

W.R. Berkley Corp.(WRB)

\$62.87 (As of 07/27/20)

Price Target (6-12 Months): **\$66.00**

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:D

Value: C

Growth: C

Momentum: D

Summary

W.R. Berkley's earnings of 6 cents per share missed the Zacks Consensus Estimate of 23 cents by 73.9% and declined 92.7% year over year due to higher catastrophe losses. The company 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. Solid capital position enables effective capital deployment. Shares of W.R. Berkley have outperformed the industry year to date. However, exposure to a highly competitive reinsurance market concern. Rising debt induces higher interest expenses and lower times interest earned concern. Escalating expenses tend to weigh on margin expansion. Exposure to catastrophe loss induces volatility in earnings.

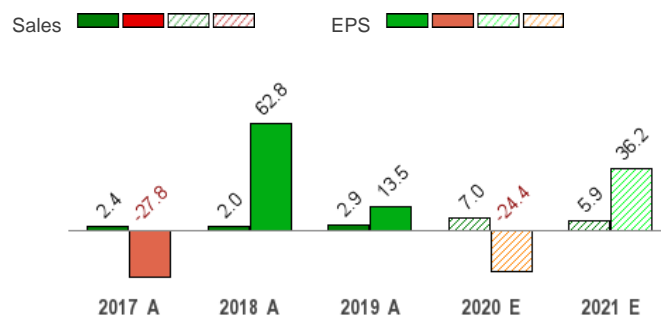
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.92 - \$43.05
20 Day Average Volume (sh)	780,014
Market Cap	\$11.2 B
YTD Price Change	-9.0%
Beta	0.83
Dividend / Div Yld	\$0.48 / 0.8%
Industry	Insurance - Property and Casualty
Zacks Industry Rank	Bottom 26% (187 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-73.9%
Last Sales Surprise	-6.6%
EPS F1 Est- 4 week change	-10.7%
Expected Report Date	10/27/2020
Earnings ESP	0.0%
P/E TTM	27.2
P/E F1	27.5
PEG F1	3.1
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,011 E	2,048 E	2,112 E	2,179 E	8,350 E
2020	1,988 A	1,782 A	2,026 E	2,017 E	7,888 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	\$0.82 E	\$0.77 E	\$0.76 E	\$0.78 E	\$3.12 E
2020	\$0.69 A	\$0.06 A	\$0.80 E	\$0.72 E	\$2.29 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 07/27/2020. The reports text is as of 07/28/2020.

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.

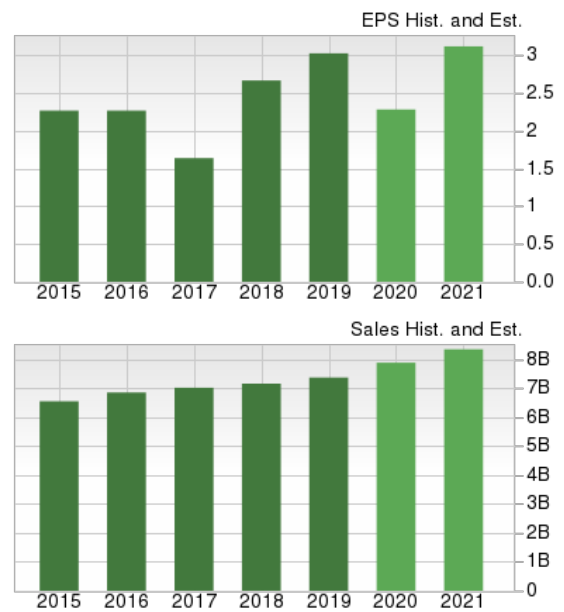
The two reporting segments are composed of individual operating units that serve a market defined by geography, products, services or industry served.

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. In the first half of 2020, net premiums written at the Insurance segment increased 1.8% year over year to \$3.1 billion on the back of higher premiums at Commercial automobile, Professional liability, short-tail lines and other liability, though second-quarter performance suffered due to reduced exposure, rate decline in workers' compensation and higher reinsurance reinstatement premiums. 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. The metric witnessed a CAGR of 5.9% in the past four years (2015-2019) on the back of higher investment funds and income from fixed maturity securities. However, in the first half of 2020, net investment income decreased 24.9% year over year to \$260.2 million primarily due to loss of \$17 million from 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. Moreover, the company generated solid cash flows, which surged 44% year over year to \$579.8 million in the first half of 2020. A strong capital position helps W.R. Berkley deploy capital via share repurchases, special dividends and dividend hikes that enhance shareholders value. In June 2020, the company increased its dividend by 9% (9th consecutive increase since 2005), reflecting a five-year (2015-2020) CAGR of 1.8%. In November 2019, it approved a special dividend of 75 cents per share, marking the eleventh special dividend since 2012. During the first half of 2020, the company repurchased shares for \$299 million. 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 lost 9% on a year to date basis, compared with its industry's decline of 15.2%. Premium growth, expanding international business and solid capital position are expected 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 \$224.6 million in the first half of 2020, surging 488.6% from the year-ago period. The company incurred \$85 million of net COVID-19 related losses in the second quarter. The catastrophe losses included \$20 million for losses related to civil unrest and \$40 million attributable to severe weather-related events in the United States in the second quarter. Combined ratio deteriorated 370 basis points year over year to 97.8%. Expenses ratio contracted 70 bps year over year to 31.2% in the first half 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.
- ▼ **Rising Expenses:** The company has been witnessing rise in expenses over the past many quarters, which weighs on margins. In the first half of 2020, total expenses increased 5.5% to \$3.6 billion, primarily on higher losses and loss expenses. The company has some IT and data-related initiatives that will continue and lead to an increase in expenses. In the second quarter, net margin contracted 180 bps sequentially and 420 bps year over year.
- ▼ **High Leverage:** As of Jun 30, 2020, the company's long-term debt was \$1.7 billion, which increased 20.9% from the 2019-end level. The company's long-term debt-to-equity ratio of 32.2% is higher than the industry average of 1.3%. 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. Also, the company's times interest earned of 4.1 as on Jun 30, 2020 is poor when compared with the 2019-end quarter figure of 6.6, implying that its earnings are not sufficient to cover interest obligations. 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 Q2 Earnings and Revenues Miss Estimates

W.R. Berkley Corporation's second-quarter 2020 operating income of 6 cents per share missed the Zacks Consensus Estimate of 23 cents by 73.9%. Also, the bottom line plunged 92.7% year over year due to higher catastrophe losses. The COVID-19 pandemic had an adverse impact on the company's results.

Behind the Headlines

W.R. Berkley's net premiums written for the quarter under review were \$1.7 billion, down 0.2% year over year, primarily due to lower premiums written at the Insurance segment.

Operating revenues came in at \$1.8 billion, down 4.2% year over year, due to lower net premiums written and investment income. Moreover, the top line missed the consensus estimate by 6.6%.

Investment income decreased 54.6% year over year to \$84.4 million, primarily due to loss of \$58 million from investment funds, which are reported on a one-quarter lag. The loss was due to the first-quarter downturn in the financial markets, which resulted from the COVID-19 related economic shutdown.

Total expenses increased 4.6% to \$1.8 billion, primarily due to higher losses and loss expenses.

Catastrophe losses of \$145.9 million in the quarter widened from \$25.5 million incurred in the year-ago quarter. The catastrophe losses included \$20 million for losses related to civil unrest and \$40 million attributable to severe weather-related events in the United States. Consolidated combined ratio (a measure of underwriting profitability) was 98.7%, down 480 basis points (bps) year over year.

Segment Details

Net premiums written at the **Insurance segment** decreased 2% year over year to \$1.5 billion in the quarter, primarily due to lower short-tail lines and workers' compensation. Combined ratio deteriorated 390 bps to 97.7%.

Net premiums written in the **Reinsurance & Monoline Excess segment** increased 16.4% year over year to \$196.7 million on higher casualty reinsurance and property reinsurance premium. Combined ratio deteriorated 990 bps to 105.1%.

Financial Update

W.R. Berkley exited the second quarter with total assets worth \$27.3 billion, up 2.6% from year-end 2019.

Book value per share decreased 1.7% from 2019 end to \$31.33 as of Jun 30, 2020.

Cash flow from operations was \$427.3 million in the second quarter of 2020, up 31.7% year over year.

The company's return on equity contracted 1120 bps to 4.7%.

The company returned \$117 million to shareholders in the reported quarter, including \$96 million in share repurchases and \$21 million in dividend payouts.

Quarter Ending	06/2020
Report Date	Jul 21, 2020
Sales Surprise	-6.59%
EPS Surprise	-73.91%
Quarterly EPS	0.06
Annual EPS (TTM)	2.31

Recent News

W.R. Berkley Provides Q2 Catastrophe Loss Estimates – Jul 10, 2020

W.R. Berkley estimates second-quarter pre-tax net catastrophe losses of \$145 million. The expected loss could be due to the company's exposure to the COVID-19 pandemic, civil unrest claims across the United States and other catastrophic events in the second quarter. While COVID-19 pandemic losses are expected to be \$85 million, civil unrest claims across the United States and other catastrophic events in the second quarter are expected to result in losses of \$20 million and \$40 million, respectively. Despite the market volatility, W.R. Berkley anticipates second-quarter net premiums written to be proportionate with the prior-year quarter's reported figure.

W.R. Berkley Boosts Shareholder Value With Dividend Hike – Jun 12, 2020

The board of directors of W.R. Berkley recently approved a 9% hike in its quarterly dividend in a concerted effort to boost shareholders' value. The company will now reward investors with a dividend of 12 cents per share. The recent increase takes the annual dividend to 48 cents per share.

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 9% and 10.3% 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 18.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 10% and 13.9%, respectively.

The S&P 500 index are up 0.02% in the year-to-date period and 6.9% in the past year.

The stock is currently trading at 2.03x trailing 12-month book value, which compares to 1.3x for the Zacks sub-industry, 2.38x for the Zacks sector and 4.43x 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 1.61x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$66 price target reflects 2.13x 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	2.03	1.3	2.38	4.43
	5-Year High	2.39	1.67	2.91	4.56
	5-Year Low	1.28	0.93	1.72	2.83
	5-Year Median	1.61	1.46	2.53	3.71
P/S F12M	Current	1.38	1.63	6.04	3.55
	5-Year High	1.81	11.26	6.66	3.55
	5-Year Low	0.84	1.39	4.96	2.53
	5-Year Median	1.19	1.85	6.06	3.02
P/E F12M	Current	22.74	24.56	16.35	22.49
	5-Year High	29.43	31.55	16.35	22.49
	5-Year Low	14.23	21.01	11.59	15.25
	5-Year Median	20.37	25.42	14.16	17.52

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Arch Capital Group Ltd. (ACGL)	Neutral	3
Axis Capital Holdings Limited (AXS)	Neutral	3
Cincinnati Financial Corporation (CINF)	Neutral	3
CNA Financial Corporation (CNA)	Neutral	4
First American Financial Corporation (FAF)	Neutral	2
Markel Corporation (MKL)	Neutral	5
The Hanover Insurance Group, Inc. (THG)	Neutral	3
RenaissanceRe Holdings Ltd. (RNR)	Underperform	5

Industry Comparison Industry: Insurance - Property And Casualty				Industry Peers		
	WRB	X Industry	S&P 500	ACGL	AXS	CINF
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	C	F	C
Market Cap	11.24 B	1.15 B	22.74 B	12.22 B	3.44 B	13.26 B
# of Analysts	4	2	14	3	3	2
Dividend Yield	0.76%	1.32%	1.8%	0.00%	4.02%	2.91%
Value Score	C	-	-	B	C	B
Cash/Price	0.14	0.25	0.07	0.07	0.36	0.04
EV/EBITDA	10.93	5.41	13.03	7.31	9.18	5.29
PEG Ratio	3.02	2.57	3.03	5.61	19.76	NA
Price/Book (P/B)	2.12	1.08	3.17	1.11	0.80	1.65
Price/Cash Flow (P/CF)	16.50	9.97	12.05	9.49	9.14	17.58
P/E (F1)	27.17	13.81	21.90	56.14	98.78	27.08
Price/Sales (P/S)	1.46	0.78	2.38	1.81	0.69	1.67
Earnings Yield	3.64%	6.36%	4.30%	1.79%	1.00%	3.70%
Debt/Equity	0.48	0.26	0.76	0.26	0.48	0.12
Cash Flow (\$/share)	3.81	3.12	7.01	3.17	4.47	4.69
Growth Score	C	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	7.72%	3.24%	10.85%	14.25%	-22.09%	3.24%
Proj. EPS Growth (F1/F0)	-24.59%	-9.89%	-7.56%	-80.97%	-83.60%	-27.50%
Curr. Cash Flow Growth	8.47%	3.79%	5.47%	21.44%	-8.72%	25.16%
Hist. Cash Flow Growth (3-5 yrs)	4.12%	4.78%	8.55%	15.01%	-11.78%	9.30%
Current Ratio	0.36	0.45	1.31	0.52	0.56	0.26
Debt/Capital	32.21%	20.55%	44.41%	19.85%	30.01%	10.66%
Net Margin	4.57%	4.25%	10.45%	19.61%	0.73%	25.20%
Return on Equity	7.53%	7.20%	15.13%	9.93%	-0.38%	6.49%
Sales/Assets	0.29	0.31	0.54	0.18	0.20	0.32
Proj. Sales Growth (F1/F0)	4.22%	0.00%	-2.00%	4.31%	-5.88%	2.11%
Momentum Score	D	-	-	F	F	F
Daily Price Chg	-1.70%	-0.68%	0.48%	-2.33%	-0.20%	-0.94%
1 Week Price Chg	0.66%	0.13%	0.37%	0.52%	0.17%	8.57%
4 Week Price Chg	11.31%	3.64%	5.61%	6.20%	0.22%	29.33%
12 Week Price Chg	22.36%	8.63%	13.36%	26.60%	15.31%	37.08%
52 Week Price Chg	-10.26%	-18.90%	-3.30%	-21.13%	-33.52%	-22.41%
20 Day Average Volume	780,014	121,630	1,917,592	1,629,380	928,815	1,216,488
(F1) EPS Est 1 week change	-4.19%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-10.66%	0.00%	0.21%	-37.35%	-50.00%	-9.10%
(F1) EPS Est 12 week change	-11.52%	-13.69%	-2.00%	-77.61%	-55.32%	-16.19%
(Q1) EPS Est Mthly Chg	17.65%	0.00%	0.00%	-33.33%	-33.33%	-7.33%

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	D
VGM Score	D

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.