

Skyward Specialty Insurance Group, Inc.

3Q23 Review: Opportunistic Fixed Income Fund Winding Down

~32% GPW growth is a standout. SKWD rescinded its commercial auto whole account QS that inceptioned at 1/1, reversing 2 quarters of ceded premiums. We understand this cession did not have any reinsurance recovery that needed to be reversed. We also view rescinding a reinsurance treaty as atypical.

Rates vs. Loss trends: Pure rates remain in double digits and are above loss cost inflation. Last quarter SKWD talked about not changing its loss picks even if pricing exceeded loss trends, which may explain the flat q/q AYLR performance (60.7%).

Opportunistic Fixed Income Fund Winding Down - Leading to Higher Quality Asset Mix - Yet a Lower Yield: 68% redemption effective Dec 31, 2023. (Opportunistic fixed income had \$169mn FMV as of June 30, 2023.) SKWD will reinvest in core fixed income securities, new money yield is 5.5% and the yield of those redeemed assets is higher at 7%. SKWD will retain the remaining 32% remaining portfolio, mostly commercial mortgage - industrial not office.

Strong GWP growth, though others are shrinking professional lines:

SKWD GWP grew by 31.6% y/y (vs. our 27.1% estimate) with double digit growth amongst every underwriting division. In particular, Transactional E&S, Surety, Professional Lines, Captives and Industry Solutions were each up over 20%. We understand that SKWD doesn't write public D&O, still, we have seen general contraction in professional lines by other insurers. Transaction E&S business premiums that SKWD charges is higher than KNSL with less exclusions.

Net premium retention. While retention is typically higher in 2H vs 1H, we found SKWD's 79% retention in 3Q23 to be higher than usual. Essentially, SKWD rescinded its commercial auto whole account QS that inceptioned at 1/1, reversing 2 quarters of ceded premiums, amounting to \$13.1mn. The industry has seen pressures on the commercial auto side, we would have preferred more reinsurance protection for SKWD. We understand that SKWD's loss ratio runs at mid to high 60s for commercial auto, higher than its all in loss ratio. Likewise, the industry has taken reserve charges for commercial auto. We do not expect SKWD to rescind future reinsurance treaties, we view this action as a one-off, and not a sign that SKWD is leaning into commercial auto.

Expense ratio sub 30% guidance. The components of SKWD's expense ratio looks different this quarter, where your acquisition ratio and operating ratio were pretty close at 15.0% and 15.1%, respectively, usually operating expense ratio is a bit higher (17.3% in 2Q23) and acquisition ratio

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| CORE

SKWD	OVERWEIGHT
	Unchanged
U.S. Insurance/Non-Life	POSITIVE
	Unchanged
Price Target	USD 31.00
	raised 7% from USD 29.00
Price (07-Nov-23)	USD 30.53
Potential Upside/Downside	+1.5%
Market Cap (USD mn)	1150
Shares Outstanding (mn)	37.68
Free Float (%)	57.60
52 Wk Avg Daily Volume (mn)	N/A
Dividend Yield (%)	N/A
Return on Equity TTM (%)	4.84
Current BVPS (USD)	25.05
Source: Bloomberg	



U.S. Insurance/Non-Life

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is lower (at 11.9% in 2Q23.) Going forward, management expects a similar split as what we saw in 3Q23. To recap, its 3Q23 policy acquisition ratio increase q/q was driven by the change in business mix and the impact of canceling the quota share reinsurance contract. Its operating expense ratio benefited from higher premium leverage.

Lighter catastrophe experience despite more property writings. 1Q catastrophe losses was minimal at ~\$1mn. SKWD is not exposed to severe convective storms and manages its aggregations exposure tightly relative to its book.

Valuation. We reiterate our Overweight rating and \$31 PT (from \$29) which is based on a 50/50 weighted 12.5x (unchanged) P/E multiple on our '24 EPS estimate of \$2.56 (from \$2.39) and 1.85x (unchanged) P/TBV excluding AOCI on our '24 TBVPS excluding AOCI of \$15.84 (from \$15.48).

SKWD: Quarterly and Annual EPS (USD)

FY Dec	2022	2023			2024			Change y/y	
	Actual	Old	New	Cons	Old	New	Cons	2023	2024
Q1	0.61A	0.42A	0.42A	N/A	0.60E	0.63E	N/A	-31%	50%
Q2	0.50A	0.42A	0.42A	N/A	0.63E	0.66E	N/A	-16%	57%
Q3	N/A	0.40E	0.65A	N/A	0.49E	0.53E	N/A	N/A	-18%
Q4	0.36A	0.59E	0.61E	N/A	0.68E	0.74E	N/A	69%	21%
Year	N/A	1.83E	2.12E	1.80E	2.39E	2.56E	2.32E	N/A	21%
P/E	N/A	14.4			11.9				

Consensus numbers are from Bloomberg received on 07-Nov-2023; 13:50 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 (07-Nov-2023)	USD 30.53
Net premiums earned (\$k)	615,993	836,834	1,083,737	N/A	N/A	Price Target	USD 31.00
Net investment income (NII) (\$k)	36,931	37,764	51,411	N/A	N/A	Why OVERWEIGHT?	
Underwriting income (\$k)	31,311	69,490	77,071	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.	
Operating income (\$k)	49,783	102,971	127,338	N/A	N/A		
Net income (\$k)	39,396	80,765	100,597	N/A	N/A		
Effective tax rate (%)	N/A	N/A	N/A	N/A	N/A		
Combined ratio (%)	94.9	91.7	92.9	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		
EPS (adj)	N/A	2.12	2.56	N/A	N/A		
EPS (reported)	N/A	2.10	2.56	N/A	N/A		
DPS	0.00	0.00	0.00	N/A	N/A		
BVPS	N/A	14.14	16.69	N/A	N/A	Upside case	USD 32.00
BVPS (ex AOCI)	N/A	15.50	18.04	N/A	N/A		
Diluted shares (k)	N/A	37,954	39,338	N/A	N/A		
Balance sheet and capital return	2022A	2023E	2024E	2025E	CAGR		
Total investments (\$k)	1,082,367	1,465,672	1,525,184	N/A	N/A		
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 24.00
Debt leverage (%)	0.0	0.0	0.0	N/A	0.0		
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		
P/BV (ex AOCI) (x)	N/A	1.97	1.69	N/A	1.83		
P/E (adj) (x)	N/A	14.4	11.9	N/A	13.2		
Dividend yield (%)	0.0	0.0	0.0	N/A	0.0		
ROE (%)	13.8	16.5	16.7	N/A	15.7		



Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

3Q23 Highlights

Operating earnings beat: SKWD reported 3Q23 adjusted net operating earnings of \$25mn or \$0.65 per share, which was better than our estimate of \$15.6mn or \$0.40 per share. The Street was at \$0.36 per share. The earnings beat was due to stronger premium growth, higher net investment income, and better cat losses than our estimates. However, AYLR was slightly worse than our estimates (by 20bps).

3Q23 GWP growth: SKWD GWP grew by 31.6% y/y (vs. our 27.1% estimate). Double-digit premium increases were broad based, seen across all eight of SKWD's underwriting divisions.

Higher Net Retention: NWP grew 63.7% y/y; however, SKWD rescinded a quota share reinsurance contract, whole account commercial auto, which increased premiums by \$13.1mn.

Underwriting performance: SKWD's combined ratio was 90.2% vs. our estimate of 94.0%, a 9.6 pt y/y improvement amid lower catastrophes. Expense ratio in 3Q23 of 29.2% was worse than our estimate of 28.8%. Accident Year Loss Ratio (AYLR), ex cats, was 60.7%, 130 bp y/y improvement and worse than our estimate of 60.5%. Total company Accident Year Combined Ratio (AYCR), ex cats, was 89.9% vs. our 89.3% estimate and improved 115bps y/y. 3Q catastrophe losses of 0.4pts were better than our modeled 4.7pts.

Net Investment Income (NII): SKWD reported \$13.1mn of net investment income vs. our estimate of \$10.3mn. The positive \$8.5mn contribution from core fixed income outweighed the minimal drag from opportunistic fixed income. Higher book yield of 4.2% at September 30, 2023 up from 3.3% at September 30, 2022. Likewise, SKWD benefited from a higher asset base.

Operating ROE (annualized) of 18.9% was better than our estimated 11.8%.

FIGURE 1. 3Q23 Key Results Variance

Summary Details (In \$ thousands, except per share)	Q/Q		Y/Y		Barclays Est.		
	3Q23A	2Q23	% Change	3Q22	% Change	3Q23E	% Change
Gross written Premiums	\$355,732	\$421,994	-15.7%	\$270,250	31.6%	\$343,442	3.6%
Ceded written premiums	-\$75,036	-\$208,257	-64.0%	-\$98,796	-24.0%	-\$113,336	-33.8%
Net written premiums	\$280,696	\$213,737	31.3%	\$171,454	63.7%	\$230,106	22.0%
Net earned premiums	\$227,033	\$194,347	16.8%	\$158,048	43.6%	\$206,485	10.0%
Combined ratio	90.2%	92.0%	(180 bps)	99.8%	(956 bps)	94.0%	(380 bps)
AYCR ex Cat	89.9%	88.7%	120 bps	91.1%	(115 bps)	89.3%	60 bps
Loss ratio	61.0%	64.0%	(300 bps)	70.7%	(970 bps)	65.2%	(420 bps)
Accident year loss ratio ex cats	60.7%	60.7%	0 bps	62.0%	(130 bps)	60.5%	20 bps
Expense ratio	29.2%	28.0%	120 bps	29.1%	15 bps	28.8%	40 bps
Cat pts	0.4%	3.5%	(310 bps)	2.8%	(240 bps)	4.7%	(430 bps)
PYD pts (LPT and non-LPT) (Favorable)/unfavorable	-0.1%	-0.2%	10 bps	5.9%	(600 bps)	0.0%	(10 bps)
Net Investment Income	\$13,089	\$8,583	52.5%	\$5,988	118.6%	\$10,254	27.7%
Net (loss) income	\$21,711	\$19,452	11.6%	-\$2,399	-1004.9%	\$14,689	47.8%
Adjusted operating income	\$25,029	\$16,017	56.3%	\$10,696	134.0%	\$15,613	60.3%

Adjusted operating income per share	\$0.65	\$0.42	54.8%	\$0.00	NA	\$0.40	64.4%
Annualized adjusted ROE	18.9%	12.4%	646 bps	10.4%	846 bps	11.8%	708 bps
Annualized adjusted ROTE	22.8%	15.1%	774 bps	13.4%	940 bps	14.2%	857 bps

Source: Barclays Research, Co. Filings

FIGURE 2. Model Summary Income Statement

(\$ in thousands, except per share amounts)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
Revenues					
Gross written premiums	873,613	939,859	1,143,951	1,482,220	1,846,132
Premiums ceded	(412,090)	(410,716)	(468,409)	(551,729)	(684,687)
Net written premiums	461,523	529,143	675,542	930,491	1,161,444
	-	-	-	-	-
Net earned premiums	431,911	499,823	615,993	836,834	1,083,737
Losses and loss adjustment expenses	362,182	354,411	402,512	520,904	681,545
Underwriting expenses	119,818	138,498	182,170	246,440	325,121
Underwriting earnings	(50,089)	6,914	31,311	69,490	77,071
	-	-	-	-	-
Commission and Fee Income	5,664	3,973	5,199	7,911	9,173
Other income	128	4,632	1	-	-
Other Operating Income	5,792	8,605	5,200	7,911	9,173
	-	-	-	-	-
Net Investment income	14,130	24,646	36,931	37,764	51,411
Net un-realized gains (losses) on investments	139	17,107	(15,704)	3,328	-
Impairment Charge	57,582	2,821	-	-	-
Interest expense	5,532	4,622	6,407	9,772	9,244
Amortization of intangible assets	1,390	1,520	1,548	1,689	1,074
Other Expenses	-	-	-	4,061	-
	-	-	-	-	-
Consolidated income (loss) before taxes	(94,532)	48,309	49,783	102,971	127,338
Income Taxes (expense) or benefit	19,890	(9,992)	(10,387)	(22,206)	(26,741)
Net Income	(74,642)	38,317	39,396	80,765	100,597
	-	-	-	-	-
Adjusted Pre-Tax Operating Income Reconciliation					
Net un-realized gains (losses) on investments atx	139	17,107	(15,704)	3,328	-
Other Expenses	-	-	-	(4,061)	-
Impairment Charge (after tax)	(57,582)	(2,821)	-	-	-
Net Impact of the LPT	(59,797)	(16,063)	(8,572)	970	-
Other Income	128	4,632	1	-	-
Adj. operating income pre-tax	22,580	45,454	74,058	102,734	127,338

(\$ in thousands, except per share amounts)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
Adj. operating income tax expense	(4,704)	(9,392)	(15,484)	(22,175)	(26,741)
Adj. operating income	17,876	36,062	58,574	80,559	100,597
Adjusted operating EPS				\$2.12	\$2.56
Net EPS				\$2.10	\$2.56

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%	62.2%	62.9%
Net Impact of LPT	0.0%	3.2%	1.4%	-0.1%	0.0%
Adj. loss ratio (ex LPT PYD)	83.9%	67.7%	63.9%	62.3%	62.9%
Expense ratio	26.4%	26.9%	29.6%	29.5%	30.0%
Combined ratio	110.3%	97.8%	94.9%	91.7%	92.9%
Accident year loss ratio ex cats	68.9%	65.3%	62.9%	60.7%	60.5%
Accident year combined ratio ex cats	95.3%	92.2%	92.5%	90.2%	90.5%
Adj. combined ratio (ex LPT PYD)	110.3%	94.6%	93.5%	91.8%	92.9%
 PYD \$ - (favorable) unfavorable	60,337	16,063	8,644	(799)	0
PYD points- (favorable) unfavorable	14.0%	3.2%	1.4%	-0.1%	0.0%
Catastrophes \$	4,223	11,828	6,467	13,327	25,884
CAT points	1.0%	2.4%	1.0%	1.6%	2.4%

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
Shareholders' equity and returns					
EoP shareholders' equity incl AOCI	393,525	426,080	421,662	552,960	653,556
(-) Stock Notes Receivable	(2,510)	(9,092)	(6,911)	(5,625)	(5,625)
Adj. SHE	396,035	435,172	428,573	558,585	659,181
Average total shareholders' equity incl AOCI	380,340	409,803	423,871	487,311	603,258
AOCI	12,216	4,640	(43,485)	(53,673)	(53,673)
ToP shareholders' equity (ex-AOCI)	381,309	421,440	463,468	606,633	707,229
Avg common shareholders' equity ex AOCI		401,375	442,454	535,050	656,931
Goodwill and Intangibles	84,014	91,336	89,788	88,099	87,025
Tangible Equity	309,511	334,744	331,874	464,861	566,531

(\$ in thousands, except per share amounts)	FY 2020	FY 2021	FY 2022	FY 2023E	FY 2024E
Tangible Equity ex AOCI	297,295	330,104	375,359	518,534	620,204
Average Tangible Equity	322,128	333,309	398,367	515,696	
Average Tangible Equity (ex AOCI)	313,700	352,732	446,946	569,369	
 Adj. Book Value Per Share				\$14.14	\$16.69
Adj. BVPS (ex AOCI)				\$15.50	\$18.04
Adj. TBVPS				\$11.91	\$14.48
Adj. TBVPS (ex AOCI)				\$13.27	\$15.84
 Operating Return on Equity	4.7%	8.8%	13.8%	16.5%	16.7%
Operating ROE ex AOCI	9.0%	13.2%	15.1%	15.3%	
Adj ROTE	6.6%	11.2%	17.6%	20.2%	19.5%
Adj. ROTE ex AOCI	11.5%	16.6%	18.0%	17.7%	

Source: Barclays Research, Co. Filings

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Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

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U.S. Insurance/Non-Life

AIG, Inc. (AIG)

Allstate Corp. (ALL)

Arch Capital Group Ltd. (ACGL)

Chubb Limited (CB)

Fidelis Insurance Holdings Limited (FIHL)

James River Group Holdings (JVRV)

Lemonade, Inc. (LMND)

Palomar Holdings, Inc. (PLMR)

Progressive Corp. (PGR)

Root Inc. (ROOT)

Ryan Specialty Holdings (RYAN)

Skyward Specialty Insurance Group, Inc. (SKWD)

The Hartford Financial Services Group, Inc. (HIG) The Travelers Companies, Inc. (TRV)

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Barclays Equity Research has 1694 companies under coverage.

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

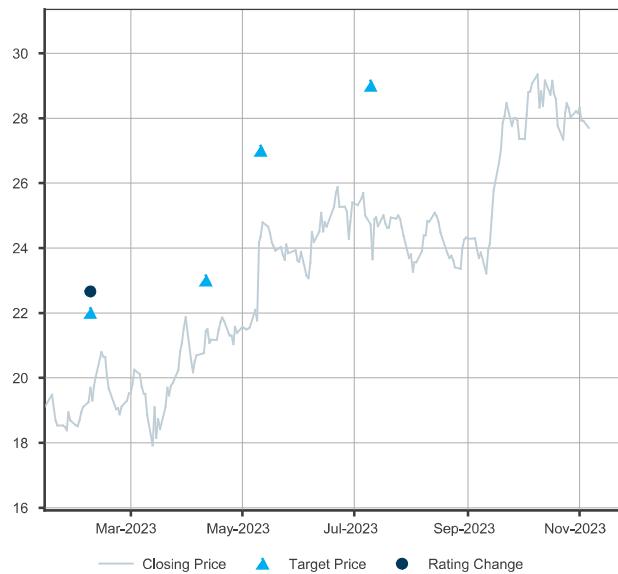
Stock Rating: **OVERWEIGHT**

Industry View: **POSITIVE**

Closing Price: **USD 30.53** (07-Nov-2023)

Rating and Price Target Chart - USD (as of 07-Nov-2023)

Currency=USD



Source: IDC, Barclays Research

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

Publication Date	Closing Price*	Rating	Adjusted Price Target
10-Jul-2023	25.00		29.00
11-May-2023	24.18		27.00
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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J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by Skyward Specialty Insurance Group, Inc. and/or in any related derivatives.

L: Skyward Specialty Insurance Group, Inc. is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: For our \$31 PT, we are using a 50/50 weighted 12.5x P/E multiple on our '24 EPS estimate and 1.85x P/TBV excluding AOCL on our '24 TBV ex AOCL.

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 Westaim 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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