

Underwriting Underwriters

White Mountains Insurance has a long history of deftly allocating capital in and out of a wide variety of insurance-related businesses. Springview Capital's Guy Baron explains why he finds its current makeup of particular interest.

Typically one component of an insurance-company investment idea is the expectation of a “hardening” market in the insurer’s area of strength. That was a key reason Guy Baron of Springview Capital was high early last year on the prospects of W.R. Berkley [VII, January 31, 2022]. As a best-in-class property/casualty insurer, he expected Berkley to be a prime beneficiary of rising premiums in the category, while also benefitting from rising interest rates. That’s so far played out well: while the S&P 500 has since fallen 7%, W.R. Berkley stock is up 20%, including dividends.

Baron is similarly positive today on White Mountains Insurance, an untraditional insurance holding company with a storied history. Its origins date back to the 1985 IPO of insurer Fireman’s Fund, run at the time by Jack Byrne, who as the one-time leader of Geico’s turnaround prompted Warren Buffett to call him the “Babe Ruth of insurance.”

The company today operates as a true holding company, taking large stakes in mostly insurance-related businesses with intact leadership that retains significant ownership as well. The time horizon may be quite long, but businesses are bought and sold. Last year, for example, the company sold its managing-general-agent business NSM to Carlyle Group for \$1.8 billion, locking in a greater than 30% annual return on its four-year investment.

The most valuable holding today is its 63% stake in property/casualty insurer Ark. White Mountains first invested in the business in 2021, providing growth capital to what it considered a first-class management team. That bet has proven timely as the property/casualty market has seen an outflow of capital and much higher prices

in the aftermath of the pandemic, the war in Ukraine and elevated insured catastrophe losses, punctuated by Hurricane Ian last September. Ark is investing heavily in the business and Baron believes gross premiums written can increase at more than

30% annually over several years.

While he expects solid results from other key holdings such as municipal-bond reinsurer HG Global, insurance lead-generation platform MediaAlpha and asset manager Kudu, Baron sees Ark as the pri-

INVESTMENT SNAPSHOT

White Mountains

(NYSE: WTM)

Business: Holding company with mostly insurance-related subsidiaries, the largest of which underwrites property/casualty risks.

Share Information (@2/27/23):

Price	1,461.89
52-Week Range	1,030.30 – 1,560.21
Dividend Yield	0.1%
Market Cap	\$3.70 billion

Financials (TTM)

Revenue	\$1.16 billion
Operating Profit Margin	(-9.4%)
Net Profit Margin	68.5%

Valuation Metrics

(@2/27/23):

	WTM	S&P 500
Price/Book	1.00	n/a
Price/Tangible Book	1.12	n/a

Largest Institutional Owners

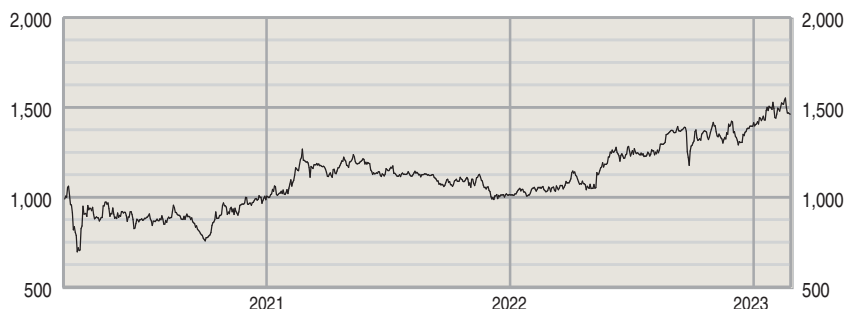
(@12/31/22 or latest filing):

Company	% Owned
Vanguard Group	10.0%
Eaton Vance	7.1%
Dimensional Fund Adv	6.3%

Short Interest (as of 2/15/23):

Shares Short/Float	1.4%
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WTM PRICE HISTORY



THE BOTTOM LINE

The company's Ark subsidiary is investing heavily into what Guy Baron believes is a sustainably hardening property catastrophe insurance market. His sum-of-the-parts valuation for 2025 pegs the share price then at nearly \$2,350, 60% above the current level.

Sources: Company reports, other publicly available information

mary driver of White Mountains' book-value-per-share growth. The company seems to agree – in December it invested \$205 million in the formation of Outrigger Re, set up by Ark to focus specifically on reinsuring property catastrophe risks.

In valuing White Mountains, Baron es-

timates the book value of each holding in 2025 and then applies what he considers a reasonable, peer-based multiple of book value to that holding before summing up the parts. He values Ark at 2x book, for example, Kudu at 1.3x and HG Global at 0.75x. Adding it all up he believes the

shares in three years can be worth around \$2,340, 60% above today's price. "What makes this all the more interesting is that the stock trades at 1x book value and nearly 25% of the current market cap is in cash," he says. "We think the fundamental downside is well protected." ^{VII}