

W.R. Berkley Corp.(WRB)
\$58.32 (As of 04/10/20)

Price Target (6-12 Months): **\$61.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/13/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: D

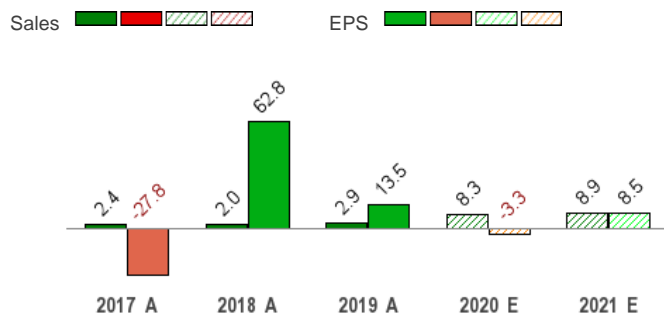
Summary

W.R. Berkley Corporation has been consistently benefitting from its insurance business, which has been performing well on increase in premium written from past many years. The company 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. Shares of the company have outperformed its industry in a year. Also, robust capital position enables the company to deploy capital effectively through share repurchase, special dividends and dividend hikes. However, exposure to a highly competitive reinsurance market is a concern. Rising debt has been inducing higher interest expenses. Exposure to catastrophe loss inducing volatility in underwriting profitability raises the financial risk of the company.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	\$79.92 - \$43.05
20 Day Average Volume (sh)	1,436,671
Market Cap	\$10.7 B
YTD Price Change	-15.6%
Beta	0.90
Dividend / Div Yld	\$0.44 / 0.8%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 37% (94 out of 253)

Sales and EPS Growth Rates (Y/Y %)


Last EPS Surprise	0.0%
Last Sales Surprise	-5.8%
EPS F1 Est- 4 week change	-2.1%
Expected Report Date	04/21/2020
Earnings ESP	-12.9%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,109 E	2,153 E	2,197 E	2,239 E	8,698 E
2020	1,931 E	1,976 E	2,020 E	2,064 E	7,990 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	\$0.80 E	\$0.76 E	\$0.77 E	\$0.85 E	\$3.18 E
2020	\$0.74 E	\$0.68 E	\$0.72 E	\$0.80 E	\$2.93 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.

P/E TTM	17.6
P/E F1	19.9
PEG F1	2.2
P/S TTM	1.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

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.

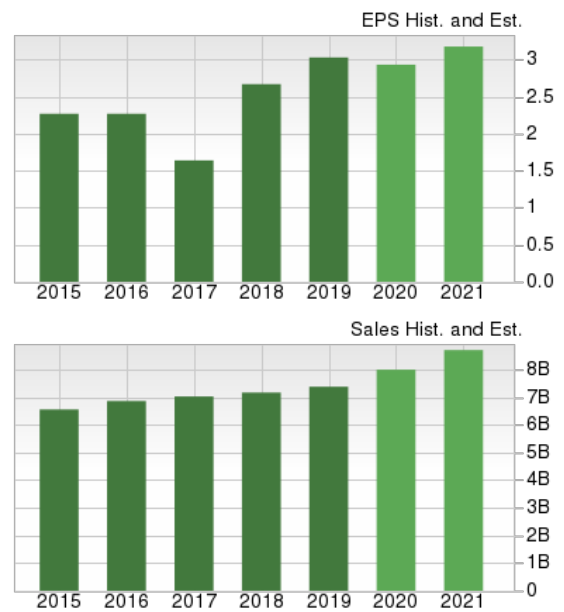
The two reporting segments are composed of individual operating units that serve a market defined by geography, products, services or industry served.

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. 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.
- ▲ **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. However, in 2019, the investment income decreased 4% year over year. 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), it also approved a special dividend of 50 cents per share in June 2019, marking the tenth special dividend since 2012. The company also boasts a solid dividend yield of 0.8%, higher than the industry average of 0.5%.
- ▲ **Price Performance:** Shares of W.R. Berkley have outperformed its industry in a year's time. We expect premium growth, expanding international business and solid capital position to drive the company's shares higher in the near term.

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.

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 \$90 million in 2019, down 14.6% from the year-ago period. Hence, exposure to catastrophe loss remains a concern as the unpredictability of a natural disaster and the occurrence of the same hampers results.
- ▼ **Rising Expenses:** The company has been witnessing rise in expenses over the past many quarters, which weighs on margins. 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 42.9% is higher than the industry's average of 1.5%. 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 same is also lower than the industry's average of 25.8. The company's increased financial leverage along with reduced interest payment capacity raises financial risk.

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.

Last Earnings Report

W.R. Berkley Q4 Earnings Meet Estimates, Improve Y/Y

W.R. Berkley Corporation's fourth-quarter 2019 operating income of 72 cents per share came in line with the Zacks Consensus Estimate. The bottom line improved 18% year over year on higher premiums written.

Behind the Headlines

W.R. Berkley's net premiums written were \$1.6 billion, up 9.3% year over year. Higher premiums written at both the Insurance and Reinsurance & Monoline Excess segments contributed to this upside.

Operating revenues of \$1.8 billion were up 3.8% year over year, mainly owing to higher net premiums earned. However, the same missed the consensus estimate by 5.8%.

Investment income decreased 14.1% year over year to \$137.3 million due to weak performance of investment funds compared with strong returns in the year-ago quarter.

Total expenses inched up 2.3% to \$1.8 billion, primarily on higher losses and loss expenses.

Catastrophe loss totaled \$20.4 million in the quarter, reflecting a 55% plunge year over year. Consolidated combined ratio (a measure of underwriting profitability) was 93.3%, contracting 260 basis points year over year.

Segmental Details

Net premiums written at the Insurance segment grew 8.2% year over year to \$1.5 billion in the quarter. Combined ratio contracted 290 bps year over year to 93%.

Net premiums written in the Reinsurance & Monoline Excess segment increased 18.9% year over year to \$175.6 million. Combined ratio contracted 50 bps year over year to 95.5%.

Financial Update

W.R. Berkley exited the fourth quarter with total assets worth \$26.6 billion, up 7% from the 2018-end figure.

Book value per share improved 11.4% from the level at 2018 end to \$33.12 as of Dec 31, 2019.

Cash flow from operations totaled \$348.7 million in the quarter, up 25.6% year over year.

The company's return on equity contracted 100 bps year over year to 8.8%.

Share Repurchase Update

In the quarter under review, the company returned \$158 million of ordinary and special dividends to its shareholders and bought back shares worth \$18 million.

Full-Year Update

For 2019, return on equity was 12.5%. The company's total shareholder value addition came in at \$326 million in the form of share buybacks and ordinary and special dividends.

Net premiums written for the year increased 6.7% year over year to \$6.8 billion.

Total revenues for 2019 summed \$7.9 billion, up 2.7% year over year.

Quarter Ending **12/2019**

Report Date	Jan 28, 2020
Sales Surprise	-5.80%
EPS Surprise	0.00%
Quarterly EPS	0.72
Annual EPS (TTM)	3.32

Recent News

W. R. Berkley's Debentures Get Rating Actions - Dec 11, 2019

Credit rating agency, A.M. Best has assigned a Long-Term Issue Credit Rating of bbb+ to \$300 million 5.10% subordinated debentures due 2059. The outlook for the ratings is stable.

Valuation

W.R. Berkley's shares are down 15.6% and up 0.8% 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 15.2% and 23.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.7% and 17.6%, respectively.

The S&P 500 index is down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 1.75x trailing 12-month book value, which compares to 1.12x for the Zacks sub-industry, 2.13x for the Zacks sector and 3.69x 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 1.59x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$61 price target reflects 1.83x 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	1.75	1.12	2.13	3.69
	5-Year High	2.39	1.67	2.89	4.55
	5-Year Low	1.28	0.93	1.69	2.84
	5-Year Median	1.59	1.47	2.51	3.63
P/S F12M	Current	1.31	1.62	4.93	3.07
	5-Year High	1.81	11.26	6.65	3.44
	5-Year Low	0.84	1.55	4.93	2.54
	5-Year Median	1.17	1.88	6.03	3.01
P/E F12M	Current	19.12	23.03	13.3	18.11
	5-Year High	29.43	31.55	16.19	19.34
	5-Year Low	13.55	21.05	11.23	15.19
	5-Year Median	20.13	25.42	13.95	17.45

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Top 37% (94 out of 253)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	WRB Neutral	X Industry	S&P 500	ACGL Neutral	AXS Neutral	Y Underperform
VGM Score	C	-	-	B	F	B
Market Cap	10.70 B	1.29 B	19.66 B	12.65 B	3.56 B	8.39 B
# of Analysts	4	2	13	3	2	2
Dividend Yield	0.75%	1.24%	2.18%	0.00%	3.87%	0.00%
Value Score	C	-	-	C	D	C
Cash/Price	0.16	0.29	0.06	0.17	0.52	0.29
EV/EBITDA	10.63	5.27	11.72	7.11	8.96	5.99
PEG Ratio	2.15	1.36	2.04	1.06	1.82	NA
Price/Book (P/B)	1.75	0.96	2.66	1.09	0.75	0.96
Price/Cash Flow (P/CF)	15.30	9.58	10.44	9.77	9.49	18.14
P/E (F1)	19.38	11.05	17.51	10.64	9.08	14.37
Price/Sales (P/S)	1.35	0.79	2.12	1.83	0.69	0.93
Earnings Yield	5.02%	9.03%	5.65%	9.39%	11.00%	6.96%
Debt/Equity	0.43	0.22	0.70	0.25	0.41	0.20
Cash Flow (\$/share)	3.81	3.12	7.01	3.17	4.47	32.24
Growth Score	B	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	6.66%	3.05%	10.92%	11.92%	-22.01%	-18.81%
Proj. EPS Growth (F1/F0)	-3.22%	11.11%	-1.14%	3.31%	85.12%	71.22%
Curr. Cash Flow Growth	8.47%	5.61%	5.93%	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	0.37	0.46	1.24	0.56	0.57	0.33
Debt/Capital	30.03%	18.26%	42.36%	19.06%	26.09%	18.22%
Net Margin	8.63%	8.66%	11.64%	23.47%	6.25%	9.49%
Return on Equity	10.66%	8.46%	16.74%	10.92%	5.39%	3.99%
Sales/Assets	0.30	0.33	0.54	0.19	0.20	0.34
Proj. Sales Growth (F1/F0)	5.57%	0.00%	0.45%	0.89%	0.41%	0.00%
Momentum Score	D	-	-	D	F	A
Daily Price Chg	5.61%	4.33%	2.48%	8.05%	5.45%	4.37%
1 Week Price Chg	-4.61%	-4.81%	-4.40%	-15.34%	-5.99%	-8.72%
4 Week Price Chg	13.35%	6.54%	11.26%	1.04%	1.90%	11.28%
12 Week Price Chg	-16.36%	-20.78%	-20.02%	-30.43%	-30.19%	-27.60%
52 Week Price Chg	1.57%	-18.28%	-11.31%	-5.00%	-24.73%	-6.05%
20 Day Average Volume	1,436,671	200,701	3,931,994	3,439,954	1,015,382	88,610
(F1) EPS Est 1 week change	-0.80%	0.00%	-0.12%	-1.99%	-4.34%	0.00%
(F1) EPS Est 4 week change	-2.05%	-1.71%	-5.78%	-2.40%	-9.06%	0.00%
(F1) EPS Est 12 week change	-0.19%	-2.68%	-7.64%	-3.05%	-6.76%	-10.99%
(Q1) EPS Est Mthly Chg	-3.55%	-0.81%	-10.13%	-0.44%	-15.66%	0.00%

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	B
Momentum Score	D
VGM Score	C

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.