

Flash Comment — April 23, 2024

## Commercial Lines Insurance

# W.R. Berkley Corporation (WRB)

## WRB: Q1 Beats on Investment Income and Cats

### Our Call

WRB reported Q1 EPS of \$1.56, beating our \$1.42 and consensus \$1.43 due to investment income and lower cats. The underlying combined ratio was in-line (expense ratio a touch better/loss ratio a touch worse) as WRB takes a prudent view of loss trends.

### Initial Thoughts

**The good:** Net premiums written rose 10.7%, a bit below our 13.2%, but within the 10-15% guided range for the year. Insurance rose 11.9% (vs. our 13.7%) and reinsurance rose 4.2% (vs our 10.3%). The expense ratio was 28.6%, beating our 28.7% and better than 28.8% last Q1, whereas the underlying loss ratio of 59.1%, fell short of our 58.9% and rose also when compared to 58.9% last Q1. Cat losses of \$30.5m, were below our \$40.0m. Average rate increases ex comp were 7.8%, a touch below 8.0% in Q4.

**The bad:** Net investment income was \$319.8m from the core portfolio, ahead of our \$292.8m. Core portfolio income of \$331.2m, beat our \$297.6m whereas investment funds saw a loss of \$29.3m (which was worse than our estimate for a loss of \$20.3m) and arbitrage trading account added \$18.0m (beating our \$15.5m). The core portfolio most likely benefited from investment income from securities linked to Argentinian inflation (which was also the case in Q4).

**The ugly:** There wasn't a lot to call "ugly" but WRB saw a loss from investment funds, which we expected. Also, they continue to conservatively book the current accident year and assuming no reserve development in either segment the underlying loss ratios missed us in insurance (60.7% vs our 59.9%), but beat in reinsurance (49.0% vs our 51.5%). Reinsurance growth was only 4.2% as growth in monoline excess and property, offset a casualty decline (-10.1%). The tax rate of 22.9%, was above our 21%.

**Negligible overall reserve movement:** Reserve development was negligible as the delta between the reported and current accident year combined ratio was the \$30.5m, or 1.1 points of cat losses. We expect a focus of the conference call to be on movements WRB has seen in its reserves for different lines and accident years during the quarter.

**Stock call:** The shares should trade based on the commentary given on the conference call and any forward outlook they provided for the year. The biggest focus of the call will be on the outlook for growth and margins and color on the reserve movement in the quarter. **Conference call** at 9:00 AM EST; Dial-in number is 888-330-3391, Passcode: 9890223.

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### W.R. Berkley Corporation (WRB)

Overweight

Price: \$83.43/Price Target: \$99.00

Market Cap: \$21,404 MM

*Note: Pricing as of 04/22/2024*

*Source: Company Data, Wells Fargo Securities estimates, and Factset.*

**In a Nutshell.** WRB reported Q1 EPS of \$1.56, beating our \$1.42 and consensus of \$1.43. The upside was due to higher investment income (higher core portfolio income offsetting modestly lower investment funds) and modestly lower cats. Catastrophe losses came in at \$30.5 million (1.1 pts), lower than our \$40 million (1.4 pts). Prior year reserve development was negligible in the quarter. WRB does not call out the level of prior year development by segment until the 10-Q. Investment income came in at \$319.8 million, better than our \$292.8 million estimate, with the core portfolio and arbitrage trading account coming in ahead of us while investment funds saw a loss of \$29m which was a bit worse than our loss of \$20m estimate. There were FX gains of \$13 million that helped earnings by \$0.04 per share.

The underlying combined ratio of 87.7% was in line with our 87.7%; the underlying loss ratio came in 59.1%, ~20bps worse than our estimate while the expense ratio was 10bps better than us. The expense ratio was 28.6%, 10 basis points better than us. WRB did not buy back any shares in the quarter, relative to our \$50 million estimate. The average diluted share count of 270.5 million was a bit higher than our 270.2 million estimate. The reported operating ROE was 22.7%, and the reported net income ROE was 23.7%. Book value per share grew by 4.4% sequentially to \$30.34.

#### Exhibit 1 - WRB Q1 2024 Estimates Versus Actual

(\$ in millions, except as noted)	Q1 2024		Delta Vs. WFS	
	Actual	WFS Estimate	Absolute Delta	% Delta
<b>Summary</b>				
Insurance	235.1	244.2	(9.2)	(3.8%)
Reinsurance & Monoline Excess	<u>74.6</u>	<u>56.1</u>	<u>18.4</u>	<u>32.8%</u>
<b>Underwriting Income</b>	<b>309.7</b>	<b>300.4</b>	<b>9.3</b>	<b>3.1%</b>
Net Investment Income	319.8	292.8	27.1	9.2%
Corporate & Other Ex. Realized Gains/(Losses)	<u>(81.2)</u>	<u>(106.1)</u>	<u>24.9</u>	<u>(23.5%)</u>
<b>Pre-Tax Operating Income</b>	<b>548.3</b>	<b>487.1</b>	<b>61.2</b>	<b>12.6%</b>
Taxes	(125.4)	(102.3)	(23.1)	22.6%
Noncontrolling Interest	<u>0.4</u>	<u>(0.6)</u>	<u>1.1</u>	<u>(169.8%)</u>
<b>Adjusted After-Tax Operating Income</b>	<b>423.3</b>	<b>384.1</b>	<b>39.2</b>	<b>10.2%</b>
<b>Operating EPS</b>	<b>\$1.56</b>	<b>\$1.42</b>	<b>\$0.14</b>	<b>10.1%</b>
YoY Change in Operating EPS	57.3%	42.9%	14.4%	-
Tax Rate	22.9%	21.0%	+187bps	8.9%
<b>GAAP Book Value per Share</b>	<b>\$30.34</b>	<b>\$30.46</b>	<b>(\$0.12)</b>	<b>(0.4%)</b>
<b>Operating Return on Equity</b>	<b>22.2%</b>	<b>20.2%</b>	<b>2.1%</b>	<b>10.2%</b>
Net Income ROE (Reported)	23.7%	24.3%	(51bps)	(2.1%)
<b>Revenues</b>				
Gross premiums written	3,362.8	3,450.1	(87.3)	(2.5%)
y/y change	10.3%	13.1%	(2.9%)	-
Net premiums written	2,851.3	2,915.9	(64.6)	(2.2%)
y/y change	10.7%	13.2%	(2.5%)	-
<b>Net premiums earned</b>	<b>2,764.3</b>	<b>2,781.3</b>	<b>(16.9)</b>	<b>(0.6%)</b>
y/y change	11.0%	11.6%	(0.7%)	-
<b>Net investment income</b>	<b>319.8</b>	<b>292.8</b>	<b>27.1</b>	<b>9.2%</b>
y/y change	43.2%	31.1%	12.1%	-
<b>Total revenues</b>	<b>3,256.8</b>	<b>3,228.4</b>	<b>28.3</b>	<b>0.9%</b>
<b>Underwriting Profitability</b>				
Loss Ratio	60.2%	60.5%	(0.3pts)	(0.5%)
Expense Ratio	<u>28.6%</u>	<u>28.7%</u>	<u>(0.1pts)</u>	<u>(0.3%)</u>
<b>Combined Ratio</b>	<b>88.8%</b>	<b>89.2%</b>	<b>(0.4pts)</b>	<b>(0.4%)</b>
Cats Points on Combined Ratio	1.1%	1.4%	(0.3pts)	(23.3%)
PYD Points on Combined Ratio	<u>0.0%</u>	<u>0.1%</u>	<u>(0.1pts)</u>	<u>(100.0%)</u>
<b>Underlying Loss Ratio</b>	<b>59.1%</b>	<b>58.9%</b>	<b>+0.1pts</b>	<b>0.2%</b>
<b>Underlying Combined Ratio</b>	<b>87.7%</b>	<b>87.7%</b>	<b>+0.1pts</b>	<b>0.1%</b>
Catastrophe Losses (\$)	30.5	40.0	(9.5)	(23.7%)
Reserve Development (\$)	0.0	3.0	(3.0)	(100.0%)
<b>Capital Return</b>				
Common Dividends	28.2	28.1	0.1	0.0
Share Repurchases	<u>0.0</u>	<u>50.0</u>	<u>(50.0)</u>	<u>(1.0)</u>
<b>Total Capital Return</b>	<b>28.2</b>	<b>78.1</b>	<b>(49.9)</b>	<b>(0.6)</b>
Total Payout Ratio (% of Operating Income)	6.7%	20.3%	(13.7%)	-

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 2024, particularly as they lean in on property insurance and reinsurance, which should translate into a good level of premium growth, which we do not believe is currently reflected in consensus expectations.

#### Target Price Valuation for WRB: \$99.00 from NC

- Our price target of \$99 is based on just around a 2.5x multiple of our year-end 2025 book value estimate
- Our price target also represents a ~14.5x multiple against our 2025 EPS estimate.
- The 14.5x is a slight discount to where WRB has historically traded as we look to be conservative given social inflation.

#### Risks to Our Price Target and Rating for WRB

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

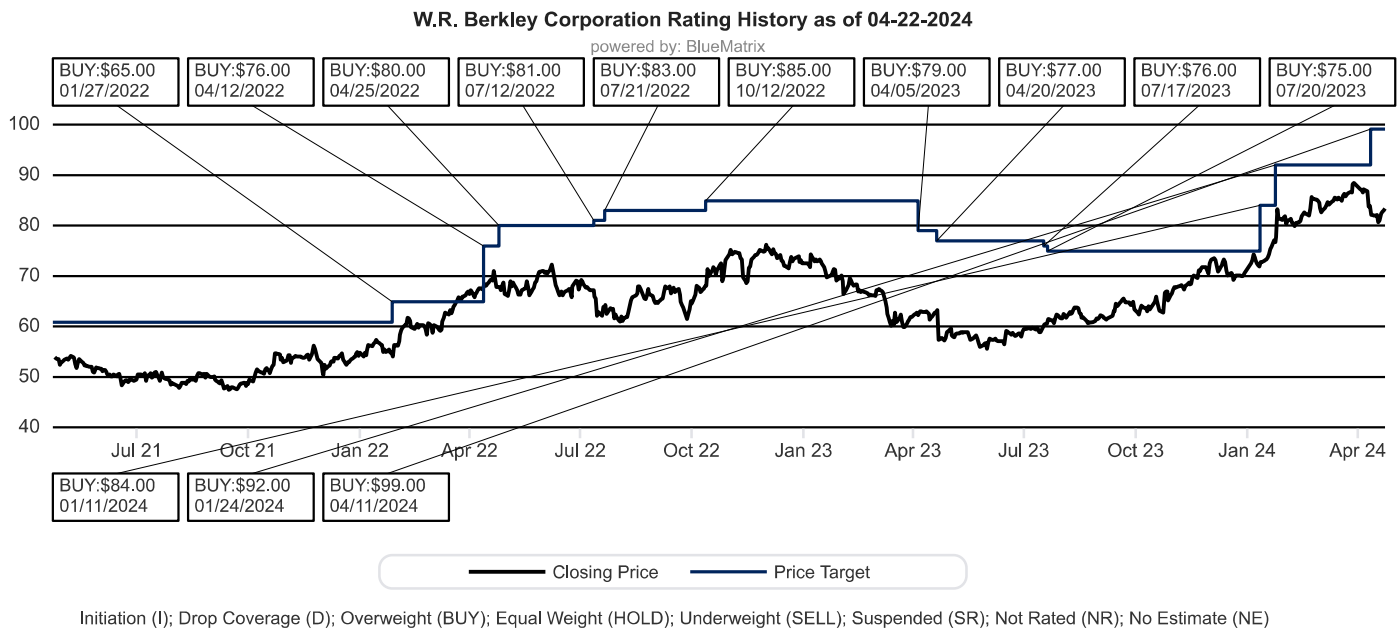
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**NR=Not Rated:** The rating and price target has been removed due to lack of fundamental basis to support the recommendation or due to legal, regulatory or company policy considerations.

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