Equity Research

WELLS FARGO

Price Target Change — April 25, 2022

Commercial Lines Insurance

W.R. Berkley Corporation (WRB)

WRB: A Good Quarter from Berkley; Q1 EPS and Conference Call Round-Up

Our Call

Summary. WRB reported Q1 2022 EPS of $1.10 beating both our estimate of $1.09 and consensus of $0.95. The upside was mainly due to: **(1)** better underwriting income due to a modestly better expense ratio (coming in at 28.3%, better than our 28.5% estimate and below the mid-point of the 28-29% guidance, **(2)** a lower tax rate, which came in at 19.0% better than our 21.0% estimate due to a one-time benefit from the release of a valuation allowance arising from utilization of tax attributes. This was counter-balanced by lower investment income than we had expected. Catastrophe losses came in at $28.8 million, just above our $27.2 million estimate. There was a minimal $1 million of prior period favorable development in the quarter, just below our estimate for adverse reserve development of $0.5 million.

- **Estimates go higher on better NII.** Following WRB's conference call, we are raising our 2022 EPS estimate to $4.00 from $3.90 while our 2023 EPS estimate goes to $4.70 from $4.40, and our 2024 EPS estimate goes to $5.50 from $5.00 primarily reflecting higher investment income (as the new money rate is now 100 basis points above the portfolio yield). Our 2024 EPS estimate goes to $5.55 from $5.00. We are raising our price target to $80 from $76, which is based on 2.4x our 2023 book value per share estimate. Shares of WRB should trade up tomorrow reflecting the earnings beat.
- **Healthy pricing, but slowing.** WRB saw price increases of 8.3% in the Q1 excluding workers' comp. This is a decline from 9.3% in Q4, 10.1% in Q3, and 9.7% in Q2. Overall, WRB described market conditions as favorable, and they do not see that trend changing. In particular, they see this as a good environment for specialty insurers and especially within the E&S market. Further, while the impact of rate over trend was 60 basis points on the loss ratio in the quarter WRB said that the impact is really in the hundreds of basis points, but they are being conservative in how they book their margins given the high inflationary environment.
- **Additional positive market color.** WRB said that new business is being priced at around 2% more than renewals. Further, its renewal retention ratio is at around 82%, which is favorable to them as it shows they are not churning the book to drive the top-line growth. Further, WRB described the market as shaping up for a strong remainder of 2022 and also a very strong 2023 (and most likely 2024 as well).
- **Underlying margin improvement driven by the loss and expense ratio.** The underlying combined ratio was 86.6%, better than our 86.9% estimate. The underlying loss ratio of 58.3% (versus our 58.4%) improved by 60 basis points from last Q1 and was in line with the Q4. The expense ratio came in at 28.3%, better than our 28.5% estimate, and below the midpoint of the guided 28-29%.
- **Strong double-digit premium growth.** WRB saw net premiums written growth of 17.7%, coming in above our 16.4% estimate, and while it did slow from 24.5% in Q4 it was within the 15-25% range WRB has talked about growth being in. By segment, insurance net written premium grew by 19.2% beating our 18.2% estimate and reinsurance growth of 9.6% beat our 6.4% estimate. Within insurance, WRB saw healthy growth in all lines, with the strongest growth coming from other liability (+27.1%), short-tail lines (+21.2%), professional lines (+17.4%) and commercial auto (+12.5%). Reinsurance growth was driven by casualty and monoline excess, as property reinsurance declined.
- **See inside** for additional takes from the quarter and the conference call.

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Rating	Overweight
Ticker	WRB
Price Target/Prior:	$80.00/$76.00
Upside/(Downside) to Target	**17.8%**
Price (04/25/2022)	**$67.90**
52 Week Range	$46.53 - 71.37
Shares Outstanding	265,186,371
Market Cap (MM)	$18,006
Enterprise Value (MM)	$17,842
Average Daily Volume	472,046
Average Daily Value (MM)	$32
Dividend (NTM)	$1.34
Dividend Yield	2.0%
Net Debt (MM) - last reported	$(164)
ROIC - Current year est.	15%
3 Yr EPS CAGR from current year (unless otherwise noted)	17%

$ EPS	2021A	2022E Curr.	2022E Prior	2023E Curr.	2023E Prior
Q1 (Mar)	0.72 A	1.10 A	1.09E	1.12 E	1.05E
Q2 (Jun)	0.78 A	0.91 E	0.92E	1.17 E	1.10E
Q3 (Sep)	0.88 A	0.91 E	0.86E	1.12 E	1.04E
Q4 (Dec)	1.02 A	1.08 E	1.02E	1.30 E	1.21E
FY	3.40 A	4.00 E	3.90E	4.70 E	4.40E
P/E	20.0x	17.0x		14.4x	

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

Q1 2022 In A Nutshell

In a Nutshell. WRB reported Q1 2022 EPS of $1.10 beating both our estimate of $1.09 and consensus of $0.95. The upside was mainly due to: **(1)** better underwriting income due to a modestly better expense ratio (coming in at 28.3%, better than our 28.5% estimate and below the mid-point of the 28-29% guidance, **(2)** a lower tax rate, which came in at 19.0% better than our 21.0% estimate due to a one-time benefit from the release of a valuation allowance arising from utilization of tax attributes. This was counter-balanced by lower investment income than we had expected. Investment income came in at $173.5 million, below our $207.7 million estimate due to weaker returns within its investment funds (as we had assumed a 25% return and the return came in at 13.8%).

Catastrophe losses came in at $28.8 million, just above our $27.2 million estimate. There was a minimal $1 million of prior period favorable development in the quarter, just below our estimate for adverse reserve development of $0.5 million. The underlying combined ratio of 86.5% beat our 86.9% estimate driven by a better expense ratio, with the underlying loss ratio coming in slightly better than us (at 58.3% versus our 58.4% estimate). WRB didn't repurchase any shares in the quarter while we had modeled a $50 million buyback. The operating ROE was 18.2% and the net income ROE was 35.5%. Book value per share rose 3.2% QoQ and increased 7.4% YoY in the Q1.

Showing the conservatism within its margins, WRB highlight that the paid loss ratio was 45.3%, better when compared to 48.2% in Q1 2021, 56.1% in 2020, 54.2% in 2019, 58.8% in 2018 and 55.5% in 2017. Further, WRB said that the impact of rate over loss trend is really in the hundreds of basis points, versus the 60 basis points booked in the quarter, but they are being conservative in how they book their margins given the high inflationary environment.

Exhibit 1 - WRB Q1 2022 Estimates Versus Actual

	Q1 2022		Delta Vs. WFS	
$ in millions, except per share data	**Actual**	**Estimate**	**Absolute**	**%**
Gross premiums written	2,859.8	2,888.9	(29.1)	-1.0%
y/y change	15.1%	16.3%	-1.2%	-
Net premiums written	2,413.3	2,386.5	26.8	1.1%
y/y change	17.7%	16.4%	1.3%	-
Net premiums earned	2,249.1	2,257.8	(8.7)	-0.4%
y/y change	21.6%	22.0%	-0.5%	-
Net investment income	173.5	207.7	(34.2)	-16.4%
Investment Yield	2.93%	3.48%	-0.55%	-
Total revenues	2,915.4	2,884.9	30.5	1.1%
Underwriting Income	**273.7**	**267.5**	**6.2**	**2.3%**
Operating income after-tax	306.9	303.0	3.9	1.3%
Operating income per diluted share	**1.10**	**1.09**	**0.01**	**0.9%**
Tax Rate	19.0%	21.0%	-2.0%	-
Book value per share	25.89	26.89	(1.01)	-3.7%
Operating ROE	18.2%	17.6%	0.6%	-
Net income ROE	35.5%	32.5%	3.0%	9.4%
Underwriting Profitability				
Loss ratio	59.5%	59.6%	-0.1%	-
Expense ratio	28.3%	28.5%	-0.3%	-
GAAP combined ratio	87.8%	88.2%	-0.4%	-
(Favorable) / Adverse PYD	0.0%	0.0%	0.0%	-
Catastrophe Losses	1.3%	1.2%	0.1%	-
Underlying Loss Ratio	**58.3%**	**58.4%**	**-0.1%**	**-**
Underlying Combined Ratio	**86.5%**	**86.9%**	**-0.4%**	**-**
Capital Return				
Total shares repurchased	0.0	50.0	-50.0	-100.0%
Total Dividends ($M)	23.0	22.9	0.0	0.2%
Total capital return to shareholders	23.0	72.9	-50.0	-68.5%
Capital return payout ratio - % Operating	7.5%	24.1%	-16.6%	-

Source: Company reports and Wells Fargo Securities, LLC estimates

Highlights of Its Pricing Thoughts

Healthy pricing trends persist, even with some deceleration. WRB saw price increases of 8.3%, 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 6.5% in the Q1). This compares to the 9.3%, excluding workers' comp (8.1% including comp), in the Q4 and 10.1%, excluding workers' comp (8.8% including comp), in the Q3. Overall, WRB described market conditions as remaining favorable, and they do not see that trend changing in 2022. In particular, they see this as a good environment for specialty insurers and even more for the E&S market, where they continue to see a good flow of opportunities, which they do not think will be impacted by any new market entrants. Exhibit 2 below shows recent commentary that WRB has provided on pricing since H2 2019.

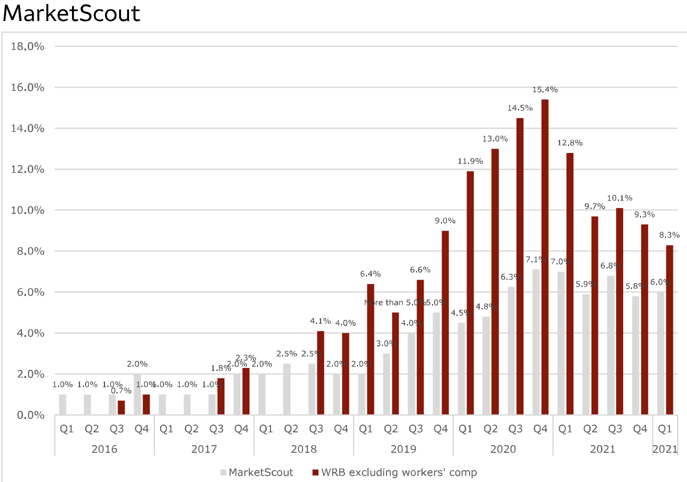
Exhibit 2 - WRB Historical Pricing Commentary

Period	Pricing Comments
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.

Period	Pricing Comments
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.

Source: Company reports and Wells Fargo Securities, LLC

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



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

Additional Thoughts On The Quarter

See below for an overview of additional thoughts on Q1 2022 earnings versus our estimates.

- **Premium growth close to us and remained in the double digits.** Gross written premium growth of 15.1% was just below our 16.3% estimate and net written premium growth of 17.7% came in above our 16.4% estimate (although did slow from +26.6% in Q4). By segment, insurance net written premium growth of 19.2% beat our 18.2% estimate driven by growth in all lines (with the strongest growth in other liability, short-tail lines, professional liability and commercial auto), while reinsurance growth of 9.6% was above our 6.4% estimate driven by growth across the board. Earned premium growth of 21.6% was just below our 22.0%.
- **NII below us on alternatives.** Net investment income of $173.5 million was below our $207.7 million estimate due to weaker alternative investment income (as we had assumed an elevated return for all companies under our coverage given the strong S&P results in the Q4). Core portfolio income of $112.3 million was above our $105.9 million estimate, while investment funds of $52.0 million was below our $91.4 million, arbitrage trading accounts of $9.2 million did fall modestly below our $10.4 million estimate. The investment yield on the core portfolio was 2.14% was up from 2.04% in Q4, 2.00% in the Q3 and 2.03% in the Q2.
- **Other revenues above us.** Revenues from non-insurance businesses was $97.8 million versus our $95.0 million estimate, insurance service fees was $28.0 million above our $24.0 million estimate, and other income of $0.8 million slightly beat our $0.5 million estimate.
- **Combined ratio beat us on better expense ratio.** The combined ratio of 87.8% beat our 88.2% estimate due to a lower expense ratio. The insurance combined ratio was 87.6%, a beat versus our 88.4% estimate and the reinsurance combined ratio of 89.4% came in slightly above our 86.3% estimate. The loss ratio was 59.5% versus our 59.6% estimate, while the expense ratio of 28.3% beat our 28.5% estimate and WRB alluded to continued leverage on the expense side as earned premium continues to grow. Catastrophe losses of $28.8 million (1.3 points) were just above our $27.2 million (1.2 point) estimate. WRB did not call out any Covid-19 losses this quarter.
- **Underlying results beat us mostly on better expense ratio.** The underlying combined ratio was 86.5% versus our 86.9% estimate, due to a stronger-than-forecasted expense ratio, while the underlying loss ratio of 58.3% was just better than our 58.4% estimate, and improved by 60 basis points from last Q1. The insurance underlying combined ratio of 87.1% in Q1, was better than our 87.3% estimate driven by a better expense ratio with the insurance underlying loss ratio coming in at 59.0% in line with our estimate. The reinsurance underlying combined ratio came in at 83.1%, better than our 84.3% estimate driven by a better loss and expense ratio. The reinsurance underlying loss ratio was 53.6%, better than our 54.3% estimate. In getting the segment underlying loss ratios we attribute all the favorable reserve development to the insurance segment (WRB provides the breakout of its reserve development in its 10Q/10K).
- **Capital return below us given lack of buyback.** WRB did not repurchase shares during the quarter, versus our 0.8 million shares for $50 million estimate, the $0 million in Q4, and the $93 million that was repurchased in the Q3. Including dividends (regular and special), total capital return was $23.0 million, or 7.5% of operating earnings of $306.9 million.

Summary Of Estimate Changes

Estimates Move Higher on Better Investment Income. See Exhibit 4 below for an overview of our estimate changes following Q1 2022 earnings. Post WRB's conference call we are raising our 2022 EPS estimate to $4.00 from $3.90 while our 2023 EPS estimate goes to $4.70 from $4.40, and our 2024 EPS estimate goes to $5.50 from $5.00 primarily reflecting higher investment income (as the new money rate is now 100 basis points above the portfolio yield). In general, we view this as a bullish quarter and call from WRB as they: **(1)** pointed to the still healthy market conditions, including the E&S market remains attractive, **(2)** leverage they continue to see on the expense side, and **(3)** their conservatism as they said they are seeing hundreds of basis points from earned rate exceeding loss trend, but only booked about 60 basis points in the quarter.

Exhibit 4 - WRB Summary Of Estimate Changes

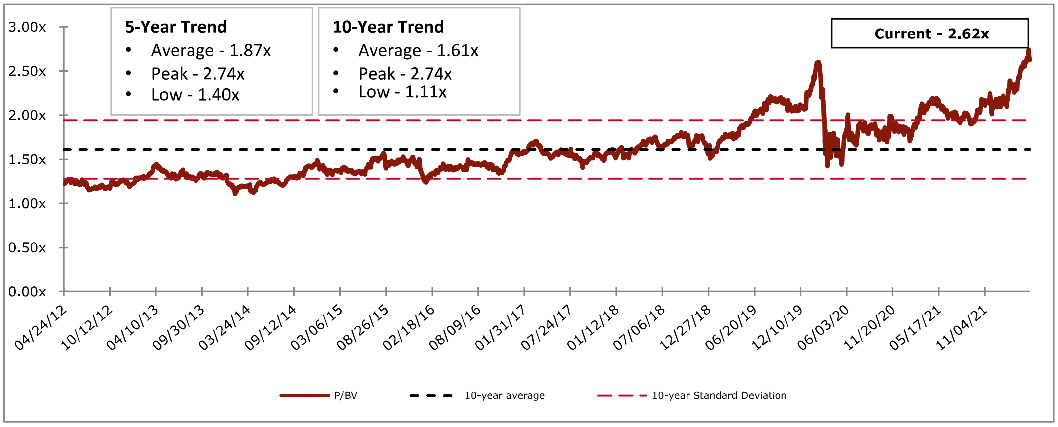
	Current			Prior Estimates			Absolute Change			% Change		
$ in millions, except per share data	FY 2022E	FY 2023E	FY 2024E	FY 2022E	FY 2023E	FY 2024E	FY 2022E	FY 2023E	FY 2024E	FY 2022E	FY 2023E	FY 2024E
Gross premiums written	12,411.4	14,246.5	15,285.7	12,440.4	14,281.0	15,393.8	(29.1)	(34.5)	(108.1)	-0.2%	-0.2%	-0.7%
y/y change	16.0%	14.8%	7.3%	16.3%	14.8%	7.8%	-0.3%	0.0%	-0.5%	-1.7%	-0.1%	-6.4%
Net premiums written	10,280.4	11,788.7	12,702.6	10,253.6	11,761.3	12,674.4	26.8	27.4	28.2	0.3%	0.2%	0.2%
y/y change	16.0%	14.7%	7.8%	15.7%	14.7%	7.8%	0.3%	0.0%	0.0%	1.9%	-0.2%	-0.2%
Net premiums earned	9,560.7	11,013.9	12,234.6	9,549.3	10,986.6	12,206.5	11.4	27.4	28.1	0.1%	0.2%	0.2%
y/y change	17.9%	15.2%	11.1%	17.8%	15.1%	11.1%	0.1%	0.1%	0.0%	0.8%	1.0%	-0.2%
Net investment income	615.3	705.2	818.7	621.3	585.5	626.4	(6.1)	119.7	192.4	-1.0%	20.4%	30.7%
Investment Yield	2.55%	2.74%	2.97%	2.54%	2.24%	2.25%	0.01%	0.49%	0.71%	0.4%	22.0%	31.7%
Total revenues	11,184.8	12,396.5	13,726.9	11,083.6	12,229.6	13,488.5	101.2	166.8	238.5	0.9%	1.4%	1.8%
Underwriting Income	**1127.5**	**1338.0**	**1531.4**	**1118.5**	**1353.5**	**1550.0**	**9.1**	**(15.6)**	**(18.5)**	**0.8%**	**-1.2%**	**-1.2%**
Operating income after-tax	1113.3	1295.3	1498.6	1078.5	1202.4	1351.3	34.8	92.9	147.3	3.2%	7.7%	10.9%
Operating income per diluted share	**4.00**	**4.70**	**5.50**	**3.90**	**4.40**	**5.00**	**0.10**	**0.31**	**0.50**	**2.7%**	**7.0%**	**10.0%**
Tax Rate	20.2%	21.0%	21.0%	21.0%	21.0%	21.0%	-0.8%	0.0%	0.0%	-3.7%	0.0%	0.0%
Book value per share	28.58	32.99	38.28	29.55	33.68	38.49	(0.97)	(0.69)	(0.21)	-3.3%	-2.1%	-0.5%
Operating ROE	15.7%	16.1%	16.3%	14.8%	14.6%	14.6%	0.9%	1.5%	1.7%	6.1%	10.2%	11.7%
Net income ROE	22.1%	18.5%	18.6%	20.9%	16.8%	16.7%	1.2%	1.7%	2.0%	5.9%	10.3%	11.8%
Underwriting Profitability												
Loss ratio	59.8%	59.4%	59.0%	59.8%	59.2%	58.8%	0.0%	0.2%	0.2%	0.0%	0.3%	0.3%
Expense ratio	28.4%	28.5%	28.5%	28.5%	28.5%	28.5%	-0.1%	0.0%	0.0%	-0.2%	0.0%	-0.1%
GAAP combined ratio	88.2%	87.9%	87.5%	88.3%	87.7%	87.3%	-0.1%	0.2%	0.2%	-0.1%	0.2%	0.2%
(Favorable) / Adverse PYD	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	-25.1%	-0.2%	-0.2%
Catastrophe Losses	1.8%	1.8%	1.8%	1.8%	1.6%	1.6%	0.0%	0.1%	0.2%	0.8%	7.5%	11.1%
Underlying Loss Ratio	**57.9%**	**57.5%**	**57.1%**	**58.0%**	**57.4%**	**57.1%**	**0.0%**	**0.0%**	**0.0%**	**-0.1%**	**0.1%**	**0.0%**
Underlying Combined Ratio	**86.4%**	**86.0%**	**85.6%**	**86.5%**	**85.9%**	**85.6%**	**-0.1%**	**0.0%**	**0.0%**	**-0.1%**	**0.1%**	**0.0%**
Capital Return												
Total shares repurchased	150.0	240.0	240.0	200.0	240.0	240.0	-50.0	0.0	0.0	-25.0%	0.0%	0.0%
Total Dividends ($M)	91.6	99.3	98.1	91.4	98.8	97.5	0.3	0.5	0.6	0.3%	0.5%	0.6%
Total capital return to shareholders	241.6	339.3	338.1	291.4	338.8	337.5	-49.7	0.5	0.6	-17.1%	0.1%	0.2%
Capital return payout ratio - % Operating	21.7%	26.2%	22.6%	27.0%	28.2%	25.0%	-5.3%	-2.0%	-2.4%	-19.7%	-7.0%	-9.7%

Source: Company reports and Wells Fargo Securities, LLC estimates

Valuation

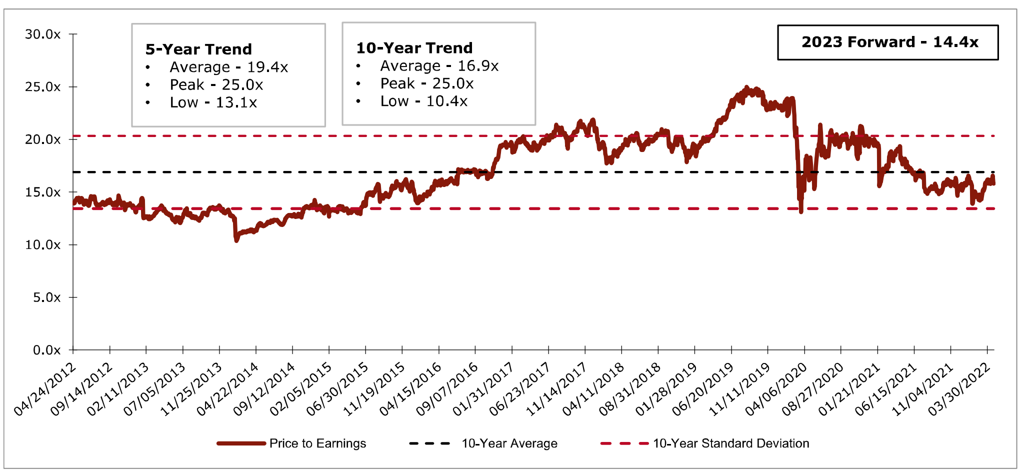
Current Valuation. WRB currently trades at 2.62x Q1 2022 book value, which compares to the 5-year and 10-year average multiples of 1.87x and 1.61x, respectively. The 5-year minimum is 1.40x and 10-year minimum is 1.11x. The 5-year and 10-year max is 2.74x, which occurred in April 2021 as the stock reached new highs. WRB is trading at 17.0x our 2022 EPS estimate, which compares to the 5-year and 10-year average multiples of 19.4x and 16.9x, 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



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

Consolidated Earnings Model

Exhibit 7 - WRB Earnings Model

$ in millions, except per share data	FY 2018	FY 2019	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021	Q1 2022	Q2 2022E	Q3 2022E	Q4 2022E	FY 2022E	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	FY 2023E	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	FY 2024E
Revenues:																							
Gross premiums written	7,702.5	8,262.2	8,847.6	2,484.7	2,661.2	2,787.5	2,766.7	10,700.1	2,859.8	3,120.4	3,237.8	3,193.4	12,411.4	3,271.8	3,584.3	3,718.6	3,671.7	14,246.5	3,518.6	3,820.5	3,987.4	3,959.1	15,285.7
y/y change	-	7.3%	7.1%	11.4%	24.8%	23.2%	24.5%	20.9%	15.1%	17.3%	16.2%	15.4%	16.0%	14.4%	14.9%	14.8%	15.0%	14.8%	7.5%	6.6%	7.2%	7.8%	7.3%
Net premiums written	6,433.2	6,863.5	7,262.4	2,050.0	2,212.2	2,325.1	2,275.5	8,862.9	2,413.3	2,553.6	2,683.4	2,630.1	10,280.4	2,756.2	2,931.2	3,079.5	3,021.8	11,788.7	2,966.5	3,159.3	3,319.3	3,257.6	12,702.6
y/y change	-	6.7%	5.8%	11.1%	27.2%	23.7%	26.6%	22.0%	17.7%	15.4%	15.4%	15.6%	16.0%	14.2%	14.8%	14.8%	14.9%	14.7%	7.6%	7.8%	7.8%	7.8%	7.8%
Change in unearned premiums	(61.7)	(230.2)	(331.6)	(200.1)	(240.6)	(244.1)	(72.1)	(756.8)	(164.2)	(204.4)	(246.7)	(104.3)	(719.7)	(143.2)	(228.2)	(279.7)	(123.6)	(774.8)	7.0	(131.0)	(232.5)	(111.4)	(467.9)
Net premiums earned	**6,371.5**	**6,633.3**	**6,930.8**	**1,850.0**	**1,971.6**	**2,081.0**	**2,203.4**	**8,106.0**	**2,249.1**	**2,349.2**	**2,436.7**	**2,525.8**	**9,560.7**	**2,613.0**	**2,703.0**	**2,799.7**	**2,898.2**	**11,013.9**	**2,973.5**	**3,028.3**	**3,086.7**	**3,146.2**	**12,234.6**
y/y change	-	4.1%	4.5%	9.4%	17.6%	19.0%	21.5%	17.0%	21.6%	19.2%	17.1%	14.6%	17.9%	16.2%	15.1%	14.9%	14.7%	15.2%	13.8%	12.0%	10.3%	8.6%	11.1%
Net investment income	674.2	645.6	583.8	158.6	168.2	179.9	165.0	671.6	173.5	128.2	153.7	159.9	615.3	166.3	172.8	179.6	186.5	705.2	193.6	200.9	208.3	216.0	818.7
y/y change	-	-4.2%	-9.6%	-9.3%	96.9%	26.1%	-8.8%	15.0%	9.4%	-23.8%	-14.6%	-3.1%	-8.4%	-4.2%	34.8%	16.9%	16.6%	14.6%	16.4%	16.2%	16.0%	15.8%	16.1%
Net investment gains (losses):																							
Net realized and unrealized gains (losses) on investments	160.2	120.7	73.5	51.8	20.5	17.2	17.6	107.0	369.9	31.6	31.6	31.6	464.8	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	(5.7)	0.0	29.5	(16.9)	3.6	2.3	(5.3)	(16.3)	(3.6)	0.0	0.0	0.0	(3.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investment gains (losses)	154.5	120.7	103.0	34.8	24.1	19.5	12.2	90.6	366.3	31.6	31.6	31.6	461.2	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	373.0	406.5	389.9	87.4	109.1	120.4	172.2	489.2	97.8	100.0	110.0	137.5	445.3	98.0	100.0	110.0	140.0	448.0	98.0	100.0	110.0	140.0	448.0
Insurance service fees	117.8	92.7	88.8	25.8	22.3	21.5	24.3	93.9	28.0	24.0	24.0	24.0	100.0	26.0	24.3	24.3	24.3	98.8	24.3	24.3	24.3	24.3	97.0
Other income	0.7	3.4	2.6	0.3	0.8	2.1	1.0	4.2	0.8	0.5	0.5	0.5	2.3	1.0	1.0	1.0	1.0	4.0	0.5	0.5	0.5	0.5	2.0
Total revenues	**7,691.7**	**7,902.2**	**8,098.9**	**2,156.9**	**2,296.1**	**2,424.3**	**2,578.2**	**9,455.5**	**2,915.4**	**2,633.6**	**2,756.5**	**2,879.3**	**11,184.8**	**2,935.9**	**3,032.8**	**3,146.2**	**3,281.6**	**12,396.5**	**3,321.4**	**3,385.5**	**3,461.4**	**3,558.5**	**13,726.9**
y/y change		2.7%	2.5%	19.1%	18.6%	18.8%	11.5%	16.7%	35.2%	14.7%	13.7%	11.7%	18.3%	0.7%	15.2%	14.1%	14.0%	10.8%	13.1%	11.6%	10.0%	8.4%	10.7%
Expenses:																							
Losses and loss expenses	3,974.7	4,131.1	4,468.7	1,121.6	1,203.6	1,298.4	1,330.3	4,954.0	1,339.3	1,398.6	1,482.6	1,492.4	5,712.9	1,547.8	1,597.3	1,689.2	1,703.7	6,537.9	1,750.2	1,776.6	1,848.7	1,840.2	7,215.6
Other operating costs and expenses	2,383.2	2,362.1	2,390.4	616.3	647.7	643.0	692.3	2,599.3	713.9	754.3	782.3	810.8	3,061.3	838.7	867.5	898.4	927.0	3,531.7	954.0	971.6	990.3	1,012.1	3,928.0
Expenses from non-insurance businesses	364.4	402.7	384.5	86.3	106.7	115.5	163.7	472.2	94.9	96.5	106.2	132.7	430.2	94.6	96.5	105.6	134.4	431.1	94.1	96.0	105.6	134.4	430.1
Interest expense	157.2	153.4	150.5	36.7	38.1	35.1	37.3	147.2	35.0	31.6	31.6	31.6	129.8	31.6	31.6	31.6	31.6	126.5	31.6	31.6	31.6	31.6	126.5
Total expenses	**6,879.6**	**7,049.3**	**7,394.1**	**1,860.8**	**1,996.1**	**2,092.0**	**2,223.6**	**8,172.6**	**2,183.0**	**2,281.1**	**2,402.6**	**2,467.5**	**9,334.2**	**2,512.7**	**2,592.9**	**2,724.8**	**2,796.8**	**10,627.2**	**2,829.9**	**2,875.8**	**2,976.2**	**3,018.3**	**11,700.2**
Underwriting Income	**302.4**	**413.7**	**351.2**	**181.7**	**202.3**	**198.8**	**261.4**	**844.3**	**273.7**	**280.8**	**259.5**	**313.5**	**1,127.5**	**320.5**	**335.6**	**312.9**	**368.9**	**1,338.0**	**376.3**	**389.1**	**358.9**	**407.1**	**1,531.4**
Income before income taxes	**812.1**	**852.9**	**704.8**	**296.1**	**299.9**	**332.3**	**354.6**	**1,282.9**	**732.4**	**352.5**	**353.8**	**411.8**	**1,850.5**	**423.2**	**439.9**	**421.4**	**484.9**	**1,769.3**	**491.6**	**509.7**	**485.2**	**540.2**	**2,026.7**
Income tax expense	(163.0)	(168.9)	(171.8)	(64.4)	(62.3)	(65.0)	(60.3)	(251.9)	(139.4)	(74.0)	(74.3)	(86.5)	(374.2)	(88.9)	(92.4)	(88.5)	(101.8)	(371.6)	(103.2)	(107.0)	(101.9)	(113.4)	(425.6)
Tax Rate	20.1%	19.8%	24.4%	21.7%	20.8%	19.6%	17.0%	19.6%	19.0%	21.0%	21.0%	21.0%	20.2%	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	**649.1**	**684.0**	**533.0**	**231.7**	**237.7**	**267.3**	**294.3**	**1,031.0**	**593.0**	**278.5**	**279.5**	**325.3**	**1,476.3**	**334.3**	**347.5**	**332.9**	**383.0**	**1,397.8**	**388.3**	**402.7**	**383.3**	**426.8**	**1,601.1**
Noncontrolling interests	(8.3)	(2.0)	(2.3)	(2.2)	(0.4)	(6.0)	0.1	(8.5)	(2.4)	(0.6)	(0.6)	(0.6)	(4.3)	(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	**640.7**	**681.9**	**530.7**	**229.5**	**237.2**	**261.298**	**294.4**	**1,022.5**	**590.6**	**277.9**	**278.9**	**324.7**	**1,472.1**	**333.7**	**346.9**	**332.3**	**382.4**	**1,395.3**	**387.7**	**402.0**	**382.7**	**426.1**	**1,598.6**
y/y change		6.4%	-22.2%	-5295.2%	232.9%	72.3%	-5.7%	92.7%	157.3%	17.1%	6.7%	10.3%	44.0%	-43.5%	24.8%	19.1%	17.8%	-5.2%	16.2%	15.9%	15.2%	11.4%	14.6%
Pre-tax investment (gains) losses, net of related expenses	(133.7)	(117.8)	(102.0)	(33.3)	(23.3)	(18.8)	(12.3)	(87.7)	(361.0)	(31.6)	(31.6)	(31.6)	(456.0)	(31.6)	(31.6)	(31.6)	(31.6)	(126.6)	(31.6)	(31.6)	(31.6)	(31.6)	(126.6)
Income tax expense (benefit)	27.9	24.9	9.7	5.6	5.1	4.2	2.2	17.1	77.3	6.6	6.6	6.6	97.3	6.6	6.6	6.6	6.6	26.6	6.6	6.6	6.6	6.6	26.6
Operating income after-tax	**534.9**	**589.0**	**438.4**	**201.8**	**219.1**	**246.7**	**284.3**	**951.9**	**306.9**	**252.9**	**253.9**	**299.7**	**1,113.3**	**308.7**	**321.9**	**307.3**	**357.4**	**1,295.3**	**362.7**	**377.0**	**357.7**	**401.1**	**1,498.6**
y/y change	-	10.1%	-25.6%	52.1%	1796.3%	103.6%	64.3%	117.1%	52.1%	15.4%	2.9%	5.4%	17.0%	0.6%	27.3%	21.0%	19.3%	16.3%	17.5%	17.1%	16.4%	12.2%	15.7%
Operating income per diluted share	**1.85**	**2.03**	**1.55**	**0.72**	**0.78**	**0.88**	**1.02**	**3.40**	**1.10**	**0.91**	**0.91**	**1.08**	**4.00**	**1.12**	**1.17**	**1.12**	**1.30**	**4.70**	**1.33**	**1.38**	**1.32**	**1.48**	**5.50**
y/y change	-	9.5%	-23.7%	55.0%	1803.9%	104.7%	65.6%	119.8%	52.7%	16.2%	3.7%	5.8%	17.6%	1.5%	28.7%	22.4%	20.7%	17.6%	18.9%	18.5%	17.7%	13.5%	17.0%
Net income per share:																							
Basic Net Income Per Share	2.25	2.38	1.89	0.83	0.85	0.94	1.06	3.69	2.13	1.01	1.01	1.18	5.33	1.22	1.27	1.22	1.41	5.11	1.43	1.49	1.42	1.59	5.92
Diluted Net Income Per Share	2.22	2.35	1.87	0.82	0.85	0.93	1.06	3.66	2.12	1.00	1.00	1.17	5.29	1.21	1.26	1.21	1.39	5.07	1.42	1.47	1.41	1.57	5.87
Average shares outstanding:																							
Basic	285.1	286.1	280.4	277.8	277.7	277.5	276.7	277.4	276.8	276.4	275.7	275.0	276.0	274.2	273.4	272.6	271.8	273.0	271.0	270.2	269.5	268.8	269.9
Diluted	288.6	290.3	283.1	280.2	280.7	280.1	278.5	279.7	279.2	278.8	278.1	277.3	278.3	276.6	275.8	274.9	274.2	275.4	273.4	272.6	271.9	271.1	272.3
Operating ROE	**9.8%**	**10.0%**	**7.4%**	**12.7%**	**13.5%**	**14.9%**	**17.1%**	**14.6%**	**18.2%**	**14.5%**	**14.2%**	**16.2%**	**15.7%**	**16.1%**	**16.3%**	**15.1%**	**16.9%**	**16.1%**	**16.6%**	**16.7%**	**15.3%**	**16.6%**	**16.3%**
Net income ROE	**11.8%**	**12.5%**	**8.7%**	**14.5%**	**15.0%**	**16.6%**	**18.7%**	**16.2%**	**35.5%**	**16.7%**	**16.8%**	**19.5%**	**22.1%**	**17.7%**	**18.4%**	**17.7%**	**20.3%**	**18.5%**	**18.1%**	**18.7%**	**17.8%**	**19.9%**	**18.6%**
Book value per share	**19.81**	**22.08**	**23.66**	**24.11**	**24.72**	**25.09**	**25.09**	**25.09**	**25.89**	**26.70**	**27.55**	**28.58**	**28.58**	**29.61**	**30.71**	**31.75**	**32.99**	**32.99**	**34.26**	**35.59**	**36.85**	**38.28**	**38.28**
Tangible book value per share	**18.95**	**21.25**	**22.81**	**23.27**	**23.89**	**24.26**	**24.27**	**24.27**	**24.92**	**25.73**	**26.58**	**27.61**	**27.61**	**28.64**	**29.73**	**30.77**	**32.00**	**32.00**	**33.27**	**34.60**	**35.86**	**37.28**	**37.28**
					13.7%																		
Underwriting Profitability	**FY 2018**	**FY 2019**	**FY 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**FY 2021**	**Q1 2022**	**Q2 2022E**	**Q3 2022E**	**Q4 2022E**	**FY 2022E**	**Q1 2023E**	**Q2 2023E**	**Q3 2023E**	**Q4 2023E**	**FY 2023E**	**Q1 2024E**	**Q2 2024E**	**Q3 2024E**	**Q4 2024E**	**FY 2024E**
Loss ratio	62.4%	62.3%	64.5%	60.6%	61.0%	62.4%	60.4%	61.1%	59.5%	59.5%	60.8%	59.1%	59.8%	59.2%	59.1%	60.3%	58.8%	59.4%	58.9%	58.7%	59.9%	58.5%	59.0%
Expense ratio	32.9%	31.5%	30.5%	29.5%	28.7%	28.0%	27.8%	28.5%	28.3%	28.5%	28.5%	28.5%	28.4%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.5%	28.6%	28.5%
GAAP combined ratio	**95.3%**	**93.8%**	**94.9%**	**90.1%**	**89.7%**	**90.4%**	**88.2%**	**89.6%**	**87.8%**	**88.0%**	**89.3%**	**87.6%**	**88.2%**	**87.7%**	**87.6%**	**88.8%**	**87.3%**	**87.9%**	**87.3%**	**87.2%**	**88.4%**	**87.1%**	**87.5%**
(Favorable) / Adverse PYD	-0.6%	-0.3%	-0.2%	-0.2%	0.0%	-0.1%	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Catastrophe Losses	1.7%	1.4%	4.9%	1.9%	2.2%	3.5%	2.2%	2.5%	1.3%	2.2%	2.5%	1.2%	1.8%	1.3%	2.1%	2.3%	1.3%	1.8%	1.3%	2.1%	2.3%	1.4%	1.8%
Underlying Loss Ratio	**61.3%**	**61.2%**	**59.8%**	**58.9%**	**58.8%**	**58.9%**	**58.3%**	**58.7%**	**58.3%**	**57.3%**	**58.4%**	**57.8%**	**57.9%**	**57.8%**	**56.8%**	**57.9%**	**57.4%**	**57.5%**	**57.4%**	**56.5%**	**57.5%**	**57.0%**	**57.1%**
Underlying Combined Ratio	**94.2%**	**92.7%**	**90.3%**	**88.4%**	**87.5%**	**86.9%**	**86.1%**	**87.2%**	**86.6%**	**85.8%**	**86.9%**	**86.3%**	**86.4%**	**86.3%**	**85.3%**	**86.4%**	**85.9%**	**86.0%**	**85.9%**	**85.0%**	**86.0%**	**85.6%**	**85.6%**

Source: Company reports 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 2022 which should translate into underlying margin improvement, and we do not believe this is currently reflected in consensus expectations.

Target Price Valuation for WRB: $80.00 from $76.00

Our price target of $80 is based on a 2.4x multiple of our year-end 2023 book value estimate. Our price target also represents a ~17.0x multiple against our 2023 EPS estimate. The 17x is a premium to the standard commercial players given that WRB is showing better growth. Further, it is a discount to its peak historical multiples, further supporting the choice of multiple in our view.

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 and/or Covid-19 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.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

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.

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