Everest Re is on top of the Reinsurance Mountain

Price $245.37 **Core Holding** **July 20, 2021**

- Consistent Double-Digit Compounder.
- Broad customer base with diverse income streams.
- Strong cash flow with a low expense base.
- International reach and excellent management.
- Financial strength is highly rated by S&P and Moody's.
- 2.6% Dividend Yield.

Investment Thesis

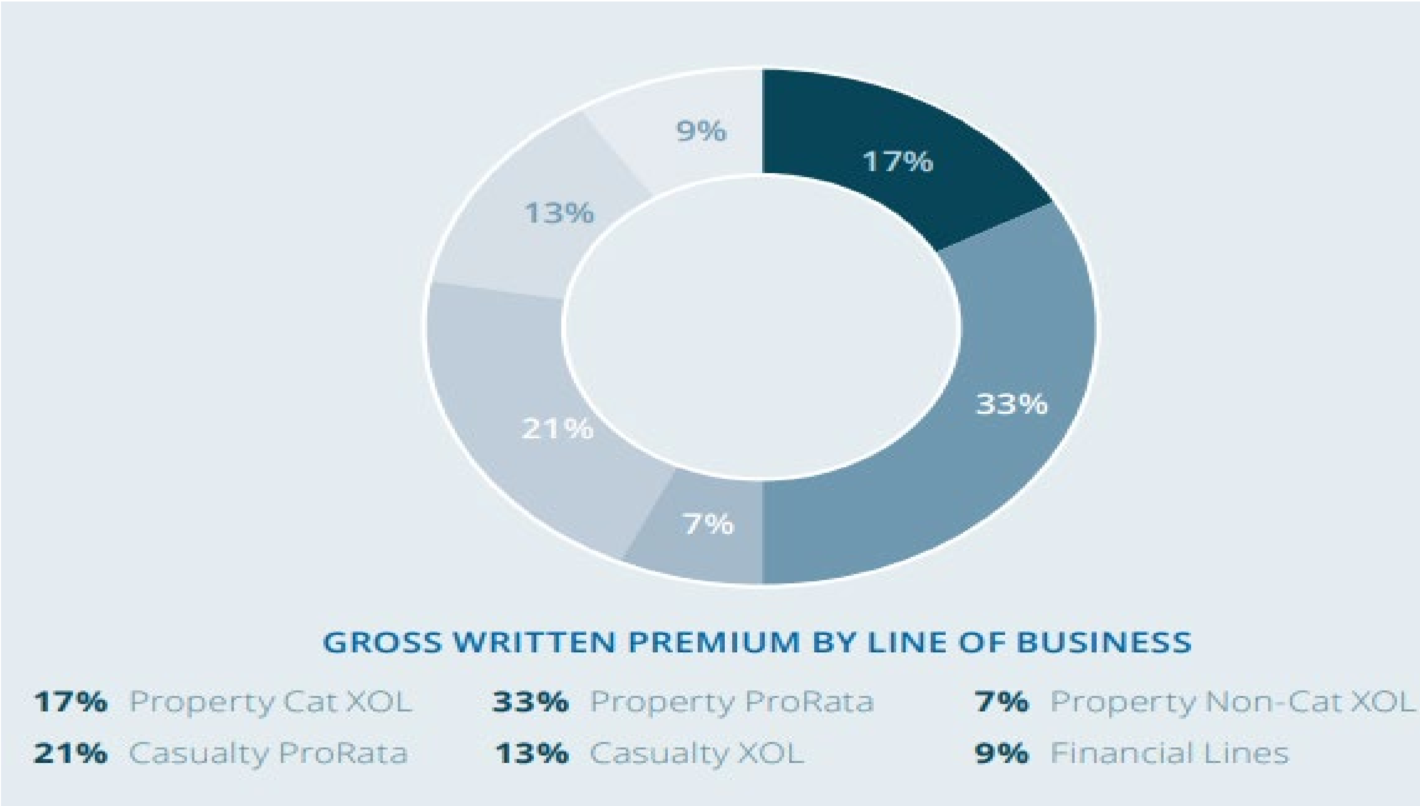
Everest RE (RE) is a reinsurance company. Reinsurance companies take on some of the risk of insurance companies for a premium. Thus, it is essentially insurance for insurance companies. This helps both parties, reinsurance companies get income on premiums, and insurance companies can reduce some of their concentrated risks.

With the increase in catastrophic environmental events and the COVID-19 pandemic, reinsurance is in demand, and the price is rising (the industry calls this a "hard market"). In addition, Everest has promising premium income growth and excellent management. We believe this makes it an ideal stock for dividend income and capital appreciation.

What is Everest?

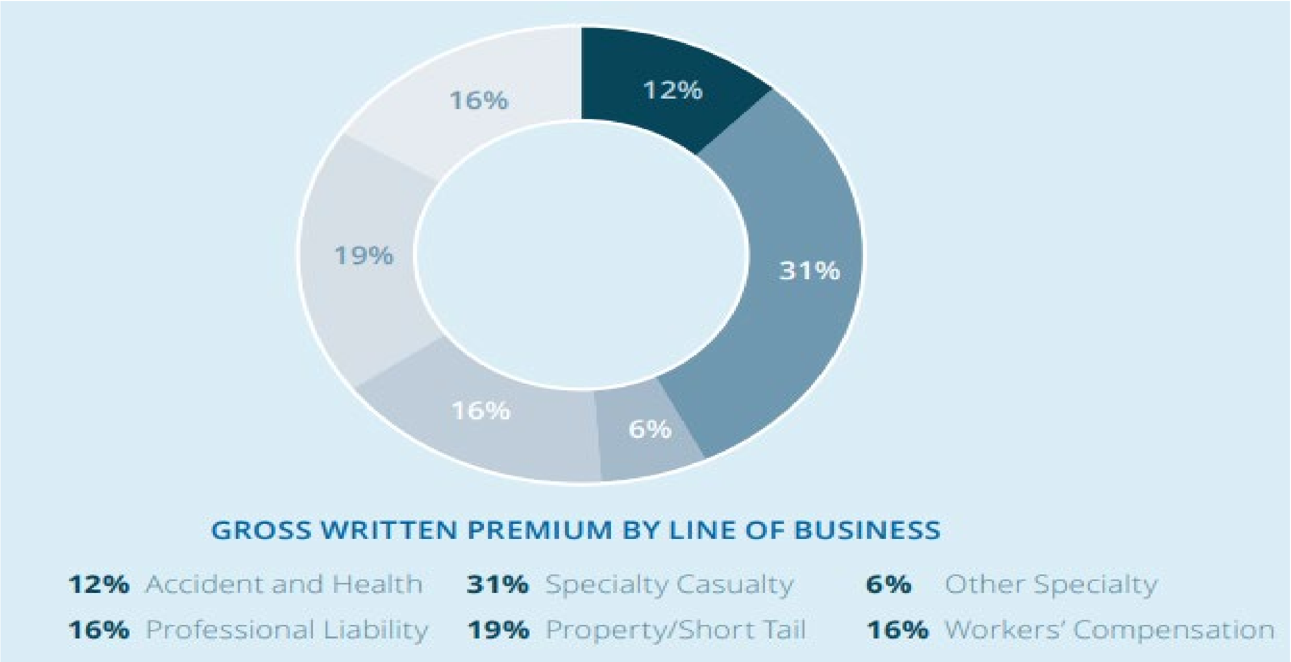
Everest operates reinsurance (70%) and insurance services (30%).

Reinsurance Division



The Reinsurance Division offers services to insurance companies to manage and reduce their risks. Currently, Everest's reinsurance holds a wide variety of contracts on behalf of insurance companies. These contracts include marine, aviation, property, surety, and other A&H products offered to individuals and businesses. Reinsurance companies have several significant advantages over primary insurers: broader geographic and risk diversification and the ability to raise prices to meet market conditions without regulatory approval. This means that Everest can stay on top of the improvement in pricing in this hard market.

Insurance Division



The primary type of insurance offered to corporate customers is primarily casualty, including worker's compensation or liability insurance. The other type is standard property insurance for equipment or buildings.

Risk

The risk for reinsurance companies is an unknown catastrophic risk or perils, their severity, or their frequency. The California wildfires were such a risk in 2018 and 2019. Some investors are worried that global warming will introduce additional unexpected risks like more frequent or severe hurricanes. As the hurricane peril is well recognized, the industry has raised prices and limited exposure to adjust. Unanticipated or unforeseen perils are the only ones that are long-term risks to profitability.

COVID-19 did affect the short-term profitability of Everest. However, these losses were partially offset by increases in income from the bonds they hold, a decrease in insurance-based losses, and an increase in premiums they charge.

The global reinsurance market is competitive and tends to be cyclical depending on the products insured. However, historically, the reinsurance market has been smaller than the demand for reinsurance services allowing for favorable pricing.

Metrics and Operations

Everest's management prioritizes underwriting safety and profitability of premiums over volume. This allows Everest to select which risks it undertakes carefully and to stay ahead of market conditions.

The reinsurance division is the primary income source for Everest, representing 70% of income. Through Q1 2021, they have seen a 16% increase in premiums. More stringent underwriting standards drove this to improve risk-adjusted returns. This includes rate increases in Japan and rate increases in retrocession. Retrocession is the act of a reinsurance company assuming risk on behalf of a typical insurance company.

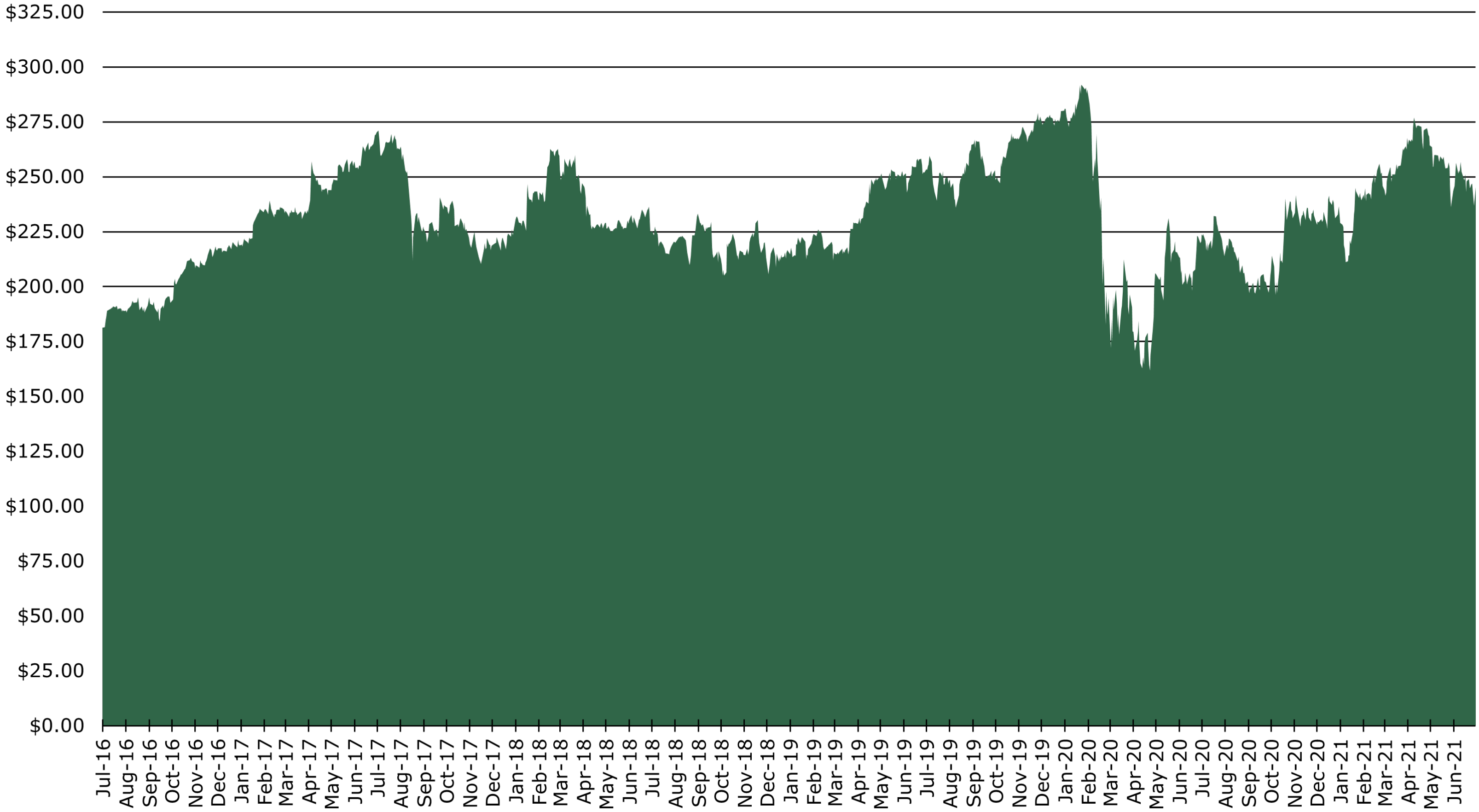
The insurance segment achieved equally strong growth, with premiums rising 10% for the quarter. This is driven by reductions in expense ratios, thanks to prudential management and new products with more attractive pricing.

			Estimated Price-to-Earnings		
	Dividend Yield	**Price-to-Book**	**E2021**	**E2022**	**E2023**
Everest RE (RE)	2.6%	1.0	9.1	8.0	6.9

Source: Bloomberg

Everest cut dividends as a capital preservation measure during the COVID-19 pandemic; however, we believe this will and be reversed grow as they continue to diversify their income and reduce expenses. Currently, Everest estimates a 10-15% CAGR for premiums, which will fund the ambition of a >13% total shareholder return target. Management's primary goal is to reduce income volatility and further enhance risk-adjusted returns through underwriting income.

Everest Re (RE)



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