Equity Research

WELLS FARGO

Price Target Change — January 27, 2022

Commercial Lines Insurance

W.R. Berkley Corporation (WRB)

WRB: Conservatively Tackling This Market; Q4 EPS and Conference Call Round-Up

Our Call

Summary. WRB reported Q4 2021 EPS of $1.53 beating both our estimate of $1.28 and consensus of $1.25. The upside was mainly due to: **(1)** higher investment income (coming in at $165 million, higher than our $132 million estimate) driven by strong results from its investment funds, **(2)** a lower tax rate, which came in at 17.0% better than our 21.0% estimate, and **(3)** a better underlying margin as the expense ratio beat us, and the underlying loss ratio was just about in-line with us. Catastrophe losses came in at $42.4 million, above our $29.0 million estimate. There was a minimal $1.3 million of prior period favorable development in the quarter, just below our estimate for $2 million of favorable development.

- **Estimates go higher.** Following WRB's conference call, we are raising our 2022 EPS estimate to $5.40 from $5.10 while our 2023 EPS estimate goes to $6.10 from $5.70, primarily reflecting stronger premium growth and a modestly better expense ratio (to go to the mid-point of its 28-29% guide). We are introducing a 2024 EPS estimate of $6.75. We are raising our price target to $98 from $92, which is based on 2.0x 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 9.3% in the Q4 excluding workers' comp. This does represent a modest decline from 10.1% in Q3, 9.7% in Q2, and 12.8% in Q1. WRB remains confident in their ability to lean into markets where pricing is adequate and above trend. 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. Management noted that they continue to see good opportunities and that admitted carriers entering the space are not having any discernible impact at this point.
- **Leverage on the expense side.** WRB continues to see ongoing improvement in its expense ratio. The expense ratio in the quarter came in at 27.8%, better than our 28.3% estimate and improving from 28.0% in Q3. While there was around a 30 basis point benefit from Covid-19, that benefit is dissipating and WRB should continue to have leverage on the expense side as its earned premium continues to grow, especially given leverage in newer businesses. The company guided to an expense ratio of 28-29% in 2022.
- **Underlying margin improvement driven by the expense ratio.** The underlying combined ratio was 86.0%, better than our 86.4% estimate, as outperformance in the insurance segment outweighed an uptick in reinsurance/monoline excess. The underlying loss ratio of 58.2% (versus our 58.1%) improved by 100 basis points from last Q4, in-line with the Q3. WRB agreed that the company was being conservative with its loss picks (given concerns around social inflation) which is probably costing it around 1 point of additional margin improvement. We view this positively as it provides a cushion and the potential for favorable reserve development down the road.
- **Strong premium growth.** WRB saw net premiums written growth of 26.6%, coming in above our 17.9% estimate, and above the 23.7% in Q3. By segment, insurance net written premium grew by 25.8% beating our 18.8% estimate and reinsurance growth of 33.0% beat our 11.0% estimate. Within insurance, WRB saw healthy growth in all lines, with the strongest growth coming from professional lines (+49.2%), commercial

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Rating	Overweight
Ticker	WRB
Price Target/Prior:	$98.00/$92.00
Upside/(Downside) to Target	**20.5%**
Price (01/27/2022)	**$81.34**
52 Week Range	$60.53 - 87.05
Shares Outstanding	176,640,439
Market Cap (MM)	$14,368
Enterprise Value (MM)	$14,204
Average Daily Volume	225,663
Average Daily Value (MM)	$18
Dividend (NTM)	$0.50
Dividend Yield	0.6%
Net Debt (MM) - last reported	$(164)
ROIC - Current year est.	15%
3 Yr EPS CAGR from current year (unless otherwise noted)	10%

$ EPS	2021A	2022E Curr.	2022E Prior	2023E Curr.	2023E Prior
Q1 (Mar)	1.08 A	1.32 E	1.25E	1.50 E	1.39E
Q2 (Jun)	1.17 A	1.33 E	1.26E	1.51 E	1.41E
Q3 (Sep)	1.32 A	1.26 E	1.18E	1.43 E	1.33E
Q4 (Dec)	1.53 A	1.49 E	1.41E	1.67 E	1.57E
FY	5.10 A	5.40 E	5.10E	6.10 E	5.70E
P/E	15.9x	15.1x		13.3x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv. NA = Not Available, Volatility = Historical trading volatility auto (+31.0%) and other liability (+24.6%). Reinsurance growth was driven by growth across the board in casualty reinsurance, monoline, as well as property reinsurance.

- **See inside** for additional takes from the quarter and the conference call.

Q4 2021 In A Nutshell

In a Nutshell. WRB reported Q4 2021 EPS of $1.53 beating both our estimate of $1.28 and consensus of $1.25. The upside was mainly due to: **(1)** higher investment income (coming in at $165.0 million, higher than our $131.8 million estimate) driven by strong results from its investment funds, **(2)** a lower tax rate, which came in at 17.0% better than our 21.0% estimate due to a benefit from lower foreign tax rates and tax-preferred investments, and **(3)** a lower expense ratio, which came in at 27.8%, better than our 28.3% estimate and better than 28.0% in Q3. Catastrophe losses came in at $48.5 million, above our $29.0 million estimate and included $12 million of Covid-19 losses (we did not include any Covid-19 losses in our estimate). There was a minimal $1.5 million of prior period favorable development in the quarter, just below our estimate for $2 million. The underlying combined ratio of 86.0% beat our 86.4% estimate driven by a better expense ratio, with the underlying loss ratio coming in slightly above us (at 58.2% versus our 58.1% estimate). WRB didn't repurchase and shares in the quarter while we had modeled a $35 million buyback. The operating ROE was 17.1% and the net income ROE was 18.7%. Book value per share was flat QoQ and increased 6.4% YoY in the Q4.

Exhibit 1 - WRB Q4 2021 Estimates Versus Actual

	Q4 2021		Delta Vs. WFS	
$ in millions, except per share data	**Actual**	**Estimate**	**Absolute**	**%**
Gross premiums written	2,766.7	2,616.1	150.6	5.8%
y/y change	24.5%	17.8%	6.8%	-
Net premiums written	2,275.5	2,119.3	156.2	7.4%
y/y change	26.6%	17.9%	8.7%	-
Net premiums earned	2,203.4	2,136.4	67.0	3.1%
y/y change	21.5%	17.8%	3.7%	-
Net investment income	165.0	131.8	33.2	25.2%
Investment Yield	2.81%	2.25%	0.56%	-
Total revenues	2,578.2	2,458.4	119.9	4.9%
Underwriting Income	**261.4**	**262.7**	**(1.3)**	**-0.5%**
Operating income after-tax	284.3	237.6	46.7	19.7%
Operating income per diluted share	**1.53**	**1.28**	**0.25**	**19.8%**
Tax Rate	17.0%	21.0%	-4.0%	-
Book value per share	37.63	37.99	(0.35)	-0.9%
Operating ROE	17.1%	14.3%	2.8%	-
Net income ROE	18.7%	16.6%	2.0%	12.1%
Underwriting Profitability				
Loss ratio	60.4%	59.4%	1.0%	-
Expense ratio	27.8%	28.3%	-0.5%	-
GAAP combined ratio	88.2%	87.7%	0.5%	-
(Favorable) / Adverse PYD	-0.1%	-0.1%	0.0%	-
Catastrophe Losses	2.2%	1.4%	0.8%	-
Underlying Loss Ratio	**58.2%**	**58.1%**	**0.1%**	**-**
Underlying Combined Ratio	**86.0%**	**86.4%**	**-0.4%**	**-**
Capital Return				
Total shares repurchased	0.0	35.0	-35.0	-100.0%
Total Dividends ($M)	199.6	198.6	1.0	0.5%
Total capital return to shareholders	199.6	233.6	-34.0	-14.6%
Capital return payout ratio - % Operating	70.2%	98.3%	-28.1%	-

Source: Company reports and Wells Fargo Securities, LLC estimates

Highlights of Its Pricing Thoughts

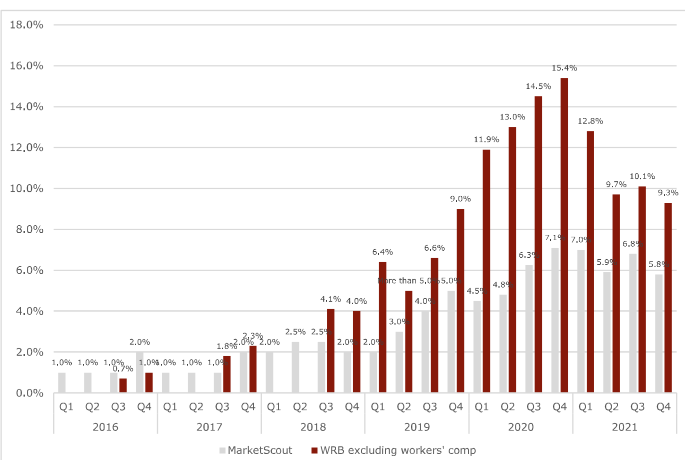
Healthy pricing trends persist. WRB saw price increases of 9.3%, excluding workers' comp (they do not provide the price increase with workers' comp until the 10Q comes out although we estimate that it was around 8% in the Q4). This compares to the 10.1%, excluding workers' comp (8.8% including comp), in the Q3 and 9.7%, excluding workers' comp (8.5% including comp), in the Q2. 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 early 2019.

Exhibit 2 - WRB Historical Pricing Commentary

Period	Pricing Comments
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, particuarly 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.
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.

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 Q4 2021 earnings versus our estimates.

- **Premium growth above us in both insurance and reinsurance/monoline excess.** Gross written premium growth of 24.5% beat our 17.8% estimate (ahead of the +23.2% in the Q3) and net written premium growth of 26.6% also came in above our 17.9% estimate (and the +23.7% in Q3). By segment, insurance net written premium growth of 25.8% beat our 18.8% estimate driven by growth in all lines (with the strongest growth in professional lines, commercial auto, and other liability), while reinsurance growth of 33% was well above our 11.0% estimate driven by growth across the board. Earned premium growth of 21.5% was also above our 17.8%. With its growth, WRB said that ~1/3rd of it came from rates that it is taking, and the remainder came from exposure growth (new policies and audit premiums).
- **NII beats on stronger alternatives.** Net investment income of $165.0 million was ahead of our $131.8 million estimate due to stronger alternative investment income. Core portfolio income of $107 million was above our $105.5 million estimate, while investment funds of $50.5 million was also ahead of our $17.6 million, arbitrage trading accounts of $7.5 million did fall below our $8.7 million estimate. The investment yield on the core portfolio was 2.04% was up from 2.00% in Q3, 2.03% in the Q2 and 2.02% in the Q1. After being conservative in recent years, WRB feels it has the flexibility to take advantage of reinvesting in a rising rate environment as well as extending portfolio duration.
- **Other revenues above us.** Revenues from non-insurance businesses was $172 million versus our $135.0 million estimate (although non-insurance expenses also came in above us), insurance service fees was $24.3 million just above our $23.0 million estimate, and other income of $1.0 million slightly beat our $0.5 million estimate.
- **Combined ratio misses us on higher catastrophe losses.** The combined ratio of 88.2% fell short of our 87.7% estimate due to higher catastrophe losses. The insurance combined ratio was 88.1%, a slight miss versus our 87.8% estimate and the reinsurance combined ratio of 88.4% came in above our 87.1% estimate. The loss ratio was 60.4% versus our 59.4% estimate, while the expense ratio of 27.8% beat our 28.3% estimate and WRB alluded to continued leverage on the expense side as earned premium continues to grow (there is currently still around a 30-50 basis point benefit from Covid-19, roughly flat with prior commentary). Catastrophe losses of $48.5 million (2.2 points) were above our $29.0 million (1.4 point) estimate, with $12 million of Covid-19 losses. We had not included any Covid-19 losses in our model and this was an uptick from the $6 million of Covid-19 losses booked in Q3.
- **Underlying results beat us on better expense ratio.** The underlying combined ratio was 86.0% versus our 86.4% estimate, due to a stronger than forecasted expense ratio, while the underlying loss ratio of 58.2% was just above our 58.1% estimate, but did improve by 100 basis points from last Q4. The insurance underlying combined ratio of 85.9% in Q4, was better than our 86.8% estimate driven by a better expense ratio with the insurance underlying loss ratio coming in at 58.3% versus our 58.8% estimate. The reinsurance underlying combined ratio came in at 58.9%, short of our 84.0% estimate driven by higher loss costs. The reinsurance underlying loss ratio was 57.2%, above our 53.5% estimate. In getting the segment underlying loss ratios we attribute all of 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 0.4 million shares for $35 million estimate, and the $93 million that was repurchased in the Q3. Including dividends (regular and special), total capital return was $199.6 million, or 70.2% of operating earnings of $284.3 million. WRB did not provide commentary on the lack of buyback, but it is not surprising given the company's lack of repurchases in Q2 and favorable view of underwriting opportunities.

Summary Of Estimate Changes

Estimates Move Higher. See Exhibit 4 below for an overview of our estimate changes following Q4 2021 earnings. Following WRB's conference call, we are raising our 2022 EPS estimate to $5.40 from $5.10 and our 2023 EPS estimate to $6.10 from $5.70. We are introducing a 2024 EPS estimate of $6.75. Our higher estimates primarily reflect stronger premium growth and a better expense ratio. We are currently looking for a 28.5% expense ratio, which is the mid-point of its 28-29% guidance. Every one point improvement on the expense ratio, represents around $0.40 per share (7.4% of our 2022 EPS estimate). In general, we view this as a bullish quarter and call from WRB as they: **(1)** pointed to the healthy market conditions, including the E&S market remain attractive, without much standard players trying to get into the market and grab, **(2)** leverage they are seeing on the expense side, even as Covid-19 savings slow down, and **(3)** their conservatism as they said they could have probably let around one point of additional margin fall to the bottom line, but instead they have been conservative with their ultimate loss pick assumption**.**

Exhibit 4 - WRB Summary Of Estimate Changes

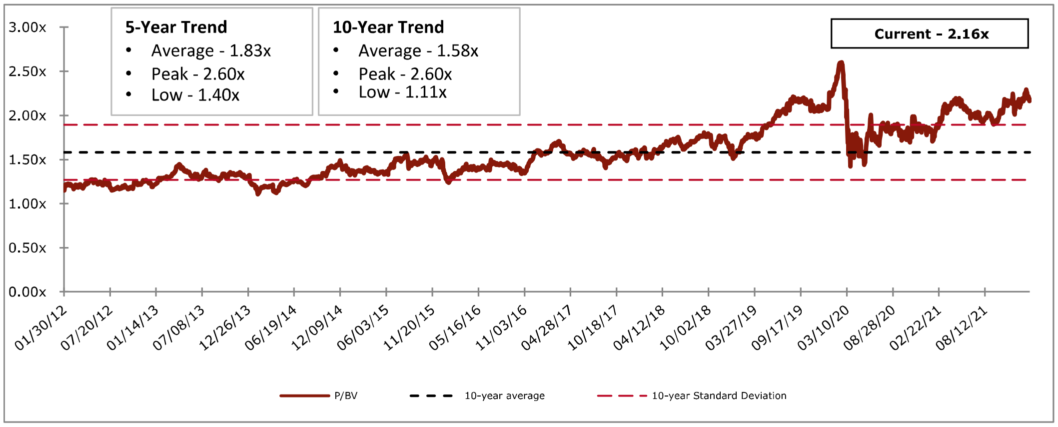
	Current			Prior Estimates			Absolute Change			% Change		
$ in millions, except per share data	FY 2022E	FY 2023E	FY 2024E	FY 2022E	FY 2023E	FY 2024E	FY 2022E	FY 2023E	FY 2024E	FY 2022E	FY 2023E	FY 2024E
Gross premiums written	11,948.2	12,861.0	13,850.1	11,427.2	12,208.8	NE	521.0	652.2	NA	4.6%	5.3%	NA
y/y change	11.7%	7.6%	7.7%	8.3%	6.8%	NE	3.3%	0.8%	NA	40.2%	11.7%	NA
Net premiums written	9,812.2	10,558.7	11,367.3	9,386.2	10,026.1	NE	426.0	532.6	NA	4.5%	5.3%	NA
y/y change	10.7%	7.6%	7.7%	7.8%	6.8%	NE	2.9%	0.8%	NA	37.2%	11.6%	NA
Net premiums earned	9,336.8	10,176.7	10,953.4	9,050.5	9,700.6	NE	286.3	476.2	NA	3.2%	4.9%	NA
y/y change	15.2%	9.0%	7.6%	12.6%	7.2%	NE	2.6%	1.8%	NA	20.7%	25.2%	NA
Net investment income	544.9	575.4	613.2	543.0	574.5	NE	1.9	1.0	NA	0.4%	0.2%	NA
Investment Yield	2.23%	2.21%	2.21%	2.22%	2.21%	NE	0.00%	0.00%	NA	0.2%	0.0%	NA
Total revenues	10,526.3	11,407.8	12,222.2	10,237.0	10,930.6	NE	289.3	477.1	NA	2.8%	4.4%	NA
Underwriting Income	**1083.7**	**1224.1**	**1341.9**	**1020.2**	**1126.4**	**NE**	**63.5**	**97.6**	**NA**	**6.2%**	**8.7%**	**NA**
Operating income after-tax	996.7	1111.4	1212.1	941.3	1035.9	NE	55.4	75.5	NA	5.9%	7.3%	NA
Operating income per diluted share	**5.40**	**6.10**	**6.75**	**5.10**	**5.70**	**NE**	**0.30**	**0.41**	**NA**	**5.8%**	**7.1%**	**NA**
Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%	NE	0.0%	0.0%	NA	0.0%	0.0%	NA
Book value per share	42.67	48.37	54.80	42.82	48.22	NE	(0.15)	0.15	NA	-0.3%	0.3%	NA
Operating ROE	14.1%	14.1%	13.8%	13.4%	13.2%	NE	0.8%	0.8%	NA	5.9%	6.4%	NA
Net income ROE	16.5%	16.2%	15.8%	15.6%	15.3%	NE	0.9%	0.9%	NA	5.7%	6.2%	NA
Underwriting Profitability												
Loss ratio	59.9%	59.4%	59.0%	60.0%	59.6%	NE	-0.1%	-0.2%	NA	-0.2%	-0.4%	NA
Expense ratio	28.5%	28.6%	28.7%	28.7%	28.7%	NE	-0.2%	-0.2%	NA	-0.7%	-0.6%	NA
GAAP combined ratio	88.4%	88.0%	87.7%	88.7%	88.4%	NE	-0.3%	-0.4%	NA	-0.4%	-0.5%	NA
(Favorable) / Adverse PYD	0.0%	0.1%	0.1%	0.0%	0.1%	NE	0.0%	0.0%	NA	-3.1%	-4.7%	NA
Catastrophe Losses	1.8%	1.8%	1.6%	1.9%	1.9%	NE	-0.1%	-0.1%	NA	-3.1%	-4.7%	NA
Underlying Loss Ratio	**58.0%**	**57.5%**	**57.3%**	**58.1%**	**57.7%**	**NE**	**-0.1%**	**-0.1%**	**NA**	**-0.1%**	**-0.3%**	**NA**
Underlying Combined Ratio	**86.5%**	**86.1%**	**86.0%**	**86.8%**	**86.4%**	**NE**	**-0.3%**	**-0.3%**	**NA**	**-0.3%**	**-0.4%**	**NA**
Capital Return												
Total shares repurchased	200.0	240.0	240.0	200.0	240.0	NE	0.0	0.0	NA	0.0%	0.0%	NA
Total Dividends ($M)	93.1	98.7	97.3	92.4	97.8	NE	0.7	0.9	NA	0.7%	0.9%	NA
Total capital return to shareholders	293.1	338.7	337.3	292.4	337.8	NE	0.7	0.9	NA	0.2%	0.3%	NA
Capital return payout ratio - % Operating	29.4%	30.5%	27.8%	31.1%	32.6%	NE	-1.7%	-2.1%	NA	-5.3%	-6.6%	NA

Source: Company reports and Wells Fargo Securities, LLC estimates

Valuation

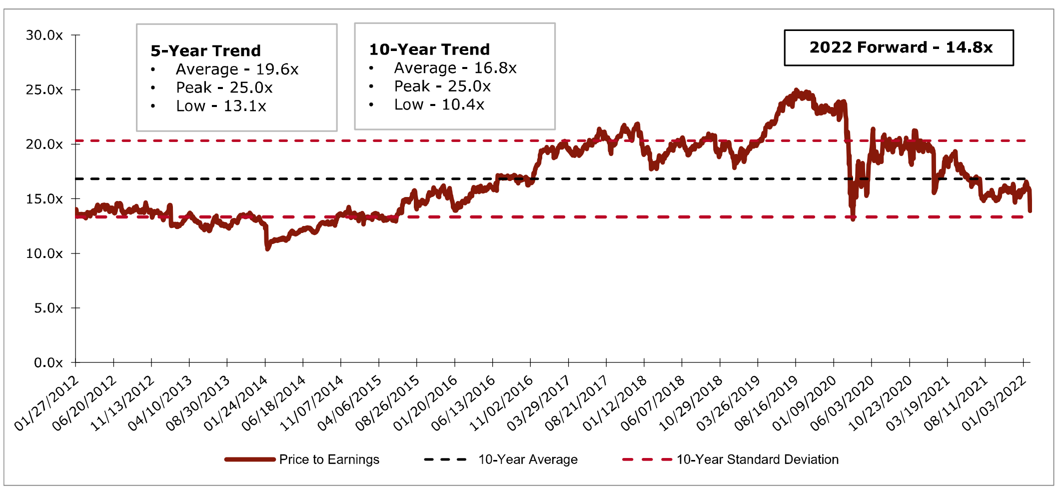
Current Valuation. WRB currently trades at 2.16x Q4 2021 book value, which compares to the 5-year and 10-year average multiples of 1.83x and 1.58x, respectively. The 5-year minimum is 1.40x and 10-year minimum is 1.11x. The 5-year and 10-year max is 2.60x, which occurred in February 2020 just before the pandemic started. WRB is trading at 14.8x our 2022 EPS estimate, which compares to the 5-year and 10-year average multiples of 19.6x and 16.8x, 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	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY 2021
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	2,661.2	2,787.5	2,766.7	10,700.1
y/y change	-	7.3%	9.0%	2.0%	8.1%	9.3%	7.1%	11.4%	24.8%	23.2%	24.5%	20.9%
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	2,212.2	2,325.1	2,275.5	8,862.9
y/y change	-	6.7%	8.0%	-0.2%	7.4%	8.2%	5.8%	11.1%	27.2%	23.7%	26.6%	22.0%
Change in unearned premiums	(61.7)	(230.2)	(154.4)	(62.9)	(130.4)	16.1	(331.6)	(200.1)	(240.6)	(244.1)	(72.1)	(756.8)
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**	**1,971.6**	**2,081.0**	**2,203.4**	**8,106.0**
y/y change	-	4.1%	6.2%	1.8%	4.3%	5.6%	4.5%	9.4%	17.6%	19.0%	21.5%	17.0%
Net investment income	674.2	645.6	174.8	85.4	142.7	181.0	583.8	158.6	168.2	179.9	165.0	671.6
y/y change	-	-4.2%	10.4%	-54.6%	-11.8%	31.8%	-9.6%	-9.3%	96.9%	26.1%	-8.8%	15.0%
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	20.5	17.2	17.6	107.0
Change in allowance for credit losses on investments	(5.7)	0.0	(33.9)	16.2	46.8	0.4	29.5	(16.9)	3.6	2.3	(5.3)	(16.3)
Net investment gains (losses)	154.5	120.7	(177.2)	77.9	39.0	163.3	103.0	34.8	24.1	19.5	12.2	90.6
Revenues from non-insurance businesses	373.0	406.5	93.7	75.7	87.5	132.9	389.9	87.4	109.1	120.4	172.2	489.2
Insurance service fees	117.8	92.7	25.8	19.9	21.6	21.5	88.8	25.8	22.3	21.5	24.3	93.9
Other income	0.7	3.4	2.1	0.2	0.1	0.1	2.6	0.3	0.8	2.1	1.0	4.2
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**	**2,296.1**	**2,424.3**	**2,578.2**	**9,455.5**
y/y change		2.7%	-6.5%	-4.3%	3.8%	17.0%	2.5%	19.1%	18.6%	18.8%	11.5%	16.7%
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	1,203.6	1,298.4	1,330.3	4,954.0
Other operating costs and expenses	2,383.2	2,362.1	578.3	580.8	594.0	637.3	2,390.4	616.3	647.7	643.0	692.3	2,599.3
Expenses from non-insurance businesses	364.4	402.7	94.8	76.2	85.0	128.5	384.5	86.3	106.7	115.5	163.7	472.2
Interest expense	157.2	153.4	36.7	38.4	39.8	35.7	150.5	36.7	38.1	35.1	37.3	147.2
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**	**1,996.1**	**2,092.0**	**2,223.6**	**8,172.6**
Underwriting Income	**302.4**	**413.7**	**52.2**	**22.9**	**111.5**	**164.6**	**351.2**	**181.7**	**202.3**	**198.8**	**261.4**	**844.3**
Income before income taxes	**812.1**	**852.9**	**(6.5)**	**105.4**	**206.4**	**399.4**	**704.8**	**296.1**	**299.9**	**332.3**	**354.6**	**1,282.9**
Income tax expense	(163.0)	(168.9)	2.9	(33.8)	(54.0)	(86.9)	(171.8)	(64.4)	(62.3)	(65.0)	(60.3)	(251.9)
Tax Rate	20.1%	19.8%	45.5%	32.0%	26.2%	21.8%	24.4%	21.7%	20.8%	19.6%	17.0%	19.6%
Net income before noncontrolling interests	**649.1**	**684.0**	**(3.5)**	**71.7**	**152.4**	**312.5**	**533.0**	**231.7**	**237.7**	**267.3**	**294.3**	**1,031.0**
Noncontrolling interests	(8.3)	(2.0)	(0.9)	(0.4)	(0.7)	(0.3)	(2.3)	(2.2)	(0.4)	(6.0)	0.1	(8.5)
Net income to common stockholders	**640.7**	**681.9**	**(4.4)**	**71.3**	**151.7**	**312.2**	**530.7**	**229.5**	**237.2**	**261.298**	**294.4**	**1,022.5**
y/y change		6.4%	-102.4%	-67.1%	-8.2%	161.6%	-22.2%	-5295.2%	232.9%	72.3%	-5.7%	92.7%
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)	(23.3)	(18.8)	(12.3)	(87.7)
Income tax expense (benefit)	27.9	24.9	(40.6)	18.1	9.0	23.2	9.7	5.6	5.1	4.2	2.2	17.1
Operating income after-tax	**534.9**	**589.0**	**132.6**	**11.6**	**121.1**	**173.0**	**438.4**	**201.8**	**219.1**	**246.7**	**284.3**	**951.9**
y/y change	-	10.1%	3.1%	-92.7%	-26.0%	25.9%	-25.6%	52.1%	1796.3%	103.6%	64.3%	117.1%
Operating income per diluted share	**2.78**	**3.04**	**0.70**	**0.06**	**0.65**	**0.92**	**2.32**	**1.08**	**1.17**	**1.32**	**1.53**	**5.10**
y/y change	-	9.5%	4.4%	-92.7%	-23.7%	30.0%	-23.7%	55.0%	1803.9%	104.7%	65.6%	119.7%
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	1.28	1.41	1.60	5.53
Diluted Net Income Per Share	3.33	3.52	(0.02)	0.38	0.81	1.67	2.81	1.23	1.27	1.40	1.59	5.48
Average shares outstanding:												
Basic	190.0	190.7	190.3	186.0	185.8	185.7	186.9	185.2	185.2	185.0	184.4	185.0
Diluted	192.4	193.5	190.3	187.9	187.7	187.2	188.8	186.8	187.1	186.7	185.7	186.6
Operating ROE	**9.8%**	**10.0%**	**9.2%**	**0.8%**	**8.2%**	**11.2%**	**7.4%**	**12.7%**	**13.5%**	**14.9%**	**17.1%**	**14.6%**
Net income ROE	**11.8%**	**12.5%**	**-0.3%**	**4.7%**	**10.0%**	**20.6%**	**8.7%**	**14.5%**	**15.0%**	**16.6%**	**18.7%**	**16.2%**
Book value per share	**29.72**	**33.12**	**30.55**	**32.60**	**33.64**	**35.49**	**35.49**	**36.16**	**37.08**	**37.64**	**37.63**	**37.63**
Tangible book value per share	**28.42**	**31.87**	**29.28**	**31.33**	**32.38**	**34.22**	**34.22**	**34.90**	**35.83**	**36.39**	**36.40**	**36.40**
									13.7%			
Underwriting Profitability	**FY 2018**	**FY 2019**	**Q1 2020**	**Q2 2020**	**Q3 2020**	**Q4 2020**	**FY 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**FY 2021**
Loss ratio	62.4%	62.3%	65.5%	67.7%	63.7%	61.3%	64.5%	60.6%	61.0%	62.4%	60.4%	61.1%
Expense ratio	32.9%	31.5%	31.4%	31.0%	29.9%	29.6%	30.5%	29.5%	28.7%	28.0%	27.8%	28.5%
GAAP combined ratio	**95.3%**	**93.8%**	**96.9%**	**98.7%**	**93.7%**	**90.9%**	**94.9%**	**90.1%**	**89.7%**	**90.4%**	**88.2%**	**89.6%**
(Favorable) / Adverse PYD	-0.6%	-0.3%	-0.2%	-0.2%	-0.3%	-0.2%	-0.2%	-0.2%	0.0%	-0.1%	-0.1%	-0.1%
Catastrophe Losses	1.7%	1.4%	4.7%	8.7%	4.2%	2.3%	4.9%	1.9%	2.2%	3.5%	2.2%	2.5%
Underlying Loss Ratio	**61.3%**	**61.2%**	**61.0%**	**59.2%**	**59.9%**	**59.2%**	**59.8%**	**58.9%**	**58.8%**	**58.9%**	**58.2%**	**58.7%**
Underlying Combined Ratio	**94.2%**	**92.7%**	**92.4%**	**90.2%**	**89.8%**	**88.8%**	**90.3%**	**88.4%**	**87.5%**	**86.9%**	**86.0%**	**87.2%**

$ in millions, except per share data	Q1 2022E	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	2,770.9	2,981.8	3,096.0	3,099.5	11,948.2	2,980.2	3,210.0	3,333.1	3,337.7	12,861.0	3,206.9	3,457.3	3,590.1	3,595.8	13,850.1
y/y change	11.5%	12.0%	11.1%	12.0%	11.7%	7.6%	7.7%	7.7%	7.7%	7.6%	7.6%	7.7%	7.7%	7.7%	7.7%
Net premiums written	2,290.3	2,441.4	2,567.1	2,513.4	9,812.2	2,462.5	2,627.5	2,763.0	2,705.6	10,558.7	2,648.9	2,829.2	2,975.2	2,913.9	11,367.3
y/y change	11.7%	10.4%	10.4%	10.5%	10.7%	7.5%	7.6%	7.6%	7.6%	7.6%	7.6%	7.7%	7.7%	7.7%	7.7%
Change in unearned premiums	(44.6)	(137.0)	(203.8)	(90.1)	(475.4)	12.1	(108.2)	(195.9)	(90.0)	(381.9)	14.1	(117.7)	(212.0)	(98.1)	(413.8)
Net premiums earned	**2,245.7**	**2,304.4**	**2,363.3**	**2,423.3**	**9,336.8**	**2,474.6**	**2,519.4**	**2,567.1**	**2,615.6**	**10,176.7**	**2,663.0**	**2,711.5**	**2,763.2**	**2,815.8**	**10,953.4**
y/y change	21.4%	16.9%	13.6%	10.0%	15.2%	10.2%	9.3%	8.6%	7.9%	9.0%	7.6%	7.6%	7.6%	7.7%	7.6%
Net investment income	134.6	135.2	136.8	138.4	544.9	140.6	142.9	145.1	146.9	575.4	149.8	152.2	154.7	156.5	613.2
y/y change	-15.2%	-19.6%	-24.0%	-16.1%	-18.9%	4.5%	5.7%	6.1%	6.1%	5.6%	6.6%	6.6%	6.6%	6.6%	6.6%
Net investment gains (losses):															
Net realized and unrealized gains (losses) on investments	31.6	31.6	31.6	31.6	126.6	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net investment gains (losses)	31.6	31.6	31.6	31.6	126.6	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	95.0	90.0	97.5	137.5	420.0	97.5	92.5	100.0	140.0	430.0	97.5	92.5	100.0	140.0	430.0
Insurance service fees	24.0	24.0	24.0	24.0	96.0	24.3	24.3	24.3	24.3	97.0	24.3	24.3	24.3	24.3	97.0
Other income	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0	0.5	0.5	0.5	0.5	2.0
Total revenues	**2,531.4**	**2,585.7**	**2,653.7**	**2,755.4**	**10,526.3**	**2,769.1**	**2,811.1**	**2,868.7**	**2,958.9**	**11,407.8**	**2,966.7**	**3,012.6**	**3,074.3**	**3,168.7**	**12,222.2**
y/y change	17.4%	12.6%	9.5%	6.9%	11.3%	9.4%	8.7%	8.1%	7.4%	8.4%	7.1%	7.2%	7.2%	7.1%	7.1%
Expenses:															
Losses and loss expenses	1,339.4	1,380.9	1,439.8	1,431.0	5,591.1	1,465.2	1,496.9	1,550.4	1,533.2	6,045.7	1,567.6	1,599.8	1,656.5	1,640.2	6,464.2
Other operating costs and expenses	721.2	740.0	758.9	778.1	2,998.1	796.0	810.4	825.7	841.2	3,273.3	861.1	876.8	893.4	910.4	3,541.7
Expenses from non-insurance businesses	94.1	89.1	96.5	136.1	415.8	96.5	91.6	99.0	138.6	425.7	96.5	91.6	99.0	138.6	425.7
Interest expense	35.0	31.6	31.6	31.6	129.9	31.6	31.6	31.6	31.6	126.5	31.6	31.6	31.6	31.6	126.5
Total expenses	**2,189.7**	**2,241.6**	**2,326.8**	**2,376.9**	**9,134.9**	**2,389.4**	**2,430.5**	**2,506.7**	**2,544.7**	**9,871.2**	**2,556.9**	**2,599.8**	**2,680.6**	**2,720.9**	**10,558.1**
Underwriting Income	**266.0**	**266.5**	**249.8**	**301.4**	**1,083.7**	**302.4**	**302.8**	**283.5**	**335.4**	**1,224.1**	**330.1**	**332.5**	**312.8**	**366.5**	**1,341.9**
Income before income taxes	**341.8**	**344.1**	**327.0**	**378.5**	**1,391.4**	**379.7**	**380.7**	**362.0**	**414.2**	**1,536.5**	**409.8**	**412.8**	**393.7**	**447.8**	**1,664.1**
Income tax expense	(71.8)	(72.3)	(68.7)	(79.5)	(292.2)	(79.7)	(79.9)	(76.0)	(87.0)	(322.7)	(86.1)	(86.7)	(82.7)	(94.0)	(349.5)
Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%	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	**270.0**	**271.9**	**258.3**	**299.0**	**1,099.2**	**300.0**	**300.7**	**286.0**	**327.2**	**1,213.9**	**323.8**	**326.1**	**311.0**	**353.7**	**1,314.6**
Noncontrolling interests	(0.6)	(0.6)	(0.6)	(0.6)	(2.5)	(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	**269.4**	**271.2**	**257.7**	**298.4**	**1,096.7**	**299.3**	**300.1**	**285.3**	**326.6**	**1,211.4**	**323.1**	**325.5**	**310.4**	**353.1**	**1,312.1**
y/y change	17.4%	14.3%	-1.4%	1.3%	7.3%	11.1%	10.6%	10.7%	9.5%	10.5%	8.0%	8.5%	8.8%	8.1%	8.3%
Pre-tax investment (gains) losses, net of related expenses	(31.6)	(31.6)	(31.6)	(31.6)	(126.6)	(31.6)	(31.6)	(31.6)	(31.6)	(126.6)	(31.6)	(31.6)	(31.6)	(31.6)	(126.6)
Income tax expense (benefit)	6.6	6.6	6.6	6.6	26.6	6.6	6.6	6.6	6.6	26.6	6.6	6.6	6.6	6.6	26.6
Operating income after-tax	**244.4**	**246.2**	**232.7**	**273.4**	**996.7**	**274.3**	**275.1**	**260.3**	**301.6**	**1,111.4**	**298.1**	**300.5**	**285.4**	**328.1**	**1,212.1**
y/y change	21.1%	12.4%	-5.7%	-3.8%	4.7%	12.3%	11.7%	11.9%	10.3%	11.5%	8.7%	9.2%	9.6%	8.8%	9.1%
Operating income per diluted share	**1.32**	**1.33**	**1.26**	**1.49**	**5.40**	**1.50**	**1.51**	**1.43**	**1.67**	**6.10**	**1.65**	**1.67**	**1.59**	**1.84**	**6.75**
y/y change	22.1%	13.8%	-4.4%	-2.8%	5.9%	13.7%	13.2%	13.4%	11.9%	13.0%	10.2%	10.7%	11.1%	10.3%	10.6%
Net income per share:															
Basic Net Income Per Share	1.46	1.48	1.41	1.64	5.98	1.65	1.66	1.58	1.82	6.70	1.80	1.82	1.74	1.99	7.36
Diluted Net Income Per Share	1.45	1.47	1.40	1.62	5.94	1.64	1.65	1.57	1.80	6.65	1.79	1.81	1.73	1.98	7.31
Average shares outstanding:															
Basic	184.1	183.5	183.0	182.4	183.3	181.8	181.1	180.5	179.8	180.8	179.2	178.6	178.0	177.4	178.3
Diluted	185.4	184.8	184.2	183.6	184.5	183.0	182.4	181.7	181.1	182.1	180.5	179.9	179.3	178.7	179.6
Operating ROE	**14.5%**	**14.2%**	**13.0%**	**14.9%**	**14.1%**	**14.5%**	**14.1%**	**13.0%**	**14.7%**	**14.1%**	**14.1%**	**13.8%**	**12.8%**	**14.3%**	**13.8%**
Net income ROE	**16.2%**	**16.3%**	**15.5%**	**17.9%**	**16.5%**	**16.1%**	**16.1%**	**15.3%**	**17.5%**	**16.2%**	**15.5%**	**15.6%**	**14.9%**	**17.0%**	**15.8%**
Book value per share	**38.81**	**40.07**	**41.26**	**42.67**	**42.67**	**44.06**	**45.47**	**46.80**	**48.37**	**48.37**	**49.94**	**51.53**	**53.04**	**54.80**	**54.80**
Tangible book value per share	**37.57**	**38.83**	**40.01**	**41.43**	**41.43**	**42.81**	**44.21**	**45.54**	**47.11**	**47.11**	**48.67**	**50.26**	**51.76**	**53.52**	**53.52**
Underwriting Profitability	**Q1 2022E**	**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	59.6%	59.9%	60.9%	59.1%	59.9%	59.2%	59.4%	60.4%	58.6%	59.4%	58.9%	59.0%	59.9%	58.3%	59.0%
Expense ratio	28.5%	28.5%	28.5%	28.5%	28.5%	28.6%	28.6%	28.6%	28.6%	28.6%	28.7%	28.7%	28.7%	28.7%	28.7%
GAAP combined ratio	**88.2%**	**88.4%**	**89.4%**	**87.6%**	**88.4%**	**87.8%**	**88.0%**	**89.0%**	**87.2%**	**88.0%**	**87.6%**	**87.7%**	**88.7%**	**87.0%**	**87.7%**
(Favorable) / Adverse PYD	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	1.2%	2.3%	2.5%	1.3%	1.8%	1.2%	2.2%	2.4%	1.3%	1.8%	1.1%	2.0%	2.3%	1.2%	1.6%
Underlying Loss Ratio	**58.4%**	**57.6%**	**58.4%**	**57.7%**	**58.0%**	**57.9%**	**57.1%**	**57.8%**	**57.2%**	**57.5%**	**57.6%**	**56.9%**	**57.6%**	**56.9%**	**57.3%**
Underlying Combined Ratio	**86.9%**	**86.1%**	**86.9%**	**86.2%**	**86.5%**	**86.5%**	**85.7%**	**86.4%**	**85.8%**	**86.1%**	**86.4%**	**85.6%**	**86.3%**	**85.7%**	**86.0%**

Source: Company reports and Wells Fargo Securities, LLC estimates

Price Target Basis and Risk

Price Target for WRB: $98.00 from $92.00

Our price target of $98 is based on a 2.0x multiple of our year-end 2023 book value estimate. Our price target also represents a ~16.0x multiple against our 2023 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 2022 which should translate into underlying margin improvement, and we do not believe this is currently reflected in consensus expectations.

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

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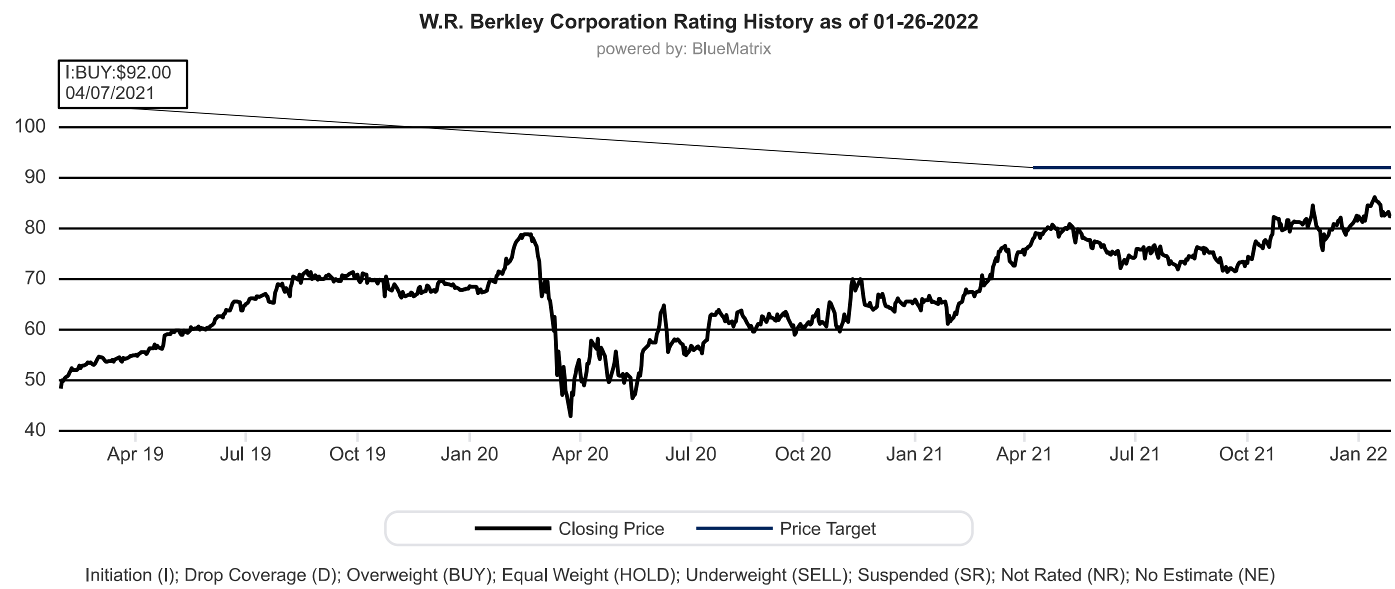

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STOCK RATING

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

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

3=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

As of January 27, 2022
56.3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.
35.5% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.
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Wells Fargo Securities, LLC has provided investment banking services for 50.9% of its Equity Research Overweight-rated companies.

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