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Zacks Small-Cap Research

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Global Indemnity Group (GBLI-NYSE)

UPDATE: The company reported strong 3rd quarter earnings on November 8th which were above our expectations. An executive transition also occurred recently.

Utilizing a scenario analysis methodology for future projections of book value per share, we believe GBLI is worth approximately $60.00 per share. Various industry wide dynamics could materially increase or decrease that value.

Current Price (11/09/22)	$24.71
Valuation	**$60.00**

OUTLOOK

Global Indemnity Group, LLC, provides specialty and niche insurance products nationwide. GBLI focuses on small to middle market casualty business. The company has made a concerted effort to reduce its property exposure. The company's largest business, Penn-America Binding, targets small business written on an excess and surplus lines basis. Global Indemnity also has profitable and growing cannabis, programs and reinsurance businesses. The company has launched four new businesses in 2022, Environmental, Excess Casualty, InsurTech and Professional which are all led by newly hired experienced managers with strong track records of success.

SUMMARY DATA

52-Week High	**$27.66**
52-Week Low	**$20.52**
One-Year Return (%)	**-21.50**
Beta	**0.25**
Average Daily Volume (sh)	**7,337**
Shares Outstanding (mil)	**14.8**
Market Capitalization ($mil)	**$384**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**88**
Insider Ownership (%)	**44**
Annual Cash Dividend	**$1.00**
Dividend Yield (%)	**4.17**
5-Yr. Historical Growth Rates	
Sales (%)	**7.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**0.0**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**N/A**
P/E using 2023 Estimate	**8.08**
Zacks Rank	**N/A**

Risk Level	**Low**
Type of Stock	**Small-Value**
Industry	**Insurance**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	87 A	179 A	160 A	158 A	584 A
2021	158 A	164 A	167 A	189 A	678 A
2022	130 A	148 A	194 A	155 E	627 E
2023	152 E	160 A	161 E	162 E	635 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	-$3.13 A	$2.61 A	-$1.06 A	$0.08 A	-$1.48 A
2021	$0.37 A	$0.43 A	-$0.54 A	$1.71 A	$1.97 A
2022	-$1.03 A	-$0.84 A	$1.60 A	$0.60 E	$0.33 E
2023	$0.67 E	$0.72 E	$0.81 E	$0.83 E	$3.03 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles.

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WHAT'S NEW

Earnings Review

Global Indemnity Group reported 3rd quarter financial results on November 8th which were above our expectations. Gross Written Premiums for continuing lines of business increased 13% while consolidated company Gross Written Premiums increased 0.9%. Consolidated Gross Written Premiums includes premiums from exited lines which dropped 32.0% compared to the prior year period. Total revenues from Continuing Lines increased 20% to $136.2 million.

The combined ratio for Continuing Lines was 96.9% for the 3rd quarter which was comprised of a Loss Ratio of 58.3% and an Expense Ratio of 38.6%. The company experienced lower catastrophe claims with losses of $9.3 million for the nine-month period ending 9/30/22 compared to $20.5 million in losses for the same period in 2021. Losses related to hurricane Ian were approximately $1.5 million. The company generated net income of $23.6 million, or $1.60 per share, for the 3rd quarter compared to a loss of $7.8 million, or $0.54 per share, in the prior year period.

Results were solid in the core Penn-America segment. In recent years, the company has made efforts to expand and enhance the more profitable lines of business in Penn America such as small artists, contractors, and vacant buildings. At the same time, they have exited problematic areas such as lodging, liquor liability and the Colorado construction business.

Reinsurance operations showed strong growth with Gross Written Premiums increasing 47.0% due to organic growth of existing casualty treaties. This includes their largest casualty quota share treaty and the company's Excess Professional business. Premium rate increases in this area of the insurance market continues to be strong.

Investment income generated during the quarter totaled $8.4 million compared to $9.3 million in the 3rd quarter of 2021. Normalized investment income, which excludes alternative assets, was $9.5 million compared to $6.3 million in the prior year period. The duration of the fixed income portfolio at quarter end was 1.7 years compared to a duration of 3.0 years as of December 31, 2021. The book yield on the portfolio increased from 2.2% at 2021 year-end to 3.1% as of 9/30/22.

Shareholder's equity increased $2.3 million from 6/30/22 to $643.6 million at 9/30/22. Book value per share was $43.76 at the end of the 3rd quarter.

GBLI also announced that it will start a stock repurchase program beginning in the 4th quarter of 2022. Repurchases of up to $32 million of GBLI's outstanding Common A Shares have been authorized by GBLI's board of directors. The authorization to repurchase will expire on December 31, 2027.

Management Transition

On October 21st, the company announced that CEO David Charlton and COO Reiner R. Mauer are no longer officers or directors of GBLI. The board of directors appointed Joseph (Jay) Brown as its Chief Executive Officer. Mr. Brown has served as a GBLI director since December 2015 and will remain a board member. Mr. Brown has almost 50 years of insurance industry experience, including prior tenures as a director, chairman, and chief executive officer of MBIA, Inc. (NYSE: MBI), chairman of the board of Safeco, chairman of the board of Talegen Holdings, Inc., chairman of Noblr, and president and CEO of Fireman's Fund Insurance Company.

GBLI also announced that Jason Hurwitz, 50, rejoined GBLI's board of directors. Mr. Hurwitz had previously served on GBLI's board from September 2017 to January 2022. Mr. Hurwitz is a partner with Osier Capital LLC, an investment firm focused on insurance and other long-term investments.

GBLI Chairman Saul Fox, stated*: "I wish to thank David Charlton and Reiner Mauer for their significant contributions to GBLI during their 18-month and 16-month respective tenures with GBLI. However, GBLI's board of directors believes that the company would be best served at this time by Jay Brown as its Chief Executive Officer, given Jay's vast experience as a chief executive and as a board chairman of several prominent and highly esteemed property & casualty insurance companies, where Jay orchestrated enterprise transformative results. Jay's decades of insurance company senior leadership expertise will be of tremendous value to GBLI as it transitions to an information technology and data driven casualty lines focused provider." Jay Brown added: "It has been a terrific experience as a director working with the GBLI board and management team over the past 5 years developing the long-term strategy for our company. I look forward to shifting to the senior executive role at the company leading the effort to make that vision a reality."*

Valuation and Estimates

We are increasing our Q4 2022 estimates to $0.60 and full year 2022 estimates to $0.33. We increase our full year 2023 estimate to $3.03. These estimates assume a small but steady decrease in the company's combined ratio over each of the next five quarters.

There are no changes to our valuation target of $60 at this time as we believe that over the long-term, the company can trade at a small premium to future book value per share.

Investor Day Review

Global Indemnity Group (NYSE:GBLI) hosted an in-person investor meeting in New York City on September 21st which covered a wide range of topics including portfolio shifts, strategic vision, and investment policy actions.

The company is actively moving from a holding company comprised of different entities to one focused branded company with businesses whose names are representative and connected to the company and the GBLI brand. This allows the company to improve trading relationships across multiple constituencies including brokers, partners and customers. This shared brand recognition allows the company to execute as one entity and expand product offerings and solutions, as well as improve the customer experience.

The company reiterated its strong growth in its core businesses as well as the move to more casualty-based business and the reduction of its property-based lines. To that end, its continuing lines businesses increased revenues 30.4% through the 1st six months of 2022 and the mix of casualty business increased from 42% in 2020 to 72% in the 1st six months of 2022 (continuing lines).

Business portfolio changes were also discussed which mentioned the creation of three new core lines that include Professional, Environmental, and Excess Casualty. These three businesses have already generated $8 million in Gross Written Premiums. Recent sold or exited lines include the Farm, Ranch & Equine business, Personal/Mobile Home lines, and Property Brokerage (in excess of $10 million). As a result, the company's CAT volatility was greatly reduced. Gross Average Annual Loss was reduced from $56.3 million in 2020 to $10.4 million as of the end of the 2nd quarter. This reduction in CAT exposure has also reduced the company's reinsurance spending by approximately $14 million.

The company provided details on its advanced technology capabilities that are driving profitable growth. These include ISO-based products that are coupled with proprietary customizations such as precision-level pricing that is aligned to census block and is calculated at the point of sale. The company employs fully integrated 3rd party data that helps with reduced firearm claims, exposure verification for property values, sales and payroll figures. The company also utilizes drones to provide "roof scores" used to identify increased hazards. In addition, artificial intelligence tools are used in identify classes of business and census block data to help underwriters proactively address important trends.

Global Indemnity discussed dramatic actions that were taken in 2021 and early 2022 in order to reposition the investment portfolio in anticipation of rising interest rates and volatility in financial markets. The company sold its common stock portfolio throughout the 1st quarter of 2022 and also sold its low-quality bank loan portfolio in the 2nd quarter of 2022. The duration of the fixed income portfolio was lowered from 4.6 years in May 2021 to 1.7 years in June 2022. This short-duration portfolio is well positioned to diminish losses from interest rate increases as well as generate cash flows to redeploy at higher prevailing rates. This short duration portfolio gives the company a competitive advantage as the average peer duration is approximately 3.7 years (AFG, ARGO, JRVR, KNSL, RLI, SIGI, WRB).

The company continues to maintain a conservative balance sheet with a short-duration portfolio that matches well with the loss reserve duration of 2.2 years. 96% of the fixed income portfolio is invested in assets with an average credit rating of "AA-". The remaining is invested in alternative investments (4%) and preferred stocks (1%).

Global Indemnity has a strong capital base of $679 million of which approximately $200 million is considered to be discretionary capital to support the core business and return capital to shareholders. The company has no debt at this time.

KEY INVESTMENT POINTS

- Global Indemnity Group, LLC (NYSE:GBLI) is a specialty property and casualty insurance company that has been operating nationwide since the early 2000's.
- The company is led by an experienced management team, including a new Chief Executive who has decades of experience in the property & casualty insurance business.
- The company operates through two primary segments: Commercial Specialty and Reinsurance Operations. It also has an Exited Lines segment.
- Commercial Specialty targets specific, defined groups of insureds predominantly in the excess and surplus lines, or non-admitted, small to middle marketplace.
- The Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies.
- Exited Lines represents lines of business that are no longer being written or are in runoff.
- The company has a solid liquidity position as of the end of the 3rd quarter with $18.9 million in unrestricted cash and equivalents and $1.34 billion in investments primarily comprised of highly liquid fixed income investments.
- The company has no debt as $130 million of subordinated debt was retired in April 2022.
- GBLI currently has a market capitalization of $384 million and is expected to generate approximately $628 million in total revenues in 2022 and $623 million in net written premiums.
- Based on the most recent reported results as of 9/30/22, the company is selling at 56% of book value. Using a future book value scenario analysis valuation methodology, we place a value for GBLI at **$60.00** per share.

COMPANY OVERVIEW

GBLI provides insurance products across a distribution network that includes binding authority, program, brokerage, and reinsurance. The company manages the distribution of these products through two business segments. Commercial Specialty which offers specialty property and casualty products designed for product lines such as small business binding authority, professional lines, excess casualty, environmental, InsurTech business, and specialized programs. Reinsurance Operations provides reinsurance and insurance solutions through brokers and primary writers including insurance and reinsurance companies. The company also has an Exited Lines segment that contains lines of business that are no longer being written or are in runoff, including specialty personal lines and property and casualty products such as manufactured home, dwelling, motorcycle, watercraft, and certain homeowners business, certain business lines within property brokerage, property and catastrophe reinsurance treaties, and the farm, ranch and equine business.

From September 5, 2003, the date Fox Paine & Company acquired control of the Company, to December 31, 2021, the Company has generated cumulative net income of $582 million. $525 million has been returned to shareholders in the form of dividends, share repurchases and share redemptions since the initial public offering in December 2003.

Several less profitable and higher risk businesses have been sold. GBLI disposed of American Reliable Insurance Company and its Farm, Ranch & Equine division in the 3rd quarter of 2022 and the Specialty Property division in the 4th quarter of 2021. These transactions generated $175 million in aggregate proceeds for GBLI, which includes the release of capital supporting these businesses, as compared to the price originally paid for American Reliable in 2015 of $100 million. American Reliable was the most volatile and poorest performing segment of GBLI due to the increasing frequency and severity of natural catastrophes (such as hurricanes, tornados, hailstorms, and monsoons) sweeping across the U.S. in the last five years.

The sale of the Farm, Ranch & Equine renewal rights completes the 5-year transformation of GBLI from a complex, offshore, property-catastrophe oriented insurer subject to considerable earnings volatility, to a simplified U.S. company focused on its highly profitable specialty commercial casualty business without the volatility from property-oriented books of business.

Recent corporate actions:

- Since 2017, shed 59% of 2017's gross written premium ($303 million of $516 million). The eliminated businesses had a combined ratio of 119.8% in 2017. Shed business includes the sale of Manufactured Homes & Dwelling and Farm, Ranch & Equine led by Fox Paine & Company for 1.8 times capital.

- From 2017 to 2021, the company grew Continuing Lines gross written premium from $213 million to $487 million, a 4.5-year Compound Annual Growth Rate (CAGR) of 24%. Gross written premiums for the six months ended June 30, 2022 were 28.4% higher when compared to the same period in 2021.

- Redomesticated to the United States in 2020.

- Eliminated 100% of outstanding subordinated debt.

- Reduced duration and investment risk by selling the common stock portfolio in the 1st quarter of 2022 and lowered the fixed income portfolio duration to 1.8 years as of the end of 2nd quarter 2022.

Results of this corporate activity:

- Continuing Lines have a Combined Ratio of 95.4% for the six-month period ending June 30, 2022 and a 5-year average Combined Ratio in the 80s.

- 80% reduction in 1-in-250 year Probable Maximum Loss (PML).

- Continuing Lines Net Earned Premiums were 72% casualty for the six months ended June 30, 2022 compared to 55% casualty in 2019.

As a result of a redomestication transaction, in which GBLI merged their Bermuda insurance operation into domestic businesses, GBLI was able to free up $250 million of unrestricted capital for the new unregulated parent company, Global Indemnity Group, LLC (treated as a partnership for federal income tax purposes). That capital is available to support all of GBLI's ongoing operations and to pay dividends to shareholders. In addition, the redomestication further simplified GBLI's corporate and operational structure resulting in over $5 million in recurring cost savings.

SEGMENTS & BUSINESS UNITS

Commercial Specialty

Primary businesses under this segment include:

Penn-America Binding – This business distributes property and general liability products for small commercial businesses through a select network of wholesale general agents with specific binding authority. Examples of small businesses served are apartments, bars, contractors and other small retail operations. GBLI has the technology and the expertise to profitably underwrite over 1,000 classes in 50 states with an average premium of $2,800 per policy. The business is approximately 69% casualty and 31% property.

Programs – This business distributes property, general liability, and professional lines products through program administrators with specific binding authority. The group takes a narrow but deep focus on certain industries as it tries to cover all companies in that field. Examples of its programs include a national premier fast-food franchise, couriers, tattoo parlors, contractors and various other niche businesses. To support these programs, the company utilizes in-house analytics and artificial intelligence tools to allow for superior portfolio management. These programs have standalone multi-disciplinary teams that are engaged in underwriting, analytics, claims, actuarial, legal, and product development

InsurTech – The InsurTech division currently has two existing profitable product areas that the company is investing in to aggressively grow:

Collectibles Insurance Services – This business insures collections such as comic books, baseball cards, artwork, guns, and stamps. This is a digital, direct-to-consumer product supported by advanced technology and analytics.

Vacant Express – This business distributes products for dwellings that are currently vacant, undergoing renovations, or are under construction through aggregators, brokers, and retail agents. Production has been slow for residential policies recently due to the strong housing market, which has created high turnover of home sales and resulted in fewer vacancies. However, the commercial side of the business has been strong due to the work-from-home trend. Average premiums are typically less than $1,000 for these policies.

The InsurTech business will be actively bringing out additional new products utilizing state of the art technology to improve the insurance buying experience for consumers and agents.

Cannabis – This offering specializes in providing comprehensive property, premises liability, and product liability coverages for seed-to-sale cannabis operators, including dispensaries and retailers, indoor growers, manufacturers, and extractors/processors. This is a growing niche industry segment currently avoided by most standard carriers and has an expected market opportunity of approximately $40 billion in five years. This is also a highly profitable business with historical, industry combined ratios of under 90%.

Environmental – This business offers pollution and professional liability coverages for a range of small and middle-market contractor classes focusing on artisan and general contractors, construction managers, environmental consultants, and various specialty environmental contractors. This is a relatively new business line and the company is continuing to rollout new products aggressively to market.

Professional Lines – This is a new business that offers management liability products and professional errors and omissions (E&O) products. These include employment practices liability (EPL), non-profit directors and officers (D&O)/EPL, miscellaneous E&O (100+ classes), technology E&O, private company D&O/EPL, and fiduciary related lines. GBLI continues to aggressively market these offerings and build out its underwriting and claims teams.

Excess Casualty - This is a relatively new business that focuses on excess casualty policies in four key verticals: manufacturing, construction, real estate, and hospitality. The company's strategy for this segment is to establish a premier standalone excess casualty business that focuses on small-to-mid sized accounts. The company is focused on risk selection, pricing discipline, and the build out of underwriting and claims teams.

The Commercial Specialty segment distributes its insurance products primarily through a group of approximately 200 wholesale general agents, wholesale insurance brokers, and program administrators. Of Commercial Specialty's non-affiliated professional wholesale general agents, wholesale insurance brokers, and program administrators, the top five accounted for 47.7% of the segment's gross written premiums for 2021. Three agencies individually represented more than 10.0% of Commercial Specialty's gross written premiums.

In 2021, gross written premiums for the Commercial Specialty segment were $380.9 million compared to $324.0 million for 2020. For 2021, surplus lines business accounts for approximately 98.0% of the business written while specialty admitted business accounts for the remaining 2.0%.

Reinsurance Operations

The company's Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers, including insurance and reinsurance companies. Prior to the redomestication transaction, the company's Reinsurance Operations consisted solely of the operations of its Bermuda-based wholly owned subsidiary, Global Indemnity Reinsurance. As part of the redomestication transactions, Global Indemnity Reinsurance was merged into Penn-Patriot Insurance Company with Penn-Patriot being the surviving entity. The business is focused on using its capital capacity to write casualty and specialty-focused contracts.

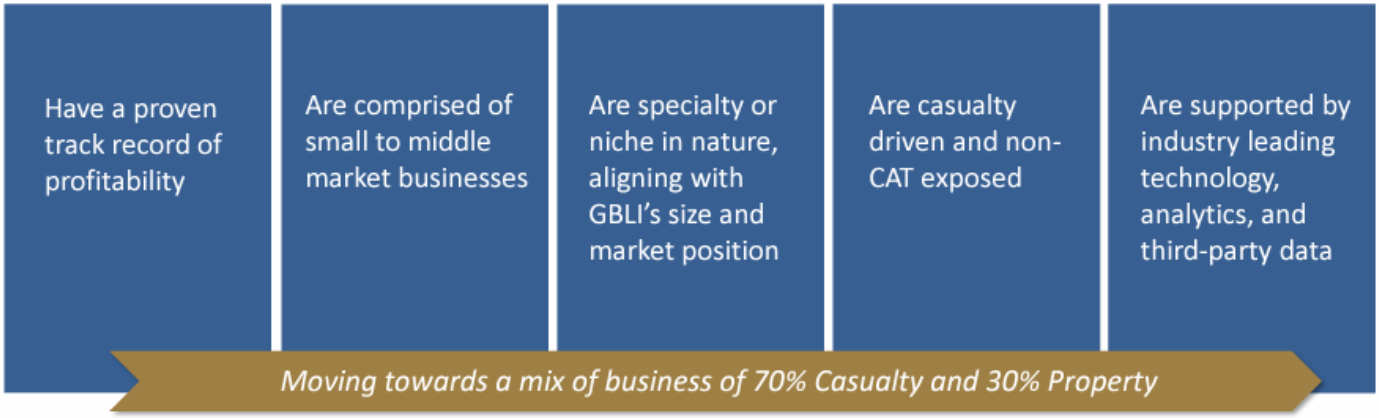
In 2021, gross written premiums were $106.5 million compared to $55.6 million for 2020.

Exited Lines

The company's Exited Lines segment represents lines of business that are no longer being written or are in runoff. Exited Lines includes specialty personal lines and property and casualty products such as

manufactured homes, dwelling, motorcycle, watercraft, certain homeowners' business, certain business within property brokerage, farm, ranch and equine business, and property and catastrophe reinsurance treaties. The renewal rights related to the company's manufactured home and dwelling products, which are included in Exited Lines, were sold during the fourth quarter of 2021. The renewal rights related to the farm, ranch and equine business were sold during the third quarter of 2022 and are also included in Exited Lines.

The manufactured home, dwelling, motorcycle, watercraft, certain homeowners, and farm, ranch and equine products within Exited Lines operated primarily in the standard or admitted markets. These insurance products were either underwritten through limited binding authority or by internal personnel. The property brokerage product within Exited Lines operated predominantly in the excess and surplus lines or non-admitted markets. The property and catastrophe reinsurance treaties within Exited Lines were distributed through brokers on a direct basis. GBLI made a concerted effort to reduce its catastrophe exposure, particularly in areas prone to hurricanes and wildfires.



Source: GBLI Investor Presentation

STRATEGY & OBJECTIVES

Global Indemnity has outlined a four-pillar strategic road map involving People, Revenue, Operations, and Investments. GBLI has greatly enhanced its existing team with experienced insurance executives with long track records of business and operating success. This includes a new Chief Executive, Chief Operating Officer, and new business leaders.

GBLI has been developing and begun to implement detailed plans to grow the current core businesses while also creating new ones. The company continues to decrease or eliminate less profitable or high-risk business lines such as catastrophic coverage. Advanced technologies and analytics will play an increased role in guiding the company's growth and will be supported by a continued emphasis on scalable architecture and data processing efficiencies.

After the redomestication event and hiring new management, the GBLI Board of Directors implemented new growth and performance objectives. These objectives are incorporated into the compensation plans for certain senior executives.

The first goal includes Net Written Premium growth targets over a 5-year period (2022-2026) of 6.0% on the low end, 7.0% in the middle range, and 8.0% on the high end. These Net Written Premium growth targets are based on the last 10 years' historical performance of property & casualty companies with the low target being the median performance and the high-end target being the top quartile of excess & surplus lines companies.

The second goal includes Return on Equity targets over a 5-year period (2022-2026) of 8.37% on the low end, 9.92% in the middle range, and 12.50% on the high end. These average, Return on Equity targets are based on the last 10 years' historical performance of property & casualty companies with the low target being the median performance and the high-end target being the top quartile of excess & surplus lines companies.

RISKS

- If actual claims payments exceed the company's reserves for losses and loss adjustment expenses, the company's financial condition and results of operations could be adversely affected. The company's ultimate success depends upon its ability to accurately assess the risks associated with the insurance and reinsurance policies that it writes. The company establishes reserves on an undiscounted basis to cover its estimated liability for the payment of all losses and loss adjustment expenses incurred with respect to premiums earned on the insurance policies that it writes. Reserves do not represent an exact calculation of liability, but reserves are estimates of what the company expects to be the ultimate cost of resolution and administration of claims under the insurance policies that it writes.

- The occurrence of natural or man-made disasters, as well as global pandemics, could result in declines in business and increases in claims that could adversely affect the company's business, financial condition, and results of operations. The company is exposed to various risks arising out of natural disasters, including earthquakes, hurricanes, fires, floods, landslides, tornadoes, typhoons, tsunamis, hailstorms, explosions, climate events, public health crises, illness, epidemics or pandemic health events. In addition, man-made disasters may occur which include acts of terrorism, military actions, cyber-terrorism, explosions, and biological, chemical or radiological events.

- A decline in ratings for any of the company's insurance or reinsurance subsidiaries could adversely affect its position in the insurance market by making it more difficult to sell its insurance products which would cause premiums and earnings to decrease. If the rating of any of the company's insurance companies is reduced from its current level of "A" (Excellent) by AM Best, the company's competitive position in the insurance industry could suffer, and it could be more difficult to market its insurance products. A downgrade could result in a significant reduction in the number of insurance contracts the company writes and in a substantial loss of business as that business could move to other competitors with higher ratings.

- The company's investment performance may suffer as a result of adverse capital market developments or other factors, which would in turn adversely affect its financial condition and results of operations. The company derives a significant portion of its income from its invested assets, therefore, the company's overall operating results depend, in part, on the performance of its investment portfolio. The company's operating results are subject to a variety of investment risks, including risks relating to general economic conditions, market volatility, interest rate fluctuations, liquidity risk and credit and default risk.

- The company faces significant competitive pressures in its business that could cause demand for its products to fall and adversely affect the company's profitability. The company competes with a large number of major U.S. and international companies, as well as mutual companies, specialty insurance companies, reinsurance companies, and underwriting agencies. Competitors may include American International Group, Argo Group International Holdings, Berkshire Hathaway, Everest Re Group, Great American Insurance Group, HCC Insurance Holdings, IFG Companies, James River Group Holdings, Markel Corporation, Nationwide Insurance, RLI Corporation, The Hartford, The Travelers Companies, and W.R. Berkley Corporation.

VALUATION

We believe Global Indemnity can continue to generate profitable growth and produce Net Written Premium growth within the 6.0%-8.0% range that the Board of Directors has set as a goal. This is due to the company's ability to create new lines of businesses in niche markets and as well as continuing to efficiently operate and nurture the core and legacy businesses. We expect the company's total combined ratio to decline going forward from current levels.

We create four different growth cases based on the management objectives provided in 2021 in order to create future book value projections.

Bull Case – The company is able to achieve the high end of performance objectives which is 8.0% compound annual growth rate (CAGR) of net written premiums over the five-year period between 2022 and 2026. That produces EPS in 2026 of approximately $5.92 and book value per share of $61.05. Return on equity would be in the range of 10.0%-10.5% towards the end of that time frame. We apply a probability factor of 25% for this scenario.

Base Case – The company is able to achieve the mid-range of performance objectives which is 7.0% compound annual growth rate (CAGR) of net written premiums for the five-year period between 2022 and 2026. That produces EPS in 2026 of approximately $5.84 and book value per share of $59.53. Return on equity would be in the range of 9.5%-10.0% towards the end of that time frame. We apply a probability factor of 40% for this scenario.

Bear Case – The company is able to achieve the low range of performance objectives which is 6.0% compound annual growth rate (CAGR) of net written premiums over the five-year period between 2022 and 2026. That produces EPS in 2026 of approximately $5.77 and book value per share of $58.00. Return on equity would be in the range of 9.0%-9.5% towards the end of that time frame. We apply a probability factor of 25% for this scenario.

Bad Case – In a worst-case scenario, a severe soft market occurs in the P&C industry, or the company materially fails to execute on its growth plans and does not meet any of the Boards objectives. In this case we estimate that book value per share will not grow from todays levels. We apply a probability factor of 10% for this scenario.

The weighted average future book value projections in 2026 is approximately $53.579, or 20% higher than today's book value. Currently, GBLI is currently selling a 56% of book value based on shareholders' equity of $643.6 million as of September 30, 2022. Average industry Price/Book multiples are approximately 1.50x for quality large cap operators and closer to 1.0x for small cap insurers with a median of 1.15x.

In addition, companies with low-mid double-digit ROE's often trade at a premium to industry averages. Currently Price/Book industry valuations for high ROE companies is approximately 1.50x.

Simply achieving the sector median of 1.15x to the weighted average future BVPS estimate would produce a value of approximately **$60.00**, which is our initial target valuation.

The company currently pays an annualized dividend of $1.00 which equates to a dividend yield of 4.17%. The payout ratio is below 50% based on 2023 estimated EPS and is expected to decrease significantly over time as the company's earnings continue to grow.

SUMMARY

We believe Global Indemnity is entering a robust new growth phase based on new business lines, actively developing its core business, and by utilizing the expertise of its new management team. If the company was to meet the low end of performance objectives, a substantial amount of shareholder equity would be created over the next five years.

The company is currently selling at a Price/Book value that does not reflect the future growth opportunities for the company over the next 3-5 years. GBLI may likely experience multiple expansion that approaches industry averages. Even with potential volatile earnings that can often be associated with P&C insurance companies, Global Indemnity can continue to add earnings to shareholders equity and increase book value over time.

The company's pays a dividend that offers an above market average dividend yield which should offer some level of stability for equity investors.

Investors may be getting the rare opportunity to get in on the ground floor of a dynamic P&C insurance company that is poised for rapid growth and increase in book value. With the company trading at such a large discount to book value, a margin of safety appears to exist at this time.



Source: GBLI.com

PROJECTED INCOME STATEMENT & BALANCE SHEET

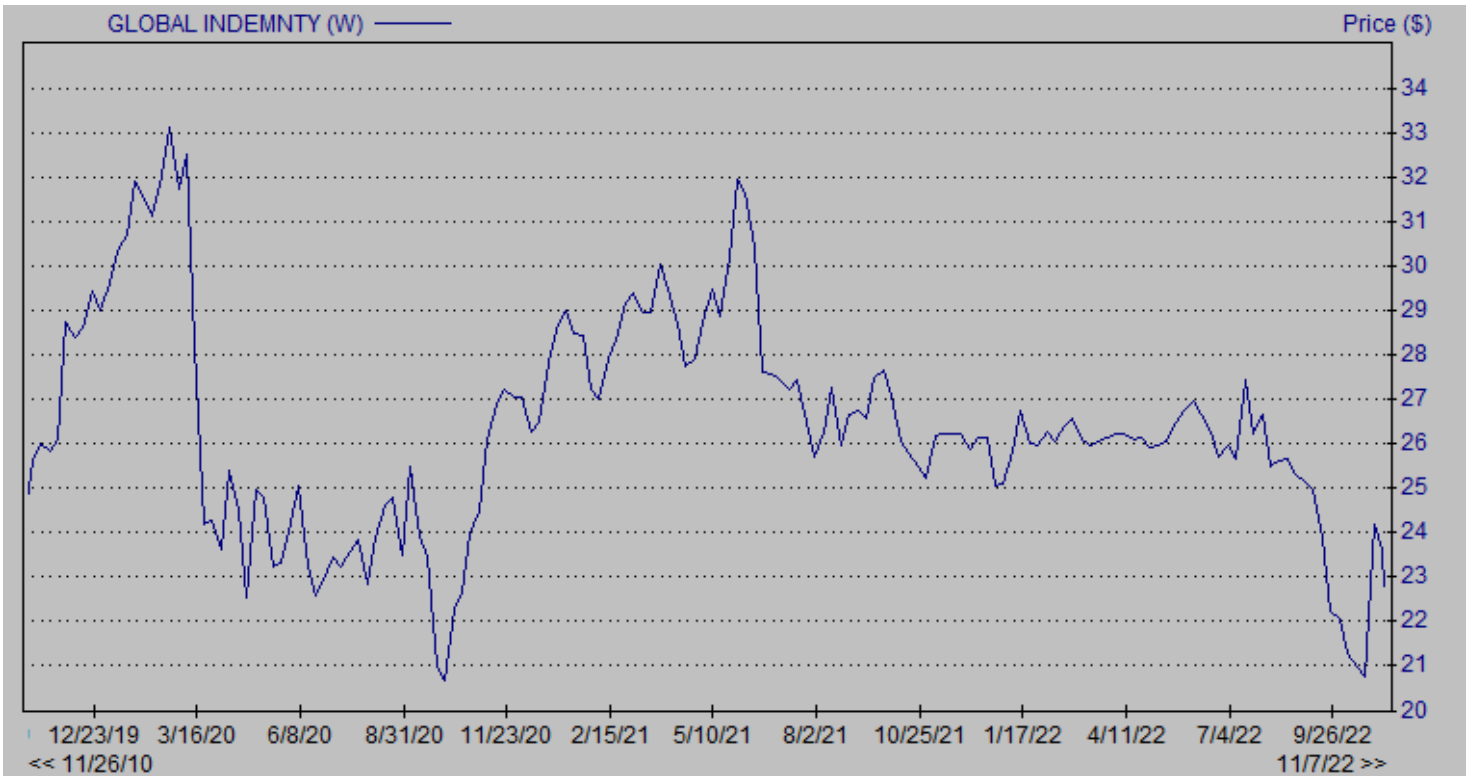
Global Indemnity Group

Income Statement and Balance Sheet

(Dollars in millions, except EPS data)

	12/20A	12/21A	12/22E	12/23E	12/24E	12/25E
Net Written Premiums	548.2	580.1	623.0	642.6	681.2	722.0
Net Earned Premiums	567.7	595.6	604.1	597.6	633.5	671.5
Investment Income & G/L	15.8	82.6	23.8	37.4	40.0	58.2
TOTAL REVENUES	583.5	678.3	627.9	635.0	691.7	728.4
Net Losses and LAE	336.2	385.0	350.0	405.1	355.4	373.4
Acq. Cost / Underwriting	215.6	222.8	234.1	265.8	232.1	242.7
Corporate	42.0	27.2	26.2	19.7	20.8	20.4
Interest Expense	0.4					
Net Income	-21.2	28.9	5.1	30.5	67.4	74.3
FD reported EPS	-1.47	2.00	0.33	2.10	4.61	5.09
Cash & Equivalents	67.4	78.2	8.1	74.1	98.3	146.1
Insurance Investments	1,387.2	1.454.4	1498.1	1,514.6	1.554.2	1,597.7
Unpaid Losses and LAE	662.8	759.9	807.4	928.5	1,067.7	1,227.9
Total Debt	126.3	126.4	0	0	0	0
Shareholder's Equity	718.3	706.6	693.2	715.5	761.7	815.2
Combined Ratio	*97.2*	*102.0*	*96.6*	*93.7*	*92.7*	*91.8*

HISTORICAL STOCK PRICE



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