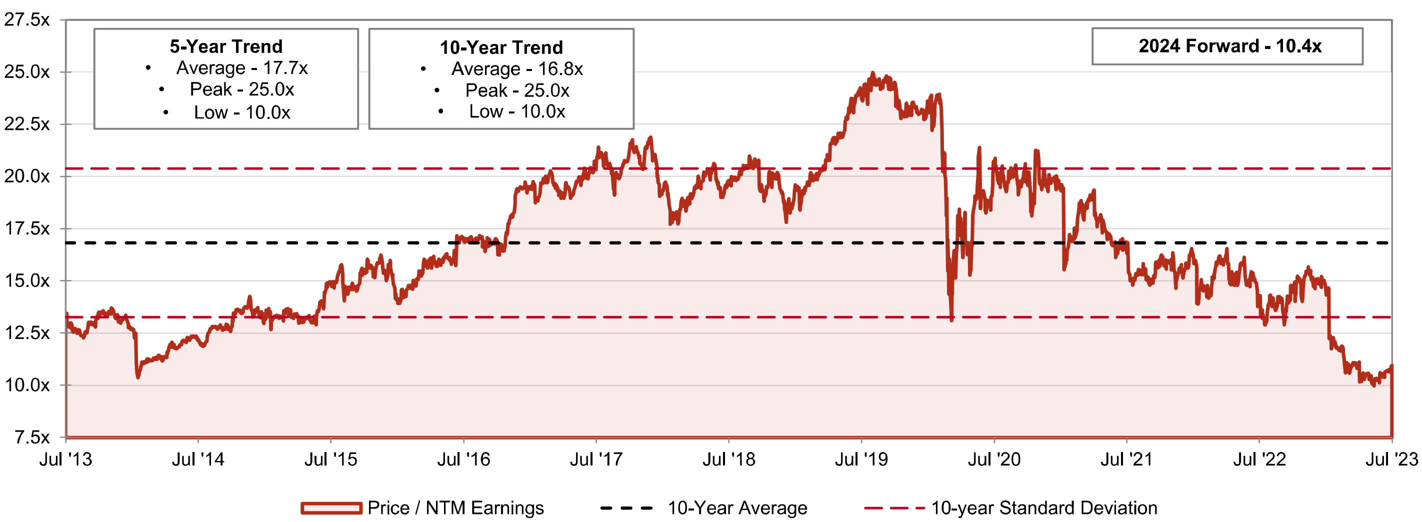
Current Valuation. WRB trades at 2.24x Q1 2023 book value, which is above the 5-year and 10-year average multiples of 2.12x and 1.77x, respectively. The 5-year minimum is 1.42x and 10-year minimum is 1.11x. The 5-year and 10-year max is 2.99x, which is well above where the shares are currently trading. We do note that for the P&C sector price-to-book valuations are fuller given the unrealized losses we have seen in this rising interest rate environment. For WRB, if we exclude AOCI, the shares are trading at just around 2.00x adjusted Q4 book. On a P/E basis, WRB is trading at 10.4x our 2024 EPS estimate, which compares favorably to the 5-year and 10-year average multiples of 17.7x and 16.8x, respectively. It is just above the 5-year minimum, which is 10.0x (during the low point of the pandemic) and above the 10-year minimum of 10.0x. The 5-year and 10-year max is 25.0x.

Exhibit 6 - WRB Historical P/BV



Source: Company reports, Factset, and Wells Fargo Securities, LLC estimates

Exhibit 7 - WRB Historical P/E



Source: Company reports, Factset, and Wells Fargo Securities, LLC estimates

Exhibit 8 - WRB Consolidated Earnings Model

$ in millions, except per share data	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	Q3 2023E	Q4 2023E	2023E	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Summary																					
Insurance	749.2	243.4	233.2	187.4	238.4	902.3	185.5	199.1	217.7	244.6	846.8	245.3	241.2	239.5	267.4	993.5	271.4	269.1	270.8	299.2	1,110.4
Reinsurance & Monoline Excess	95.1	30.3	35.0	4.4	52.7	122.4	49.5	65.2	39.9	49.6	204.3	58.5	52.3	51.5	58.0	220.2	65.4	61.1	58.1	64.4	249.1
Underwriting Income	**844.3**	**273.7**	**268.2**	**191.7**	**291.0**	**1,024.7**	**235.0**	**264.3**	**257.6**	**294.2**	**1,051.1**	**303.8**	**293.5**	**291.0**	**325.4**	**1,213.7**	**336.8**	**330.2**	**328.9**	**363.6**	**1,359.5**
Net Investment Income	671.6	173.5	171.6	202.8	231.3	779.2	223.4	245.2	267.7	279.5	1,015.8	290.8	301.6	312.1	322.2	1,226.7	332.1	341.7	351.2	360.4	1,385.4
Corporate & Other Ex. Realized Gains/(Losses)	(320.7)	(75.8)	(45.6)	(40.9)	(119.0)	(281.3)	(105.3)	(110.2)	(96.8)	(104.5)	(416.8)	(105.0)	(107.4)	(103.7)	(104.8)	(420.9)	(115.0)	(117.7)	(113.8)	(115.3)	(461.7)
Pre-Tax Operating Income	**1,195.2**	**371.4**	**394.1**	**353.7**	**403.3**	**1,522.5**	**353.1**	**399.3**	**428.5**	**469.2**	**1,650.1**	**489.6**	**487.8**	**499.4**	**542.8**	**2,019.6**	**554.0**	**554.3**	**566.3**	**608.7**	**2,283.2**
Tax Rate	19.6%	16.7%	20.5%	19.9%	19.9%	19.3%	21.4%	22.3%	21.0%	21.0%	21.4%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
Taxes	(234.8)	(62.1)	(80.6)	(70.2)	(80.2)	(293.2)	(75.5)	(89.0)	(90.0)	(98.5)	(353.0)	(102.8)	(102.4)	(104.9)	(114.0)	(424.1)	(116.3)	(116.4)	(118.9)	(127.8)	(479.5)
Noncontrolling Interest	(8.5)	(2.4)	(0.1)	(1.6)	0.2	(3.9)	(1.6)	0.6	(0.6)	(0.6)	(2.3)	(0.6)	(0.6)	(0.6)	(0.6)	(2.5)	(0.6)	(0.6)	(0.6)	(0.6)	(2.5)
Adjusted After-Tax Operating Income	**951.9**	**306.921**	**313.4**	**281.8**	**323.3**	**1,225.4**	**276.0**	**310.9**	**337.9**	**370.0**	**1,294.7**	**386.2**	**384.7**	**393.9**	**428.2**	**1,593.0**	**437.0**	**437.2**	**446.7**	**480.3**	**1,801.2**
Operating EPS	**$3.40**	**$1.10**	**$1.12**	**$1.01**	**$1.16**	**$4.39**	**$1.00**	**$1.14**	**$1.25**	**$1.37**	**$4.75**	**$1.44**	**$1.44**	**$1.48**	**$1.61**	**$5.95**	**$1.65**	**$1.65**	**$1.69**	**$1.82**	**$6.80**
YoY Change in After-Tax Operating Income	117.1%	52.1%	43.0%	14.2%	13.7%	28.7%	(10.1%)	(0.8%)	19.9%	14.4%	5.7%	39.9%	23.8%	16.6%	15.7%	23.0%	13.2%	13.7%	13.4%	12.2%	13.1%
YoY Change in Operating EPS	**119.8%**	**52.7%**	**43.6%**	**14.4%**	**13.6%**	**28.9%**	**(9.5%)**	**1.5%**	**23.9%**	**18.6%**	**8.3%**	**44.7%**	**26.4%**	**18.3%**	**17.1%**	**25.3%**	**14.4%**	**14.8%**	**14.6%**	**13.3%**	**14.2%**
Consensus EPS									$1.16	$1.33	$4.54	$1.39	$1.36	$1.33	$1.53	$5.56	$1.62	$1.60	$1.54	$1.76	$6.38
WFS Estimate versus Consensus									7.4%	3.0%	4.6%	3.6%	6.1%	10.9%	5.5%	7.2%	1.8%	3.3%	9.7%	3.7%	6.6%
Premiums																					
YoY Change in Gross Premiums Written	20.9%	15.1%	14.7%	10.6%	5.4%	11.3%	6.6%	9.3%	10.0%	9.3%	8.9%	11.0%	9.1%	9.9%	9.8%	9.9%	10.2%	10.1%	10.1%	10.1%	10.1%
YoY Change in Premiums Earned	**17.0%**	**21.6%**	**19.6%**	**17.3%**	**14.1%**	**18.0%**	**10.8%**	**8.3%**	**7.7%**	**6.9%**	**8.4%**	**10.4%**	**10.4%**	**9.7%**	**9.9%**	**10.1%**	**9.9%**	**9.9%**	**10.0%**	**10.1%**	**10.0%**
Investment Income (Pre-Tax)																					
Core Portfolio	413.9	112.3	133.6	156.1	186.9	588.9	203.0	229.3	240.2	251.2	923.7	261.7	271.8	281.5	290.8	1,105.8	299.8	308.6	317.1	325.4	1,250.9
Investment Funds	220.0	52.0	33.9	36.0	23.2	145.1	2.2	(1.2)	20.2	20.8	41.9	21.3	21.9	22.5	23.1	88.9	23.8	24.4	25.1	25.8	99.2
Arbitrage Trading Account	37.7	9.2	4.1	10.7	21.2	45.2	18.3	17.0	7.3	7.5	50.1	7.7	7.9	8.1	8.3	32.0	8.5	8.7	8.9	9.2	35.3
Total Pre-Tax Net Investment Income	**671.6**	**173.5**	**171.6**	**202.8**	**231.3**	**779.2**	**223.4**	**245.2**	**267.7**	**279.5**	**1,015.8**	**290.8**	**301.6**	**312.1**	**322.2**	**1,226.7**	**332.1**	**341.7**	**351.2**	**360.4**	**1,385.4**
Total Pre-Tax NII Annualized Yield	**2.98%**	**2.93%**	**2.91%**	**3.44%**	**3.84%**	**3.27%**	**3.61%**	**3.90%**	**4.20%**	**4.31%**	**4.01%**	**4.41%**	**4.50%**	**4.57%**	**4.64%**	**4.53%**	**4.71%**	**4.76%**	**4.81%**	**4.85%**	**4.78%**
Margins																					
Loss Ratio	61.1%	59.5%	60.9%	64.1%	60.6%	61.3%	61.8%	61.5%	62.1%	60.9%	61.6%	60.2%	61.1%	61.4%	60.9%	60.9%	60.1%	61.0%	61.3%	60.7%	60.8%
Expense Ratio	28.5%	28.3%	27.7%	28.1%	27.8%	28.0%	28.8%	28.1%	28.1%	28.1%	28.3%	28.7%	28.5%	28.6%	28.1%	28.5%	28.7%	28.4%	28.4%	28.1%	28.4%
Combined Ratio	**89.6%**	**87.8%**	**88.6%**	**92.1%**	**88.4%**	**89.3%**	**90.6%**	**89.6%**	**90.2%**	**89.1%**	**89.9%**	**89.0%**	**89.6%**	**89.9%**	**89.0%**	**89.4%**	**88.9%**	**89.3%**	**89.6%**	**88.8%**	**89.2%**
YoY Change in Loss Ratio (Favorable)	(3.4%)	(1.1%)	(0.1%)	1.7%	0.2%	0.2%	2.2%	0.6%	(2.0%)	0.4%	0.3%	(1.5%)	(0.4%)	(0.7%)	(0.1%)	(0.7%)	(0.1%)	(0.2%)	(0.1%)	(0.2%)	(0.1%)
YoY Change in Expense Ratio (Favorable)	(2.0%)	(1.2%)	(1.0%)	0.0%	0.0%	(0.5%)	0.6%	0.4%	0.1%	0.3%	0.3%	(0.1%)	0.3%	0.4%	(0.0%)	0.2%	(0.0%)	(0.1%)	(0.2%)	(0.0%)	(0.1%)
YoY Change in Combined Ratio (Favorable)	**(5.4%)**	**(2.3%)**	**(1.1%)**	**1.7%**	**0.2%**	**(0.3%)**	**2.8%**	**1.0%**	**(1.9%)**	**0.7%**	**0.6%**	**(1.6%)**	**(0.0%)**	**(0.3%)**	**(0.1%)**	**(0.5%)**	**(0.1%)**	**(0.2%)**	**(0.3%)**	**(0.2%)**	**(0.2%)**
Catastrophe Losses ($)	**202.0**	**28.8**	**57.9**	**94.1**	**30.8**	**211.7**	**47.9**	**53.5**	**65.4**	**37.8**	**204.6**	**37.4**	**67.0**	**70.4**	**42.8**	**217.6**	**39.4**	**70.0**	**75.4**	**42.8**	**227.6**
Cats Points on Combined Ratio	2.5%	1.3%	2.5%	3.9%	1.2%	2.2%	1.9%	2.1%	2.5%	1.4%	2.0%	1.4%	2.4%	2.4%	1.4%	1.9%	1.3%	2.3%	2.4%	1.3%	1.8%
Reserve Development ($)	**(7.0)**	**(1.0)**	**(2.0)**	**39.0**	**(0.3)**	**35.7**	**24.0**	**(3.0)**	**3.0**	**3.0**	**27.0**	**3.0**	**3.0**	**3.0**	**3.0**	**12.0**	**3.0**	**3.0**	**3.0**	**3.0**	**12.0**
PYD Points on Combined Ratio	(0.1%)	(0.0%)	(0.1%)	1.6%	(0.0%)	0.4%	1.0%	(0.1%)	0.1%	0.1%	0.3%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Adjusted Margins																					
Underlying Loss Ratio	58.7%	58.3%	58.5%	58.6%	59.3%	58.7%	58.9%	59.5%	59.5%	59.4%	59.3%	58.8%	58.6%	58.8%	59.3%	58.9%	58.7%	58.6%	58.8%	59.3%	58.9%
Underlying Combined Ratio	**87.2%**	**86.6%**	**86.2%**	**86.7%**	**87.2%**	**86.7%**	**87.7%**	**87.6%**	**87.6%**	**87.5%**	**87.6%**	**87.5%**	**87.1%**	**87.4%**	**87.4%**	**87.3%**	**87.4%**	**87.0%**	**87.2%**	**87.4%**	**87.3%**
YoY Change in Loss Ratio (Favorable)	(1.1%)	(0.5%)	(0.3%)	(0.3%)	1.1%	0.0%	0.6%	1.0%	0.9%	0.1%	0.6%	(0.1%)	(0.9%)	(0.7%)	(0.1%)	(0.4%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)
YoY Change in Combined Ratio (Favorable)	**(3.1%)**	**(1.8%)**	**(1.3%)**	**(0.3%)**	**1.1%**	**(0.5%)**	**1.1%**	**1.4%**	**0.9%**	**0.4%**	**0.9%**	**(0.2%)**	**(0.5%)**	**(0.2%)**	**(0.1%)**	**(0.3%)**	**(0.0%)**	**(0.1%)**	**(0.2%)**	**(0.0%)**	**(0.1%)**
Book Value and Return on Equity																					
GAAP Book Value per Share	**$25.09**	**$25.89**	**$24.56**	**$23.88**	**$25.51**	**$25.51**	**$26.45**	**$26.74**	**$28.02**	**$29.26**	**$29.26**	**$30.69**	**$32.10**	**$33.54**	**$35.13**	**$35.13**	**$36.77**	**$38.41**	**$40.10**	**$41.93**	**$41.93**
Operating Return on Equity	**14.6%**	**18.2%**	**18.8%**	**17.5%**	**19.8%**	**18.5%**	**16.1%**	**18.1%**	**19.3%**	**20.4%**	**18.4%**	**20.5%**	**19.5%**	**19.2%**	**20.0%**	**19.8%**	**19.6%**	**18.8%**	**18.5%**	**19.1%**	**19.0%**
Share Count																					
Ending Common Shares	265.2	265.2	265.3	265.8	264.5	264.5	262.5	257.5	254.2	252.6	252.6	251.3	250.4	249.4	248.5	248.5	247.7	246.8	246.0	245.1	245.1
Weighted Average Diluted Shares	**279.7**	**279.2**	**279.5**	**279.6**	**278.9**	**279.3**	**277.3**	**273.1**	**270.6**	**269.2**	**272.6**	**268.1**	**267.4**	**266.7**	**266.0**	**267.5**	**265.3**	**264.6**	**264.0**	**263.4**	**264.8**
Capital Return to Shareholders																					
Common Dividends	355.7	23.0	159.2	20.3	32.8	235.2	158.6	28.3	28.0	27.8	242.6	27.6	27.5	27.4	27.3	110.0	27.2	29.6	29.5	29.4	115.8
Share Repurchases	122.7	0.0	0.0	6.6	87.6	94.1	135.2	292.5	100.0	100.0	627.7	60.0	60.0	60.0	60.0	240.0	60.0	60.0	60.0	60.0	240.0
Total Capital Returned	**478.4**	**23.0**	**159.2**	**26.8**	**120.3**	**329.3**	**293.8**	**320.8**	**128.0**	**127.8**	**870.3**	**87.6**	**87.5**	**87.4**	**87.3**	**350.0**	**87.2**	**89.6**	**89.5**	**89.4**	**355.8**
Dividend Payout Ratio	37.4%	7.5%	50.8%	7.2%	10.1%	19.2%	57.5%	9.1%	8.3%	7.5%	18.7%	7.2%	7.2%	7.0%	6.4%	6.9%	6.2%	6.8%	6.6%	6.1%	6.4%
Share Repurchase Payout Ratio	12.9%	0.0%	0.0%	2.3%	27.1%	7.7%	49.0%	94.1%	29.6%	27.0%	48.5%	15.5%	15.6%	15.2%	14.0%	15.1%	13.7%	13.7%	13.4%	12.5%	13.3%
Total Payout Ratio (% of Operating Income)	**50.3%**	**7.5%**	**50.8%**	**9.5%**	**37.2%**	**26.9%**	**106.5%**	**103.2%**	**37.9%**	**34.5%**	**67.2%**	**22.7%**	**22.8%**	**22.2%**	**20.4%**	**22.0%**	**20.0%**	**20.5%**	**20.0%**	**18.6%**	**19.8%**
Equity Rollforward and Leverage																					
Beginning GAAP Equity	6,310.8	6,653.0	6,864.5	6,514.5	6,346.1	6,653.0	6,748.3	6,944.0	6,887.2	7,122.1	6,748.3	7,389.4	7,712.9	8,035.1	8,366.6	7,389.4	8,732.4	9,107.1	9,479.8	9,862.0	8,732.4
Net Income	1,022.5	590.6	179.3	228.9	382.2	1,381.1	294.1	356.3	362.9	395.0	1,408.3	411.2	409.7	418.9	453.2	1,693.0	462.0	462.2	471.7	505.3	1,901.2
Common Dividends	(355.7)	(23.0)	(159.2)	(20.3)	(32.8)	(235.2)	(158.6)	(28.3)	(28.0)	(27.8)	(242.6)	(27.6)	(27.5)	(27.4)	(27.3)	(110.0)	(27.2)	(29.6)	(29.5)	(29.4)	(115.8)
Share Repurchases	(122.7)	0.0	0.0	(6.6)	(87.6)	(94.1)	(135.2)	(292.5)	(100.0)	(100.0)	(627.7)	(60.0)	(60.0)	(60.0)	(60.0)	(240.0)	(60.0)	(60.0)	(60.0)	(60.0)	(240.0)
Change in AOCI	(219.8)	(367.3)	(380.8)	(355.0)	120.0	(983.0)	186.0	(102.0)	102.0	(102.0)	84.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	17.9	11.1	10.6	(15.5)	20.3	26.6	9.4	9.7	(102.0)	102.0	19.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0
Ending GAAP Equity	**6,653.0**	**6,864.5**	**6,514.5**	**6,346.1**	**6,748.3**	**6,748.3**	**6,944.0**	**6,887.2**	**7,122.1**	**7,389.4**	**7,389.4**	**7,712.9**	**8,035.1**	**8,366.6**	**8,732.4**	**8,732.4**	**9,107.1**	**9,479.8**	**9,862.0**	**10,277.8**	**10,277.8**
Leverage																					
Debt/Capital	32.9%	29.3%	30.4%	30.9%	29.6%	29.6%	29.0%	29.2%	28.5%	27.7%	27.7%	26.9%	26.1%	25.3%	24.5%	24.5%	23.7%	23.0%	22.3%	21.6%	21.6%

Source: Company reports, FactSet, and Wells Fargo Securities, LLC estimates

Investment Thesis, Valuation and Risks

W.R. Berkley Corporation (WRB)

Investment Thesis

We have an Overweight rating on shares of WRB. We believe that WRB is positioned to continue to see a healthy level of rate increases in 2023, particularly as they lean in on property insurance and reinsurance, which should translate into a good level of premium growth in H2, we do not believe this is currently reflected in consensus expectations.

Target Price Valuation for WRB: $75.00 from $76.00

Our price target of $75 is based on just around a 2.1x multiple of our year-end 2024 book value estimate. Our price target also represents a ~12.7x multiple against our 2024 EPS estimate. The 12.7x is close to the lows where WRB has historically traded as we believe the multiple may stay constrained until WRB returns to reporting stronger premium growth and sees the non-cat fire losses dissipate. With that being said, the multiple still provides double-digit upside potential in the name.

Risks to Our Price Target and Rating for WRB

Risks to achieving our price target include a slowdown in the firming pricing environment, a spike in inflation resulting in higher loss costs and underlying margins falling short of expectations, adverse reserve development, and a high level of catastrophe losses.

Required Disclosures

I, Elyse Greenspan, certify that:
1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and

2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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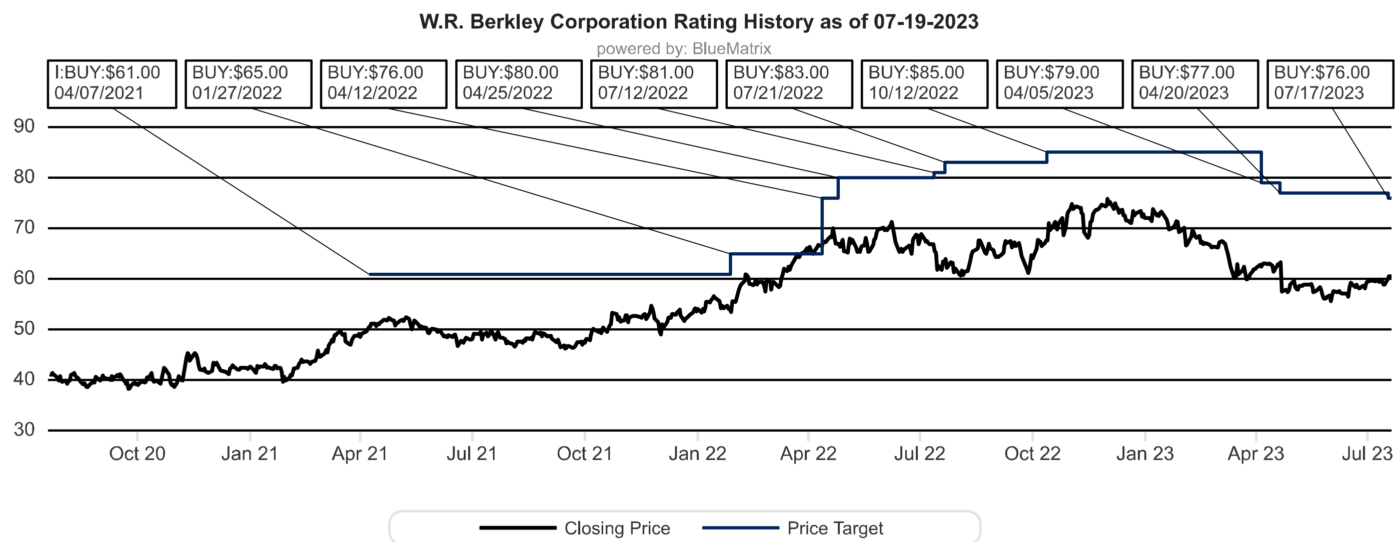

Initiation (I); Drop Coverage (D); Overweight (BUY); Equal Weight (HOLD); Underweight (SELL); Suspended (SR); Not Rated (NR); No Estimate (NE)

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OW=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

EW=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

UW=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

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