

W.R. Berkley Corp.(WRB)

\$62.99 (As of 06/09/20)

Price Target (6-12 Months): **\$67.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/13/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: A

Summary

W.R. Berkley has been consistently benefitting from its insurance business, which has been performing well on increase in premium written over the past many years. It has been investing in numerous startups since 2006 and establishing new units in growing international markets. It witnessed steady net premium growth on the back of rate improvement. Solid capital position enables the company to deploy capital effectively via share repurchase and dividend hikes. Its shares have outperformed the industry in the past year. However, exposure to a highly competitive reinsurance market is a concern. Rising debt induces higher interest expenses. Exposure to catastrophe loss has been inducing volatility in earnings. Earnings of 69 cents per share in the first quarter missed the Zacks Consensus Estimate by 2.8% and declined 26.6% year over year.

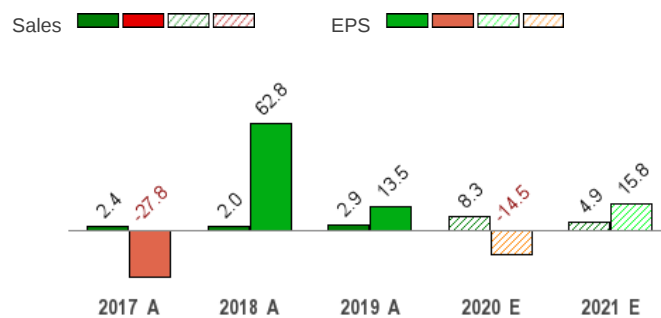
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.92 - \$43.05
20 Day Average Volume (sh)	1,032,382
Market Cap	\$11.3 B
YTD Price Change	-8.8%
Beta	0.81
Dividend / Div Yld	\$0.44 / 0.7%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 10% (227 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.8%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	07/28/2020
Earnings ESP	19.8%
P/E TTM	20.5
P/E F1	24.3
PEG F1	2.7
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,034 E	2,071 E	2,114 E	2,157 E	8,375 E
2020	1,988 A	1,946 E	2,013 E	2,036 E	7,984 E
2019	1,868 A	1,861 A	1,964 A	1,876 A	7,375 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.78 E	\$0.72 E	\$0.73 E	\$0.78 E	\$3.00 E
2020	\$0.69 A	\$0.43 E	\$0.70 E	\$0.76 E	\$2.59 E
2019	\$0.94 A	\$0.82 A	\$0.84 A	\$0.72 A	\$3.03 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/09/2020. The reports text is as of 06/10/2020.

Overview

Founded in 1967 and based in Greenwich, CT., W.R. Berkley Corp. is a Fortune 500 company. It is one of the nation's largest commercial lines property casualty insurance providers. The company offers a variety of insurance services from reinsurance, to workers comp third party administrators (TPAs).

Effective since first quarter of 2016, the company reports results in two segments – Insurance and Reinsurance. Insurance-Domestic operating units and Insurance-International operating units that were previously reported separately have been combined with the Insurance segment.

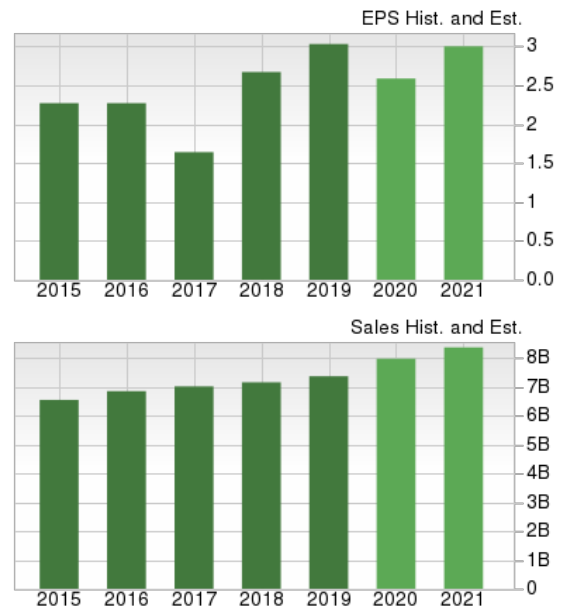
The two reporting segments are composed of individual operating units that serve a market defined by geography, products, services or industry served.

Insurance segment (92.5% of 2019 net premiums written) predominantly underwrites commercial insurance business primarily throughout the United States, although many units offer coverage globally. It mainly includes commercial insurance business, including excess and surplus lines, Industry Specialty, Product Specialty and Regional. The coverages are offered in the United States, United Kingdom, Continental Europe, South America, Canada, Scandinavia, Asia and Australia.

In addition to providing insurance products, certain operating units also provide a wide variety of fee-based services, including claims, administrative and consulting services.

Reinsurance segment (7.5%) is operated primarily on a facultative and treaty basis. It provides other insurance companies and self-insureds with assistance in managing their net risk through reinsurance on either a portfolio basis, through treaty reinsurance, or on an individual basis, through facultative reinsurance. The services are offered in the United States, United Kingdom, Continental Europe, Australia, the Asia-Pacific Region, and South Africa.

On Feb 21, 2019, the board of directors of W.R. Berkley approved a 3-for-2 stock split which was paid in the form of dividend to shareholders.



Reasons To Buy:

▲ **Increasing Contribution from Insurance Business:** The company's Insurance business, has been performing well, witnessed by an increase in premium written from past many years. In the first quarter of 2020, net premiums written at the Insurance segment grew 5.7% year over year to \$1.6 billion. This business growth has been achieved on the back of several new startup units in varied business lines (including healthcare, cyber security, energy and agriculture, and on growing international markets, including the Asia-Pacific region, South America and Mexico), which have also provided diversification benefits. Recently, the company formed Berkley Prime Transportation to focus on providing primary commercial transportation insurance products countrywide for standard and preferred risks. Given that pricing is firming in most business lines, this should further lead to revenue growth.

W.R. Berkley has an impressive inorganic and organic growth profile. Rate increases, reserving discipline, solid balance sheet, prudent capital management policy and strong ratings are other positives.

▲ **International Business Poised for Growth:** W.R. Berkley's international business has seen consistent premium growth over many years. Premium growth in the international unit is mainly supported by the emerging markets of the United Kingdom, Continental Europe, South America, Canada, Scandinavia, Asia and Australia. Given its solid track record in the past, we expect the company's international business to post increasing premiums going forward.

▲ **Improving Investment Income:** After suffering several quarters of low investment income, the metric has been witnessing improvement over the last couple of years. It rose 17.1% in 2018. In the first three months of 2020, net investment income improved 10.4% year over year to \$174.8 million on the back of higher investment funds. Though interest rates are expected to remain low because of the Fed's dovish policy, we expect to see an increase in net investment income as the company invests in alternative assets such as private equity fund and direct real estate opportunities.

▲ **Strong Balance Sheet:** W.R. Berkley maintains a solid balance sheet with sufficient liquidity and strong cash flows. A strong capital position helps W.R. Berkley deploy capital via share repurchases, special dividends and dividend hikes that enhance shareholders value. In June 2019, the company increased its dividend by 10% (14th consecutive increase since 2005). In November 2019, it approved a special dividend of 75 cents per share, marking the eleventh special dividend since 2012. The company also boasts a solid dividend yield of 0.7%, higher than the industry average of 0.5%.

▲ **Price Performance:** Shares of W.R. Berkley have lost 8.9% in the past year, compared with its industry's decline of 13.2%. Premium growth, expanding international business and solid capital position are expected to drive the company's shares higher in the near term.

Reasons To Sell:

▼ **Exposure to Catastrophe Loss:** Traditionally, catastrophe loss had a significant impact on the company's results, inducing volatility in underwriting profitability. Catastrophe loss totaled \$87.9 million in the first quarter of 2020, surging 594.2% from the year-ago period. The losses included an approximate \$65 million preliminary provision for COVID-19 related claims activity. Combined ratio deteriorated 260 basis points year over year to 96.9%. Expenses ratio contracted 90 bps year over year to 31.4% in the first three months of 2020. Hence, exposure to catastrophe loss remains a concern as the unpredictability of a natural disaster and the occurrence of the same hampers results.

W.R. Berkley Corp.'s exposure to catastrophe losses inducing volatility in underwriting profits, and competitive reinsurance market weighing on Reinsurance Segment are some of the headwinds.

▼ **Rising Expenses:** The company has been witnessing rise in expenses over the past many quarters, which weighs on margins. In the first three months of 2020, total expenses increased 6.4% to \$1.8 billion, primarily on higher losses and loss expenses and expenses from non-insurance businesses. The company has some IT and data-related initiatives that will continue and lead to an increase in expenses.

▼ **High Leverage:** The company's debt-to-equity ratio of 47.5% is higher than the industry average of 27.9%. Its times interest earned ratio, which measures its ability to pay interest, has gone down to 6.6 in 2019 from 8.8 in 2014. The company's increased financial leverage along with reduced interest payment capacity raises financial risk.

Last Earnings Report

W.R. Berkley Q1 Earnings Miss Estimates, Revenues Beat

W.R. Berkley Corporation's first-quarter 2020 operating income of 69 cents per share missed the Zacks Consensus Estimate by 2.8%. The bottom line also plunged 26.6% year over year.

Nevertheless, the company benefited from high premiums and strong net investment income. However, the COVID-19 pandemic had an adverse effect on the company's results.

Quarter Ending 03/2020

Report Date	Apr 21, 2020
Sales Surprise	2.95%
EPS Surprise	-2.82%
Quarterly EPS	0.69
Annual EPS (TTM)	3.07

Behind the Headlines

Operating revenues of nearly \$2 billion were up 2.6% year over year. The top line also surpassed the Zacks Consensus Estimate by 3%.

W.R. Berkley's net premiums written were \$1.8 billion, up nearly 8% year over year. Higher premiums written at both the Insurance and Reinsurance & Monoline Excess segments contributed to this upside.

Net investment income improved 10.4% year over year to \$174.8 million.

Total expenses moved up 6.4% to \$1.8 billion, primarily on higher losses and loss expenses and expenses from non-insurance businesses.

Catastrophe loss totaled \$87.9 million in the quarter, which reflects a whopping rise of 594.2% year over year. Creation of provision for handling COVID-19 related claims primarily led to increased catastrophe loss.

Consolidated combined ratio (a measure of underwriting profitability) was 96.9%, deteriorating 260 basis points (bps) year over year.

Segmental Details

Net premiums written at the Insurance segment grew 5.7% year over year to \$1.6 billion in the quarter. Combined ratio deteriorated 240 bps year over year to 96.4%.

Net premiums written in the Reinsurance & Monoline Excess segment increased 23.7% year over year to \$262.5 million. Combined ratio deteriorated 380 bps year over year to 100.6%.

Financial Update

W.R. Berkley exited the first quarter with total assets worth \$26.1 billion, down 2.1% from the 2019-end figure.

Book value per share declined 7.8% from the level at 2019 end to \$30.55 as of Mar 31, 2020.

Cash flow from operations totaled \$152.6 million in the quarter, which surged 94.8% year over year.

In the quarter under review, the company's negative return on equity (ROE) of 0.3% compares unfavorably with the prior-year quarter's ROE of 13.3%.

Share Repurchase and Dividend Update

In the first quarter, W.R. Berkley bought back shares worth \$203 million returned \$20 million of ordinary dividends to its shareholders.

Recent News

W. R. Berkley Prices Notes, Gets Rated – May 5, 2020

W. R. Berkley announced the pricing of \$300 million aggregate principal amount of senior unsecured notes due 2050. The notes carry an interest rate of 4%. The net proceeds will be deployed to repay 5.375% \$300 million Senior Notes due Sep 15, 2020.

AM Best has assigned a Long-Term Issue Credit Rating of "a-" with stable outlook.

Valuation

W.R. Berkley's shares are down 8.9% and 1.7% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 13.2% and 14.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 7.2% and 7.3%, respectively.

The S&P 500 index is down 0.5% in the year-to-date period and up 11% in the past year.

The stock is currently trading at 2.13x trailing 12-month book value, which compares to 1.31x for the Zacks sub-industry, 2.49x for the Zacks sector and 4.38x for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.39x and as low as 1.28x, with a 5-year median of 1.6x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$67 price target reflects 2.27x book value.

The table below shows summary valuation data for WRB

Valuation Multiples -WRB					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	2.13	1.31	2.49	4.38
	5-Year High	2.39	1.67	2.91	4.56
	5-Year Low	1.28	0.93	1.71	2.83
	5-Year Median	1.6	1.46	2.53	3.66
P/S F12M	Current	1.38	1.67	6	3.6
	5-Year High	1.81	11.26	6.65	3.6
	5-Year Low	0.84	1.39	4.95	2.53
	5-Year Median	1.18	1.87	6.06	3.02
P/E F12M	Current	22.75	25.38	17.75	23.18
	5-Year High	29.43	31.55	17.75	23.18
	5-Year Low	13.98	21.01	11.58	15.23
	5-Year Median	20.2	25.42	13.98	17.49

As of 06/09/2020

Industry Analysis Zacks Industry Rank: Bottom 10% (227 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
CNA Financial Corporation (CNA)	Neutral	3
The Hanover Insurance Group, Inc. (THG)	Neutral	4
Arch Capital Group Ltd. (ACGL)	Underperform	5
Axis Capital Holdings Limited (AXS)	Underperform	5
First American Financial Corporation (FAF)	Underperform	3
Markel Corporation (MKL)	Underperform	5
RenaissanceRe Holdings Ltd. (RNR)	Underperform	3
Alleghany Corporation (Y)	Underperform	5

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	WRB	X Industry	S&P 500	ACGL	AXS	Y
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	5	5	5
VGM Score	B	-	-	D	F	D
Market Cap	11.26 B	1.23 B	22.74 B	13.95 B	3.61 B	8.04 B
# of Analysts	5	2	14	3	3	1
Dividend Yield	0.70%	1.26%	1.81%	0.00%	3.83%	0.00%
Value Score	C	-	-	D	D	D
Cash/Price	0.14	0.21	0.06	0.06	0.36	0.25
EV/EBITDA	10.95	5.44	13.04	8.15	9.49	5.56
PEG Ratio	2.62	2.26	3.12	4.01	NA	NA
Price/Book (P/B)	2.12	1.12	3.14	1.27	0.84	1.02
Price/Cash Flow (P/CF)	16.53	10.27	12.32	10.83	9.58	17.42
P/E (F1)	23.58	14.68	22.61	40.13	51.75	19.21
Price/Sales (P/S)	1.45	0.84	2.46	2.07	0.72	0.98
Earnings Yield	4.11%	6.39%	4.26%	2.50%	1.94%	5.21%
Debt/Equity	0.48	0.26	0.76	0.26	0.48	0.19
Cash Flow (\$/share)	3.81	3.12	7.01	3.17	4.47	32.24
Growth Score	C	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	8.17%	6.81%	10.87%	14.25%	-22.09%	-15.93%
Proj. EPS Growth (F1/F0)	-14.65%	-1.72%	-10.76%	-69.62%	-67.20%	23.05%
Curr. Cash Flow Growth	8.47%	5.61%	5.48%	21.44%	-8.72%	25.33%
Hist. Cash Flow Growth (3-5 yrs)	4.12%	7.31%	8.55%	15.01%	-11.78%	-8.44%
Current Ratio	0.36	0.45	1.29	0.52	0.56	0.33
Debt/Capital	32.21%	20.55%	44.75%	19.85%	30.01%	17.98%
Net Margin	6.39%	3.92%	10.54%	19.61%	0.73%	0.69%
Return on Equity	9.97%	7.52%	16.08%	9.93%	-0.38%	3.26%
Sales/Assets	0.29	0.31	0.55	0.18	0.20	0.31
Proj. Sales Growth (F1/F0)	5.49%	0.00%	-2.59%	3.48%	-6.50%	0.00%
Momentum Score	A	-	-	F	D	C
Daily Price Chg	-3.67%	-1.93%	-2.13%	-3.56%	-0.56%	-4.11%
1 Week Price Chg	10.20%	8.37%	7.51%	23.95%	9.35%	12.89%
4 Week Price Chg	27.54%	17.42%	16.33%	45.37%	15.94%	15.89%
12 Week Price Chg	18.42%	13.28%	28.71%	13.77%	17.11%	-1.29%
52 Week Price Chg	-1.72%	-15.54%	1.59%	-1.77%	-28.70%	-17.92%
20 Day Average Volume	1,032,382	146,053	2,644,123	2,773,945	758,949	67,884
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.14%	0.00%	0.00%	-48.29%	-10.63%	-20.95%
(F1) EPS Est 12 week change	-13.63%	-18.82%	-15.96%	-71.30%	-83.89%	-28.13%
(Q1) EPS Est Mthly Chg	3.61%	0.00%	0.00%	-104.87%	7.33%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	A
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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