

W.R. Berkley Corp.(WRB)

\$79.40 (As of 02/14/20)

Price Target (6-12 Months): **\$83.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/13/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: C

Summary

W.R. Berkley Corporation's earnings of 72 cents per share came in line with the Zacks Consensus Estimate and grew 18% year over year on higher premiums written. Shares of the company have outperformed the industry in a year's time. 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. 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.

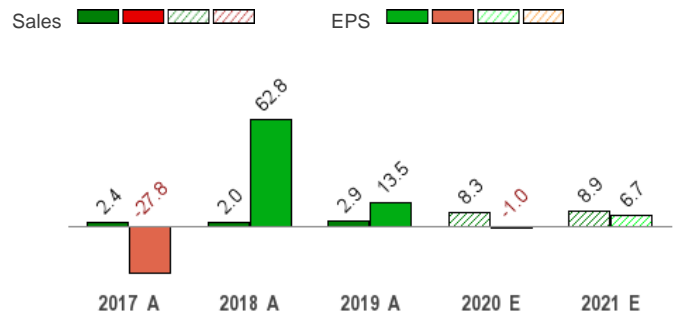
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.44 - \$53.97
20 Day Average Volume (sh)	740,922
Market Cap	\$14.6 B
YTD Price Change	14.9%
Beta	0.61
Dividend / Div Yld	\$0.44 / 0.6%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Top 38% (96 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-5.8%
EPS F1 Est- 4 week change	1.7%
Expected Report Date	NA
Earnings ESP	-2.2%
P/E TTM	23.9
P/E F1	26.5
PEG F1	2.9
P/S TTM	1.9

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	\$0.77 E	\$0.79 E	\$0.85 E	\$3.20 E
2020	\$0.75 E	\$0.71 E	\$0.73 E	\$0.80 E	\$3.00 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 02/14/2020. The reports text is as of 02/17/2020.

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.

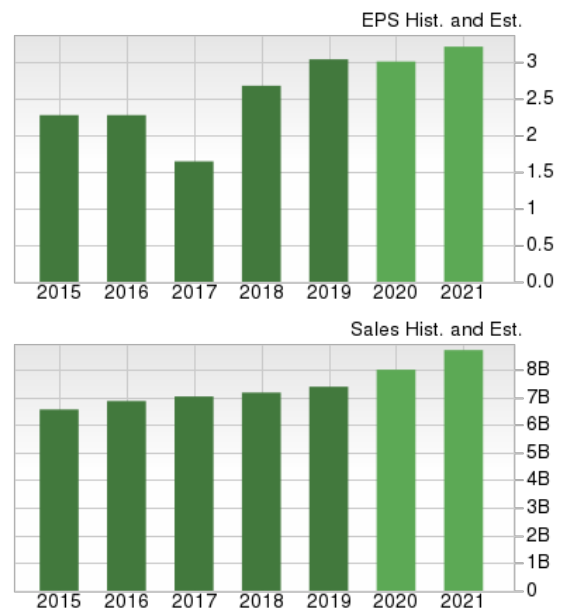
The two reporting segments are composed of individual operating units that serve a market defined by geography, products, services or industry served.

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:

- ▲ **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.
- ▲ **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 0.55%, higher than the industry average of 0.38%.

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 38.4% 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 9.9X. 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.

W. R. Berkley Declares Special and Quarterly Dividends- Nov 8, 2019

The board of directors of W. R. Berkley recently declared a special cash dividend of 75 cents per share. The dividend will be paid out on Dec 11 to shareholders of record as of Nov 22, 2019.

Additionally, the board also declared regular quarterly cash dividend of 11 cents per share. The dividend will also be paid out on Dec 11, 2019 to shareholders of record as of Nov 22, 2019.

Valuation

W.R. Berkley shares are up 46.3% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 11.8% and 9.3%, respectively.

The S&P 500 index is up 21% in the past year.

The stock is currently trading at 2.39X trailing 12-month book value, which compares to 1.45X for the Zacks sub-industry, 2.86X for the Zacks sector and 4.36X 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 1.58X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$83 price target reflects 2.5X 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	2.39	1.45	2.86	4.36
	5-Year High	2.39	1.67	2.89	4.42
	5-Year Low	1.28	1.26	1.83	2.85
	5-Year Median	1.58	1.47	2.51	3.62
P/S F12M	Current	1.81	1.71	6.55	3.58
	5-Year High	1.81	11.26	6.65	3.58
	5-Year Low	0.84	1.55	5.39	2.54
	5-Year Median	1.16	1.89	6.04	3
P/E F12M	Current	26.24	26.78	15.03	19.36
	5-Year High	29.43	31.55	16.21	19.36
	5-Year Low	13.55	22.77	12.01	15.18
	5-Year Median	19.96	25.9	14.15	17.47

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 255)



Top Peers

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

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	WRB Neutral	X Industry	S&P 500	ACGL Neutral	AXS Neutral	Y Neutral
VGM Score	B	-	-	B	B	B
Market Cap	14.58 B	1.78 B	24.61 B	19.33 B	5.36 B	11.88 B
# of Analysts	5	2	13	4	3	2
Dividend Yield	0.55%	0.96%	1.78%	0.00%	2.57%	0.00%
Value Score	D	-	-	C	C	D
Cash/Price	0.10	0.18	0.04	0.25	0.22	0.16
EV/EBITDA	14.06	9.65	14.06	17.19	22.73	45.43
PEG Ratio	2.94	1.76	2.09	1.59	2.49	NA
Price/Book (P/B)	2.38	1.19	3.29	1.72	1.11	1.35
Price/Cash Flow (P/CF)	22.54	13.68	13.65	18.22	12.99	33.06
P/E (F1)	26.47	13.90	19.21	15.95	12.44	18.08
Price/Sales (P/S)	1.85	1.04	2.70	2.79	1.04	1.49
Earnings Yield	3.78%	7.00%	5.19%	6.27%	8.04%	5.53%
Debt/Equity	0.38	0.21	0.71	0.26	0.33	0.19
Cash Flow (\$/share)	3.52	3.05	6.92	2.62	4.91	24.96
Growth Score	B	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	6.66%	0.72%	10.85%	8.71%	-22.01%	-22.88%
Proj. EPS Growth (F1/F0)	-0.99%	12.38%	7.17%	6.03%	103.57%	18.40%
Curr. Cash Flow Growth	50.32%	12.19%	8.56%	84.88%	-541.78%	122.47%
Hist. Cash Flow Growth (3-5 yrs)	3.89%	7.23%	8.36%	11.39%	-13.32%	-13.07%
Current Ratio	0.36	0.44	1.23	0.69	0.55	0.32
Debt/Capital	27.75%	17.99%	42.91%	20.08%	22.20%	17.53%
Net Margin	8.63%	8.06%	11.81%	23.47%	6.25%	1.43%
Return on Equity	10.73%	7.50%	16.86%	11.11%	5.40%	4.36%
Sales/Assets	0.30	0.31	0.54	0.20	0.20	0.31
Proj. Sales Growth (F1/F0)	5.57%	4.10%	3.85%	-0.72%	1.70%	NA
Momentum Score	C	-	-	C	B	A
Daily Price Chg	0.10%	0.00%	0.06%	-0.31%	-1.02%	0.32%
1 Week Price Chg	5.82%	1.84%	2.47%	4.51%	0.86%	2.75%
4 Week Price Chg	13.87%	-0.14%	0.59%	7.00%	5.17%	2.16%
12 Week Price Chg	17.13%	4.66%	6.98%	17.50%	9.56%	5.03%
52 Week Price Chg	47.33%	8.53%	16.62%	53.21%	14.51%	27.85%
20 Day Average Volume	740,922	85,417	2,020,569	1,484,545	487,854	43,736
(F1) EPS Est 1 week change	-0.42%	0.00%	0.00%	-0.50%	6.14%	0.00%
(F1) EPS Est 4 week change	1.68%	0.00%	-0.05%	-0.50%	8.83%	-0.16%
(F1) EPS Est 12 week change	2.24%	0.00%	-0.17%	-0.33%	8.04%	0.94%
(Q1) EPS Est Mthly Chg	-0.11%	0.00%	-0.24%	10.66%	15.16%	5.44%

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	D
Growth Score	B
Momentum Score	C
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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