

Lemonade

Supplementary Shareholder Information

Q4 2023

FEBRUARY 2024

Forward looking statement safe harbor

This supplement contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this supplement that do not relate to matters of historical fact should be considered forward-looking statements, including statements regarding the impact of synthetic agents and our anticipated financial performance. 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 that we may not achieve or maintain profitability in the future; our success and ability to retain and expand our customer base; 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; availability of reinsurance at current levels and prices; our exposure to counterparty risks; our limited operating history; our ability to manage our growth effectively; our proprietary artificial intelligence algorithms may not operate properly or as expected; the intense competition in the segments of the insurance industry in which we operate; our ability to maintain our risk-based capital at the required levels; our ability to expand our product offerings; 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; regulatory risks, related to the operation, development, and implementation of our proprietary artificial intelligence algorithms and telematics based pricing model; legislation or legal requirements that may affect how we communicate with customers; the cyclical nature of the insurance industry; our reliance on artificial intelligence, telematics, mobile technology, and our digital platforms to collect data that we utilize in our business; our ability to obtain additional capital to the extent required to grow our business, which may not be available on terms acceptable to us or at all; our actual or perceived failure to protect customer information and other data as a result of security incidents or real or perceived errors, failures or bugs in our systems, website or app, respect customers' privacy, or comply with data privacy and security laws and regulations; periodic examinations by state insurance regulators; underwriting risks accurately and charging competitive yet profitable rates to customers; our ability to underwrite risks accurately and charge competitive yet profitable rates to our customers; potentially significant expenses incurred in connection with any new products before generating revenue from such products; risks associated with any costs incurred and other risks as we expand our business in the U.S. and internationally; our ability to comply with extensive insurance industry regulations; our ability to comply with insurance regulators and additional reporting requirements on insurance holding companies; our ability to predict the impacts of severe weather events and catastrophes, including the effects of climate change and global pandemics, on our business and the global economy generally; increasing scrutiny, actions, and changing expectations on environmental, social, and governance matters; our agreement with General Catalyst as a synthetic agent may not function as expected; fluctuations of our results of operations on a quarterly and annual basis; our utilization of customer and third party data in underwriting our policies; limitations in the analytical models used to assess and predict our exposure to catastrophe losses; potential losses could be greater than our loss and loss adjustment expense reserves; the minimum capital and surplus requirements our insurance subsidiaries are required to have; assessments and other surcharges from state guaranty funds; our status and obligations as a public benefit corporation; our operations in Israel and the current political, economic, and military instability, including the evolving conflict in Israel and surrounding region. These and other important factors are discussed under the caption "Risk Factors" in our Form 10-K filed with the SEC on March 3, 2023, our Quarterly Report on Form 10-Q for the period ended September 30, 2023 filed with the SEC on November 3, 2023 and in our other and subsequent filings with the SEC, including our Form 10-K to be filed for the year ended December 31, 2023 which could cause actual results to differ materially from those indicated by the forward-looking statements made in this letter to shareholders. Any such forward-looking statements represent management's beliefs as of the date of this letter to shareholders. 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.

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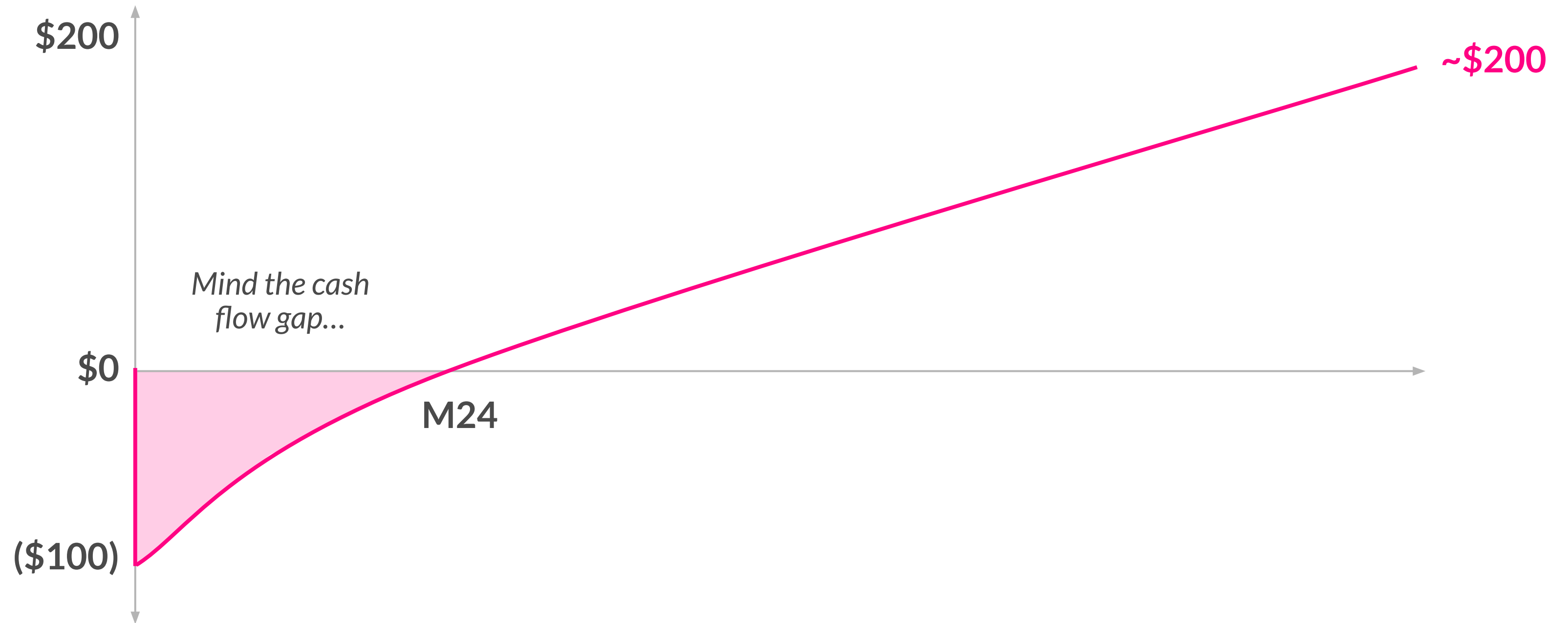
Synthetic Agents

Synthetic Agents → GENERAL CATALYST

A financing structure that allows us to align the timing of cash expenses associated with acquiring customers. With it, we are able to align the customer acquisition cost (“CAC”) cash going out with the premium cash coming in ... much like traditional agent structures do for incumbent insurers.

Illustrative example before synthetic agents

Per every \$100 of CAC expense in our direct channel:
~24mo to payback, ~\$300 cumulative lifetime value ("LTV") generated



In the era of frothy stock valuations, many tech companies
(us included) bridged their cash flow gap by **selling equity**.

That made sense for a moment in time, but that moment has passed, and in any event
equity is not a scalable source for working capital.



Enter synthetic agents!

The mechanics

1

Investment

Prior to the start of each month, we let GC know how much we expect to spend on growth in the upcoming month.

Prior to the start of each month, they will invest an amount equal to 80% of planned growth spend.

2

Payback

Each investment generates a cohort of customers.

Collections from those customers are multiplied by 16% to generate a cash flow stream that is remitted to investor.

3

Realize investor return

We will continue to remit such payments on a monthly basis until GC realizes a 16% IRR on each investment.

4

Own the customer

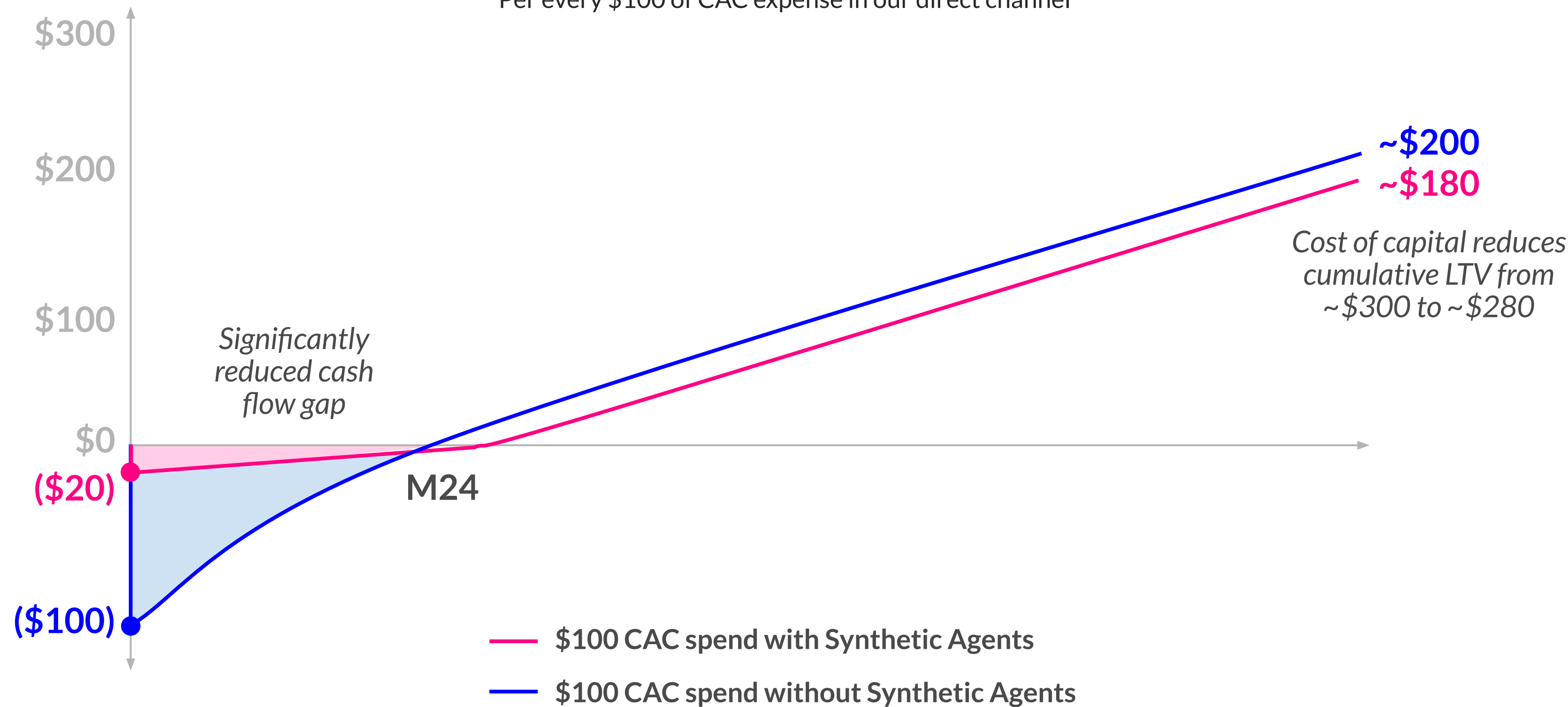
Once GC return is delivered, LMND owns 100% of customer lifetime value thereafter.

GC has a right to recoup its investment and realize a capped 16% IRR on each specific cohort it invests in.

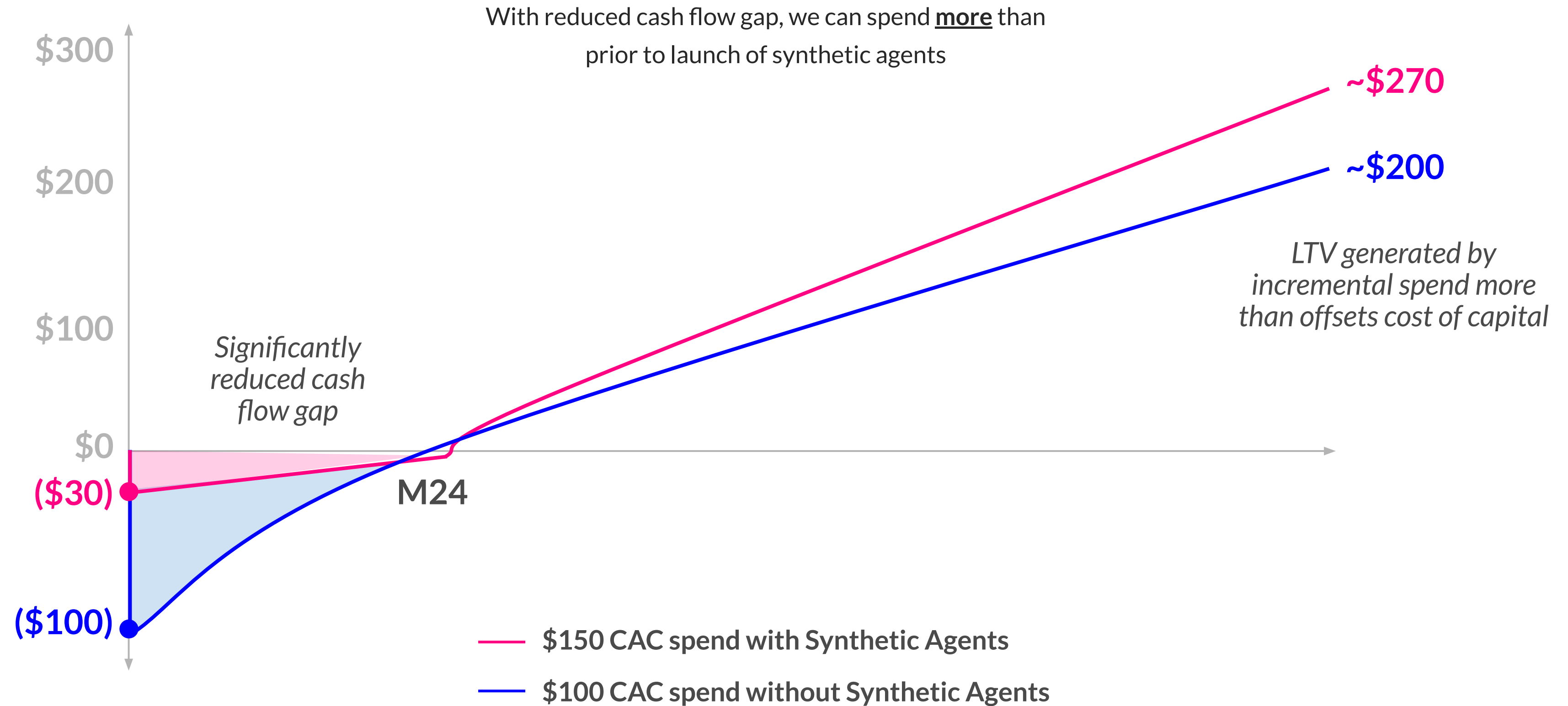
No recourse against adjacent cohorts or any of Lemonade's other assets.

Illustrative example of synthetic agent impact

Per every \$100 of CAC expense in our direct channel

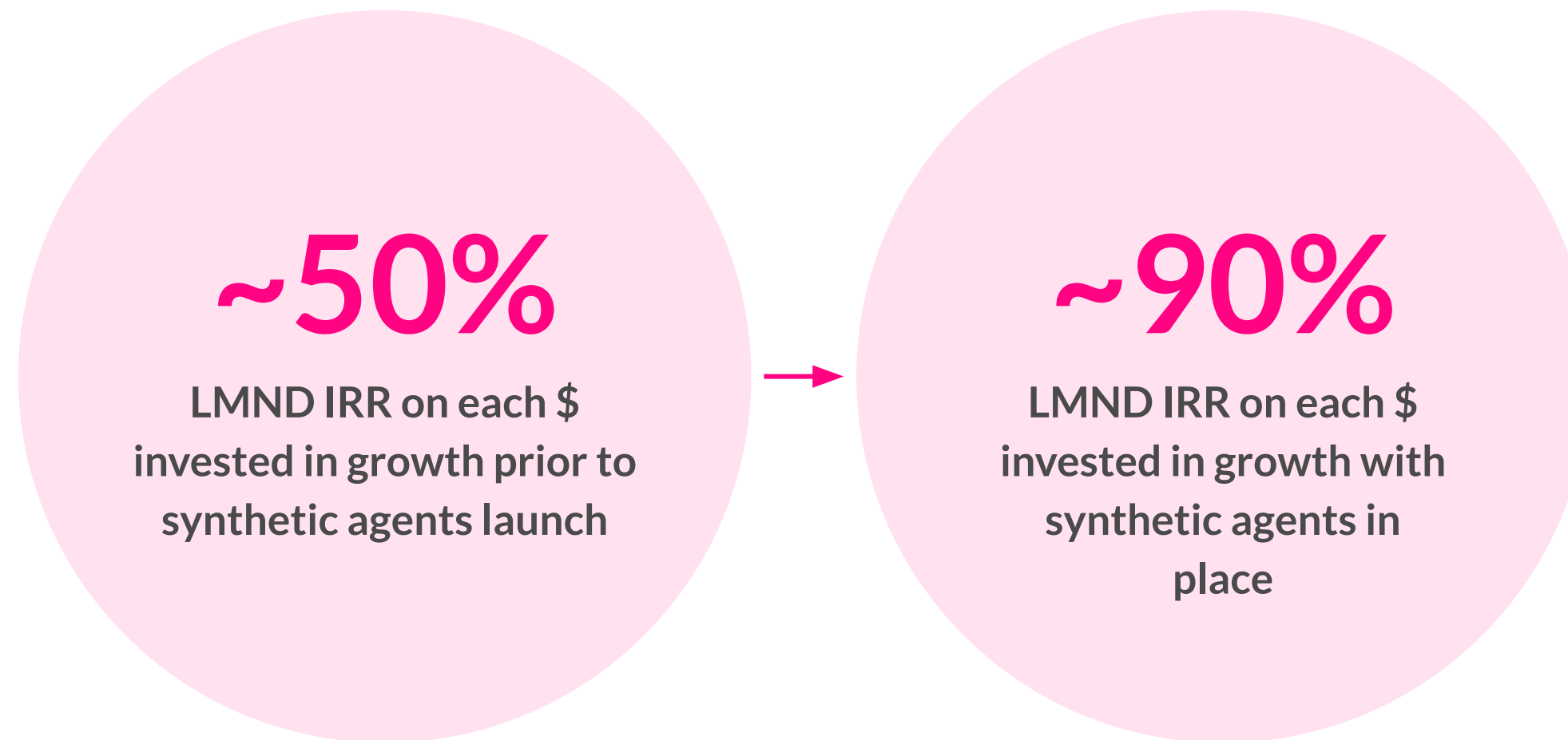


Illustrative example of synthetic agent impact (cont'd)



Illustrative example of synthetic agent impact (cont'd)

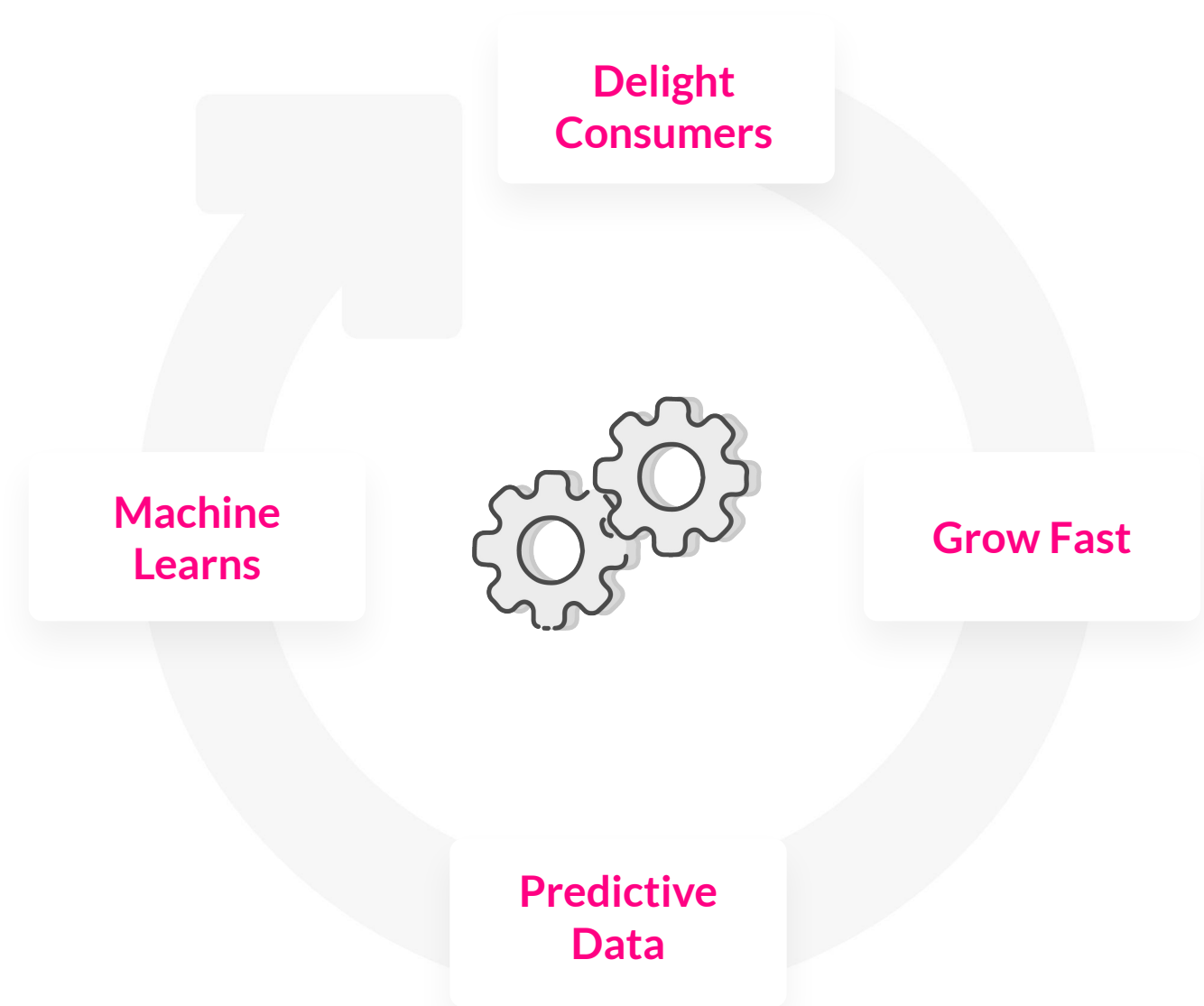
Synthetic agents drive **material boost** to LMND IRR for each \$ invested in growth



With the cash flow gap substantially solved, we
have confidence to **lean in** and grow faster.

Growth — the gift that keeps on giving

- 1 Enables us to accelerate our flywheel cycle
- 2 Faster growth shortens time to breakeven
- 3 With faster growth, we expect to be a much more valuable business at our breakeven point



Illustrative: what would the \$150M transaction mean in practice?

NOTE: all below figures presented for period between July 2023 and December 2024

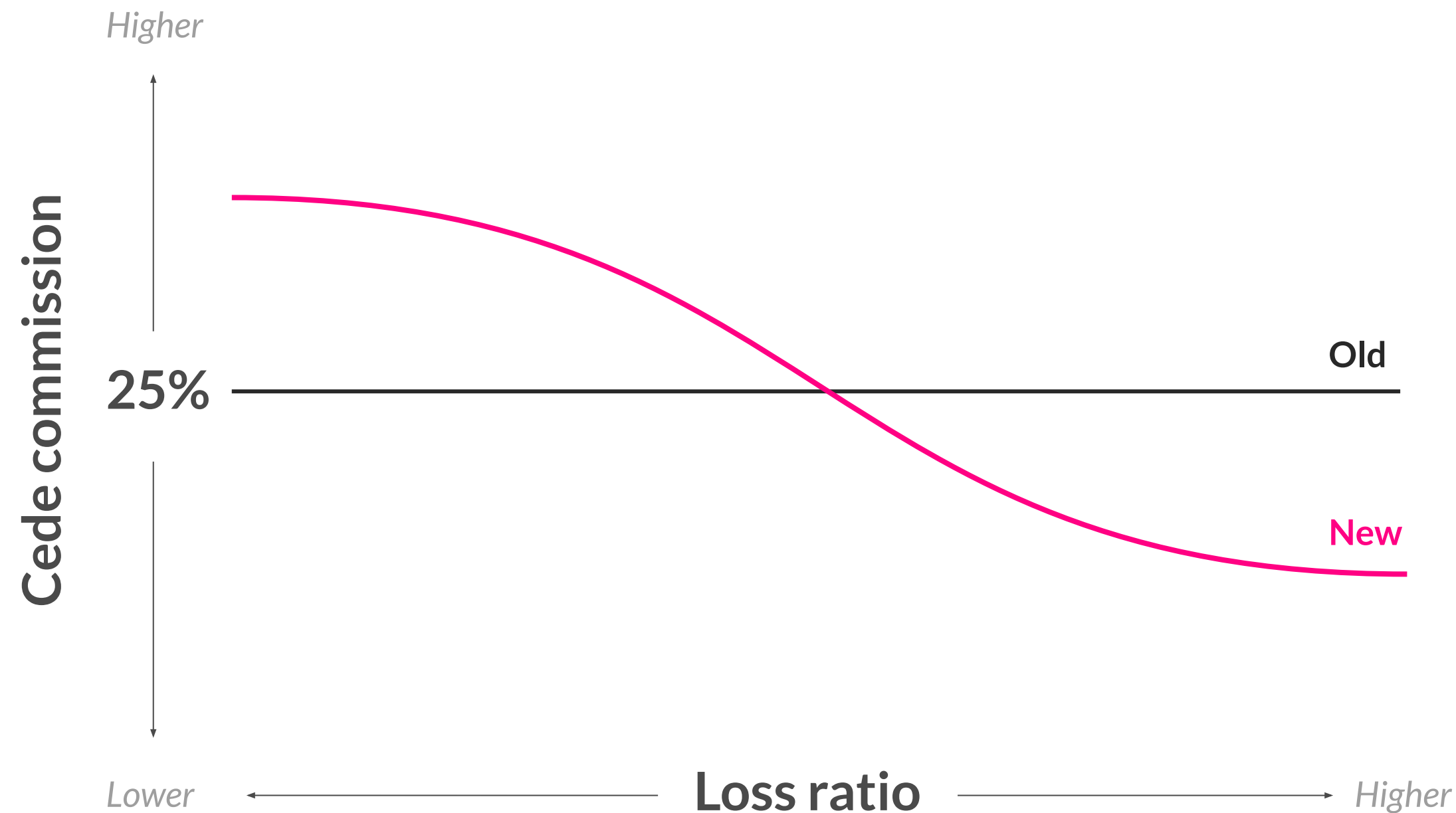


2

Reinsurance

Reinsurance transition

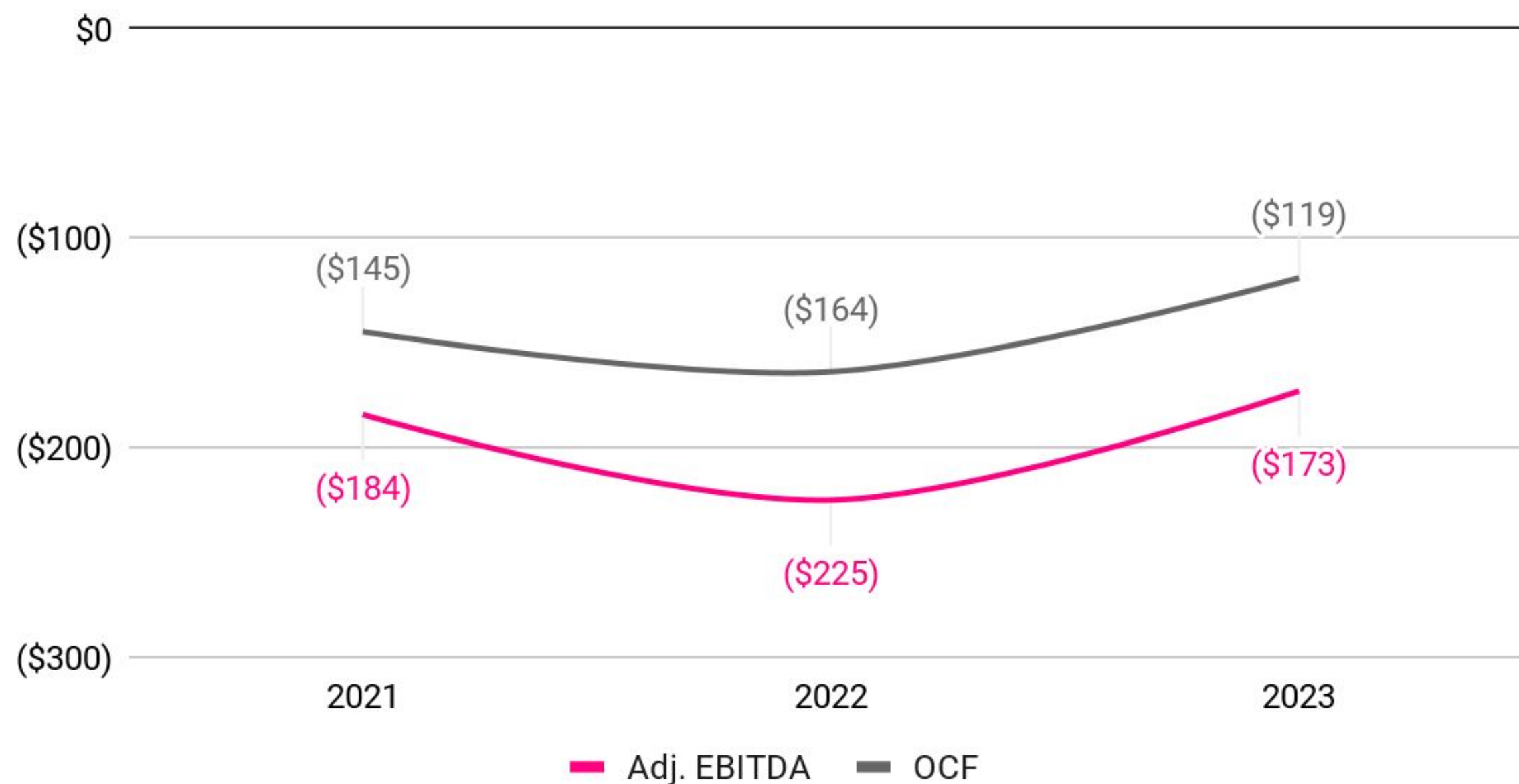
Impact of new agreement (effective 7/1/23) on ceding commission



- New agreement involves a **sliding scale** commission that effectively guarantees reinsurer margin in low single digits
- Will flow through P&L over next few Qs as premiums written under new agreement earn in
- As noted in our Q2 23 shareholder letter, ceding commissions expected to be *roughly equivalent* to those in our outgoing agreement

OCF vs Adj. EBITDA

OCF vs Adj. EBITDA



- Premium collections precede claim payouts; insurance activity yields **working capital benefit**
- Working capital benefit yields expected OCF breakeven in FY25 vs Adjusted EBITDA in FY26
- 2023 net cash flow (change in cash & investments) was **(\$92M)** as compared to OCF result of (\$119M); favorable variance is primarily due to synthetic agents launch in 2H 23

Appendix

Reconciliation of Net loss to Adjusted EBITDA

	Year Ended December 31,		
	2023	2022	2021
	(\$ in millions)		
Net loss	\$ (236.9)	\$ (297.8)	\$ (241.3)
Adjustments:			
Income tax expense	7.1	3.0	7.7
Depreciation and amortization	20.0	12.2	3.7
Stock-based compensation ⁽¹⁾	59.9	58.5	44.1
Transaction and integration costs from Metromile acquisition	-	8.4	3.5
Interest income and others	(3.2)	(0.8)	-
Net investment income	(24.7)	(8.4)	(1.9)
Change in fair value of warrants liability	(0.3)	(0.2)	-
Amortization of fair value adjustment on insurance contract intangible liability relating to the Metromile acquisition	(1.2)	-	-
Other adjustments ⁽²⁾	6.7	-	-
Adjusted EBITDA	\$ (172.6)	\$ (225.1)	\$ (184.2)

⁽¹⁾ Includes compensation expense related to warrant shares of \$2.5 million for the year ended December 31, 2023.

⁽²⁾ Includes impairment charge of \$3.7 million related to the San Francisco office sublease and \$3.0 million accrual for a potential liability claim, both related to Metromile.