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Equity Research

WELLS FARGO

Earnings Revised — April 20, 2021

Commercial Lines Insurance

W.R. Berkley Corporation (WRB)

WRB: Focusing on Price and Exposure; Q1 EPS and Conference Call Round-Up

Our Call

Summary. WRB reported Q1 2021 EPS of $1.08 beating both our estimate of $0.87 and consensus of $0.81. The beat versus us stemmed from more favorable underwriting results (incluidng a better expense ratio and higher level of favorable reserve develoment) and stronger alternative investment income. Following WRB's conference call, we are raising our 2021 EPS estimate to $4.05 from $3.80, while our 2022 and 2023 EPS estimates are unchanged at $4.75 and $5.45, respectively. We are also maintaining our price target of $92, which is based on 2.1x our 2022 book value per share estimate. Shares of WRB should react favorably to the earnings beat and favorable pricing and margin commentary provided on its conference call.

- **Pricing remains in the double-digit but did decelerate sequentially.** WRB saw price increases of 12.8% in the Q1 excluding workers' comp. This does represent a slowdown from 15.4% in the Q4 and 14.5% in the Q3, but still puts rate well in excess of loss trend. The slowdown in the rate level sequentially is due to more business fitting into the rate adequate bucket - given that rate is still in the double digits (we would put WRB's rate at ~11% including workers' comp) it positions them to continue to see margin improvement as we move through 2021. Further WRB said that it expects rate increases to continue to improve given pressures from social inflation and elevated industry catastrophe losses.
- **Stronger submissions and economic improvement called out.** WRB pointed to a pickup in submission flow due to the strong economy and the standard market pushing more business to the E&S market as they get concerned about their appetite to write the business. The bullish views on the economy are good for the **insurance brokers** (and this data point was also supported by the positive exposure growth seen by TRV this morning) and the stronger view on the E&S market is a positive sign for other players in the space, (including **ACGL and CB**), in our view.
- **Underlying margin improvement driven by the expense ratio.** The underlying combined ratio was 88.4% versus our 88.9% estimate due to a better expense ratio, while the underlying loss ratio of 58.9% (versus our 58.7%) improved by 2.1 points from last Q1. WRB said it expects to see margin benefits continue in 2021 as it gets rate on top of rate and in excess of loss trend. WRB is targeting a sub-30% expense ratio which is better than the around 31.5% they were running at pre Covid-19.
- **Premium growth picks up.** WRB saw net written premium growth of 11.1% and came in above our 8.7% estimate and improved from 8.2% in Q4. By segment, insurance net written premium growth of 9.9% beat or 8.5% estimate and reinsurance growth of 18.2% beat our 10.0% estimate. Going forward the top-line should benefit from the written price increases as well as audit premiums which should come through either later this year or early in 2022.
- **Workers' comp thoughts.** WRB does not want to declare victory too early on the workers' comp side given the favorable frequency trends, and is therefore not changing its loss picks at the moment. The company also pointed to workers' comp should start to bottom by the end of 2021 or by H1 2022.
- **Additional color.** See inside for additional thoughts on the quarter and please refer to our initiation on 4/7 for additional thoughts on WRB.

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Rating	Overweight
Ticker	WRB
Price Target/Prior:	$92.00/NC
Upside/(Downside) to Target	**14.0%**
Price (04/20/2021)	**$80.67**
52 Week Range	$45.25 - 80.76
Shares Outstanding	177,361,868
Market Cap (MM)	$14,308
Enterprise Value (MM)	$14,144
Average Daily Volume	213,247
Average Daily Value (MM)	$17
Dividend (NTM)	$0.49
Dividend Yield	0.6%
Net Debt (MM) - last reported	$(164)
ROIC - Current year est.	11%
3 Yr EPS CAGR from current year (unless otherwise noted)	33%

$ EPS	2020A	2021E Curr.	2021E Prior	2022E Curr.	2022E Prior
Q1 (Mar)	0.70 A	1.08 A	0.87E	1.13 E	1.12E
Q2 (Jun)	0.06 A	0.95 E	0.91E	1.17 E	NC
Q3 (Sep)	0.65 A	0.93 E	0.94E	1.14 E	1.15E
Q4 (Dec)	0.92 A	1.08 E	1.09E	1.31 E	NC
FY	2.32 A	4.05 E	3.80E	4.75 E	NC
P/E	34.7x	19.9x		17.0x	

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

All estimates/forecasts are as of 4/20/2021 unless otherwise stated. 4/20/2021 20:04:13 EDT. Please see page 9 for rating definitions, important disclosures and required analyst certifications. Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

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Q1 2021 In A Nutshell

In a nutshell. WRB reported Q1 2021 EPS of $1.08 beating both our estimate of $0.87 and consensus of $0.81. The beat versus us stemmed from more favorable underwriting results (including a better expense ratio and higher level of favorable reserve development) and stronger alternative investment income. Net written premium growth of 11.1% was higher than our 8.7% estimate and picked up from 8.2% in Q4. The underlying combined ratio of 88.4% beat our 88.9% estimate driven by a better expense ratio, with the underlying loss ratio coming in just above us (at 58.9% versus our 58.7% estimate). Catastrophe losses (incl. Covid-19) of $35.8 million added 1.9 points to the combined ratio, lower than our $50.0 million (2.7 point estimate). Covid-19 losses of $15 million were in-line with our estimate while cats away from Covid of $20.8 million were lower than our $35.0 million estimate. WRB repurchased $30 million (0.5 million shares) modestly higher than our $25 million (0.4 million shares) estimate. The operating ROE was 12.7% and the net income ROE was 14.5%. Book value per share increased by 1.9% in the Q1.

Exhibit 1 - WRB Q1 2021 Estimates Versus Actual

	Q1 2021		Delta Vs. WFS	
$ in millions, except per share data	**Actual**	**Estimate**	**Absolute**	**%**
Gross premiums written	2,484.7	2,427.0	57.7	2.4%
y/y change	11.4%	8.8%	2.6%	-
Net premiums written	2,050.0	2,006.0	44.0	2.2%
y/y change	11.1%	8.7%	2.4%	-
Net premiums earned	1,850.0	1,835.6	14.3	0.8%
y/y change	9.4%	8.5%	0.8%	-
Net investment income	158.6	131.2	27.4	20.9%
Investment Yield	2.91%	2.44%	0.48%	-
Total revenues	2,156.9	2,114.5	42.4	2.0%
Underwriting Income	**181.7**	**154.2**	**27.5**	**17.9%**
Operating income after-tax	201.8	161.6	40.1	24.8%
Operating income per diluted share	**1.08**	**0.87**	**0.21**	**24.8%**
Tax Rate	21.7%	21.0%	0.7%	-
Book value per share	36.16	36.37	(0.21)	-0.6%
Operating ROE	12.7%	10.1%	2.6%	-
Net income ROE	14.5%	12.3%	2.3%	18.4%
Underwriting Profitability				
Loss ratio	60.6%	61.4%	-0.7%	-
Expense ratio	29.5%	30.2%	-0.7%	-
GAAP combined ratio	90.1%	91.6%	-1.5%	-
(Favorable) / Adverse PYD	-0.2%	-0.1%	-0.2%	-
Catastrophe Losses	1.9%	2.7%	-0.8%	-
Underlying Loss Ratio	**58.9%**	**58.7%**	**0.2%**	**-**
Underlying Combined Ratio	**88.4%**	**88.9%**	**-0.5%**	**-**
Capital Return				
Total shares repurchased	30.0	25.0	5.0	20.0%
Total Dividends ($M)	21.0	21.3	-0.3	-1.3%
Total capital return to shareholders	51.0	46.3	4.7	10.2%
Capital return payout ratio - % Operating	25.3%	28.6%	-3.4%	-

Source: Company reports and Wells Fargo Securities, LLC estimates

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Additional Pricing Thoughts

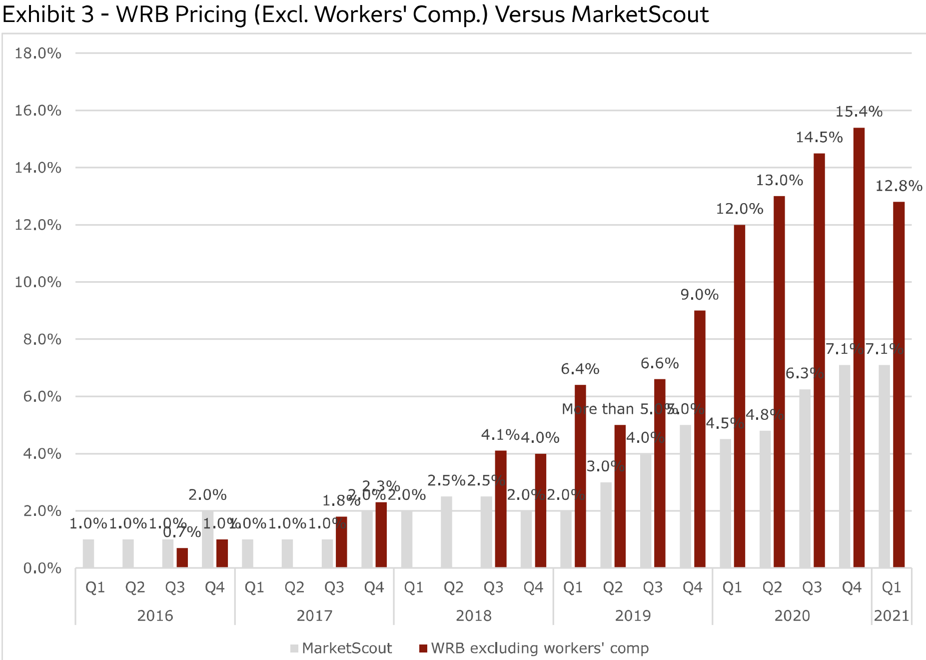
Pricing slowed as more business is at adequate levels. WRB saw price increases of 12.8% excluding workers' comp (they do not provide the price increase with workers' comp until the 10Q comes out although we estimate that it was around 11% in the Q1). This compares to the 15.4% excluding workers' comp (13.1% excl. comp) in the Q4 and 14.5% in the Q3 (+12.1% excl. comp). Exhibit 2 below shows recent commentary that WRB has provided on pricing over the past two plus years. Further WRB said that while the pricing level (excluding workers' comp) decelerated by 2.6% sequentially in the quarter this is because more of the portfolio is achieving rate adequate levels and they are pushing on the exposure side and are less concerned about pushing for more rate within that portion of the business. WRB did not want to say how much of their business it at rate adequate levels but they did say that it is a growing portion of the business.

Exhibit 2 - WRB Historical Pricing Commentary

Period	Pricing Comments
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.
Q3 2020	**The drivers of the firming marketplace, with the exception of workers' compensation, are becoming more acute.** As far as workers' compensation goes WRB expects that that marketplace is more likely than not to begin to firm as we make our way into 2021 or sometime next year. **The loss ratios that WRB selected at the beginning of the year assumed that they would not be outpacing loss cost trend by the level that they are.** The rate increases throughout the year, by and large, are above and beyond what was anticipated. Given the uncertainty around loss cost trend and specifically social inflation, WRB has deliberately decided to take a wait-and-see attitude.
Q2 2020	**We saw the firm market accelerate throughout 2019 and it continued to accelerate into 2020, very evident in Q1.** The evidence of this was demonstrated, at least in part by business leaving the standard market, making its way to the specialty market and in particular, the E&S market. **Rate increases were at a level not seen in some number of years and there was a reduction in capacity that various carriers were offering.** All of these things were being driven by two major factors: (1) low interest rate environment and a knock-on effect for what that means for investment income; and (2) loss cost trends, driven to a great extent by social inflation, which had been benign for an extended period of time and then crept up on the industry when it was least expecting it and it has proven to be much more of an issue.
Q1 2020	**Rate increases that continue to progress in response to past conversations around social inflation and keeping up with loss costs.**
Q4 2019	The challenges that the market faces has stemmed from a low interest rate environment, frequency of cat activity, and social inflation has gotten to the point where it is no longer solely being talked about but it is actually being acted upon. **This is a meaningful sea change that became very visible in the Q4, and there is no sign of that slowing down.** WRB said that they were excited about what was in front of us. They were enthusiastic earlier in 2019, and the Q4 2019 built on that enthusiasm. Further WRB said that while there are some that would suggest that they tend to be an optimistic organization, and that is a fair statement, the data that they see in their business and the data the industry data supports this optimistic view.
Q3 2019	**The fear factor is on the rise.** If a low interest rate environment and consistent global cat activity over the past several years wasn't enough, it would seem as though **social inflation is finally coming into focus for the broader audience.** People are beginning to realize that it is real and it is here. Frequency of severity can no longer be ignored, both in the property space, but even more so in the casualty space.
Q2 2019	**We are seeing rate increases across the board with the exception of workers' comp**, which certainly is the one major product line moving in the other direction. Granted, all these other product lines and the rates they're getting, they're not moving up all in perfect lockstep, but directionally WRB was pleased to see things moving in a positive direction. Further WRB saw an increasing number of examples of business getting kicked out of the standard market and making its way into the specialty/E&S market and in addition to that an increasing demand for facultative reinsurance. These are all historically signs or classic indicators of a firming market particularly when you have all of these pieces lining up the way they seem to be.
Q1 2019	Ex comp, WRB achieved 6.4% rate increase. WRB achieved this with its renewal retention ratio remaining at a similar level to what it was over the past several years. **From WRB's perspective, with the exception of workers' compensation, every major commercial business line is in some point of firming.** All product lines do not march in perfect lockstep with one another, but from WRB's perspective directionally, they are moving together, with comp being the exception.

Source: Company reports and Wells Fargo Securities, LLC estimates

Exhibit 3 - WRB Pricing (Excl. Workers' Comp.) Versus MarketScout



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

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Read-Throughs From WRB Earnings

See below for an overview of read-throughs across our coverage following WRB's Q1 2021 earnings.

- **Rate increases should benefit other commercial line names in Q1 and beyond.** WRB pointed to seeing continued rate increases in the Q1 with rates up 13% ex-workers' comp. Coupled with the positive pricing commentary from TRV, other commercial line names should see margin benefits from a hardening market in the Q1. In addition, WRB pointed to rate increases persisting (and remaining above loss trend) throughout 2021, **which should also bode well for commercial line margins this year and perhaps into 2022.**
- **Stronger submissions and economic improvement.** WRB pointed to a pickup in submission flow due to the strong economy and due to the standard market pushing more business to the E&S market as they get concerned about their appetite to write the business. **The bullish views on the economy are good for the insurance brokers (and this data point was also supported by the positive exposure growth seen by TRV this morning) and the stronger view on the E&S market is a positive sign for other players in the space (including ACGL and CB), in our view.**
- **It saves to be more efficient.** WRB pointed to targeted a sub-30% expense ratio compared to the around 30.5% they were running at pre Covid-19 and to the 29.5% in the current quarter (which saw around 50 basis points of savings from Covid-19). We think the better expense ratio reflects perhaps some Covid-19 savings persisting and also the expectation that the top-line growth should pick-up which would also help the expense ratio, This could be a sign that perhaps expense ratios across the group end up at a better level post-Covid when compared to pre-Covid levels.
- **Covid-19 loss totals starting to slow.** WRB posted $15 million of Covid-19 related losses in the Q1, in-line with our estimate and down from $28 million in Q4. The relatively low losses from WRB ties to our overall thought that Covid-19 related losses should slow for P&C insurers in the Q1 relative to other quarters of 2020.
- **Alternatives outperformed in the Q1.** Similar to TRV, alternative investments outperformed at WRB and we would expect this to be a common theme for insurers (both non-life and life insurers) this earnings season.

Additional Thoughts On The Quarter

See below for an overview of additional thoughts on Q1 2021 earnings versus our estimates.

- **Premium growth above us.** Gross written premium growth of 11.4% beat our 8.8% estimate (and improved from +9.3% in Q4) and net written premium growth of 11.1% also came in above our 8.7% estimate (and improved from 8.2% in Q4). By segment, insurance net written premium growth of 9.9% beat or 8.5% estimate and reinsurance growth of 18.2% beat our 10.0% estimate. Earned premium growth of 9.4% was also above our 8.5%.
- **NII beat on stronger alternatives.** Net investment income of $158.6 million was ahead of our $131.2 million estimate due to stronger alternative investment income than our forecast. Core portfolio income of $100.6 million was just below our $101.9 million estimate, while investment funds of $38.9 million was ahead of our $16.3 million and arbitrage trading accounts of $19.1 million was also above our $12.9 million estimate. The investment yield on the core portfolio was 2.02%, or down 7 bps from the 2.09% in the Q4 and also down from the 2.22% in the Q3.
- **Other revenues come in below us.** Revenues from non-insurance businesses was $87.4 million versus our $92.5 million estimate (although non-insurance expenses also came in below us), insurance service fees was $25.8 million ahead of our $23.0 million estimate, and other income of $0.3 million just missed our $0.5 million estimate.
- **Combined ratio ahead on lower cat losses and better expense ratio.** The combined ratio of 90.1% beat our 91.6% estimate. The insurance combined ratio was 90.6% relative to our 91.7% estimate and the reinsurance combined ratio of 87.4% also came in lower than our 90.8% estimate. The loss ratio was 60.6% versus our 61.4% estimate, while the expense ratio of 29.5% beat our 30.2% estimate and WRB pointed to target a sub-30 expense ratio even when we come out of Covid-19 (with Covid-19 having benefited its expense ratio by about 50 basis points). Catastrophe losses including Covid-19 of $35.8 million (1.9 points) were below our $50 million (2.7 points) estimate, while reserve releases of $4 million (0.2 points) were ahead of our $1 million (0.1 points) estimate. Catastrophe losses included $15 million of Covid-19 related losses, similar to our $15 million estimate.
- **Underlying results beat us on better expense ratio, loss ratio just higher than us.** The underlying combined ratio was 88.4% versus our 88.9% estimate, due to a stronger than forecasted expense ratio, while the underlying loss ratio of 58.9% just missed our 58.7% estimate, but did improve

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by 1.6 points from last Q1. We do not get underlying ratios by segment until the filing of the company's 10-Q/10-K filings.

- **Capital return just above us.** WRB repurchased 0.5 million shares for $30 million, which was ahead of our 0.4 million shares for $25 million estimate, but down modestly from $34.5 million in Q4. Including dividends, total capital return was $51 million, or 25.3% of operating earnings of $201.8 million.

Summary Of Estimate Changes

See below for an overview of our estimate changes following Q1 2021 earnings. We are raising our 2021 EPS estimate to $4.05 from $3.80 mostly to reflect the stronger Q1 2021 earnings results versus our prior estimate. We are maintaining our 2022 and 2023 EPS estimates of $4.75 and $5.45, respectively.

Exhibit 4 - WRB Summary Of Estimate Changes

	Current			Prior			Absolute Change			% Change		
$ in millions, except per share data	FY 2021E	FY 2022E	FY 2023E	FY 2021E	FY 2022E	FY 2023E	FY 2021E	FY 2022E	FY 2023E	FY 2021E	FY 2022E	FY 2023E
Gross premiums written	9,735.0	10,398.0	11,069.5	9,677.3	10,340.1	11,007.1	57.7	57.9	62.5	0.6%	0.6%	0.6%
y/y change	10.0%	6.8%	6.5%	9.4%	6.8%	6.5%	0.7%	0.0%	0.0%	7.0%	-0.6%	0.1%
Net premiums written	7,997.5	8,547.4	9,097.8	7,953.5	8,497.9	9,044.5	44.0	49.5	53.3	0.6%	0.6%	0.6%
y/y change	10.1%	6.9%	6.4%	9.5%	6.8%	6.4%	0.6%	0.0%	0.0%	6.4%	0.4%	0.1%
Net premiums earned	7,644.4	8,268.6	8,819.8	7,597.1	8,219.8	8,767.0	47.3	48.8	52.8	0.6%	0.6%	0.6%
y/y change	10.3%	8.2%	6.7%	9.6%	8.2%	6.7%	0.7%	0.0%	0.0%	7.1%	-0.4%	0.1%
Net investment income	569.3	565.1	598.6	531.0	553.8	586.7	38.3	11.3	12.0	7.2%	2.0%	2.0%
Investment Yield	2.54%	2.36%	2.34%	2.41%	2.36%	2.34%	0.13%	0.00%	0.00%	5.5%	0.0%	0.0%
Total revenues	8,845.0	9,477.3	10,074.0	8,758.6	9,417.2	10,009.2	86.4	60.1	64.8	1.0%	0.6%	0.6%
Underwriting Income	**729.8**	**883.4**	**1003.1**	**705.6**	**891.8**	**1012.8**	**24.2**	**(8.4)**	**(9.7)**	**3.4%**	**-0.9%**	**-1.0%**
Operating income after-tax	753.3	874.8	987.8	708.1	873.9	987.4	45.2	0.9	0.3	6.4%	0.1%	0.0%
Operating income per diluted share	**4.05**	**4.75**	**5.45**	**3.80**	**4.75**	**5.45**	**0.24**	**0.00**	**(0.01)**	**6.4%**	**0.0%**	**-0.1%**
Tax Rate	21.2%	21.0%	21.0%	21.0%	21.0%	21.0%	0.2%	0.0%	0.0%	1.0%	0.0%	0.0%
Book value per share	39.04	43.50	48.64	39.23	43.72	48.90	(0.19)	(0.22)	(0.26)	-0.5%	-0.5%	-0.5%
Operating ROE	11.5%	12.1%	12.5%	10.7%	12.1%	12.4%	0.7%	0.1%	0.1%	6.8%	0.6%	0.5%
Net income ROE	13.6%	14.2%	14.4%	13.3%	16.0%	17.9%	0.3%	-1.9%	-3.5%	2.0%	-11.6%	-19.6%
Underwriting Profitability												
Loss ratio	60.3%	58.9%	58.3%	60.3%	58.8%	58.1%	0.0%	0.2%	0.2%	0.0%	0.3%	0.3%
Expense ratio	30.1%	30.4%	30.3%	30.4%	30.4%	30.3%	-0.3%	0.0%	0.0%	-0.9%	0.0%	0.0%
GAAP combined ratio	90.4%	89.3%	88.6%	90.7%	89.2%	88.4%	-0.3%	0.2%	0.2%	-0.3%	0.2%	0.2%
(Favorable) / Adverse PYD	-0.1%	0.0%	0.1%	-0.1%	0.0%	0.2%	-0.1%	0.0%	0.0%	145.0%	-33.7%	-14.8%
Catastrophe Losses	2.4%	2.1%	2.0%	2.6%	2.0%	2.0%	-0.2%	0.0%	0.0%	-7.7%	1.2%	2.2%
Underlying Loss Ratio	**58.0%**	**56.8%**	**56.1%**	**57.7%**	**56.7%**	**56.0%**	**0.3%**	**0.2%**	**0.2%**	**0.5%**	**0.3%**	**0.3%**
Underlying Combined Ratio	**88.2%**	**87.2%**	**86.4%**	**88.1%**	**87.1%**	**86.3%**	**0.0%**	**0.2%**	**0.2%**	**0.0%**	**0.2%**	**0.2%**
Capital Return												
Total shares repurchased	130.0	200.0	240.0	120.0	200.0	240.0	10.0	0.0	0.0	8.3%	0.0%	0.0%
Total Dividends ($M)	86.3	92.6	98.0	86.6	92.6	97.9	-0.3	0.0	0.1	-0.4%	0.0%	0.1%
Total capital return to shareholders	216.3	292.6	338.0	206.6	292.6	337.9	9.7	0.0	0.1	4.7%	0.0%	0.0%
Capital return payout ratio - % Operating	28.7%	33.4%	34.2%	29.2%	33.5%	34.2%	-0.5%	0.0%	0.0%	-1.6%	-0.1%	0.0%

Source: Company reports and Wells Fargo Securities, LLC estimates

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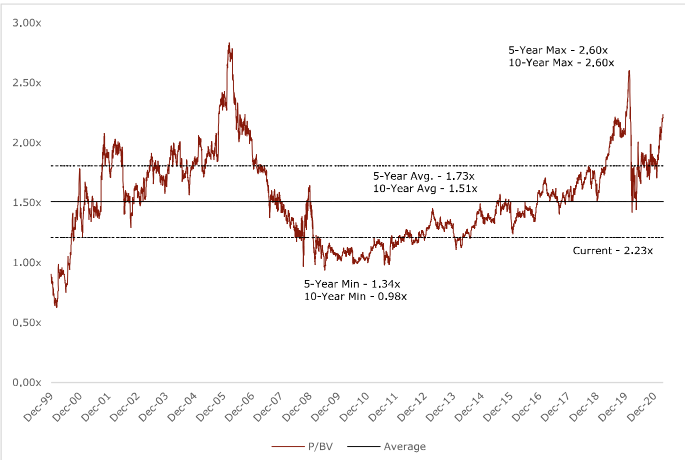
Valuation

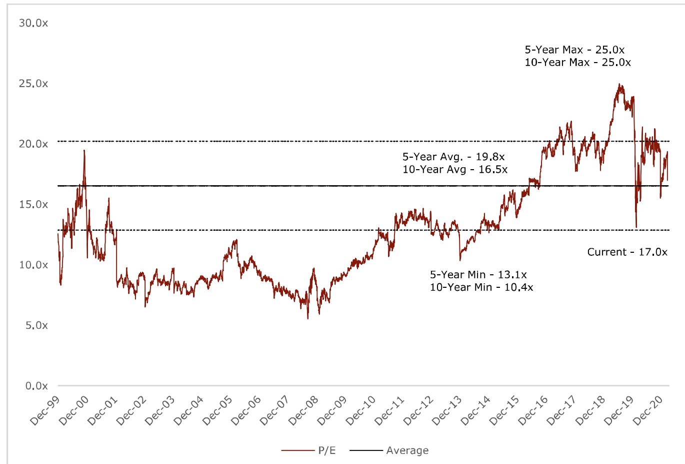
Current valuation. WRB currently trades at 2.23x Q1 2021 book value, which compares to the 5-year and 10-year average multiples of 1.73x and 1.51x, respectively. The 5-year minimum is 1.34x and 10-year minimum is 0.98x. The 5-year and 10-year max is 2.60x, which occurred in February 2020 just before the pandemic started. WRB is trading at 19.9x our 2021 EPS estimate and 17.0x our 2022 EPS estimates, which compares to the 5-year and 10-year average multiples of 19.8x and 16.5x, respectively. The 5-year minimum is 13.1x (low point of the pandemic) and 10-year minimum is 10.4x. The 5-year and 10-year max is 25.0x.

Exhibit 5 - WRB Historical P/BV



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

Exhibit 6 - WRB Historical P/E (2-Year Forward)



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

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Consolidated Earnings Model

Exhibit 7 - WRB Earnings Model

$ in millions, except per share data	FY 2018	FY 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 2020	Q1 2021	Q2 2021E	Q3 2021E	Q4 2021E
Revenues:											
Gross premiums written	7,702.5	8,262.2	2,231.4	2,132.2	2,262.5	2,221.5	8,847.6	2,484.7	2,320.5	2,487.5	2,442.2
y/y change	-	7.3%	9.0%	2.0%	8.1%	9.3%	7.1%	11.4%	8.8%	9.9%	9.9%
Net premiums written	6,433.2	6,863.5	1,845.8	1,739.8	1,879.3	1,797.5	7,262.4	2,050.0	1,904.2	2,063.0	1,980.3
y/y change	-	6.7%	*8.0%*	*-0.2%*	*7.4%*	*8.2%*	*5.8%*	*11.1%*	*9.4%*	*9.8%*	*10.2%*
Change in unearned premiums	(61.7)	(230.2)	(154.4)	(62.9)	(130.4)	16.1	(331.6)	(200.1)	(17.0)	(132.2)	(3.7)
Net premiums earned	**6,371.5**	**6,633.3**	**1,691.4**	**1,676.9**	**1,748.9**	**1,813.6**	**6,930.8**	**1,850.0**	**1,887.2**	**1,930.7**	**1,976.5**
y/y change	-	4.1%	*6.2%*	*1.8%*	*4.3%*	*5.6%*	*4.5%*	*9.4%*	*12.5%*	*10.4%*	*9.0%*
Net investment income	674.2	645.6	174.8	85.4	142.7	181.0	583.8	158.6	138.2	135.5	137.1
y/y change	-	-4.2%	*10.4%*	*-54.6%*	*-11.8%*	*31.8%*	*-9.6%*	*-9.3%*	*61.7%*	*-5.0%*	*-24.2%*
Net investment gains (losses):											
Net realized and unrealized gains (losses) on investments	160.2	120.7	(143.3)	61.7	(7.8)	162.9	73.5	51.8	31.6	31.6	31.6
Change in allowance for credit losses on investments	(5.7)	0.0	(33.9)	16.2	46.8	0.4	29.5	(16.9)	0.0	0.0	0.0
Net investment gains (losses)	154.5	120.7	(177.2)	77.9	39.0	163.3	103.0	34.8	31.6	31.6	31.6
Revenues from non-insurance businesses	373.0	406.5	93.7	75.7	87.5	132.9	389.9	87.4	87.5	95.0	135.0
Insurance service fees	117.8	92.7	25.8	19.9	21.6	21.5	88.8	25.8	23.0	23.0	23.0
Other income	0.7	3.4	2.1	0.2	0.1	0.1	2.6	0.3	0.5	0.5	0.5
Total revenues	**7,691.7**	**7,902.2**	**1,810.6**	**1,936.0**	**2,039.8**	**2,312.5**	**8,098.9**	**2,156.9**	**2,168.0**	**2,216.3**	**2,303.8**
y/y change		2.7%	*-6.5%*	*-4.3%*	*3.8%*	*17.0%*	*2.5%*	*19.1%*	*12.0%*	*8.7%*	*-0.4%*
Expenses:											
Losses and loss expenses	3,974.7	4,131.1	1,107.3	1,135.1	1,114.6	1,111.7	4,468.7	1,121.6	1,148.6	1,171.9	1,167.6
Other operating costs and expenses	2,383.2	2,362.1	578.3	580.8	594.0	637.3	2,390.4	616.3	636.4	660.3	676.0
Expenses from non-insurance businesses	364.4	402.7	94.8	76.2	85.0	128.5	384.5	86.3	86.6	94.1	133.7
Interest expense	157.2	153.4	36.7	38.4	39.8	35.7	150.5	36.7	39.2	39.2	39.2
Total expenses	**6,879.6**	**7,049.3**	**1,817.1**	**1,830.6**	**1,833.4**	**1,913.1**	**7,394.1**	**1,860.8**	**1,910.8**	**1,965.4**	**2,016.5**
Underwriting Income	**302.4**	**413.7**	**52.2**	**22.9**	**111.5**	**164.6**	**351.2**	**181.7**	**172.1**	**170.0**	**206.0**
Income before income taxes	**812.1**	**852.9**	**(6.5)**	**105.4**	**206.4**	**399.4**	**704.8**	**296.1**	**257.3**	**250.9**	**287.3**
Income tax expense	(163.0)	(168.9)	2.9	(33.8)	(54.0)	(86.9)	(171.8)	(64.4)	(54.0)	(52.7)	(60.3)
Tax Rate	*20.1%*	*19.8%*	*45.5%*	*32.0%*	*26.2%*	*21.8%*	*24.4%*	*21.7%*	*21.0%*	*21.0%*	*21.0%*
Net income before noncontrolling interests	**649.1**	**684.0**	**(3.5)**	**71.7**	**152.4**	**312.5**	**533.0**	**231.7**	**203.2**	**198.2**	**226.9**
Noncontrolling interests	(8.3)	(2.0)	(0.9)	(0.4)	(0.7)	(0.3)	(2.3)	(2.2)	(0.6)	(0.6)	(0.6)
Net income to common stockholders	**640.7**	**681.9**	**(4.4)**	**71.3**	**151.7**	**312.2**	**530.7**	**229.5**	**202.6**	**197.6**	**226.3**
y/y change		6.4%	*-102.4%*	*-67.1%*	*-8.2%*	*161.6%*	*-22.2%*	*-5295.2%*	*184.3%*	*30.3%*	*-27.5%*
Pre-tax investment (gains) losses, net of related expenses	(133.7)	(117.8)	177.6	(77.8)	(39.5)	(162.3)	(102.0)	(33.3)	(31.6)	(31.6)	(31.6)
Income tax expense (benefit)	27.9	24.9	(40.6)	18.1	9.0	23.2	9.7	5.6	6.6	6.6	6.6
Operating income after-tax	**534.9**	**589.0**	**132.6**	**11.6**	**121.1**	**173.0**	**438.4**	**201.8**	**177.6**	**172.6**	**201.3**
y/y change	-	10.1%	*3.1%*	*-92.7%*	*-26.0%*	*25.9%*	*-25.6%*	*52.1%*	*1437.5%*	*42.5%*	*16.3%*
Operating income per diluted share	**2.78**	**3.04**	**0.70**	**0.06**	**0.65**	**0.92**	**2.32**	**1.08**	**0.95**	**0.93**	**1.08**
y/y change	-	9.5%	*4.4%*	*-92.7%*	*-23.7%*	*30.0%*	*-23.7%*	*55.0%*	*1449.5%*	*43.8%*	*17.3%*
Net income per share:											
Basic Net Income Per Share	3.37	3.58	(0.02)	0.38	0.82	1.68	2.84	1.24	1.10	1.07	1.23
Diluted Net Income Per Share	3.33	3.52	(0.02)	0.38	0.81	1.67	2.81	1.23	1.09	1.06	1.22
Average shares outstanding:											
Basic	190.0	190.7	190.3	186.0	185.8	185.7	186.9	185.2	184.8	184.4	183.9
Diluted	192.4	193.5	190.3	187.9	187.7	187.2	188.8	186.8	186.4	186.0	185.6
Operating ROE	**9.8%**	**10.0%**	**9.2%**	**0.8%**	**8.2%**	**11.2%**	**7.4%**	**12.7%**	**10.9%**	**10.4%**	**11.9%**
Net income ROE	**11.8%**	**12.5%**	**-0.3%**	**4.7%**	**10.0%**	**20.6%**	**8.7%**	**14.5%**	**12.8%**	**12.5%**	**14.3%**
Book value per share	**29.72**	**33.12**	**30.55**	**32.60**	**33.64**	**35.49**	**35.49**	**36.16**	**37.11**	**37.99**	**39.04**
Tangible book value per share	**28.42**	**31.87**	**29.28**	**31.33**	**32.38**	**34.22**	**34.22**	**34.90**	**35.84**	**36.72**	**37.77**
Underwriting Profitability											
Loss ratio	62.4%	62.3%	65.5%	67.7%	63.7%	61.3%	64.5%	60.6%	60.9%	60.7%	59.1%
Expense ratio	32.9%	31.5%	31.4%	31.0%	29.9%	29.6%	30.5%	29.5%	30.0%	30.5%	30.5%
GAAP combined ratio	**95.3%**	**93.8%**	**96.9%**	**98.7%**	**93.7%**	**90.9%**	**94.9%**	**90.1%**	**90.9%**	**91.2%**	**89.6%**
(Favorable) / Adverse PYD	-0.6%	-0.3%	-0.2%	-0.2%	-0.3%	-0.2%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%
Catastrophe Losses	1.7%	1.4%	4.7%	8.7%	4.2%	2.3%	4.9%	1.9%	3.4%	2.9%	1.5%
Underlying Loss Ratio	**61.3%**	**61.2%**	**60.5%**	**59.2%**	**59.9%**	**59.2%**	**59.8%**	**58.9%**	**57.6%**	**57.9%**	**57.7%**
Underlying Combined Ratio	**94.2%**	**92.7%**	**91.9%**	**90.2%**	**89.8%**	**88.8%**	**90.3%**	**88.4%**	**87.6%**	**88.4%**	**88.2%**

$ in millions, except per share data	FY 2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	FY 2022E	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	FY 2023E
Revenues:											
Gross premiums written	9,735.0	2,642.2	2,478.5	2,661.1	2,616.1	10,398.0	2,808.0	2,637.7	2,834.8	2,789.1	11,069.5
y/y change	10.0%	6.3%	6.8%	7.0%	7.1%	6.8%	6.3%	6.4%	6.5%	6.6%	6.5%
Net premiums written	7,997.5	2,185.5	2,033.8	2,206.9	2,121.2	8,547.4	2,322.2	2,164.1	2,350.5	2,261.0	9,097.8
y/y change	*10.1%*	*6.6%*	*6.8%*	*7.0%*	*7.1%*	*6.9%*	*6.3%*	*6.4%*	*6.5%*	*6.6%*	*6.4%*
Change in unearned premiums	(353.1)	(169.2)	15.6	(123.2)	(2.0)	(278.8)	(168.3)	23.2	(128.9)	(4.0)	(278.0)
Net premiums earned	**7,644.4**	**2,016.3**	**2,049.4**	**2,083.6**	**2,119.2**	**8,268.6**	**2,153.9**	**2,187.3**	**2,221.5**	**2,257.0**	**8,819.8**
y/y change	*10.3%*	*9.0%*	*8.6%*	*7.9%*	*7.2%*	*8.2%*	*6.8%*	*6.7%*	*6.6%*	*6.5%*	*6.7%*
Net investment income	569.3	138.7	140.4	142.1	143.8	565.1	146.1	148.5	150.8	153.2	598.6
y/y change	*-2.5%*	*-12.5%*	*1.6%*	*4.9%*	*4.9%*	*-0.7%*	*5.3%*	*5.7%*	*6.1%*	*6.6%*	*5.9%*
Net investment gains (losses):											
Net realized and unrealized gains (losses) on investments	146.7	31.6	31.6	31.6	31.6	126.6	31.6	31.6	31.6	31.6	126.6
Change in allowance for credit losses on investments	(16.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investment gains (losses)	129.8	31.6	31.6	31.6	31.6	126.6	31.6	31.6	31.6	31.6	126.6
Revenues from non-insurance businesses	404.9	95.0	90.0	97.5	137.5	420.0	97.5	92.5	100.0	140.0	430.0
Insurance service fees	94.8	23.8	23.8	23.8	23.8	95.0	24.3	24.3	24.3	24.3	97.0
Other income	1.8	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0
Total revenues	**8,845.0**	**2,305.9**	**2,335.8**	**2,379.1**	**2,456.4**	**9,477.3**	**2,454.0**	**2,484.7**	**2,528.8**	**2,606.6**	**10,074.0**
y/y change	*9.2%*	*6.9%*	*7.7%*	*7.3%*	*6.6%*	*7.1%*	*6.4%*	*6.4%*	*6.3%*	*6.1%*	*6.3%*
Expenses:											
Losses and loss expenses	4,609.7	1,192.4	1,208.5	1,241.8	1,229.7	4,872.4	1,260.6	1,275.0	1,309.8	1,296.7	5,142.1
Other operating costs and expenses	2,588.9	686.7	698.1	708.9	721.0	2,814.6	730.7	742.1	753.6	765.6	2,992.1
Expenses from non-insurance businesses	400.6	94.1	89.1	96.5	136.1	415.8	96.5	91.6	99.0	138.6	425.7
Interest expense	154.3	36.9	33.5	33.5	33.5	137.4	33.5	33.5	33.5	33.5	134.0
Total expenses	**7,753.5**	**2,010.0**	**2,029.2**	**2,080.7**	**2,120.3**	**8,240.2**	**2,121.4**	**2,142.1**	**2,195.9**	**2,234.5**	**8,693.9**
Underwriting Income	**729.8**	**210.8**	**217.6**	**209.0**	**245.9**	**883.4**	**240.1**	**249.0**	**238.1**	**275.9**	**1,003.1**
Income before income taxes	**1,091.5**	**296.0**	**306.5**	**298.4**	**336.1**	**1,237.0**	**332.5**	**342.6**	**332.9**	**372.1**	**1,380.1**
Income tax expense	(231.4)	(62.2)	(64.4)	(62.7)	(70.6)	(259.8)	(69.8)	(71.9)	(69.9)	(78.1)	(289.8)
Tax Rate	*21.2%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
Net income before noncontrolling interests	**860.1**	**233.8**	**242.1**	**235.7**	**265.5**	**977.3**	**262.7**	**270.6**	**263.0**	**294.0**	**1,090.3**
Noncontrolling interests	(4.1)	(0.6)	(0.6)	(0.6)	(0.6)	(2.5)	(0.6)	(0.6)	(0.6)	(0.6)	(2.5)
Net income to common stockholders	**856.0**	**233.2**	**241.5**	**235.1**	**264.9**	**974.8**	**262.1**	**270.0**	**262.3**	**293.4**	**1,087.8**
y/y change	*61.3%*	*1.6%*	*19.2%*	*19.0%*	*17.1%*	*13.9%*	*12.4%*	*11.8%*	*11.6%*	*10.7%*	*11.6%*
Pre-tax investment (gains) losses, net of related expenses	(128.2)	(31.6)	(31.6)	(31.6)	(31.6)	(126.6)	(31.6)	(31.6)	(31.6)	(31.6)	(126.6)
Income tax expense (benefit)	25.5	6.6	6.6	6.6	6.6	26.6	6.6	6.6	6.6	6.6	26.6
Operating income after-tax	**753.3**	**208.2**	**216.5**	**210.1**	**239.9**	**874.8**	**237.1**	**245.0**	**237.3**	**268.4**	**987.8**
y/y change	*71.8%*	*3.2%*	*21.9%*	*21.8%*	*19.2%*	*16.1%*	*13.9%*	*13.2%*	*12.9%*	*11.9%*	*12.9%*
Operating income per diluted share	**4.05**	**1.13**	**1.17**	**1.14**	**1.31**	**4.75**	**1.30**	**1.35**	**1.31**	**1.49**	**5.45**
y/y change	*74.2%*	*4.2%*	*23.2%*	*23.2%*	*20.7%*	*17.4%*	*15.5%*	*14.8%*	*14.7%*	*13.7%*	*14.6%*
Net income per share:											
Basic Net Income Per Share	4.64	1.27	1.32	1.29	1.46	5.34	1.45	1.50	1.46	1.64	6.05
Diluted Net Income Per Share	4.60	1.26	1.31	1.28	1.45	5.29	1.44	1.49	1.45	1.63	6.00
Average shares outstanding:											
Basic	184.6	183.4	182.8	182.2	181.6	182.5	180.9	180.1	179.4	178.6	179.8
Diluted	186.2	185.0	184.4	183.8	183.2	184.1	182.5	181.8	181.0	180.3	181.4
Operating ROE	**11.5%**	**12.0%**	**12.2%**	**11.5%**	**12.9%**	**12.1%**	**12.4%**	**12.5%**	**11.9%**	**13.1%**	**12.5%**
Net income ROE	**13.6%**	**13.6%**	**14.1%**	**13.7%**	**15.4%**	**14.2%**	**13.9%**	**14.3%**	**13.9%**	**15.5%**	**14.4%**
Book value per share	**39.04**	**40.07**	**41.18**	**42.26**	**43.50**	**43.50**	**44.70**	**45.97**	**47.21**	**48.64**	**48.64**
Tangible book value per share	**37.77**	**38.79**	**39.90**	**40.97**	**42.21**	**42.21**	**43.41**	**44.67**	**45.91**	**47.32**	**47.32**
Underwriting Profitability											
Loss ratio	60.3%	59.1%	59.0%	59.6%	58.0%	58.9%	58.5%	58.3%	59.0%	57.5%	58.3%
Expense ratio	30.1%	30.4%	30.4%	30.4%	30.4%	30.4%	30.3%	30.3%	30.3%	30.3%	30.3%
GAAP combined ratio	**90.4%**	**89.5%**	**89.4%**	**90.0%**	**88.4%**	**89.3%**	**88.9%**	**88.6%**	**89.3%**	**87.8%**	**88.6%**
(Favorable) / Adverse PYD	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
Catastrophe Losses	2.4%	1.3%	2.6%	2.9%	1.5%	2.1%	1.4%	2.5%	2.8%	1.5%	2.0%
Underlying Loss Ratio	**58.0%**	**57.8%**	**56.4%**	**56.7%**	**56.5%**	**56.8%**	**57.0%**	**55.6%**	**56.0%**	**55.8%**	**56.1%**
Underlying Combined Ratio	**88.2%**	**88.2%**	**86.8%**	**87.1%**	**86.9%**	**87.2%**	**87.3%**	**86.0%**	**86.3%**	**86.1%**	**86.4%**

Source: Company reports and Wells Fargo Securities, LLC estimates

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Price Target Basis and Risk

Price Target for WRB: $92.00 from NC

Our price target of $92 is based on a 2.1x multiple of our year-end 2022 book value estimate. Our price target also represents a 19.3x multiple against our 2022 EPS estimate.

Risk 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 and/or Covid-19 losses.

Investment Thesis

WRB

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 2021 which should translate into underlying margin improvement, and we do not believe this is currently reflected in consensus expectations.

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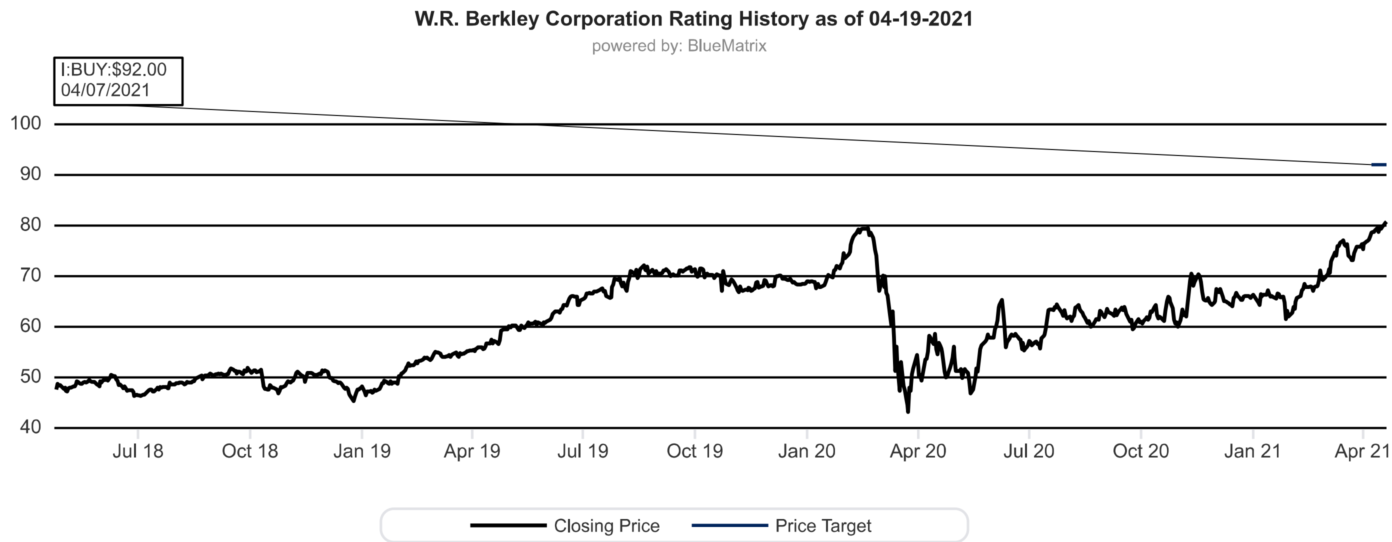
Required Disclosures

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.

Additional Information Available Upon Request



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

Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 0.5% or more of any class of the common stock of W.R. Berkley Corporation.
Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from W.R. Berkley Corporation in the past 12 months.
Wells Fargo Securities, LLC maintains a market in the common stock of W.R. Berkley Corporation.
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