



Lemonade

Lemonade
(NYSE: LMND)

Fintech@Brown
October 22nd, 2024

Company Background

Lemonade

The Business

- Digital-first insurance company using AI and behavioral economics
 - Offers renters, homeowners, pet, car, and life insurance
- Unique business model incorporating giveback program
 - Takes fixed fee from premiums, remaining funds used for claims/donations

Origin/History

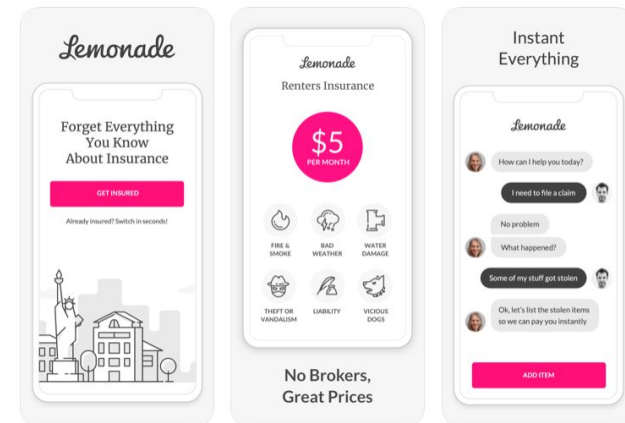
- Founded in 2015 by Daniel Schreiber and Shai Wininger in New York
- Initially launched with renters insurance in NY state in 2016
- Expanded product lines and geographical presence over subsequent years
- Went public in July 2020 at \$29/share, raising \$319 million

Management Team

- Daniel Schreiber - Co-founder and CEO, former President of Powermat
- Shai Wininger - Co-founder and President, previously co-founded Fiverr
- Tim Bixby - CFO, brings experience from NASDAQ-listed companies

Competitive Advantages & Disadvantages

- Advantages:
 - AI-driven platform reduces operational costs and claims processing time
 - Strong brand appeal to younger, tech-savvy demographic
 - Transparent business model with fixed fee structure
- Disadvantages:
 - Limited track record compared to traditional insurers
 - Higher customer acquisition costs in competitive market

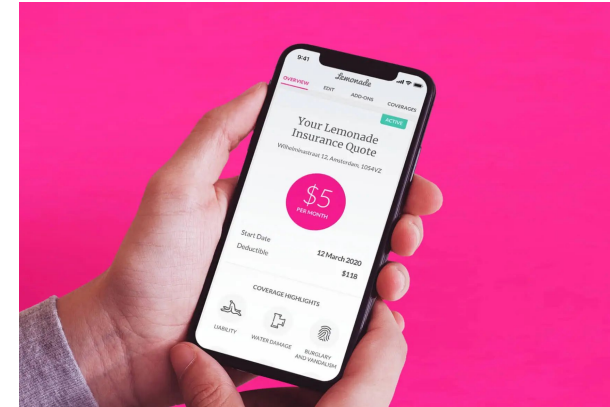


Core Platform

- AI-powered insurance platform "AI Maya"
 - Handles policy creation, claims processing, and customer service
- Machine learning algorithms for risk assessment
 - Uses behavioral data and predictive analytics for underwriting

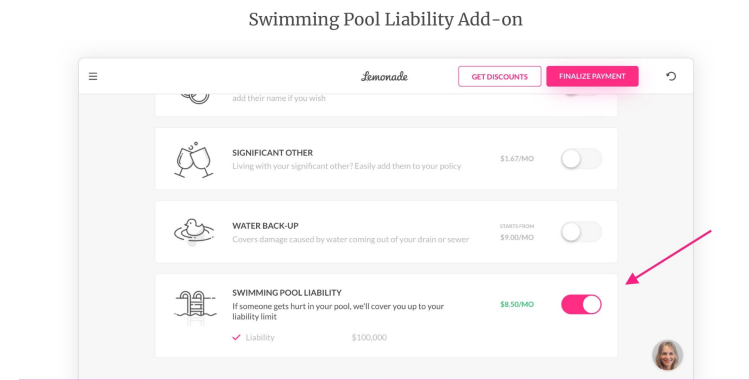
Insurance Products

- Renters & Homeowners Insurance
 - Coverage for property damage, liability, and personal belongings
- Pet, Life, and Car Insurance (EV specialty)
 - Customizable policies with digital-first experience
 - Car insurance leverages telematics for usage-based pricing



Customer Experience Technology

- Mobile-first interface with instant everything
 - 3-minute signup, instant quotes, claims paid in seconds
- Transparency tools and features
 - Real-time policy management
 - Clear documentation and instant chat support
 - Live policy updates and claim tracking



Current Financials (FY23)

- Revenue: 429.8M
 - 67.4% YoY increase
- Premium per customer: \$366
 - 3-yr CAGR: 11.5%
- Gross loss ratio: 85%
 - 90% in 2022, 70% in 2020
- Net loss: \$236.9M
 - \$101.9M of sales and marketing
- Net investment income: \$24.7M
 - \$8.4M in 2022

\$839M

IN FORCE PREMIUM (IFP)

↑ 22% YOY

\$387

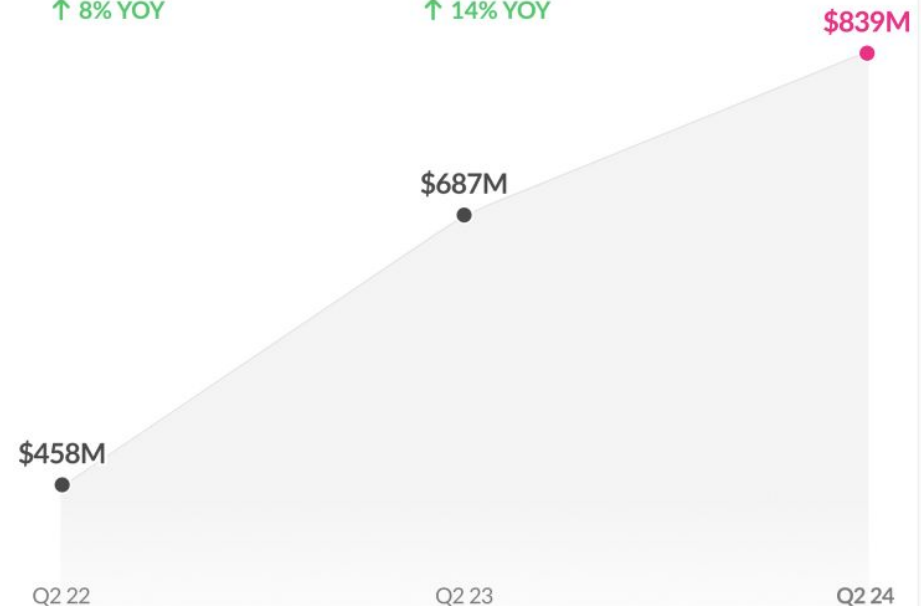
PREMIUM PER CUSTOMER

↑ 8% YOY

2,167,194

TOTAL CUSTOMERS

↑ 14% YOY



Future Expectations (FY24)

- Expected revenue: \$515M
 - 20% YoY growth
- Adj. EBIDTA loss: \$155M
 - loss of \$172.6M in 2023

Root Insurance

- Auto insurance
- Focused on usage-based pricing and telematics

Lemonade:

- Offers renters, homeowners, pet, car, and life insurance
- Digital-first insurance company using AI and behavioral economics

Oscar Health

- Health insurance platform
- Focused on technology-driven customer experiences

Company	Debt/Assets	Debt/Equity	EV/Revenue	Price/Book
Root Insurance (NASDAQ: ROOT)	0.22	1.80	0.37	3.98
Lemonade (NYSE: LMND)	0.11	0.24	2.55	2.08
Oscar Health (NYSE: OSCR)	0.08	0.37	0.26	3.47

- **Digital Insurance Market Trends**

- Digital insurance platform market is projected to grow from \$132.86 billion in 2024 to \$229.07 billion by 2029, a CAGR of 11.51%
- Insurtech funding rose by 40% to \$1.27 billion in Q2 2024, with a focus on AI

- **Regulatory Climate**

- The NAIC's 2023 priorities support state-based solutions for insurance regulation
- The FCA is currently reviewing premium finance for fair consumer treatment

- **Economic Conditions**

- In September, the Fed cut interest rates by 0.5%, setting the range at 4.75%-5%, potentially boosting insurance consumer spending
- The U.S. inflation rate dropped to 2.4% in September, which stabilizes insurance claim costs

Bull

- **AI-Driven Cost Efficiency**
 - Lemonade's AI model cuts customer acquisition costs by ~50%, and improves underwriting accuracy, lowering loss ratios and boosting profitability
- **High-Growth Market Expansion**
 - New verticals like car, pet, and life insurance create additional revenue streams. The U.S. pet insurance market alone is projected to double by 2030
- **Improving Loss Ratios**
 - Q3 2023 gross loss ratio fell to 83%, down from 94% in Q3 2022

Bear

- **High Loss Ratios**
 - Lemonade's ratios are above competitor's 50-70% averages, risking delayed profitability if claim costs rise
- **Competition**
 - Traditional insurers adopting AI reduces Lemonade's edge, potentially increasing marketing costs to maintain market share
- **Economic Sensitivity**
 - A recession could cause consumers to cut non-essential coverage like pet insurance, especially among price-sensitive younger customers

Investment

- **Path to profitability:** continuous revenue expansion, particularly by investing the float similar to Markel (money collected from premiums that hasn't been paid back in claims)
 - Margins will have to improve, which will be dependent on Lemonade's ability to lower marketing & sales expenses and lower loss ratios
- **Network Effects:** Lemonade's AI models will benefit from increased customers because more data can be collected and used to improve existing models
- **New Verticals:** car, pet, and life insurance
 - Potential to increase TAM and take market share from incumbents
 - Loss ratio will improve as Lemonade becomes more familiar with the sub-sectors

Timeline/Strategy

- Cautious long-term hold
 - Sell if the price dips 10% from purchase
- Expect high amounts of volatility
 - Due to current growth phase
- Lemonade must turn profitable in the future
 - Ideally in less than 5 years

