Earnings Revised — January 26, 2023

Commercial Lines Insurance

W.R. Berkley Corporation (WRB)

WRB: Burning the Q4 Oil; Q4 EPS and Conference Call Roundup

Our Call

WRB reported Q4 2022 EPS of $1.16 beating our $1.04 and consensus of $1.10 driven by higher investment income, lower cats, and a lower expense ratio partially offset by weaker underlying margins, which were impacted 1-1.5 points of fire losses.

Estimate and price target changes: We are raising our 2023 to $5.05 (from $5.00) to reflect modestly higher NII, modestly offset by a higher assumed repurchase price while our 2024 estimate remains unchanged at $5.90. We are also initiating a 2025 EPS estimate of $6.75. Our price target is unchanged at $85. While the shares are trading down post earnings, we believe they offer a compelling valuation at 12x 2024 EPS, and they should see good growth prospects in 2023.

The good: WRB delivered a record-high $231.3 million of investment income with both fixed and non-fixed income beating our estimates. Their core fixed portfolio saw a yield of 3.49% in the quarter and should continue to provide a tailwind for earnings as new money rates (near 5%) are still well above the embedded portfolio yield. The expense ratio ended the year at 28.0%, down 50bps Y/Y, and was guided to being comfortably below 30% in 2023. Cats of 1.2 points beat our estimate of 2.2 points.

The bad: The 60.3% underlying loss ratio in insurance came in above our 59.0% estimate, but in part was driven by 1-1.5 points of non-cat weather related to fires, which impacted both insurance and reinsurance and will most likely be one-time in nature. They did not provide a split on the impact, but if we assume about a point was in insurance, the underlying loss ratio would have missed us more modestly.

The ugly: Gross premiums written growth was only 5.4%, well below our 12.0% estimate (earned premiums beat us) and the slowest growth since Q2 2020, which shows WRB is continuing to be disciplined in more competitive areas of the market (including D&O and workers' comp). Their premiums written were also impacted 75bps by foreign currency movement (dollar weakening) but still would have come in below our estimate. On the positive side, Berkley pointed to growth starting 2023 strong in January.

The stock from here: Shares are trading down due to the underlying margin miss and lower premium growth. Lost within that is WRB said they chose to add to their catastrophe reinsurance exposure at 1/1. While still probably modest for them, we believe cat reinsurance could provide an extra source of revenue and earnings in 2023. Further, when we asked WRB about growth, they said that January was encouraging, which to us points to growth picking up from the Q4 level.

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Rating	Overweight
Ticker	WRB
Price Target/Prior:	$85.00/NC
Upside/(Downside) to Target	**19.2%**
Price (01/26/2023)	**$71.32**
52 Week Range	$53.41 - 76.17
Shares Outstanding	265,476,121
Market Cap (MM)	$18,934
Enterprise Value (MM)	$18,882
Average Daily Volume	449,907
Average Daily Value (MM)	32
Dividend (NTM)	$0.90
Dividend Yield	1.3%
Net Debt (MM) - last reported	$(52)
ROIC - Current year est.	20%
3 Yr EPS CAGR from current year (unless otherwise noted)	15%

$ EPS	2022A	2023E Curr.	2023E Prior	2024E Curr.	2024E Prior
Q1 (Mar)	1.10 A	1.25 E	1.23E	1.47 E	1.46E
Q2 (Jun)	1.12 A	1.21 E	1.20E	1.44 E	1.43E
Q3 (Sep)	1.01 A	1.24 E	1.22E	1.44 E	1.43E
Q4 (Dec)	1.16 A	1.36 E	NC	1.57 E	1.59E
FY	4.39 A	5.05 E	5.00E	5.90 E	NC
P/E	16.3x	14.1x		12.1x	

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

Q4 2022 Beats On Investment Income, Lower Cats And Expenses

In a Nutshell. WRB reported Q4 2022 EPS of $1.16, beating our $1.04 and consensus of $1.10. The upside was driven by: **(1)** stronger net investment income (in the core portfolio and its investment funds and arbitrage trading account), **(2)** lower cats (1.2 points versus our estimated 2.2 points), (3) a lower expense ratio (27.8% versus our 28.0%), and (4) a lower tax rate (19.9% versus our 21.0%). Catastrophe losses came in at $30.8 million, lower than our $54.0 million estimate, and prior year reserve development was $0.3 million favorable vs. our estimate for adverse development of ($0.5) million. WRB did not provide a split of the reserve release by segment (will be available in the 10K).Investment income came in at $231.3 million, well above our $177.0 million estimate, with both their fixed and non-fixed income coming above us. There were FX losses of $34.1 million that offset earnings by $0.10 per share.

The underlying combined ratio of 87.2% was worse than our 86.3% estimate, the underlying loss ratio came 110bps above us, driven by 1-1.5 points of non-cat weather related to fires that occurred across both insurance and reinsurance (they did not provide a breakdown between the two segments), which more than offset a modestly favorable expense ratio (20bps above us). WRB bought back a modest $87.6 million shares in the quarter (the highest repurchase since Q3 2021), higher than our $50 million estimate. During the Q&A, they said the higher repurchase activity was not because there is a lack of opportunities in the market. The operating ROE was 19.8%, and the net income ROE was 22.3%. Book value per share grew 6.8% QoQ.

Exhibit 1 - WRB Q4 2022 Estimates Versus Actual

	Q4 2022		Delta Vs. WFS	
($ in millions, except as noted)	Actual	WFS Estimate	Absolute Delta	% Delta
Summary				
Insurance	238.4	257.1	(18.7)	(7.3%)
Reinsurance & Monoline Excess	52.7	31.7	21.0	66.3%
Underwriting Income	**291.0**	**288.7**	**2.3**	**0.8%**
Net Investment Income	231.3	177.0	54.3	30.7%
Corporate & Other Ex. Realized Gains/(Losses)	(119.0)	(97.4)	(21.6)	22.2%
Pre-Tax Operating Income	**403.3**	**368.4**	**35.0**	**9.5%**
Taxes	(80.2)	(77.4)	(2.9)	3.7%
Noncontrolling Interest	0.2	(0.6)	0.9	(138.2%)
Adjusted After-Tax Operating Income	**323.3**	**290.4**	**32.9**	**11.3%**
Operating EPS	**$1.16**	**$1.04**	**$0.12**	**11.5%**
YoY Change in Operating EPS	*13.6%*	*1.9%*	*11.7%*	-
Tax Rate	19.9%	21.0%	(111bps)	(5.3%)
GAAP Book Value per Share	**$25.51**	**$25.39**	**$0.12**	**0.5%**
Operating Return on Equity	**19.8%**	**17.8%**	**2.0%**	**11.3%**
Net Income ROE	22.3%	19.0%	+331bps	17.5%
Revenues				
Gross premiums written	2,914.9	3,099.5	(184.6)	(6.0%)
y/y change	5.4%	12.0%	(6.7%)	-
Net premiums written	2,427.9	2,553.8	(125.9)	(4.9%)
y/y change	6.7%	12.2%	(5.5%)	-
Net premiums earned	**2,513.2**	**2,497.7**	**15.5**	**0.6%**
y/y change	14.1%	13.4%	0.7%	-
Net investment income	**231.3**	**177.0**	**54.3**	**30.7%**
y/y change	40.2%	7.3%	32.9%	-
Total revenues	**3,013.8**	**2,868.4**	**145.4**	**5.1%**
Underwriting Profitability				
Loss Ratio	60.6%	60.4%	+0.2pts	0.3%
Expense Ratio	27.8%	28.0%	(0.2pts)	(0.8%)
Combined Ratio	**88.4%**	**88.4%**	**(0.1pts)**	**(0.1%)**
Cats Points on Combined Ratio	1.2%	2.2%	(0.9pts)	(43.2%)
PYD Points on Combined Ratio	(0.0%)	0.0%	(0.0pts)	(159.6%)
Underlying Loss Ratio	***59.3%***	***58.2%***	***+1.1pts***	***2.0%***
Underlying Combined Ratio	***87.2%***	***86.3%***	***+0.9pts***	***1.1%***
Catastrophe Losses ($)	30.8	54.0	(23.2)	(42.9%)
Reserve Development ($)	(0.3)	0.5	(0.8)	(160.0%)
Capital Return				
Common Dividends	32.8	26.5	6.2	0.2
Share Repurchases	87.6	50.0	37.6	0.8
Total Capital Return	**120.3**	**76.5**	**43.8**	**0.6**
Total Payout Ratio (% of Operating Income)	37.2%	26.4%	10.8%	-

Source: Company reports and Wells Fargo Securities, LLC estimates

What the Companies Are Saying - WRB

Outlook. WRB said they are exceeding loss trend at this stage and there has not been a material change in loss cost assumptions in the last 90 days. WRB said they are willing to lean in on the property hard market in both insurance and reinsurance, but the growth won't be anything that will shift the mix of the company. They are still seeing a healthy flow of business into the E&S market in both casualty and property, despite standard markets continuing to be aggressive in their appetite with the exception of large accounts product liability, which is not a huge exposure for them and has started to revert back to standard markets.

Pricing. WRB saw rate of 6.9% (ex workers' comp), which was modestly down from the 7.3% last quarter, but WRB said the rate remains ahead of loss trends. WRB was disappointed by the lack of discipline in property as they mentioned many carriers failed to price in the higher reinsurance costs that were awaiting at 1/1s and the lack of reinsurance capacity. On the workers' comp side, they admitted they were off on their timing on when they expect pricing to harden, saying pricing should be bumpy again this year before seeing considerable firming in 2024 and beyond given medical inflation trends. WRB sees some of the brighter opportunities in umbrella and general liability excess with the one cautious line being large account excess lines. Professional liability offers attractive opportunities outside of D&O, which should continue to soften. In terms of reinsurance, they said the clock is right to lean in but will see how much staying power and discipline there in the market. They mentioned they are seeing more attractive returns in the US reinsurance market versus international. The exhibit below shows recent commentary that WRB has provided on pricing since the start of 2020.

Guidance. WRB only provided guidance around the expense ratio, which they said should be comfortably below 30.0% in 2023. WRB ended 2022 at a 28.0% expense ratio, so we believe a range of 28.0-28.5% is doable for 2023.

Investments. WRB saw record investment income of $231.3 million in the quarter as the core fixed portfolio saw a yield of 3.49% in the quarter, above our 3.15% estimate and ended the year at a yield of 2.79%. Investment income should continue to be a tailwind for WRB as new money rates are still in the 4.5-5% range, and we are modeling a core portfolio yield of 3.67% in 2023, 3.86% in 2024, and 4.00% in 2025.

Liquidity and Capital. WRB's debt to capital ratio ended 2022 at 29.6%, which was down from the 30.9% in Q3 and down from the 32.9% at the end of 2021. Repurchases in the quarter totaled $87.6 million, which was the highest repurchase activity this year and the highest since Q3 2021 when they repurchased $93 million. During the Q&A, they noted the higher repurchase activity was not indicative of a lack of opportunity in the marketplace to put capital to work.

Exhibit 2 - WRB Historical Pricing Commentary

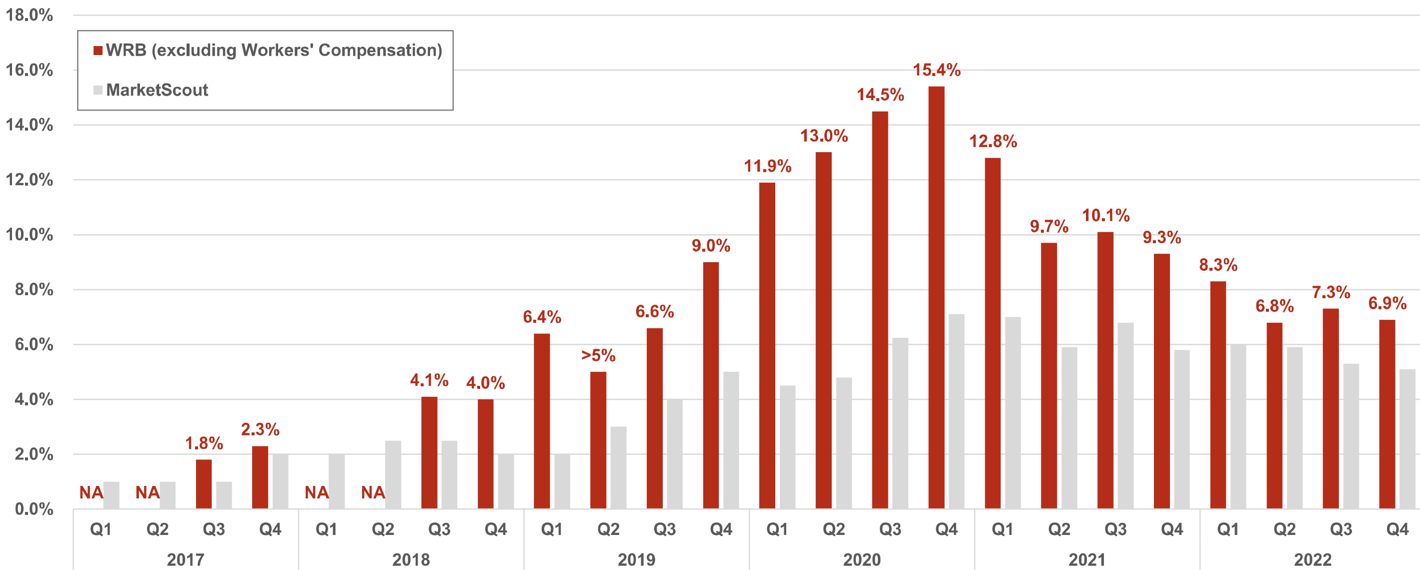
Period	Pricing Comments
Q4 2022	WRB said they were disappointed in the discipline in property pricing in the Q4 as they said many carriers failed to take into account limited reinsurance capacity and higher reinsurance costs. They believe that property pricing should continue to improve as 2023 develops. For workers' comp, they said they missed the timing on when the market would begin to harden and they expect pricing to be bumpy in 2023 with expectation for considerable firming in 2024 and beyond given severity trends, particularly medical inflation. For auto, they said there is rate to be had but remains the most susceptible line to social inflation and requires thought and judgement in underwriting for loss costs. Umbrella and general liability excess are amongst the brighter opportunities with one area on the cautious watchlist being large account excess lines. Professional liability is a tale of two stores with D&O being pressured given the rising competitive landscape but other lines within professional liability should provide good opportunities. WRB said they participated at 1/1 renewals and said the clock is right to lean in with good discipline with the US offering more attractive returns than international.
Q3 2022	The marketplace remains an interesting one from their perspective - there are pockets of the market that remain extremely attractive and there are others where there is a surprising level of competition. In the specialty space, and in particular the E&S market remains extremely attractive to WRB. Berkley said that they have the ability to pivot into product lines as opportunities emerge and that they could become a more active participant (for perhaps a year or two). They did flag both workers' compensation and professional lines (particularly public company D&O) as lines become increasingly competitive.
Q2 2022	Top line remains very healthy. WRB is seeing continued growth in submissions within Specialty and E&S and is beginning to see resilience in the reinsurance market. WRB does not see short-term headwinds to de-rail growth off of their 15-25% growth target, which they have been achieving. Within Insurance, seeing good growth in Other Liability and commercial auto is robust. In workers' comp, WRB expects the market to bottom and start to firm over the next 12-24 months, reflecting loss cost severity and erosion of pricing power we have seen; medical inflation is likely to increase rapidly and workers' comp is not insulated from that. Despite concerns around the economy and a recession, WRB noted that audit premiums are seeing considerable momentum, up 45% YoY.
Q1 2022	Continue to see rate increases that outpace trend by something measured in the hundreds of basis points. New business pricing is currently outpacing renewal pricing by about 2 points. Retention remains well within range and will continue to take rate as weeded. Submission flow in the E&S market is very strong & encouraging, not seeing standard carriers entering the market eroding any current opportunities. Feel that WC is still facing a difficult pricing environment but will eventually come back.
Q4 2021	There's nothing that leads us to believe that we will not continue to see rate increases that outpace trend by something measured in the hundreds of basis points. Opportunities remain in the workers comp market, but one needs to be very cautious and most of the growth seen is really being driven by payroll growth. We are starting so to see some folks being very aggressive on WC pricing in addition to leaning through on commissions. Submission flow in the E&S market is pretty overwhelming at this stage, particularly in January, and we don't really see standard carriers entering the market eroding any current opportunities.
Q3 2021	It's a good moment for the P&C space. Quite frankly, most of the workers' comp market, which continues to feel a bit of a growing headwind. Obviously, property felt some pain in the quarter, but just general market conditions are reasonably attractive. And we don't see that trend changing. More specifically, it is a good moment for specialty writers, particularly casualty-related specialty writers and even more so the E&S market. We continue to see a growing flow of opportunities, both in specialty and even more so in E&S, and there's nothing that leads us to believe that, that tide is going to reverse anytime soon. So that's definitely encouraging.

Period	Pricing Comments
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.

Source: Company reports and Wells Fargo Securities, LLC

The exhibit below shows WRB's pricing trends (excluding Workers' Compensation) relative to MarketScout since 2017. In Q4, WRB's rate (ex. WC) was 6.9% vs. MarketScout of 5.1%. This compares to Q3 WRB rate of 7.3%, Q2 2022 WRB rate of 6.8%, Q1 2022 of 8.3% and the 2021 average rate of 10.5%. WRB did not want to provide too much color by business line in terms of what drove the sequential deceleration in pricing, but says the 6.9% is still ahead of loss trends, and their loss trend assumptions have not changed materially over the last 90 days.

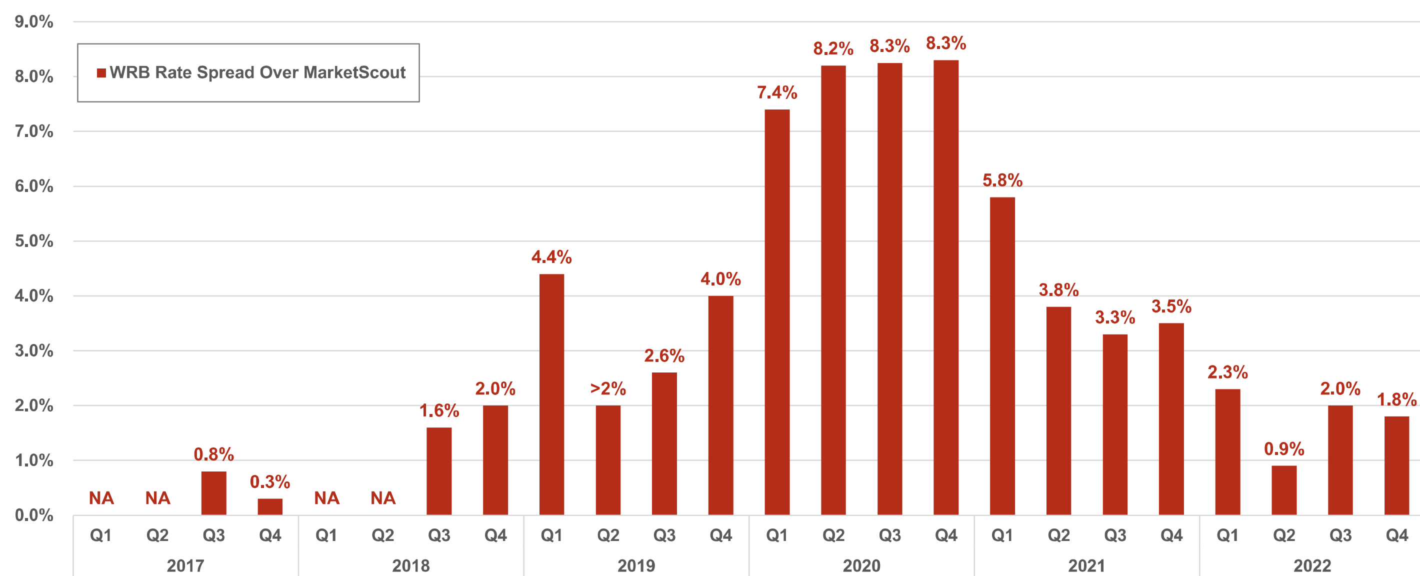
Exhibit 3 - WRB Pricing (excluding Workers' Compensation) vs. MarketScout



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

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

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



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

Summary of Estimate Changes

Estimates mostly unchanged. See below for an overview of our estimate changes following Q4 2022 earnings. Following WRB's conference call, we are modestly raising our 2023 EPS estimate to $5.05 from $5.00, while our 2024 estimate remains unchanged at $5.90. We are also initiating an EPS of $6.75 for 2025. Our forward numbers for 2023 were raised modestly to account for higher investment income as WRB reinvests its portfolio at higher yields. Currently, we model a core fixed income portfolio yield for 2023 and 2024 of 3.67% and 3.86%, respectively, vs. the fixed income yield in the quarter of 3.49%

Summary of Estimate Changes

Exhibit 5 - WRB Estimate Changes

	Current			Prior			*Absolute Change*			*Percentage Change*		
($ in millions, except as noted)	2023E	2024E	2025E	2023E	2024E	2025E	*2023E*	*2024E*	*2025E*	*2023E*	*2024E*	*2025E*
Summary												
Insurance	1,034.2	1,208.7	1,396.4	1,076.9	1,224.0	NM	*(42.7)*	*(15.3)*	*NM*	*(4.0%)*	*(1.2%)*	*NM*
Reinsurance & Monoline Excess	188.7	208.3	226.8	188.0	205.4	NM	*0.7*	*2.9*	*NM*	*0.4%*	*1.4%*	*NM*
Underwriting Income	**1,222.9**	**1,417.0**	**1,623.2**	**1,264.9**	**1,429.4**	**NM**	***(42.0)***	***(12.4)***	***NM***	***(3.3%)***	***(0.9%)***	***NM***
Net Investment Income	957.8	1,072.6	1,185.3	905.6	1,062.3	NM	*52.2*	*10.3*	*NM*	*5.8%*	*1.0%*	*NM*
Corporate & Other Ex. Realized Gains/(Losses)	(395.6)	(419.7)	(460.0)	(412.4)	(438.1)	NM	*16.8*	*18.4*	*NM*	*(4.1%)*	*(4.2%)*	*NM*
Pre-Tax Operating Income	**1,785.0**	**2,069.9**	**2,348.5**	**1,758.1**	**2,053.6**	**NM**	***27.0***	***16.3***	***NM***	***1.5%***	***0.8%***	***NM***
Taxes	(374.9)	(434.7)	(493.2)	(369.2)	(431.3)	NM	*(5.7)*	*(3.4)*	*NM*	*1.5%*	*0.8%*	*NM*
Noncontrolling Interest	(2.5)	(2.5)	(2.5)	(2.5)	(2.5)	NM	*0.0*	*0.0*	*NM*	*0.0%*	*0.0%*	*NM*
Adjusted After-Tax Operating Income	**1,407.7**	**1,632.7**	**1,852.8**	**1,386.4**	**1,619.8**	**NM**	***21.3***	***12.9***	***NM***	***1.5%***	***0.8%***	***NM***
Operating EPS	**$5.05**	**$5.90**	**$6.75**	**$5.00**	**$5.90**	**NM**	***$0.05***	***$0.00***	***NM***	***1.1%***	***0.1%***	***NM***
YoY Change in Operating EPS	*15.2%*	*16.8%*	*14.3%*	*17.1%*	*17.9%*	*NM*	*(2.0%)*	*(1.2%)*	*NM*	*-*	*-*	*NM*
Tax Rate	21.0%	21.0%	21.0%	21.0%	21.0%	NM	*+0bps*	*+0bps*	*NM*	*0.0%*	*0.0%*	*NM*
GAAP Book Value per Share	**$29.80**	**$35.54**	**$42.24**	**$29.54**	**$35.18**	**NM**	***$0.26***	***$0.35***	***NM***	***0.9%***	***1.0%***	***NM***
Operating Return on Equity	**19.5%**	**19.3%**	**18.6%**	**19.3%**	**19.2%**	**NM**	***0.2%***	***0.1%***	***NM***	***1.2%***	***0.3%***	***NM***
Net Income ROE	22.3%	22.3%	21.3%	22.1%	22.2%	NM	*+28bps*	*+7bps*	*NM*	*1.3%*	*0.3%*	*NM*
Revenues												
Gross premiums written	13,448.9	14,709.5	16,184.5	13,693.5	14,965.4	NM	*(244.6)*	*(255.9)*	*NM*	*(1.8%)*	*(1.7%)*	*NM*
y/y change	12.9%	9.4%	10.0%	13.2%	9.3%	NM	*(0.3%)*	*0.1%*	*NM*	*-*	*-*	*NM*
Net premiums written	11,142.6	12,232.8	13,447.7	11,338.7	12,443.4	NM	*(196.1)*	*(210.6)*	*NM*	*(1.7%)*	*(1.7%)*	*NM*
y/y change	11.4%	9.8%	9.9%	11.9%	9.7%	NM	*(0.6%)*	*0.0%*	*NM*	*-*	*-*	*NM*
Net premiums earned	**10,548.5**	**11,685.9**	**12,838.3**	**10,726.1**	**11,886.3**	**NM**	***(177.6)***	***(200.5)***	***NM***	***(1.7%)***	***(1.7%)***	***NM***
y/y change	10.3%	10.8%	9.9%	12.4%	10.8%	NM	*(2.0%)*	*(0.0%)*	*NM*	*-*	*-*	*NM*
Net investment income	**957.8**	**1,072.6**	**1,185.3**	**905.6**	**1,062.3**	**NM**	**52.2**	**10.3**	**NM**	**5.8%**	**1.0%**	**NM**
y/y change	22.9%	12.0%	10.5%	24.9%	17.3%	NM	*(2.0%)*	*(5.3%)*	*NM*	*-*	*-*	*NM*
Total revenues	**12,183.6**	**13,432.1**	**14,697.3**	**12,309.0**	**13,622.2**	**NM**	***(125.4)***	***(190.1)***	***NM***	***(1.0%)***	***(1.4%)***	***NM***
Underwriting Profitability												
Loss Ratio	60.0%	59.5%	59.0%	60.0%	59.6%	NM	*+0.1pts*	*(0.1pts)*	*NM*	*0.1%*	*(0.1%)*	*NM*
Expense Ratio	28.4%	28.3%	28.3%	28.2%	28.4%	NM	*+0.1pts*	*(0.0pts)*	*NM*	*0.5%*	*(0.2%)*	*NM*
Combined Ratio	**88.4%**	**87.9%**	**87.4%**	**88.2%**	**88.0%**	**NM**	***+0.2pts***	***(0.1pts)***	***NM***	***0.2%***	***(0.1%)***	***NM***
Cats Points on Combined Ratio	1.8%	1.8%	1.7%	1.8%	1.8%	NM	*+0.0pts*	*+0.0pts*	*NM*	*1.7%*	*1.7%*	*NM*
PYD Points on Combined Ratio	0.1%	0.1%	0.1%	0.1%	0.1%	NM	*+0.0pts*	*+0.0pts*	*NM*	*1.7%*	*1.7%*	*NM*
Underlying Loss Ratio	***58.1%***	***57.6%***	***57.3%***	***58.1%***	***57.7%***	***NM***	***+0.0pts***	***(0.1pts)***	***NM***	***0.0%***	***(0.2%)***	***NM***
Underlying Combined Ratio	***86.5%***	***85.9%***	***85.6%***	***86.3%***	***86.1%***	***NM***	***+0.2pts***	***(0.1pts)***	***NM***	***0.2%***	***(0.2%)***	***NM***
Catastrophe Losses ($)	194.4	214.4	214.4	194.4	214.4	NM	*0.0*	*0.0*	*NM*	*0.0%*	*0.0%*	*NM*
Reserve Development ($)	12.0	12.0	12.0	12.0	12.0	NM	*0.0*	*0.0*	*NM*	*0.0%*	*0.0%*	*NM*
Capital Return												
Common Dividends	236.7	103.7	102.5	237.7	104.1	NM	*(1.0)*	*(0.5)*	*NM*	*(0.0)*	*(0.0)*	*NM*
Share Repurchases	240.0	240.0	240.0	240.0	240.0	NM	*0.0*	*0.0*	*NM*	*0.0*	*0.0*	*NM*
Total Capital Return	**476.7**	**343.7**	**342.5**	**477.7**	**344.1**	**NM**	***(1.0)***	***(0.5)***	***NM***	***(0.0)***	***(0.0)***	***NM***
Total Payout Ratio (% of Operating Income)	33.9%	21.0%	18.5%	34.5%	21.2%	NM	*(0.6%)*	*(0.2%)*	*NM*	*-*	*-*	*NM*

Source: Company reports and Wells Fargo Securities, LLC estimates

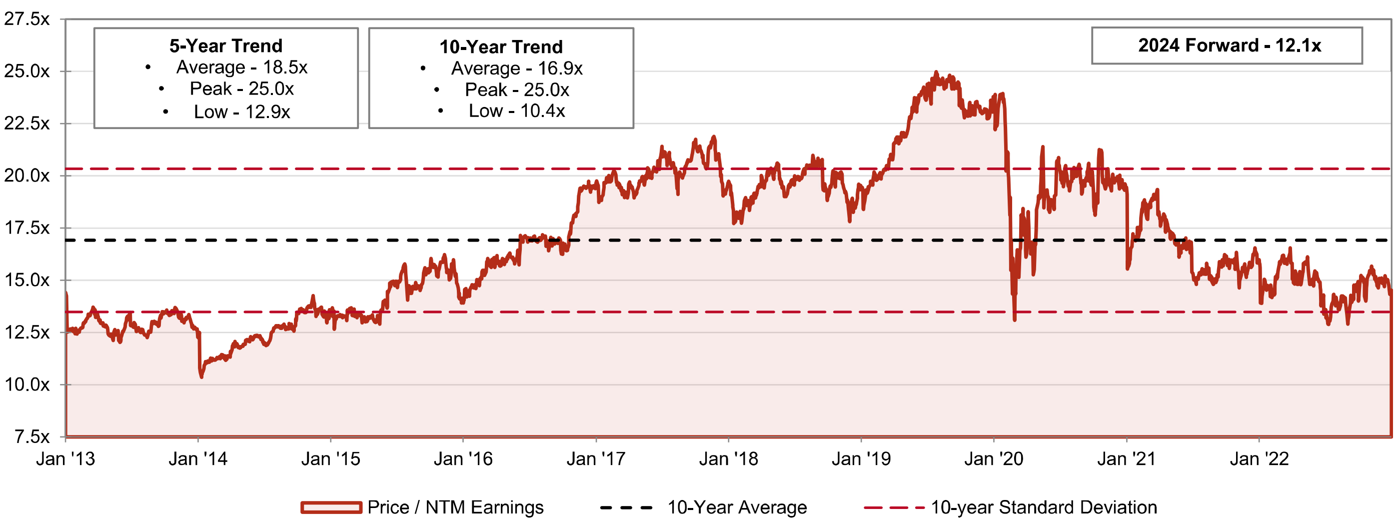
Valuation

Current Valuation. WRB trades at 2.80x Q4 2022 book value, which compares to the 5-year and 10-year average multiples of 2.06x and 1.73x, respectively. The 5-year minimum is 1.42x and 10-year minimum is 1.11x. The 5-year and 10-year max is 2.99x, which is where the shares are currently trading, although we note that for the P&C sector price-to-book valuations are fuller given the unrealized losses we have seen in this rising interest rate environment. For WRB, we exclude AOCI, the shares are trading at just around 2.35x adjusted Q4 book. On a P/E basis, WRB is trading at 12.1x our 2024 EPS estimate, which compares favorably to the 5-year and 10-year average multiples of 18.5x and 16.9x, respectively. It is above the 5-year minimum, which is 12.9x (during the low point of the pandemic) and above the 10-year minimum of 10.4x. The 5-year and 10-year max is 25.0x.

Exhibit 6 - WRB Historical P/BV

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

Exhibit 7 - WRB Historical P/E



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

Exhibit 8 - WRB Consolidated Earnings Model

$ in millions, except per share data	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022E	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E	Q1 2024E	Q2 2024E	Q3 2024E	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Summary																					
Insurance	749.2	243.4	233.2	187.4	238.4	902.3	255.7	250.0	251.4	277.1	1,034.2	298.4	295.8	296.3	318.2	1,208.7	343.8	344.1	338.7	369.9	1,396.4
Reinsurance & Monoline Excess	95.1	30.3	35.0	4.4	52.7	122.4	55.1	42.1	37.2	54.3	188.7	62.3	47.0	40.9	58.1	208.3	68.1	52.2	44.3	62.2	226.8
Underwriting Income	**844.3**	**273.7**	**268.2**	**191.7**	**291.0**	**1,024.7**	**310.8**	**292.1**	**288.6**	**331.4**	**1,222.9**	**360.7**	**342.8**	**337.2**	**376.3**	**1,417.0**	**411.9**	**396.2**	**383.0**	**432.1**	**1,623.2**
Net Investment Income	671.6	173.5	171.6	202.8	231.3	779.2	227.4	235.3	243.4	251.7	957.8	258.1	264.7	271.4	278.3	1,072.6	285.4	292.6	299.9	307.5	1,185.3
Corporate & Other Ex. Realized Gains/(Losses)	(320.7)	(75.8)	(45.6)	(40.9)	(119.0)	(281.3)	(95.2)	(99.3)	(95.7)	(105.5)	(395.6)	(101.9)	(104.2)	(106.2)	(107.4)	(419.7)	(111.5)	(114.1)	(116.5)	(117.9)	(460.0)
Pre-Tax Operating Income	**1,195.2**	**371.4**	**394.1**	**353.7**	**403.3**	**1,522.5**	**443.0**	**428.2**	**436.2**	**477.6**	**1,785.0**	**516.9**	**503.4**	**502.4**	**547.3**	**2,069.9**	**585.7**	**574.7**	**566.5**	**621.7**	**2,348.5**
Tax Rate	19.6%	16.7%	20.5%	19.9%	19.9%	19.3%	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%
Taxes	(234.8)	(62.1)	(80.6)	(70.2)	(80.2)	(293.2)	(93.0)	(89.9)	(91.6)	(100.3)	(374.9)	(108.6)	(105.7)	(105.5)	(114.9)	(434.7)	(123.0)	(120.7)	(119.0)	(130.5)	(493.2)
Noncontrolling Interest	(8.5)	(2.4)	(0.1)	(1.6)	0.2	(3.9)	(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)
Adjusted After-Tax Operating Income	**951.9**	**306.9**	**313.4**	**281.8**	**323.3**	**1,225.4**	**349.4**	**337.6**	**344.0**	**376.7**	**1,407.7**	**407.8**	**397.0**	**396.3**	**431.7**	**1,632.7**	**462.1**	**453.4**	**446.9**	**490.5**	**1,852.8**
Operating EPS	**$3.40**	**$1.10**	**$1.12**	**$1.01**	**$1.16**	**$4.39**	**$1.25**	**$1.21**	**$1.24**	**$1.36**	**$5.05**	**$1.47**	**$1.44**	**$1.44**	**$1.57**	**$5.90**	**$1.68**	**$1.65**	**$1.63**	**$1.79**	**$6.75**
YoY Change in After-Tax Operating Income	117.1%	52.1%	43.0%	14.2%	13.7%	28.7%	13.8%	7.7%	22.1%	16.5%	14.9%	16.7%	17.6%	15.2%	14.6%	16.0%	13.3%	14.2%	12.8%	13.6%	13.5%
YoY Change in Operating EPS	**119.8%**	**52.7%**	**43.6%**	**14.4%**	**13.6%**	**28.9%**	**13.7%**	**8.0%**	**22.7%**	**17.0%**	**15.2%**	**17.7%**	**18.6%**	**16.2%**	**15.5%**	**16.8%**	**14.2%**	**15.1%**	**13.6%**	**14.5%**	**14.3%**
Consensus EPS							$1.21	$1.18	$1.16	$1.34	$4.87	$1.45	$1.40	$1.34	$1.54	$5.64	NM	NM	NM	NM	NM
WFS Estimate versus Consensus							3.1%	2.9%	6.3%	1.3%	3.7%	1.6%	2.3%	6.8%	1.6%	4.6%	NM	NM	NM	NM	NM
Premiums																					
YoY Change in Gross Premiums Written	20.9%	15.1%	14.7%	10.6%	5.4%	11.3%	10.5%	14.4%	13.1%	13.7%	12.9%	9.8%	8.6%	9.3%	9.8%	9.4%	10.1%	10.1%	9.9%	10.0%	10.0%
YoY Change in Premiums Earned	**17.0%**	**21.6%**	**19.6%**	**17.3%**	**14.1%**	**18.0%**	**12.6%**	**10.2%**	**9.4%**	**9.3%**	**10.3%**	**11.3%**	**11.1%**	**10.7%**	**10.1%**	**10.8%**	**9.8%**	**9.8%**	**9.9%**	**9.9%**	**9.9%**
Investment Income (Pre-Tax)																					
Core Portfolio	413.9	112.3	133.6	156.1	186.9	588.9	197.5	204.6	211.8	219.3	833.1	224.8	230.5	236.3	242.3	934.0	248.4	254.6	260.9	267.4	1,031.2
Investment Funds	220.0	52.0	33.9	36.0	23.2	145.1	20.4	20.9	21.5	22.1	84.9	22.7	23.4	24.0	24.7	94.8	25.4	26.1	26.8	27.5	105.7
Arbitrage Trading Account	37.7	9.2	4.1	10.7	21.2	45.2	9.6	9.8	10.0	10.3	39.7	10.6	10.8	11.1	11.4	43.9	11.7	12.0	12.3	12.6	48.4
Total Pre-Tax Net Investment Income	**671.6**	**173.5**	**171.6**	**202.8**	**231.3**	**779.2**	**227.4**	**235.3**	**243.4**	**251.7**	**957.8**	**258.1**	**264.7**	**271.4**	**278.3**	**1,072.6**	**285.4**	**292.6**	**299.9**	**307.5**	**1,185.3**
Total Pre-Tax NII Annualized Yield	**2.98%**	**2.93%**	**2.91%**	**3.44%**	**3.84%**	**3.27%**	**3.67%**	**3.74%**	**3.80%**	**3.86%**	**3.77%**	**3.90%**	**3.93%**	**3.96%**	**3.99%**	**3.94%**	**4.02%**	**4.06%**	**4.09%**	**4.12%**	**4.07%**
Margins																					
Loss Ratio	61.1%	59.5%	60.9%	64.1%	60.6%	61.3%	59.3%	60.4%	60.9%	59.6%	60.0%	58.8%	59.8%	60.4%	59.2%	59.5%	58.3%	59.2%	59.9%	58.7%	59.0%
Expense Ratio	28.5%	28.3%	27.7%	28.1%	27.8%	28.0%	28.4%	28.3%	28.3%	28.4%	28.4%	28.4%	28.3%	28.2%	28.4%	28.3%	28.4%	28.3%	28.3%	28.3%	28.3%
Combined Ratio	**89.6%**	**87.8%**	**88.6%**	**92.1%**	**88.4%**	**89.3%**	**87.7%**	**88.8%**	**89.2%**	**87.9%**	**88.4%**	**87.2%**	**88.1%**	**88.6%**	**87.6%**	**87.9%**	**86.7%**	**87.5%**	**88.2%**	**87.0%**	**87.4%**
YoY Change in Loss Ratio (Favorable)	(3.4%)	(1.1%)	(0.1%)	1.7%	0.2%	0.2%	(0.3%)	(0.5%)	(3.2%)	(1.0%)	(1.3%)	(0.5%)	(0.6%)	(0.5%)	(0.4%)	(0.5%)	(0.5%)	(0.6%)	(0.5%)	(0.5%)	(0.5%)
YoY Change in Expense Ratio (Favorable)	(2.0%)	(1.2%)	(1.0%)	0.0%	0.0%	(0.5%)	0.2%	0.6%	0.3%	0.6%	0.4%	(0.1%)	(0.0%)	(0.1%)	(0.0%)	(0.0%)	(0.0%)	(0.0%)	0.1%	(0.1%)	(0.0%)
YoY Change in Combined Ratio (Favorable)	**(5.4%)**	**(2.3%)**	**(1.1%)**	**1.7%**	**0.2%**	**(0.3%)**	**(0.1%)**	**0.1%**	**(2.9%)**	**(0.4%)**	**(0.9%)**	**(0.5%)**	**(0.6%)**	**(0.6%)**	**(0.4%)**	**(0.5%)**	**(0.5%)**	**(0.6%)**	**(0.4%)**	**(0.6%)**	**(0.5%)**
Catastrophe Losses ($)	**202.0**	**28.8**	**57.9**	**94.1**	**30.8**	**211.7**	**33.4**	**57.8**	**65.4**	**37.8**	**194.4**	**38.4**	**62.8**	**70.4**	**42.8**	**214.4**	**38.4**	**62.8**	**70.4**	**42.8**	**214.4**
Cats Points on Combined Ratio	2.5%	1.3%	2.5%	3.9%	1.2%	2.2%	1.3%	2.2%	2.4%	1.4%	1.8%	1.4%	2.2%	2.4%	1.4%	1.8%	1.2%	2.0%	2.2%	1.3%	1.7%
Reserve Development ($)	**(7.0)**	**(1.0)**	**(2.0)**	**39.0**	**(0.3)**	**35.7**	**3.0**	**3.0**	**3.0**	**3.0**	**12.0**	**3.0**	**3.0**	**3.0**	**3.0**	**12.0**	**3.0**	**3.0**	**3.0**	**3.0**	**12.0**
PYD Points on Combined Ratio	(0.1%)	(0.0%)	(0.1%)	1.6%	(0.0%)	0.4%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Adjusted Margins																					
Underlying Loss Ratio	58.7%	58.3%	58.5%	58.6%	59.3%	58.7%	57.8%	58.1%	58.3%	58.1%	58.1%	57.4%	57.5%	57.9%	57.7%	57.6%	57.0%	57.1%	57.6%	57.3%	57.3%
Underlying Combined Ratio	**87.2%**	**86.6%**	**86.2%**	**86.7%**	**87.2%**	**86.7%**	**86.3%**	**86.4%**	**86.6%**	**86.5%**	**86.5%**	**85.7%**	**85.8%**	**86.1%**	**86.0%**	**85.9%**	**85.4%**	**85.4%**	**86.0%**	**85.6%**	**85.6%**
YoY Change in Loss Ratio (Favorable)	(1.1%)	(0.5%)	(0.3%)	(0.3%)	1.1%	0.0%	(0.5%)	(0.5%)	(0.3%)	(1.3%)	(0.6%)	(0.5%)	(0.6%)	(0.4%)	(0.4%)	(0.5%)	(0.4%)	(0.4%)	(0.3%)	(0.3%)	(0.3%)
YoY Change in Combined Ratio (Favorable)	**(3.1%)**	**(1.8%)**	**(1.3%)**	**(0.3%)**	**1.1%**	**(0.5%)**	**(0.3%)**	**0.2%**	**(0.0%)**	**(0.7%)**	**(0.2%)**	**(0.6%)**	**(0.6%)**	**(0.5%)**	**(0.4%)**	**(0.5%)**	**(0.4%)**	**(0.4%)**	**(0.2%)**	**(0.4%)**	**(0.3%)**
Book Value and Return on Equity																					
GAAP Book Value per Share	**$25.09**	**$25.89**	**$24.56**	**$23.88**	**$25.51**	**$25.51**	**$26.20**	**$27.34**	**$28.50**	**$29.80**	**$29.80**	**$31.22**	**$32.61**	**$34.00**	**$35.54**	**$35.54**	**$37.20**	**$38.83**	**$40.44**	**$42.24**	**$42.24**
Operating Return on Equity	**14.6%**	**18.2%**	**18.8%**	**17.5%**	**19.8%**	**18.5%**	**20.5%**	**19.2%**	**18.8%**	**19.8%**	**19.5%**	**20.5%**	**19.1%**	**18.4%**	**19.2%**	**19.3%**	**19.7%**	**18.6%**	**17.6%**	**18.6%**	**18.6%**
Share Count																					
Ending Common Shares	265.2	265.2	265.3	265.8	264.5	264.5	263.5	262.7	261.8	261.0	261.0	260.3	259.5	258.7	258.0	258.0	257.3	256.6	255.9	255.2	255.2
Weighted Average Diluted Shares	**279.7**	**279.2**	**279.5**	**279.6**	**278.9**	**279.3**	**279.5**	**278.8**	**278.2**	**277.6**	**278.5**	**277.0**	**276.5**	**275.9**	**275.4**	**276.7**	**274.9**	**274.4**	**273.9**	**273.4**	**274.6**
Capital Return to Shareholders																					
Common Dividends	355.7	23.0	159.2	20.3	32.8	235.2	158.1	26.3	26.2	26.1	236.7	26.0	25.9	25.9	25.8	103.7	25.7	25.7	25.6	25.5	102.5
Share Repurchases	122.7	0.0	0.0	6.6	87.6	94.1	60.0	60.0	60.0	60.0	240.0	60.0	60.0	60.0	60.0	240.0	60.0	60.0	60.0	60.0	240.0
Total Capital Returned	**478.4**	**23.0**	**159.2**	**26.8**	**120.3**	**329.3**	**218.1**	**86.3**	**86.2**	**86.1**	**476.7**	**86.0**	**85.9**	**85.9**	**85.8**	**343.7**	**85.7**	**85.7**	**85.6**	**85.5**	**342.5**
Dividend Payout Ratio	37.4%	7.5%	50.8%	7.2%	10.1%	19.2%	45.3%	7.8%	7.6%	6.9%	16.8%	6.4%	6.5%	6.5%	6.0%	6.3%	5.6%	5.7%	5.7%	5.2%	5.5%
Share Repurchase Payout Ratio	12.9%	0.0%	0.0%	2.3%	27.1%	7.7%	17.2%	17.8%	17.4%	15.9%	17.0%	14.7%	15.1%	15.1%	13.9%	14.7%	13.0%	13.2%	13.4%	12.2%	13.0%
Total Payout Ratio (% of Operating Income)	**50.3%**	**7.5%**	**50.8%**	**9.5%**	**37.2%**	**26.9%**	**62.4%**	**25.6%**	**25.1%**	**22.9%**	**33.9%**	**21.1%**	**21.6%**	**21.7%**	**19.9%**	**21.0%**	**18.6%**	**18.9%**	**19.2%**	**17.4%**	**18.5%**
Equity Rollforward and Leverage																					
Beginning GAAP Equity	6,310.8	6,653.0	6,864.5	6,514.5	6,346.1	6,653.0	6,748.3	6,904.6	7,181.0	7,463.8	6,748.3	7,779.4	8,126.1	8,462.2	8,797.5	7,779.4	9,168.4	9,569.8	9,962.5	10,348.8	9,168.4
Net Income	1,022.5	590.6	179.3	228.9	382.2	1,381.1	374.4	362.6	369.0	401.7	1,507.7	432.8	422.0	421.3	456.7	1,732.7	487.1	478.4	471.9	515.5	1,952.8
Common Dividends	(355.7)	(23.0)	(159.2)	(20.3)	(32.8)	(235.2)	(158.1)	(26.3)	(26.2)	(26.1)	(236.7)	(26.0)	(25.9)	(25.9)	(25.8)	(103.7)	(25.7)	(25.7)	(25.6)	(25.5)	(102.5)
Share Repurchases	(122.7)	0.0	0.0	(6.6)	(87.6)	(94.1)	(60.0)	(60.0)	(60.0)	(60.0)	(240.0)	(60.0)	(60.0)	(60.0)	(60.0)	(240.0)	(60.0)	(60.0)	(60.0)	(60.0)	(240.0)
Change in AOCI	(219.8)	(367.3)	(380.8)	(355.0)	120.0	(983.0)	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
Other	17.9	11.1	10.6	(15.5)	20.3	26.6	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
Ending GAAP Equity	**6,653.0**	**6,864.5**	**6,514.5**	**6,346.1**	**6,748.3**	**6,748.3**	**6,904.6**	**7,181.0**	**7,463.8**	**7,779.4**	**7,779.4**	**8,126.1**	**8,462.2**	**8,797.5**	**9,168.4**	**9,168.4**	**9,569.8**	**9,962.5**	**10,348.8**	**10,778.8**	**10,778.8**
Leverage																					
Debt/Capital	32.9%	29.3%	30.4%	30.9%	29.6%	29.6%	29.1%	28.3%	27.5%	26.7%	26.7%	25.9%	25.1%	24.4%	23.6%	23.6%	22.9%	22.2%	21.5%	20.8%	20.8%

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

Investment Thesis, Valuation and Risks

W.R. Berkley Corporation (WRB)

Investment Thesis

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

Target Price Valuation for WRB: $85.00 from NC

Our price target of $85 is based on a 2.4x multiple of our year-end 2024 book value estimate. Our price target also represents a ~14.4x multiple against our 2023 EPS estimate. The 14.4x is a premium to the standard commercial players as WRB should see 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.

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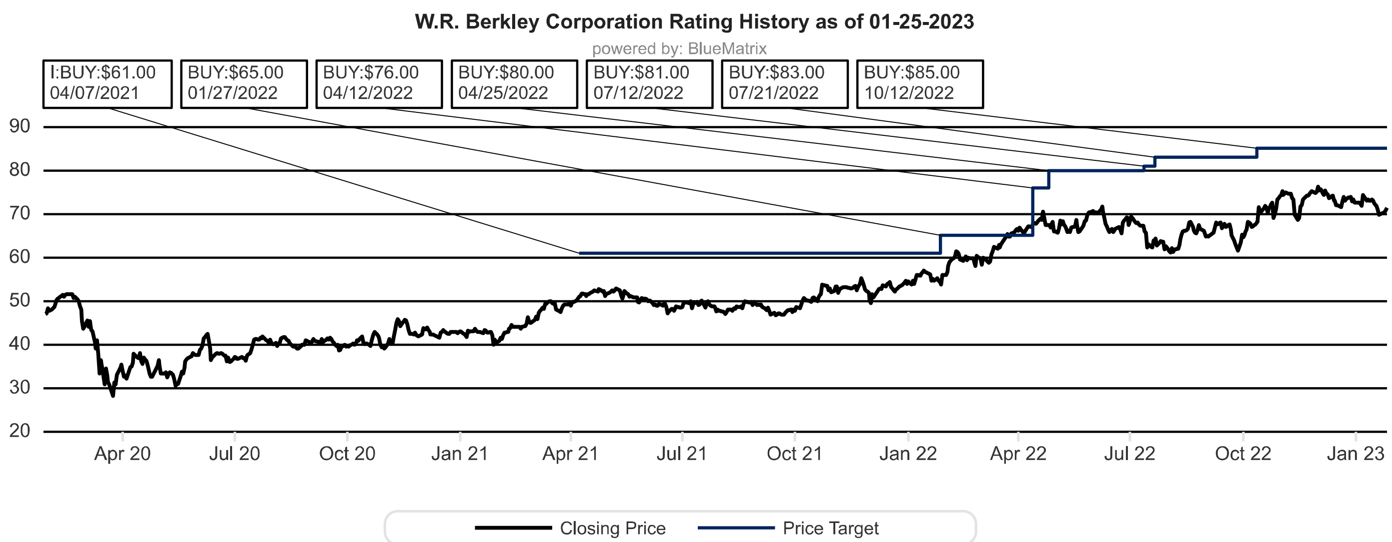
Additional Information Available Upon Request



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

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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 26, 2023
52.2% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.
38.4% 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 34.9% of its Equity Research Overweight-rated companies.
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