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Why some insurtech share prices are jumping after 2Q earnings releases

Article

The news: Second-quarter earnings announcements from insurtechs **Lemonade** and **Root** got a warmer reception from financial analysts and the market than just a few months ago,

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when both firms' stocks were off more than 80% from their IPO prices.

‘Digital twins’: It’s become a cliché to link these two insurtechs in discussions of how digital disruptors are faring within the insurance industry. But the parallels are hard to ignore.

- Both digitally native companies were founded in early 2015 and went public in 2020.
- Both have promoted easy-to-use apps, which offered a better user experience to the demographic that’s used to accessing services through their desktops and phones.
- And telematics—data collected through a device that’s installed in a car to track a driver’s behavior—is central to underwriting their car insurance offerings. That’s Root’s specialty, and it’s one of Lemonade’s newer lines of business, Lemonade Car, in which it’s deploying tech that it recently acquired from **Metromile.**

Neither Lemonade nor Root has managed to attain profitability. But after reviewing their 2Q earnings reports, analysts described Lemonade as “off the chopping block. They also agreed that Root had a strong upside potential.

What has changed? First, what hasn't changed: The total addressable insurance market is still big. In addition, the global insurtech market is forecasted to attain a rapid 51% growth rate between 2022 and 2030. Though the timelines for Lemonade and Root to achieve profitability are still fuzzy, their latest earnings reports give investors reason for hope. And both firms have refreshed their investor stories with smart strategic moves.

Lemonade generated strong Q2 growth, beating both revenue and profit estimates, and its losses are narrowing.

- Revenue was $50 million, **up 77% YoY and 12% sequentially.** As of Q2, Lemonade's total customers stand at 1.58 million, growing at 31% YoY.
- Originally, it only offered renters insurance, but Lemonade has since expanded to homeowners, car, pet, and life insurance, varying its revenue streams.
- At the end of July, completing its Metromile acquisition brought Lemonade $155 million in cash, over $110 million in car premiums, a tech-driven insurance firm with 49 state licenses, and data from 500 million car trips.
- Lemonade sold Metromile’s Enterprise Business Solutions (EBS) platform, a SaaS claims automation and fraud detection platform, to the digital insurance platform, **EIS**, in an all-cash transaction.

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- It's working with **Mitchell**, a P&C tech provider for claims workflow, automation, and total loss products, to build out its Lemonade Car operations.

Root reported **declining premiums** for Q2 2022 and to reduce expenses, **cut 330 jobs, or about 20% of its workforce** earlier this year.

- It reported a net loss of $90 million for the Q2 ended June 30, and burned through $40 million of its unrestricted cash—but that still leaves **nearly $700 million available,** on top of reserves required by state regulators.
- Its partnership with **Carvana**, the fastest-growing online used car retailer in the US, **has brought in 31% of new premium volume in Q2,** though it's likely shelling out a referral fee in return.
- Root has also recently branched out to renters and homeowners insurance, now available across nine and 13 states, respectively.
- **It's got a tech revenue stream** from its Enterprise white-label app, which allows other insurance companies to leverage its tech in their insurance underwriting. It could use this to become the software backbone of other insurance companies.
- Though Root is bigger and better-established than Metromile, **its declining market cap could make it an acquisition target.**

Our take: Investors are adjusting their expectations for insurtechs and becoming more pragmatic about what success looks like for these firms. They're learning that the "i" in insurtech is as important as the "t"—that innovative tech doesn't lead to immediate profitability, and firms must demonstrate they're well-run businesses that have mastered the execution of insurance basics, like customer knowledge, understanding of risks, and capital strength. At minimum, they're betting that deeper-pocketed incumbents may eventually buy them out for their tech assets.

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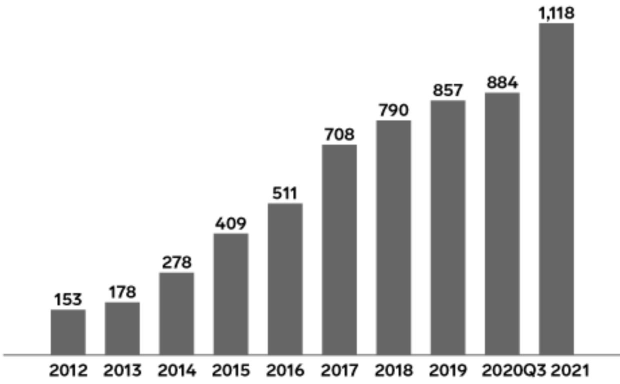

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