

Skyward Specialty Insurance Group, Inc.

## 1Q23 Review: Beat is Evidence of Foundational Improvements

AYLR improvements (210 bps q/q) and GWP growth (+28% y/y) are exemplary. We remain especially constructive on SKWD's growth prospects in global property and E&S.

**Rates vs. Loss trends:** Pure rates in high single digits are above loss cost inflation, with exposure that acts like rate contributing 1 additional point in the quarter. Management provided some color by segment: (1) social inflation in personal injury will continue to pressure prices higher. Commercial auto pricing is ahead of SKWD's 9-10% loss trend. **Commercial auto is a lower proportion of total writings** (18% 1Q23 vs. 22/23% 1Q22.) The company also has a whole account quota share on their auto book for protection. (2) Management is comfortable with pricing on the medical stop loss, professional liabilities, private company management liability, and property lines. (3) Pricing remains attractive across most parts of the E&S and Specialty Admitted space.

**Exposure growth:** Within global property, exposure growth was mostly seen in insured values. At the same time, SKWD raised its attachment points which structurally tempers net exposure growth. SKWD is growing units within E&S but insureds are also retaining more risk to a degree to defuse rising insurance costs.

**Strong GWP growth:** Management is constructive about growth prospects but its 28% y/y GWP growth in 1Q23 is a tough benchmark to beat. 2Q is coming in strong so far and 1H23 should exceed 20% GWP growth. Management would be overjoyed if >20% GWP could continue in 2H23 but it is not something they are penciling in.

**NWP Growth Nuance:** NWP growth of 49% y/y was obscured by the restructuring of a global property quota share reinsurance treaty in 1Q22.

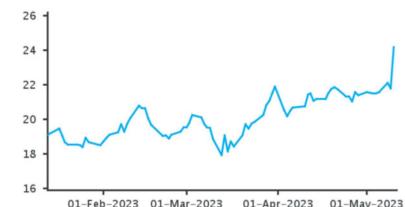
**AYLR 210 bps improvement Q/Q due to business mix changes:** We were expecting a more gradual/linear improvement in its AYLR as our 62.8% estimate exceeded its 61.1% actual. SKWD can achieve more noticeable improvements in its AYLR given the exited business piece that had posed a drag on its historical AYLR. We think SKWD's 61.1% AYLR achievement is not an anomaly and we can see continued underlying margin expansion from here.

SKWD's 27.4% expense ratio in 1Q23 is less repeatable given the following non-trendable items: 1.) more premium leverage 2.) higher than typical contra expenses from fee income and 3.) a delay in planned investments.

| CORE

SKWD	<b>OVERWEIGHT</b>
	Unchanged
U.S. Insurance/Non-Life	<b>POSITIVE</b>
	Unchanged
Price Target	<b>USD 27.00</b>
	raised 17% from USD 23.00
Price (10-May-23)	<b>USD 24.18</b>
Potential Upside/Downside	+11.7%
Market Cap (USD mn)	<b>911</b>
Shares Outstanding (mn)	<b>37.66</b>
Free Float (%)	<b>24.30</b>
52 Wk Avg Daily Volume (mn)	<b>N/A</b>
Dividend Yield (%)	<b>N/A</b>
Return on Equity TTM (%)	<b>4.84</b>
Current BVPS (USD)	<b>25.05</b>
Source: Bloomberg	

Price Performance      Exchange-Nasdaq  
52 Week range      USD 24.52-17.50



Source: IDC  
[Link to Barclays Live for interactive charting](#)

**U.S. Insurance/Non-Life**

**Tracy Benguigui**

+1 212 526 1561  
tracy.benguigui@barclays.com  
BCI, US

Alex Barenklau  
+1 212 526 1021  
alexander.barenklau@barclays.com  
BCI, US

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**Ceded Re Strategy:** The May 1 property catastrophe renewal was in line with managements' price and term expectations. The new XOL property treaty (occurrence) covers \$28mn in excess of a \$12mn retention (up from \$10mn previously). While \$12mn is higher on an absolute dollar basis, on a risk return basis it is lower. Its \$12mn retention equates to a 1/10 risk return period which makes sense as that is the typical PML for an event retained in earnings. On the top of the tower, SKWD maintains reinsurance limits in excess of a 1 in 250 year event. For context, the cover was not used last year and the only event that came close to hitting a retention point was a storm in Louisiana a couple years ago at a lower retention point. The company also has cover on second and third events that are lower than \$12mn.

**Valuation.** We reiterate our Overweight rating and raise our price target to \$27 (from \$23) which is based on a 50/50 weighted 11.5x (up from 10.0x) P/E multiple on our '24 EPS estimate of \$2.32 (from \$2.04) and 1.8x (up from 1.6x) P/TBV excluding AOCI on our '24 TBVPS excluding AOCI of \$15.40 (from \$15.47).

#### SKWD: Quarterly and Annual EPS (USD)

FY Dec	2022	2023			2024			Change y/y	
		Actual	Old	New	Cons	Old	New	Cons	2023
Q1	0.61A	0.37E	0.42A	N/A	0.54E	0.58E	N/A	-31%	38%
Q2	N/A	0.45E	0.49E	N/A	0.53E	0.59E	N/A	N/A	20%
Q3	N/A	0.33E	0.39E	N/A	0.36E	0.48E	N/A	N/A	23%
Q4	0.36A	0.55E	0.58E	N/A	0.60E	0.66E	N/A	61%	14%
Year	N/A	1.82E	1.85E	1.72E	2.04E	2.32E	2.14E	N/A	25%
P/E	N/A		13.0			10.4			

Consensus numbers are from Bloomberg received on 10-May-2023; 12:50 GMT

Source: Barclays Research

U.S. Insurance/Non-Life						POSITIVE	
Skyward Specialty Insurance Group, Inc. (SKWD)						OVERWEIGHT	
Income statement	2022A	2023E	2024E	2025E	CAGR	Price (10-May-2023)	USD 24.18
Net premiums earned (\$k)	615,993	777,919	828,147	N/A	N/A	Price Target	USD 27.00
Net investment income (NII) (\$k)	36,931	37,157	53,360	N/A	N/A		
Underwriting income (\$k)	31,311	62,362	68,656	N/A	N/A		
Operating income (\$k)	49,783	89,089	115,627	N/A	N/A		
Net income (\$k)	39,396	70,356	91,346	N/A	N/A		
Effective tax rate (%)	N/A	N/A	N/A	N/A	N/A		
Combined ratio (%)	94.9	92.0	91.7	N/A	N/A		
Combined ratio (ex cats & py development) (%)	N/A	N/A	N/A	N/A	N/A		
Per share data (\$)	2022A	2023E	2024E	2025E	CAGR	Why OVERWEIGHT?	
EPS (adj)	N/A	1.85	2.32	N/A	N/A	E&S writers trade at a premium to admitted writers. SKWD's multiple could increase over time as the E&S becomes a larger piece of their overall mix from its current ~50%, achievable within transactional E&S and property. SKWD's stock performance could hinge more on execution than peers given a shorter operating history under the current management team.	
EPS (reported)	N/A	1.79	2.32	N/A	N/A		
DPS	0.00	0.00	0.00	N/A	N/A		
BVPS	N/A	14.39	16.71	N/A	N/A		
BVPS (ex AOCI)	N/A	15.30	17.62	N/A	N/A		
Diluted shares (k)	N/A	39,410	39,410	N/A	N/A		
Balance sheet and capital return	2022A	2023E	2024E	2025E	CAGR	Upside case USD 30.00	
Total investments (\$k)	1,082,367	1,493,670	1,554,319	N/A	N/A	Over time, multiple expansion could come from the shift of business mix towards the E&S market and we expect underwriting profitability to improve in 2023/2024. Our upside case of \$30 is based on a ~13x P/E '24 and 1.9x TBVPS for common shareholders ex AOCI '24.	
Common shareholders' equity (ex AOCI)	N/A	N/A	N/A	N/A	N/A		
Share buybacks (\$k)	N/A	0	0	N/A	N/A		
Dividends paid (\$mn)	0	0	0	N/A	N/A		
Balance sheet and capital return metrics	2022A	2023E	2024E	2025E	Average	Downside case USD 20.00	
Debt leverage (%)	0.0	0.0	0.0	N/A	0.0	A slowdown in the E&S market and unforeseen reserving issues from their LPT transaction could lead to sentiment risk compared to peers.	
Financial leverage (%)	N/A	N/A	N/A	N/A	N/A		
Total capital return as a % of op. earnings	0.0	0.0	0.0	N/A	0.0		
Valuation metrics	2022A	2023E	2024E	2025E	Average	Our downside case of \$20 is based on a ~9x P/E '24 and 1.3x TBVPS for common shareholders ex AOCI '24. <td data-kind="ghost"></td>	
P/BV (ex AOCI) (x)	N/A	1.58	1.37	N/A	1.48		
P/E (adj) (x)	N/A	13.0	10.4	N/A	11.7		
Dividend yield (%)	0.0	0.0	0.0	N/A	0.0		
ROE (%)	13.8	14.9	15.1	N/A	14.6	Upside/Downside scenarios	

Note: FY End Dec  
Source: Company data, Bloomberg, Barclays Research

The chart displays the price history for the past 12 months, showing a high of 30.00, a current price of 24.18, and a low of 17.50. It also shows the price target for the next 12 months at 27.00, with an upside scenario reaching 30.00 and a downside scenario at 20.00.

## 1Q23 Highlights

**Operating earnings beat:** SKWD reported 1Q23 adjusted net operating earnings of \$15.5mn or \$0.42 per share which was better than our estimate of \$14.4mn or \$0.37 per share. The Street

was at \$0.34 per share. The beat was due to better-than-expected combined ratio (90.2% vs. our 92.2%) driven by both a better loss and expense ratio.

**1Q23 GWP growth:** SKWD GWP grew by 27.5% y/y (vs. our 16.8% estimate) helped by double-digit premium growth in E&S, global property and agriculture, professional lines, surety and captives underwriting divisions. The main drivers of the GWP growth were: (1) a doubling of E&S premiums quarter-over-quarter due to higher submissions; (2) a >50% increase in surety; and (3) higher renewal rates, new business opportunities, and an earlier renewal for a business that was expected to renew in September in global property. In addition, the global agriculture and inland marine units launched in 1Q contributed to the quarter.

**Underwriting performance:** SKWD's combined ratio was 90.2% vs. our estimate of 92.2%. Expense ratio in 1Q23 of 27.4% (which excludes a ~1%-point impact of IPO related stock based comp) was better than our estimate of 28.4% (also ex. IPO stock based comp) due to better than expected commission and fee income. Accident Year Loss Ratio (AYLR), ex cats, LPT and non-LPT, was 61.1% vs. our estimate of 62.8%. Total company Accident Year Combined Ratio (AYCR), ex cats, LPT and non-LPT, was 88.5% vs. our 91.2% estimate.

**Net Investment Income (NII):** SKWD reported \$4.6mn of net investment income vs. our estimate of \$6.5mn as the \$3.1mn drag from opportunistic fixed income outweighed the positive \$6.3mn contribution from core fixed income. Opportunistic fixed income was impacted due to a reduction in FMV of LLPs, not CRE related. In fact, office and retail within CRE represents <3% of the portfolio. SKWD realized losses of \$1.5mn (net of tax) related to SVB and Signature Bank.

**FIGURE 1. 1Q23 Key Results Variance**

<b>Summary Details</b> <b>(In \$mn, except per share)</b>	<b>Q/Q</b>		<b>Y/Y</b>		<b>Barclays Est.</b>		
	<b>1Q23A</b>	<b>4Q22</b>	<b>% Change</b>	<b>1Q22</b>	<b>% Change</b>	<b>1Q23E</b>	<b>% Change</b>
Gross written Premiums	\$360,498	\$264,832	36.1%	\$282,642	27.5%	\$330,224	9.2%
Ceded written premiums	-\$158,357	-\$84,876	86.6%	-\$147,241	7.5%	-\$138,694	14.2%
Net written premiums	\$202,141	\$179,956	12.3%	\$135,401	49.3%	\$191,530	5.5%
Net earned premiums	\$182,831	\$170,143	7.5%	\$141,726	29.0%	\$172,906	5.7%
Combined ratio	90.2%	92.4%	(220 bps)	91.9%	(173 bps)	92.2%	-2.1%
AYCR ex Cat	88.5%	91.6%	(310 bps)	91.9%	(343 bps)	91.2%	-2.9%
Loss ratio	62.8%	64.0%	(120 bps)	63.5%	(70 bps)	63.8%	-1.6%
Accident year loss ratio ex cats	61.1%	63.2%	(210 bps)	63.5%	(240 bps)	62.8%	-2.7%
Expense ratio	27.4%	28.4%	(100 bps)	28.4%	(104 bps)	28.4%	-3.4%
Cat pts	1.8%	1.2%	60 bps	0.0%	100%	1.0%	80.0%
PYD pts (LPT and non-LPT) (Favorable)/unfavorable	-0.1%	-0.4%	30 bps	0.0%	0.0%	0.0%	0.0%
Net Investment Income	\$4,646	\$5,264	-11.7%	\$15,149	-69.3%	\$6,472	-28.2%
Net (loss) income	\$15,556	\$20,419	-23.8%	\$16,311	-4.6%	\$13,494	15.3%
Adjusted operating income	\$15,486	\$11,641	33.0%	\$19,817	-21.9%	\$14,419	7.4%
Adjusted operating income per share	\$0.42	\$0.36	17.9%	\$0.61	-31.1%	\$0.37	12.1%
Annualized adjusted ROE	13.3%	11.3%	196 bps	18.5%	(525 bps)	12.9%	2.9%
Annualized adjusted ROTE	16.5%	14.5%	198 bps	23.6%	(708 bps)	16.2%	2.0%

Source: Barclays Research, Co. Filings

**FIGURE 2. Model Summary Income Statement**

<b>(\$ in thousands, except per share amounts)</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023E</b>	<b>FY 2024E</b>
<b>Revenues</b>					
Gross written premiums	873,613	939,859	1,143,952	1,338,488	1,463,969
Premiums ceded	(412,090)	(410,716)	(468,410)	(511,738)	(585,946)
Net written premiums	461,523	529,143	675,542	826,750	878,022
	-	-	-	-	-
Net earned premiums	431,911	499,823	615,993	777,919	828,147
Losses and loss adjustment expenses	362,182	354,411	402,512	491,326	519,329
Underwriting expenses	119,818	138,498	182,170	224,231	240,163
<b>Underwriting earnings</b>	<b>(50,089)</b>	<b>6,914</b>	<b>31,311</b>	<b>62,362</b>	<b>68,656</b>
	-	-	-	-	-
Commission and Fee Income	5,664	3,973	5,199	4,192	3,600
Other income	128	4,632	1	(3,510)	-
<b>Other Operating Income</b>	<b>5,792</b>	<b>8,605</b>	<b>5,200</b>	<b>682</b>	<b>3,600</b>
	-	-	-	-	-
Net Investment income	14,130	24,646	36,931	37,157	53,360
Net un/realized gains (losses) on investments	139	17,107	(15,704)	961	-
Impairment Charge	57,582	2,821	-	-	-
Interest expense	5,532	4,622	6,407	9,514	8,914
Amortization of intangible assets	1,390	1,520	1,548	1,446	1,074
Other Expenses	-	-	-	1,114	-
	-	-	-	-	-
Consolidated income (loss) before taxes	(94,532)	48,309	49,783	89,089	115,627
Income Taxes (expense) or benefit	19,890	(9,992)	(10,387)	(18,733)	(24,282)
<b>Net Income</b>	<b>(74,642)</b>	<b>38,317</b>	<b>39,396</b>	<b>70,356</b>	<b>91,346</b>
	-	-	-	-	-
<b>Adjusted Pre-Tax Operating Income Reconciliation</b>					
Net un/realized gains (losses) on investments atx	139	17,107	(15,704)	961	-
Other Expenses	-	-	-	(1,114)	-
	-	-	-	-	-
Impairment Charge (after tax)	(57,582)	(2,821)	-	-	-
Net Impact of the LPT	(59,797)	(16,063)	(8,572)	242	-
Other Income	128	4,632	1	(3,510)	-
Adj. operating income pre-tax	22,580	45,454	74,058	92,510	115,627

(\$ in thousands, except per share amounts)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
<b>Revenues</b>					
Adj. operating income tax expense	(4,704)	(9,392)	(15,484)	(19,451)	(24,282)
Adj. operating income	17,876	36,062	58,574	73,059	91,346
<b>Adjusted operating EPS</b>					
Net EPS				\$1.85	\$2.32

Source: Barclays Research, Co. Filings

**FIGURE 3. Model Summary Underwriting metrics**

(\$ in thousands, except per share amounts)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
Loss ratio	83.9%	70.9%	65.3%	63.2%	62.7%
Net Impact of LPT	0.0%	3.2%	1.4%	0.0%	0.0%
Adj. loss ratio (ex LPT PYD)	83.9%	67.7%	63.9%	63.2%	62.7%
Expense ratio	26.4%	26.9%	29.6%	28.8%	29.0%
Combined ratio	110.3%	97.8%	94.9%	92.0%	91.7%
Accident year loss ratio ex cats	68.9%	65.3%	62.9%	61.0%	60.7%
Accident year combined ratio ex cats	95.3%	92.2%	92.5%	89.8%	89.7%
Adj. combined ratio (ex LPT PYD)	110.3%	94.6%	93.5%	92.0%	91.7%
PYD \$ - (favorable) unfavorable	60,337	16,063	8,644	(183)	0
PYD points- (favorable) unfavorable	14.0%	3.2%	1.4%	0.0%	0.0%
Catastrophes \$	4,223	11,828	6,467	16,744	16,643
CAT points	1.0%	2.4%	1.0%	2.2%	2.0%

Source: Barclays Research, Co. Filings

**FIGURE 4. Model Summary Balance Sheet**

(\$ in thousands, except per share amounts)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
<b>Shareholders' equity and returns</b>					
EoP shareholders' equity incl AOCI	393,525	426,080	421,662	560,480	651,825
(-) Stock Notes Receivable	(2,510)	(9,092)	(6,911)	(6,718)	(6,718)
Adj. SHE	396,035	435,172	428,573	567,198	658,543
Average total shareholders' equity incl AOCI	380,340	409,803	423,871	491,071	606,152
AOCI	12,216	4,640	(43,485)	(35,744)	(35,744)
ToP shareholders' equity (ex-AOCI)	381,309	421,440	463,468	596,224	687,569

(\$ in thousands, except per share amounts)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
<b>Shareholders' equity and returns</b>					
Avg common shareholders' equity ex AOCI	401,375	442,454	529,846	641,896	
Goodwill and Intangibles	84,014	91,336	89,788	88,342	87,268
Tangible Equity	309,511	334,744	331,874	472,138	564,557
Tangible Equity ex AOCI	297,295	330,104	375,359	507,882	600,301
Average Tangible Equity	322,128	333,309	402,006	518,347	
Average Tangible Equity (ex AOCI)	313,700	352,732	441,620	554,091	
<b>Adj. Book Value Per Share</b>					
<b>Adj. BVPS (ex AOCI)</b>				<b>\$14.39</b>	<b>\$16.71</b>
<b>Adj. TBVPS</b>				<b>\$15.30</b>	<b>\$17.62</b>
<b>Adj. TBVPS (ex AOCI)</b>				<b>\$12.15</b>	<b>\$14.50</b>
				<b>\$13.06</b>	<b>\$15.40</b>
<b>Operating Return on Equity</b>					
Operating ROE	4.7%	8.8%	13.8%	14.9%	15.1%
Operating ROE ex AOCI				13.2%	13.8%
Adj ROTE	6.6%	11.2%	17.6%	18.2%	17.6%
Adj. ROTE ex AOCI				16.6%	16.5%
					16.5%

Source: Barclays Research, Co. Filings

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**Skyward Specialty Insurance Group, Inc.** (SKWD, 10-May-2023, USD 24.18), Overweight/Positive, A/CE/D/E/J/L

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## Skyward Specialty Insurance Group, Inc. (SKWD / SKWD)

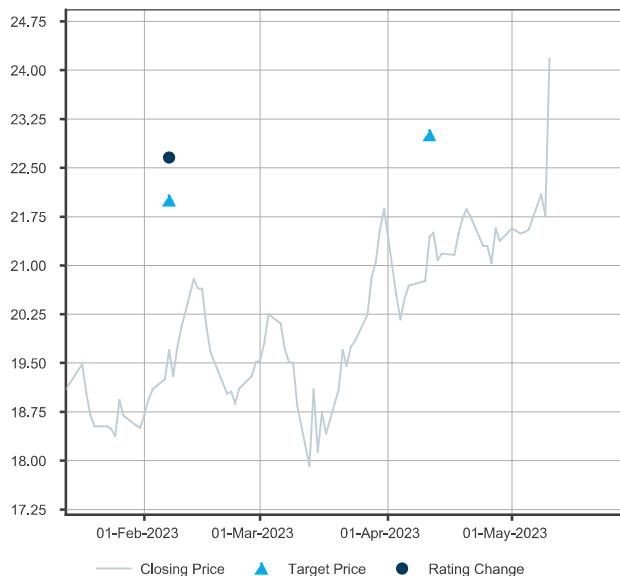
Stock Rating: **OVERWEIGHT**

Industry View: **POSITIVE**

**USD 24.18** (10-May-2023)

### Rating and Price Target Chart - USD (as of 10-May-2023)

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

Publication Date	Closing Price*	Rating	Adjusted Price Target
11-Apr-2023	20.76		23.00
07-Feb-2023	19.25	Overweight	22.00

Source: Bloomberg, Barclays Research

\*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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**Valuation Methodology:** For our \$27 PT, we are using a 50/50 weighted 11.5x P/E multiple on our '24 EPS estimate and 1.8x P/TBV excluding AOCI on our '24 TBV ex AOCI.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** Greater variability of net investment income stemming from its "opportunistic fixed income fund" (i.e. 19% of its investment portfolio and 60% of NII for YTD3Q22). This fund is originated and managed by Arena, another Westrim subsidiary. Albeit, SKWD is winding down the opportunistic fixed income fund. Higher dependence on reinsurance than established peers. SKWD is not immune to the secular challenges posed by the commercial auto insurance market (25% DPW for YTD3Q22). SKWD was able to achieve sub 30% GWP growth in its core businesses over the last 2 years, with a notable step down in growth to sub 10%

level anticipated in 2023E. As the bulk of IPO proceeds are pushed down to the operating companies it remains to be seen if these proceeds are truly funding future growth or back filling historical growth that had already consumed statutory capitalization.

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