

*Lemonade*

# Performance Highlights

Q2 2020

# Safe Harbor Statement and Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this presentation that do not relate to matters of historical fact should be considered forward-looking statements, including statements regarding our anticipated financial performance, including our financial outlook for the third and fourth quarters of 2020 and the full year 2020.

These statements are neither promises nor guarantees, but involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to, the following: our history of losses and the fact that we may not achieve or maintain profitability in the future; our ability to retain and expand our customer base; the fact that the “Lemonade” brand may not become as widely known as incumbents’ brands or the brand may become tarnished; the denial of claims or our failure to accurately and timely pay claims; our ability to attain greater value from each user; the novelty of our business model and its unpredictable efficacy and susceptibility to unintended consequences; the possibility that we could be forced to modify or eliminate our Giveback, which could undermine our business model; the results of examinations by our primary state insurance regulator that could result in adverse examinations findings and necessitate remedial actions or give rise to regulatory orders requiring remedial, injunctive, or other corrective action; our limited operating history; our ability to manage our growth effectively; the impact of intense competition in the segments of the insurance industry in which we operate on our ability to attain or increase profitability; the unavailability of reinsurance at current levels and prices, which could limit our ability to write new business; our ability to renew reinsurance contracts on comparable duration and terms to those currently in effect; our exposure to counterparty risks as a result of reinsurance; the loss of personal customer information, damage to our reputation and brand, or harm to our business and operating results as a result of security incidents or real or perceived errors, failures or bugs in our systems, website or app; our actual or perceived failure to protect customer information and other data, respect customers’ privacy, or comply with data privacy and security laws and regulations; our ability to comply with extensive insurance industry regulations and the need to incur additional costs or devote additional resources to comply with changes to existing regulations; our exposure to additional regulatory requirements specific to other vertical markets that we enter or have entered, including auto, pet and life insurance, and the need to devote additional resources to comply with these regulations; and our inability to predict the lasting impacts of COVID-19 to our business in particular, and the global economy generally. These and other important factors are discussed under the caption “Risk Factors” in our Quarterly Report on Form 10-Q filed with the SEC on August 12, 2020 and our other filings with the SEC could cause actual results to differ materially from those indicated by the forward-looking statements made in this presentation. Any such forward-looking statements represent management’s estimates as of the date of this presentation. While we may elect to update such forward-looking statements at some point in the future, we disclaim any obligation to do so, even if subsequent events cause our views to change.

## Non-GAAP Financial Measures

The non-GAAP financial measures used in this presentation are Adjusted Gross Profit, Adjusted EBITDA, and Ratio of Adjusted Gross Profit to Gross Earned Premium.

We define Adjusted EBITDA as net loss excluding interest expense, income tax expense, depreciation, amortization, stock-based compensation, net investment income and other transactions that we consider to be unique in nature. We exclude these items from Adjusted EBITDA because we do not consider them to be directly attributable to our underlying operating performance. We use Adjusted EBITDA as an internal performance measure in the management of our operations because we believe it gives our management and other customers of our financial information useful insight into our results of operations and our underlying business performance. Adjusted EBITDA should not be viewed as a substitute for net loss calculated in accordance with GAAP, and other companies may define adjusted EBITDA differently.

We define Adjusted Gross Profit as gross profit excluding net investment income, plus fixed costs and overhead associated with our underwriting operations including employee-related costs and professional fees and other, and depreciation and amortization allocated to cost of revenue. After these adjustments, the resulting calculation is inclusive of only those variable costs of revenue incurred on the successful acquisition of business and without the volatility of investment income. We use Adjusted Gross Profit as a key measure of our progress towards profitability and to consistently evaluate the variable contribution to our business from underwriting operations from period to period.

We define Ratio of Adjusted Gross Profit to Gross Earned Premium as the ratio of adjusted gross profit to gross earned premium. The Ratio of Adjusted Gross Profit to Gross Earned Premium measures the relationship between the underlying business volume and gross economic benefit generated by our underwriting operations, on the one hand, and our underlying profitability trends, on the other. We rely on this measure, which supplements our gross profit ratio as calculated in accordance with GAAP, because it provides management with insight into our underlying profitability trends over time.

## Non-GAAP Financial Measures (cont'd)

The non-GAAP financial measures used in this presentation have not been calculated in accordance with GAAP and should be considered in addition to results prepared in accordance with GAAP and should not be considered as a substitute for, or superior to, GAAP results. In addition, Adjusted Gross Profit, Adjusted EBITDA, and Ratio of Adjusted Gross Profit to Gross Earned Premium should not be construed as indicators of our operating performance, liquidity or cash flows generated by operating, investing and financing activities, as there may be significant factors or trends that they fail to address. We caution investors that non-GAAP financial information, by its nature, departs from traditional accounting conventions. Therefore, its use can make it difficult to compare our current results with our results from other reporting periods and with the results of other companies. Our management uses these non-GAAP financial measures, in conjunction with GAAP financial measures, as an integral part of managing our business and to, among other things: (i) monitor and evaluate the performance of our business operations and financial performance; (ii) facilitate internal comparisons of the historical operating performance of our business operations; (iii) facilitate external comparisons of the results of our overall business to the historical operating performance of other companies that may have different capital structures and debt levels; (iv) review and assess the operating performance of our management team; (v) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and (vi) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments. Investors are encouraged to review the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures as provided in the tables accompanying this presentation. A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis without unreasonable effort due to the uncertainty regarding, and the potential variability of, many of the costs and expenses that may be incurred in the future. We have provided a reconciliation of GAAP to non-GAAP financial measures for the past five quarters in the reconciliation

# Key Performance Indicators

This presentation also includes key performance indicators, including customers, in force premium, premium per customer, gross earned premium, gross loss ratio and net loss ratio.

We define customers as the number of current policyholders underwritten by us or placed by us with third-party insurance partners (who pay us recurring commissions) as of the period end date. A customer that has more than one policy counts as a single customer for the purposes of this metric. We view customers as an important metric to assess our financial performance because customer growth drives our revenue, expands brand awareness, deepens our market penetration, creates additional upsell and cross sell opportunities and generates additional data to continue to improve the functioning of our platform.

We define in force premium ("IFP") as the aggregate annualized premium for Customers as of the period end date. At each period end date, we calculate IFP as the sum of: (i) In force written premium —the annualized premium of in force policies underwritten by us; and (ii) In force placed premium —the annualized premium of in force policies placed with third party insurance companies for which we earn a recurring commission payment. In force placed premium currently reflects less than 1% of IFP. The annualized value of premiums is a legal and contractual determination made by assessing the contractual terms with our customers. The annualized value of contracts is not determined by reference to historical revenues, deferred revenues or any other GAAP financial measure over any period. IFP is not a forecast of future revenues nor is it a reliable indicator of revenue expected to be earned in any given period. We believe that our calculation of IFP is useful to analysts and investors because it captures the impact of growth in Customers and Premium per Customer at the end of each reported period, without adjusting for known or projected policy updates, cancellations, rescissions and non-renewals. We use IFP because we believe it gives our management useful insight into the total reach of our platform by showing all in force policies underwritten and placed by us. Other companies, including companies in our industry, may calculate IFP differently or not at all, which reduces the usefulness of IFP as a tool for comparison.

## Key Performance Indicators (cont'd)

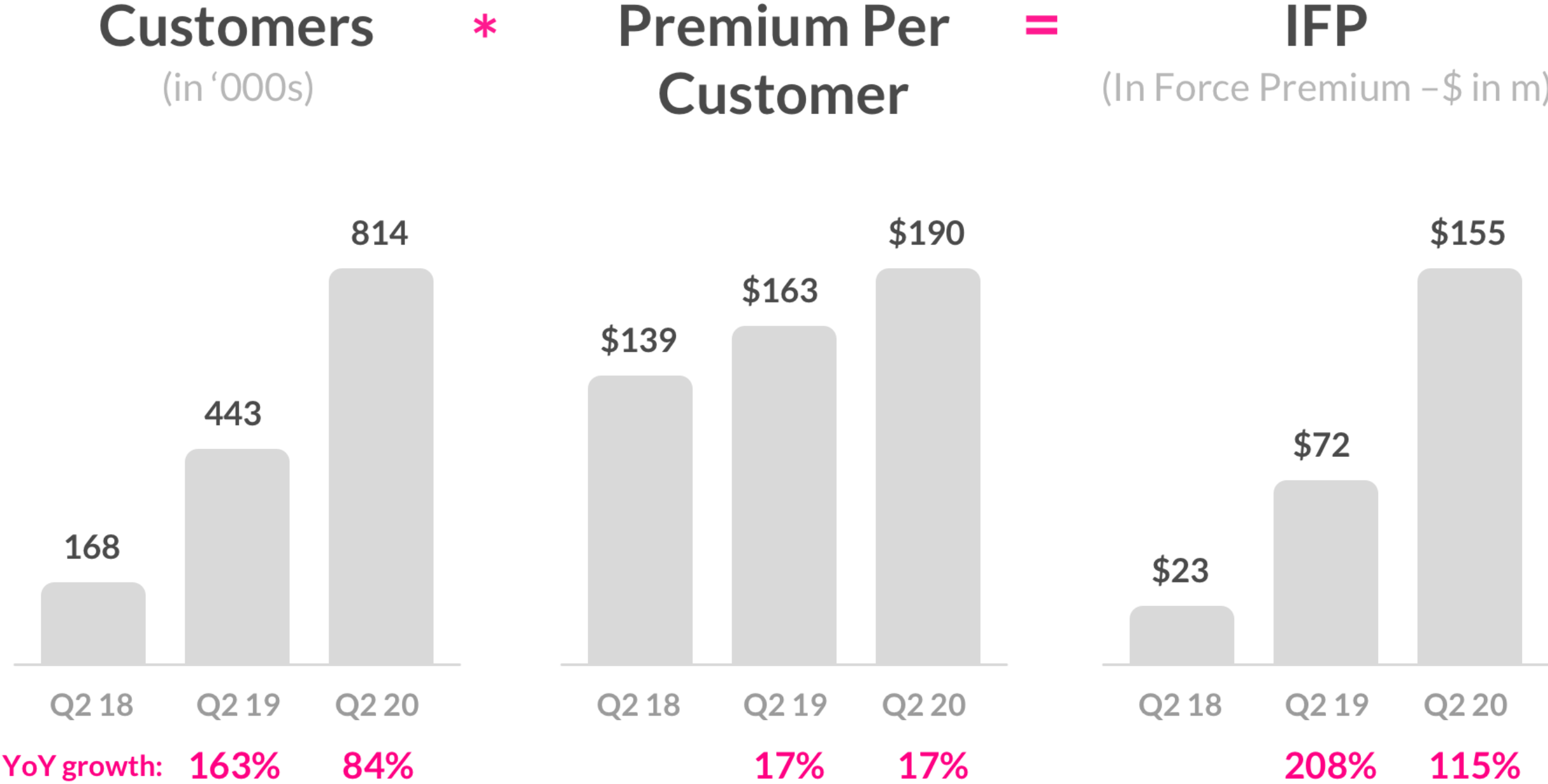
We define Premium per Customer ("PPC") as the average annualized premium customers pay for products underwritten by us or placed by us with third-party insurance partners. We calculate PPC by dividing IFP by Customers. We view PPC as an important metric to assess our financial performance because PPC reflects the average amount of money our customers spend on our products, which helps drive strategic initiatives. Gross earned premium ("GEP") is the earned portion of our gross written premium. We use this operating metric as we believe it gives our management and other users of our financial information useful insight into the gross economic benefit generated by our business operations and allows us to evaluate our underwriting performance without regard to changes in our underlying reinsurance structure. Unlike net earned premium, gross earned premium excludes the impact of premiums ceded to reinsurers, and therefore should not be used as a substitute for net earned premium, total revenue, or any other measure presented in accordance with GAAP.

We define gross loss ratio, expressed as a percentage, as the ratio of losses and loss adjustment expense to gross earned premium. We define net loss ratio, expressed as a percentage, as the ratio of losses and loss adjustment expense, less amounts ceded to reinsurers, to net earned premium.

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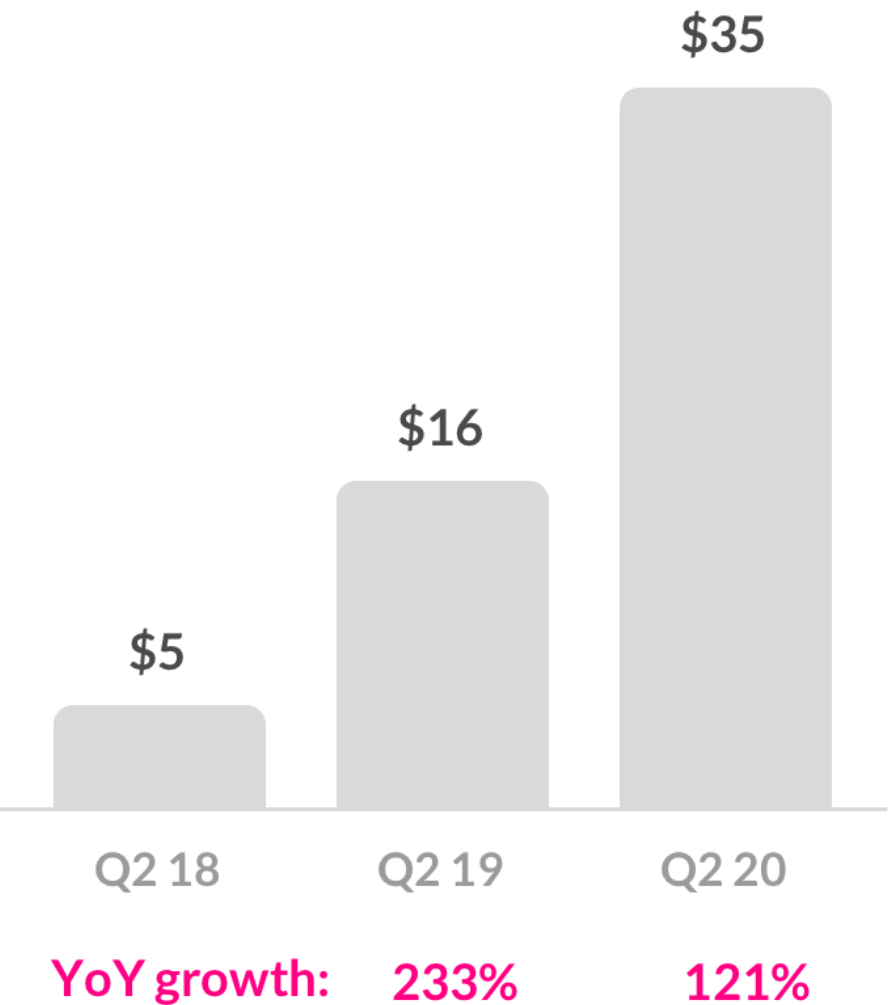
1. Performance Highlights



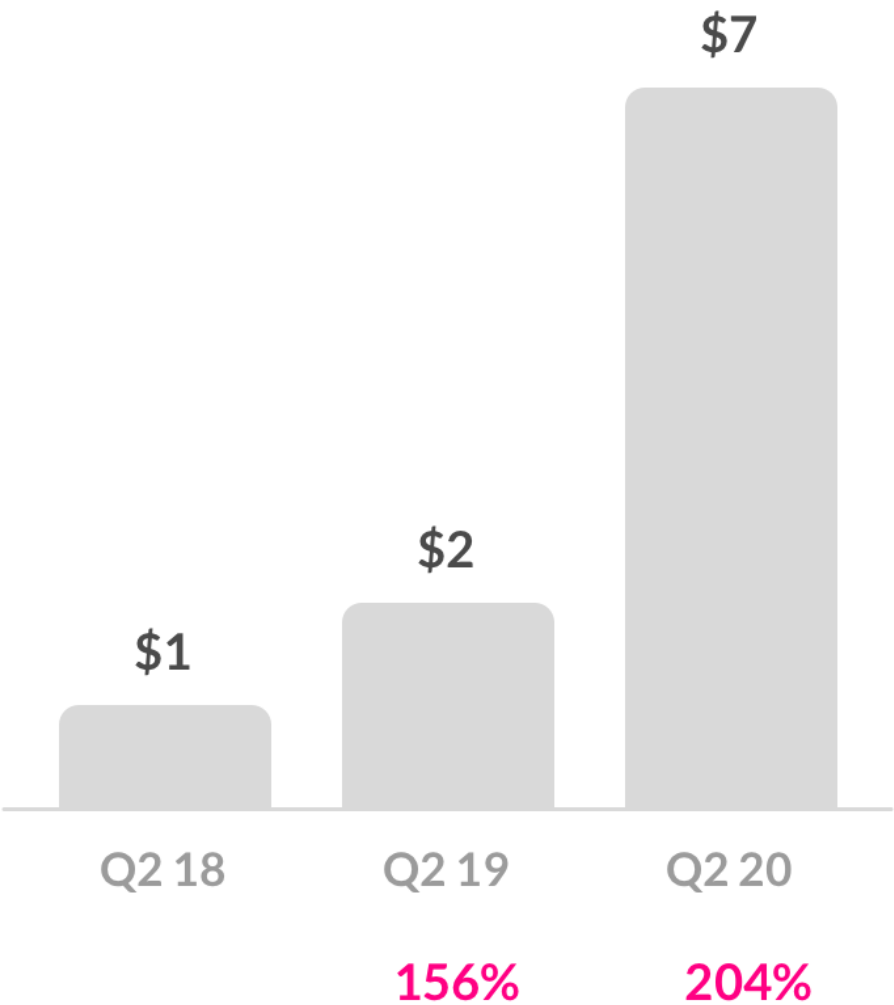


1. Performance Highlights

**GEP**  
(Gross Earned Premium - \$ in m)

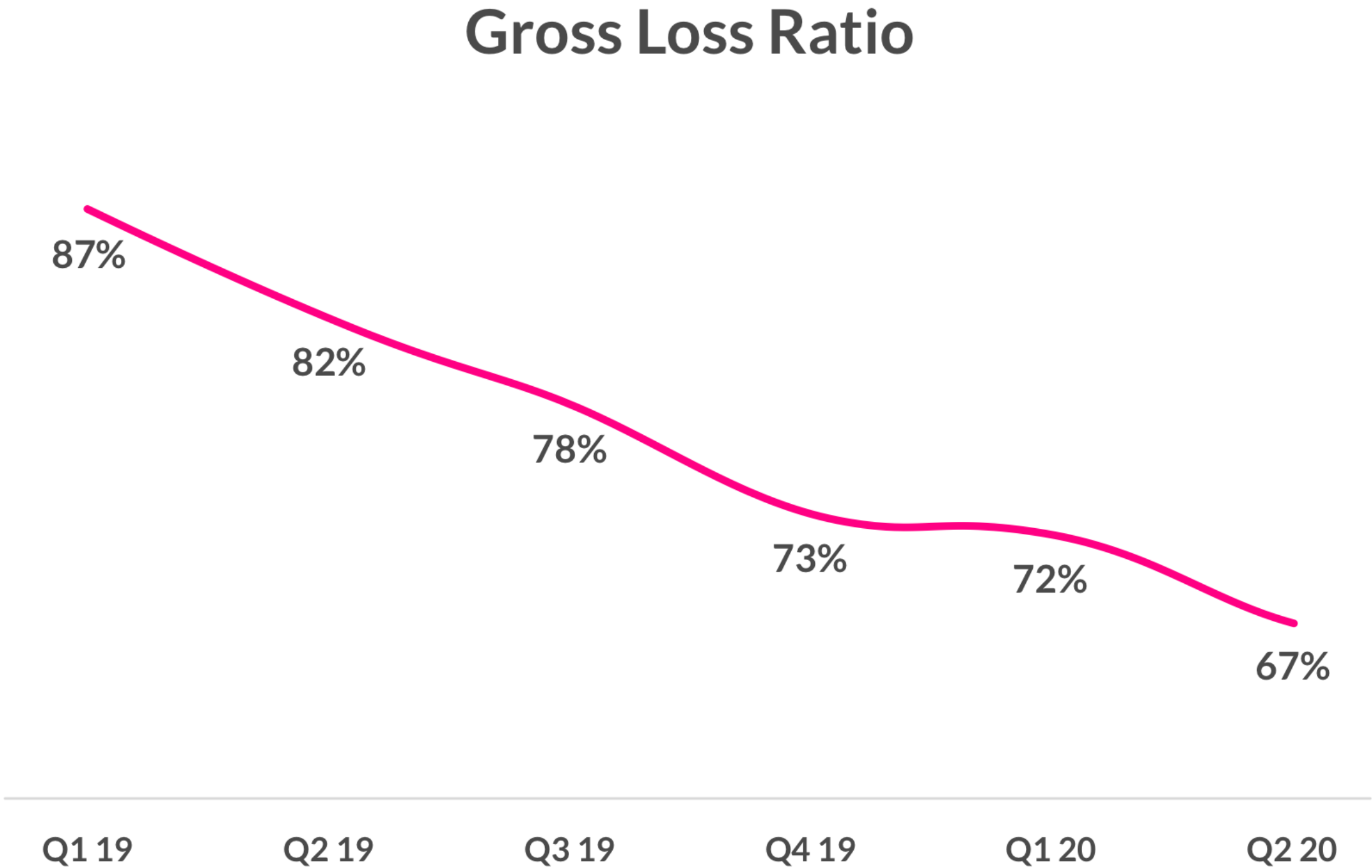


**Adj. Gross Profit <sup>(1)</sup>**  
(\$ in m)



(1) Adj. gross profit is a non-GAAP metric. Please refer to final page in presentation for reconciliation from GAAP gross profit to Adj. gross profit. GAAP gross profit for Q2 18, Q2 19, Q2 20 was \$0.4m, \$2m, \$5m, respectively.

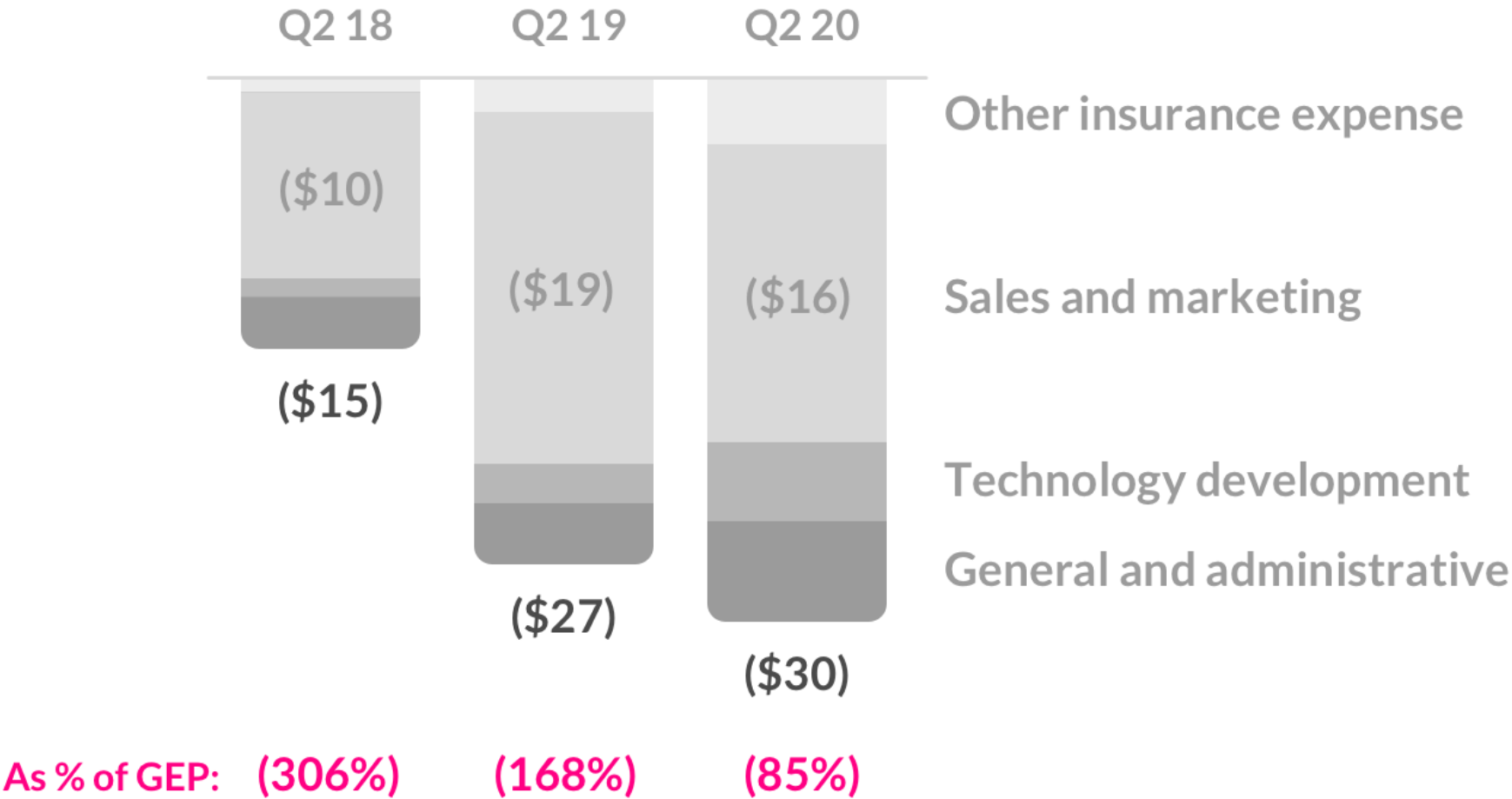
1. Performance Highlights



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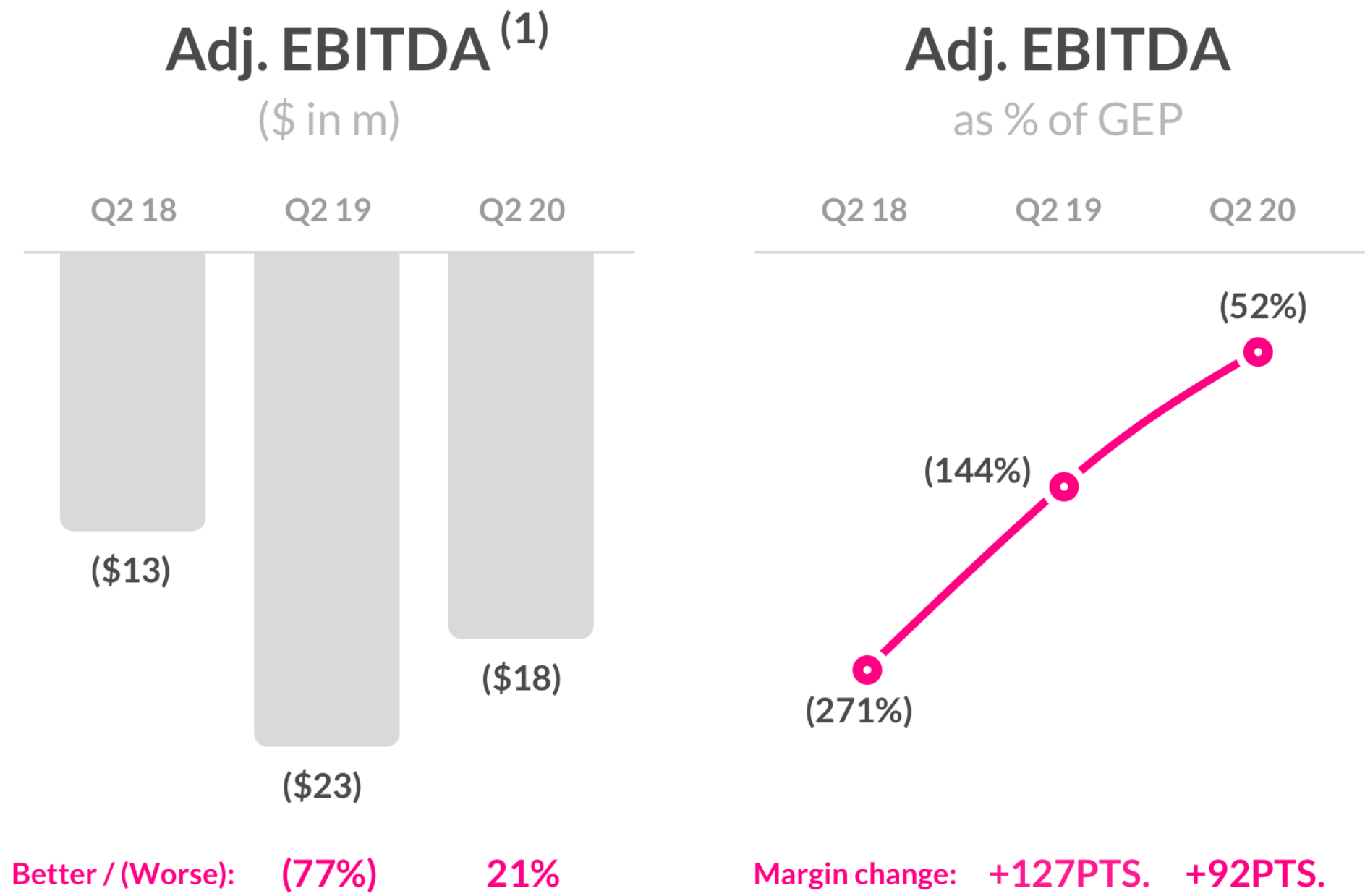
Operating Expenses (1)

(\$ in m)



(1) Represents total expense less loss and loss adjustment expense, net

1. Performance Highlights



(1) Adj. EBITDA is a non-GAAP metric. Please refer to final page in presentation for reconciliation from GAAP net loss to Adj. EBITDA. GAAP net loss for Q2 18, Q2 19, Q2 20 was (\$13m), (\$23m), (\$21m), respectively.

## New Reinsurance Program, Effective 7/1/2020

Property per Risk and Facultative reinsurance covers entire book  
Estimated cost = ~2.5% of GEP

Remaining premium (~97.5% of total) subject to proportional reinsurance

**25%**  
retained by Lemonade

Lemonade pays  
proportional share of  
customer claims

Remainder used to  
service expenses

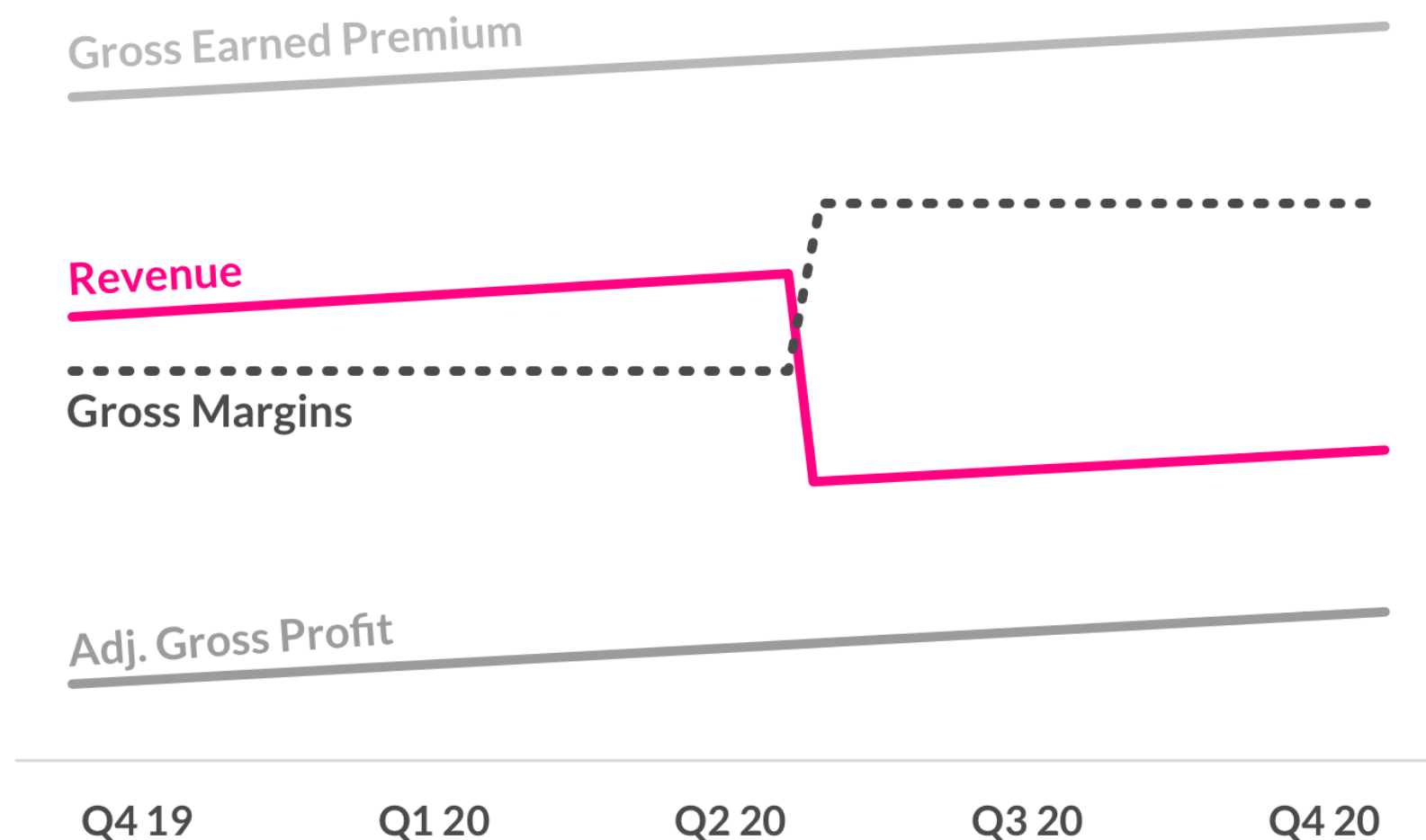
**75%**  
ceded to proportional reinsurer

Reinsurer pays  
proportional share of  
customer claims

Reinsurer pays ceding  
commission to  
Lemonade

Commission = ~25% of  
ceded amount

## Illustrative: Impact of New Reinsurance on GAAP Metrics



Core operating performance captured by KPIs and non-GAAP metrics, while GAAP results show dramatic swings reflecting changes to reinsurance structure, even when the substance – risk retention, unit economics, etc – is largely unchanged

### 3. Guidance

## Forward-Looking Guidance

(\$ in m for all metrics)

|  | Q3 2020 Guidance Range |        | Full Year 2020 Guidance Range |         |
|--|------------------------|--------|-------------------------------|---------|
|  | Low                    | High   | Low                           | High    |
| <b>In Force Premium</b><br>(as of end of period) | \$170                  | \$175  | \$190                         | \$195   |
| <b>Gross Earned Premium</b>                      | \$37                   | \$39   | \$147                         | \$151   |
| <b>Revenue</b>                                   | \$14                   | \$15   | \$86                          | \$88    |
| <b>Adj. EBITDA <sup>(1)</sup></b>                | (\$33)                 | (\$32) | (\$109)                       | (\$106) |

(1) Adjusted EBITDA is a non-GAAP metric. A full reconciliation of Adjusted EBITDA guidance to net loss on a forward-looking basis cannot be provided without unreasonable efforts, as we are unable to provide reconciling information with respect to income tax expense, depreciation and amortization, interest income, net investment income, and other transactions that we consider to be unique in nature, all of which are adjustments to Adjusted EBITDA. We estimate that stock-based compensation expense for the third quarter and full year 2020 is approximately \$3 million and \$11 million, respectively.

#### 4. Appendix / GAAP Reconciliations

| Adj. EBITDA                             | Q2 19    | Q3 19    | Q4 19    | Q1 20    | Q2 20    |
|---|----------|----------|----------|----------|----------|
| Net loss                                | (\$23.1) | (\$31.1) | (\$32.7) | (\$36.5) | (\$21.0) |
| Stock-based compensation                | 0.4      | 1.5      | 2.0      | 2.2      | 2.4      |
| Contribution to the Lemonade foundation | —        | —        | —        | 12.2     | —        |
| Depreciation and amortization           | 0.1      | 0.2      | 0.3      | 0.3      | 0.4      |
| Income tax expense                      | 0.1      | 0.1      | 0.3      | 0.3      | 0.3      |
| Interest income                         | —        | —        | —        | —        | (0.1)    |
| Net investment income                   | (0.5)    | (1.1)    | (1.3)    | (0.9)    | (0.2)    |
| Adjusted EBITDA                         | (\$23.0) | (\$30.4) | (\$31.4) | (\$22.4) | (\$18.2) |

| Adj. Gross profit                     | Q2 19  | Q3 19  | Q4 19  | Q1 20  | Q2 20  |
|---------------------------------------|--------|--------|--------|--------|--------|
| Revenue                               | \$13.8 | \$19.0 | \$23.5 | \$26.2 | \$29.9 |
| Loss and loss adjustment expense, net | (9.9)  | (12.6) | (15.4) | (18.2) | (20.5) |
| Other insurance expense               | (2.2)  | (2.3)  | (3.2)  | (3.3)  | (4.0)  |
| Depreciation and amortization         | —      | (0.1)  | (0.1)  | (0.1)  | —      |
| Gross profit                          | \$1.7  | \$4.0  | \$4.8  | \$4.6  | \$5.4  |
| Net investment income                 | (0.5)  | (1.1)  | (1.3)  | (0.9)  | (0.2)  |
| Employee-related expense              | 0.6    | 0.8    | 0.8    | 0.9    | 0.9    |
| Professional fees and other           | 0.5    | 0.1    | 0.7    | 0.7    | 0.9    |
| Depreciation and amortization         | —      | 0.1    | 0.1    | 0.1    | —      |
| Adjusted gross profit                 | \$2.3  | \$3.9  | \$5.1  | \$5.4  | \$7.0  |

| Stock-based compensation              | Q2 19 | Q3 19 | Q4 19 | Q1 20 | Q2 20 |
|---------------------------------------|-------|-------|-------|-------|-------|
| Loss and loss adjustment expense, net | —     | —     | —     | —     | \$0.1 |
| Other insurance expense               | 0.1   | 0.2   | 0.2   | 0.2   | 0.2   |
| Sales and marketing                   | 0.1   | 0.3   | 0.6   | 0.7   | 0.6   |
| Technology development                | 0.1   | 0.7   | 0.6   | 0.6   | 0.7   |
| General & administrative              | 0.1   | 0.3   | 0.6   | 0.7   | 0.8   |
| Stock-based compensation              | \$0.4 | \$1.5 | \$2.0 | \$2.2 | \$2.4 |