W. R. Berkley Corporation (WRB)

Updated January 30 th, 2023, by Yiannis Zourmpanos

Key Metrics

Current Price:	$69	**5 Year CAGR Estimate:**	14.5%	**Market Cap:**	$19.7B
Fair Value Price:	$76	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	03/08/2023
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	1.8%	**Dividend Payment Date:**	03/23/2023
Dividend Yield:	0.6%	**5 Year Price Target:**	$76	**Years Of Dividend Growth:**	17
Dividend Risk Score:	A	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

W.R. Berkley is an insurance holding company operating through a wide range of subsidiaries in the commercial casualty insurance segment. The firm primarily operates in two business segments: Insurance and Reinsurance. The insurance segment is the company's main focus, accounting for 87.4% of the total net premiums written in 2021. The company mainly underwrites commercial insurance businesses across the United States.

On January 26th, 2023, W.R. Berkley announced its Q4 2022 result, posting revenues of $3.0 billion, up 16.87% from $2.5 billion in Q4 2021. The diluted earnings-per-share for the quarter was reported at $1.37, recording an increase of 29.2% from the same period last year. The operating income stood at $323 million, up 13.7% from the same period last year.

The management, while commenting on the company's performance in the year 2022, stated that WRB demonstrated exceptional performance during the previous year. The results showed the company's expertise in underwriting and investing, paired with their focus on risk-adjusted return, enabled WRB to effectively manage risks and capitalize on opportunities, resulting in superior returns for shareholders. The company remains optimistic about the potential opportunities in the following year and beyond.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.58	$2.16	$1.72	$2.08	$1.89	$2.22	$2.35	$1.87	$3.65	$4.94	***$5.05***	***$8.89***
DPS	$0.17	$0.19	$0.20	$0.22	$0.24	$0.26	$0.28	$0.31	$0.34	$0.39	***$0.40***	***$0.69***
Shares	297.5	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2	279.5	***277.6***	***268.6***

Insurance is one of the biggest industries in the global economy and is among those sectors that continue to do well despite a turbulent macro-environment. With approximately 30% of WRB's premiums generated in excess and surplus lines, the company has positioned itself well for growth with its focus on the specialty sector, which is relatively less competitive and still underpenetrated with a lot of room for growth. The company posted record profits in 2022 as it benefited from rising interest rates which translated into higher returns on bonds and increasing investment income for the company. WRB was able to grow its EPS at an impressive CAGR of 21.2% from 2017 to 2022. Going forward, we believe the company is well-positioned and we forecast 12.0% annual growth in EPS through 2028. In addition, we believe the company will be able to grow its dividends at a healthy pace in the future and have assumed a dividend growth rate of 10.0% for the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	11.9	9.5	13.6	12.3	16.2	15.0	18.3	21.9	13.7	14.4	***13.7***	***15.0***
Avg. Yld.	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%	0.8%	0.7%	0.6%	***0.6%***	***0.5%***

W.R. Berkley is currently trading at a forward P/E of 13.7, slightly lower than the company's ten-year average P/E of 14.7. We believe there is a potential for the company to trade at a higher multiple, given the company's prospect for growth in

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the specialty sector. We have assumed a conservative P/E of 15.0 to value the company in 2028, slightly below the company's 5-year average P/E of 16.7.

Safety, Quality, Competitive Advantage, & Recession Resiliency

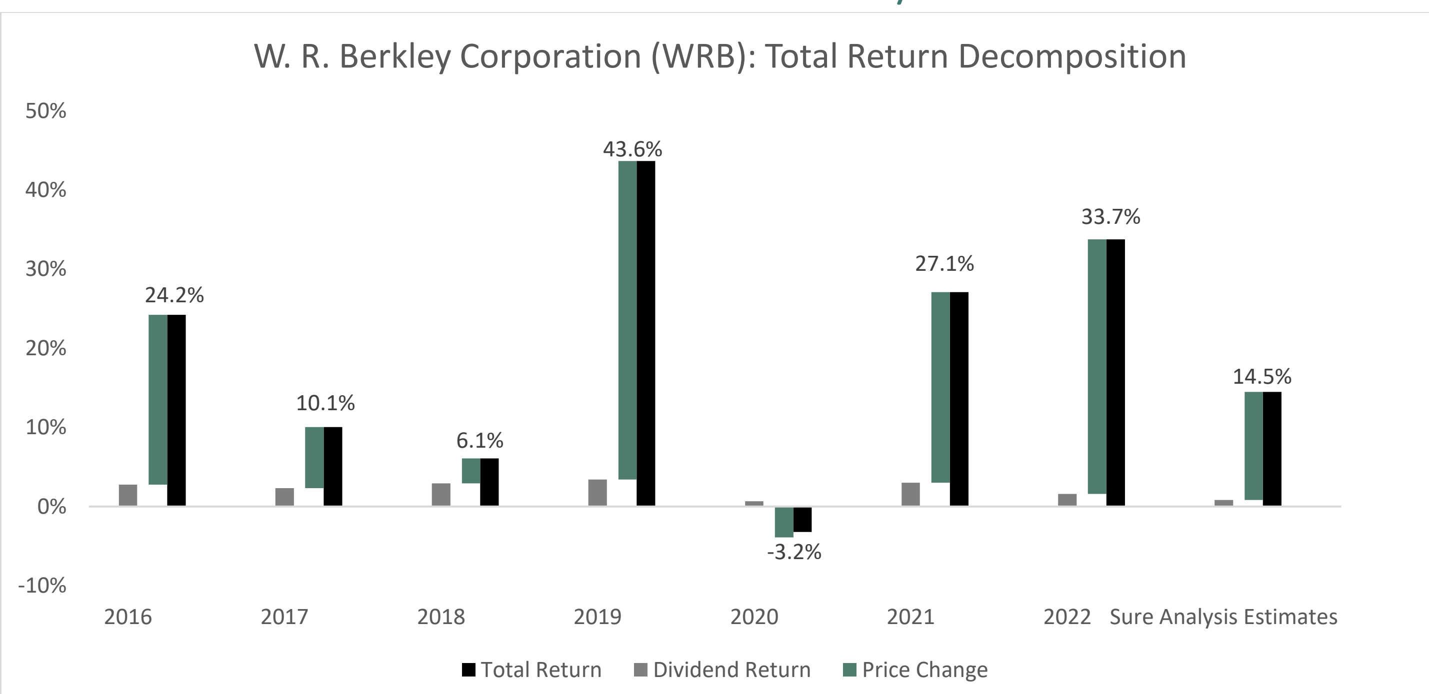
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	11%	9%	12%	11%	13%	12%	12%	17%	9%	8%	***8%***	***11%***

Insurance in general, and specifically the Property & Casualty (P&C) sub-segment, is ubiquitous, largely mandatory, and therefore considered relatively recession-resistant. The data for direct written premiums or DWP suggests that it (the equivalent of insurance industry gross revenue) either remains broadly stable or continues to go up even during weak cycles of the global economy as most businesses and consumers require insurance during good times and bad, therefore I believe WRB is recession resilient. The company also remains focused on providing shareholder returns with its buyback of stock and dividend payments. In 2022 YTD, WRB returned about $329 million to shareholders with $235.2 million in dividend payments and $94.1 million in stock repurchases. The company's five-year average payout ratio stands at 11.5%, and WEB was able to grow dividends with a CAGR of 10.0% from 2017 to 2022. Moreover, WRB has increased its dividend to shareholders for the last 17 years.

Final Thoughts & Recommendation

The Fed has riased interest rates to reduce inflation. W.R. Berkeley benefits from increasing interest rates since it obtains a larger yield on new bonds when rates have increased. The predicted growth rate for earnings-per-share is in the low double digits and WRB stock valuation is attractive. As an insurance company operating in the specialty segment, we believe that the company is well-positioned to continue to do well in the near-term. Accordingly, our buy rating is premised upon the 14.5% annualized total returns for the medium-term, with the forecasted earnings-per-share growth of 12.0%, the 0.6% dividend yield, and a small tailwind from multiple expansion.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	5,583	6,011	7,129	6,785	7,666	7,669	7,719	7,933	8,099	9,481
D&A Exp.	103	103	89	85	86	113	131	113	135	130
Net Profit	511	500	649	504	602	549	641	682	531	1,022
Net Margin	9.1%	8.3%	9.1%	7.4%	7.9%	7.2%	8.3%	8.6%	6.6%	10.8%
Free Cash Flow	635	757	693	818	798	595	570	1,083	1,579	2,117
Income Tax	191	194	303	228	293	219	163	169	172	252

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	20,156	20,552	21,717	21,731	23,365	24,300	24,896	26,662	28,607	32,086
Cash & Equivalents	906	840	674	764	795	950	818	1,024	2,372	1,569
Acc. Receivable	2,891	3,091	3,155	3,202	3,446	3,557	3,740	4,131	4,592	5,446
Goodwill & Int.	88	110	151	153	145	179	173	170	170	170
Total Liabilities	15,820	16,182	17,093	17,098	18,284	18,849	19,416	20,544	22,281	25,419
Accounts Payable	316	277	237	225	213	246	257	360	426	515
Long-Term Debt	2,115	2,032	2,456	2,185	2,488	2,497	2,790	2,626	2,725	3,267
Total Equity	4,306	4,336	4,590	4,600	5,047	5,411	5,438	6,075	6,311	6,653
LTD/E Ratio	0.49	0.47	0.54	0.48	0.49	0.46	0.51	0.43	0.43	0.49

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.6%	2.5%	3.1%	2.3%	2.7%	2.3%	2.6%	2.6%	1.9%	3.4%
Return on Equity	12.4%	11.6%	14.5%	11.0%	12.5%	10.5%	11.8%	11.8%	8.6%	15.8%
ROIC	8.4%	7.8%	9.6%	7.2%	8.4%	7.1%	7.9%	8.0%	6.0%	10.8%
Shares Out.	306.0	297.5	285.2	277.4	272.7	273.4	274.5	275.1	266.7	265.2
Revenue/Share	17.31	18.98	23.71	23.16	26.50	26.42	26.75	27.33	28.60	33.89
FCF/Share	1.97	2.39	2.30	2.79	2.76	2.05	1.98	3.73	5.57	7.57

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.