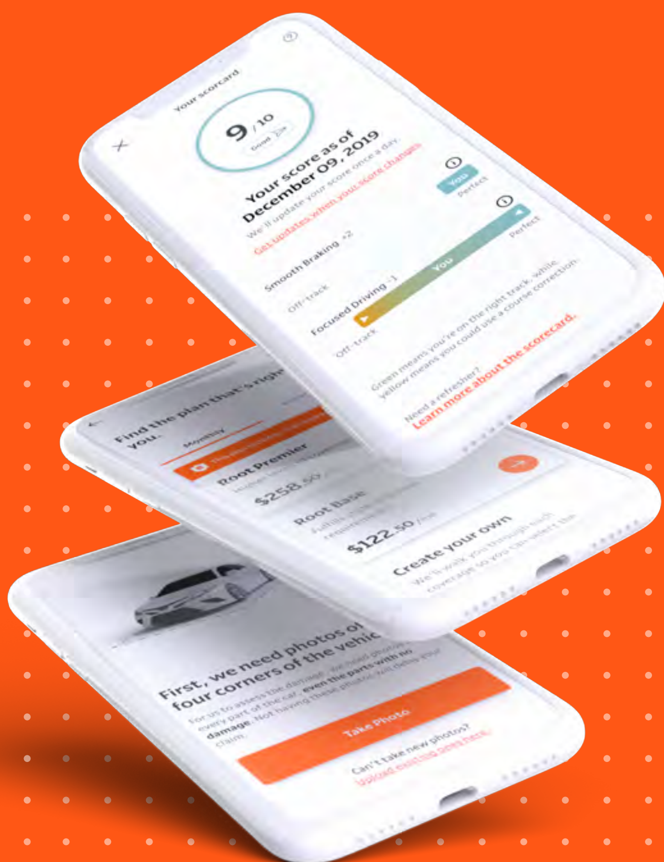
Letter to Shareholders

Quarter 3 • 2020



Root Inc

Dear Shareholders,

We're excited to share our third quarter results with you as a newly minted public company. In our inaugural quarterly shareholder letter, we'll help you get to know Root better by talking about our vision in three parts: why we started Root, where we are on our journey, and why we're excited about the future.

First, we'll take you back to day one at Root to help you understand what makes us uniquely qualified to accomplish our aggressive growth, transformative customer experience, and profitability plans by fundamentally and positively driving change in the U.S. auto insurance industry.

Second, we'll illustrate the progress we're making on the three core objectives that matter in building a disruptive insurance technology business:

1. **Drive significant growth**
2. **Enhance profitability via loss ratio and retention improvements**
3. **Optimize customer acquisition via direct marketing and a strong user experience**

Third, we'll provide earnings guidance for Full Year 2020 and outline our investor communications plans for 2021 and beyond.

This is a very exciting time to share our story with you. The opportunity we see before us is monumental, and our three core objectives guide us as we execute on our plan. While we have accomplished much already, we're focused on building the Root of the future, with a proprietary telematics algorithm, a burgeoning and integrated data set; and a highly skilled, responsive, smart, and productive team of people.

Why we built Root

Because this is our first shareholder letter as a public company, we think it's worthwhile to give you more insight into why Root exists.

Root was co-founded by Alex Timm, an actuary raised in insurance, and Dan Manges, a highly successful tech entrepreneur. Root's founding premise is that machine learning and modern technology will fundamentally revolutionize an old and stodgy insurance industry that's ripe for disruption, while delivering a vastly superior consumer value proposition and experience.

With $266 billion in annual premiums, the U.S. auto insurance sector is an enormous market. The product is a government-mandated purchase for the vast majority of drivers. Nevertheless, the pricing of auto insurance has very little to do with how consumers actually behave behind the wheel.

Consumers have little to no control over their auto insurance—their policies are often priced using stale demographic information that is hard or impossible for consumers to change, such as age, gender, marital status, or education. It's also an industry where historically lower-risk good drivers are systematically overcharged to subsidize losses that emanate from higher-risk, bad drivers. There's a fundamental element of unfairness inherent to the traditional insurance industry.

Consumers deserve better, and we believe technology and data science are the keys to unlocking products that will enable that change.

While technology has radically altered so many aspects of our lives, the insurance industry still operates much as it did a century ago. The industry continues to principally rely on archaic variables that do not measure driving behavior and are unfair to consumers. Further, it has not awakened to the reality that consumers are walking around with supercomputers (smartphones) in their pockets that can generate a plethora of individualized driving and behavioral data on a daily basis.

While technology has radically altered so many aspects of our lives, the insurance industry still operates much as it did a century ago.

As data and predictive analytics are the foundation of insurance, the industry is in a prime position to be disrupted by an innovator leveraging advanced data science and machine learning techniques. We believe that Root has a material first-mover advantage, given our central focus on telematics and a mobile-first consumer experience, combined with our balance sheet strength.

In the five years since founding Root, we've developed industry-leading—and highly proprietary—telematics and data science capabilities. We are particularly proud of our ability to discern distracted driving, a meaningful driving risk that cannot be measured effectively by OEM integrated car data or dongle devices provided by carriers.

The National Safety Council reports that 1 in 4 accidents in the United States is caused by distracted driving, so the ability to measure distracted driving is paramount to a strong telematics program. In addition, actions like hard braking cannot accurately be used to forecast loss cost without a corresponding claims data set and other contextual behavioral data captured via mobile telematics, which we have.

We have been asked why most of the industry isn't focused on implementing something similar. The answer is that it's extremely hard to construct—and even harder to apply to an existing book of business—with legacy systems.

Our telematics are different because they are built on a proprietary integrated data set of complex behavioral data tied directly to actual claims experience, and we use the power of this data across our entire portfolio. In fact, behavioral driving data is the first thing we look at when considering a customer's risk. And in the case of the 10-15% highest risk drivers, we underwrite out these customers without considering any other variables. To highlight this difference from other providers, we note that Progressive recently acknowledged on its earnings call that although telematics is their "most powerful rating variable," they solve it last in terms of their pricing algorithms.

In the five years since founding Root, we've developed industry-leading—and highly proprietary—telematics and data science capabilities.

Why is this the case? Incumbents face a classic innovator's dilemma. If an industry incumbent sought to implement telematics-based pricing across its customer base, it would risk large-scale lapses as customers react to those price changes. This risk of cannibalization simply outweighs the benefits to the legacy players. Some have argued that industry players face such innovator's dilemmas all the time. But unlike traditional variables, telematics data is collected by these carriers after they have acquired customers and spent an entire 6-month term with them. We believe Root is the only carrier with scale and focus working to implement telematics-based pricing up front.

Moreover, no other carrier is built on a proprietary, modern technology stack like Root. That allows us to rapidly test new behavioral data elements and retrain our underwriting and pricing models in real time. Our data advantage and engineering capabilities allow us to streamline quote flows, create faster and better claims experiences—and in the future, will allow us to even further differentiate our product, pricing, and service.

Ultimately, our goal is to implement a fully behavioral-based pricing model. We've already removed the use of education and occupation from our pricing and are committed to removing credit score as well. In conjunction with the National Association of Insurance Commissioners Summer Meeting in August of this year, we announced our *Drop the Score* initiative, outlining our plan to remove credit score from rating factors. We have made a commitment to remove the use of credit score from our rating variables no later than 2025, and we're advocating for and challenging the broader insurance industry to follow our lead and do the same.

We are still in the very early days of Root. With the successful completion of our initial public offering and concurrent private placement on October 27, 2020, and our revised reinsurance program in place as of July 1, 2020, we now have more than $1.2 billion in fresh capital—and a capital-light business model—to take advantage of the massive growth opportunity in front of us.

So how do we know it's all working? Let us take you through the progress we've made on our core objectives.

Ultimately, our goal is to implement a fully behavioral-based pricing model.

Drop the Score

Our core objectives

A successful insurance technology business needs to drive significant growth, enhance profitability via loss ratio and retention improvements, and optimize customer acquisition via direct marketing and a strong user experience.

In our annual shareholder letter in February, we intend to provide investors with more detail around the progress of each of these objectives. As we outline in this letter, trends through three quarters of 2020 have improved significantly year over year as our business continues to mature.

First objective

Drive significant growth

We will drive significant growth by enhancing the user experience, increasing penetration in existing states, leveraging our new national entity to enter new states, and expanding initiatives that drive more customers to our app.

Growth is our top priority as it fuels our flywheel with more data. We posted strong growth during the third quarter:

9/30 Premiums in Force
$600M / +41% y/y growth

YTD Direct Written Premium
$471M / +53% y/y growth

YTD Direct Earned Premium
$450M / +93% y/y growth

In the third quarter, Premiums in Force increased by $174M year over year, with very strong growth coming from share expansion in states already launched in 2019. This 41% growth rate, based primarily in existing markets, demonstrates the depth of share available in our currently active states. Our team is obsessed with understanding the local factors that drive our customers' decisions and allow us to continue to grow in each market we serve.

Now that we have a more mature product informed by millions of customer experiences, we plan to bring Root nationwide. After disciplined expansion into 30 states, we're ready to accelerate that reach.

We are incredibly excited to announce that in November, we closed the acquisition of a shell insurance company with property and casualty licenses in all states, plus the District of Columbia (D.C.).

Subject to regulatory approval of rate filings, this will give us the ability to sell personal auto insurance in 48 states, plus D.C. With access to the vast majority of the U.S. market, our teams are gearing up to launch in new states throughout 2021. We recognize from experience that state expansion requires individualized rate plans, tailored state management, and methodical growth.

Beyond state expansion, we can further tap into this massive market by addressing the customer's need for insurance holistically. It's no secret that many customers need multiple products. We've recently expanded our products to include both homeowners and renters because we fundamentally believe that auto is the best initial gateway to building a strong and lasting customer relationship.

Offering these lines to protect customers' other investments is a natural way for us to improve retention and grow our premium base.

We are incredibly excited to announce that in November, we closed the acquisition of a shell insurance company with property and casualty licenses in all states, plus the District of Columbia (D.C.).

Our data-driven edge has been built on the significant volume of rich data fueled by our customer growth. We believe we have a powerful first-mover advantage here—now five years in the making—which only strengthens as we continue to grow.

Collecting more data enhances our predictive modeling capabilities in a virtuous cycle to power our flywheel. Our proprietary telematics solution integrates driving activity data with actual claims experience and applies our machine learning capabilities to derive precise insights from the growing dataset.

We collect roughly four terabytes of rich behavioral data on a daily basis directly from our customers' smartphones using the magnetometer, accelerometer, gyroscope, and other powerful sensors contained in those devices. These sensors allow us to track driving patterns that are most relevant in determining a person's driving ability, such as hard braking, abrupt turning and distracted driving.

In the third quarter of 2020 alone, we collected an additional 1.5 billion miles of integrated driving and related claims data, increasing our total miles collected to more than 14 billion.

Our current algorithm was based upon 10 billion collected miles and more than 200,000 claims experienced. With our expanded data set, we have started the data science work internally on Algorithm Version 4.0, and expect to launch the new version in the second half of 2021.

But it is not just the number of miles or claims that matters. It is the ability to translate this data into behavioral insights like distracted driving, hard braking, and miles driven with a high degree of accuracy across hundreds of phone models, and then understand how these behaviors cause losses not explained by other variables, and when they do cause a loss, how much exactly that claim will cost.

The National Safety Council reports that 1 in 4 accidents in the United States is caused by distracted driving, so the ability to measure distracted driving is paramount to a strong telematics program.

It's also the ability to not only use this data in pricing, but to improve our business by identifying underwriting and claims fraud, and managing our claims cost with real-time data.

Not only are we constantly monitoring and analyzing this rich data internally for the benefit of our proprietary telematics program—but given our commitment to transparency—we now share our cumulative mileage data with the world.

As the COVID-19 pandemic began to unfold in early 2020, we utilized our unique access to real-time driving trends and started providing it for all to see via our website. This transparency helped our industry answer important questions, such as how much driving actually decreased, as well as the ways in which driving patterns changed.

Second objective

Enhance profitability via loss ratio and retention improvements

We will enhance profitability via loss ratio and retention improvements by leveraging our data science expertise.

Through continued improvement in our telematics scoring with the industry's largest (and growing) data set of behavioral data and claims experience, we're creating a risk segmentation advantage and making auto insurance fairer for consumers. The success of our risk segmentation has been validated by Milliman Inc., a third-party actuarial and consulting firm, and additional information can be found on this report in our Registration Statement on Form S-1.

As our unique approach gains traction, and we obtain more customers, it improves the overall seasoning of the book and drives down our direct loss ratio over time.

Q3 Direct Accident Period Loss Ratio
85% vs 101% prior year

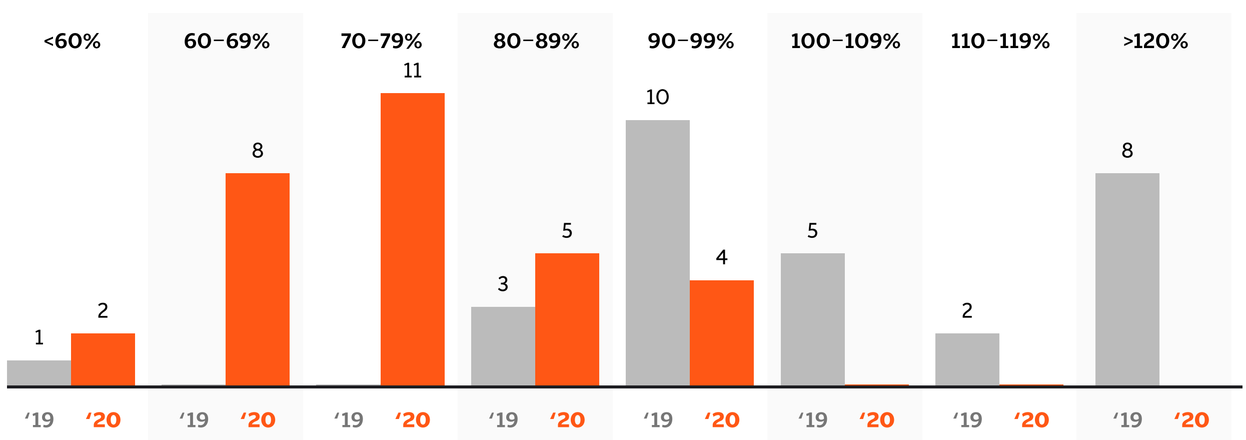
Q3 Direct Loss-Adjustment Expense
10% vs 13% prior year

Loss ratio

As you can see in the chart below, the increased predictive power of our telematics and our state management program have driven material direct loss ratio improvements. Through the first three quarters of 2019, as we entered 7 new states, launched a new product to provide insurance at sign-up, brought claims in house, and matured underwriting, only **four states** had direct accident period loss ratios below 90%. Conversely, through the first three quarters of 2020, as the predictive power of our telematics improved and we matured in our existing states with only one new state launch, a total of **26 states** had direct accident period loss ratios below 90%—and **21 states** below 80%.

Loss ratio distribution by state

First nine months of 2019 and 2020



Note: based on direct accident period loss ratios

We believe that our first-term post-telematics underwriting loss ratio compares favorably to first-term loss ratios at legacy insurance carriers. Our total direct loss ratio cannot be compared apples-to-apples against other industry players. Many of the large auto insurance providers have been in business for many decades or over a century. They have mature books and slower growth rates, with less than 20% of premiums coming from new customers as opposed to approximately 50% at Root during the trailing 12 months. Moreover, it is overly simplistic to directly compare a personal auto insurance loss ratio to another line like home or renters given differences in complexity of rating models, average premiums, and retention.

Finally, our business model is uniquely based upon underwriting out the highest risk drivers due to their disproportionate likelihood to get in an accident. In fact, our YTD direct loss ratio for the pre-telematics underwriting period is more than **20 points** higher than the post-telematics period. Given the youth of our book and how quickly we are growing, this significantly weighs on the total loss ratio in the short term. We expect to reduce this loss by quicker identification of high-risk driver characteristics and underwriting out the unacceptable risk, as well as improving the lifetime value of customers we bring into the marketing funnel.

Retention

While retention can be viewed as the ultimate metric for customer satisfaction, it also requires careful consideration of customer mix and potential drivers of churn. Similar to loss ratio, a mature portfolio will naturally experience higher retention rates at a macro level, as the longer customers have been with an insurance provider the stickier they become. Our current portfolio is naturally at a disadvantage in this regard. Also related to maturity is price volatility, which can also impact retention. A young insurance company like Root naturally experiences more price volatility as we launch new states, transition to company models for underwriting variables and develop new telematics scores.

As we are managing the business for its long-term potential, we believe the near-term volatility of churn is always worth absorbing to drive the right long-term decision. While select markets will experience price volatility as we open new states and address some existing states, we expect price volatility across the portfolio to continue to reduce over time.

We're actively targeting retention improvements through product offerings and features, customer engagement, and customer targeting, which all can drive meaningful improvements in this metric as the portfolio scales and matures.

The addition of renters and home insurance offers retention improvement both through customer mix shift as customers who desire to bundle can now shop with Root, and with cross-sell as auto customers with Root who add an additional policy have shown to retain approximately 15% better than non-bundled customers at completion of first term.

Product flexibility includes the ability to easily adjust coverage with one click and even to rejoin Root in a simple new in-app feature called Boomerang. Prior to the launch of these features, customers would be required to call customer service and wait for several days for policy adjustments; today these can be completed in a few seconds.

Since testing began in the second quarter, Boomerang has successfully reinstated over 15,000 policies, or the equivalent of 4.7% of our auto policies in force at quarter end. Our customer engagement features include strategies where customers can earn achievements through app engagement, and our test drive includes a comprehensive engagement program with feedback and scoring on driving performance.

Our data science-led customer targeting strategies allow us to better identify potential high frequency shoppers as well as potential longer retaining customers and pay the appropriate customer acquisition price to drive a target customer mix into our customer funnel.

Furthermore, we believe claims is the most important moment of truth for our customers, and a long-term driver of retention as we build a more mature book with more customers having experienced claims.

Our claims experience is truly differentiated and will allow Root to stand out to customers. From the beginning, we have always built claims with technology in mind, enabling us to handle claims faster and better than any of our competitors.

We continued to automate a higher percentage of our claims volume in the third quarter, allowing customers to take pictures of an accident, answer a few questions, and within 24 hours get a complete resolution and money in their bank accounts. This has not only improved customer satisfaction but has also reduced both claims and claims handling costs.

Our data science-led customer targeting strategies allow us to better identify potential high frequency shoppers as well as potential longer retaining customers and pay the appropriate customer acquisition price to drive a target customer mix into our customer funnel.

Profitability

So, back to that important question: How do we know it's all working?

Adjusted gross profit, our key non-GAAP profitability measure, shows how our growth, underwriting, maturation of our customer book, and capital disciplines come together to generate variable profit and mark our progress toward building a sustainably profitable business. We measure our progress towards profitability with adjusted gross profit to direct earned premium, in order to best capture the contribution margin of our customer revenue.

Loss ratio and customer retention are significant drivers in our profitability, and as referenced above, we expect these to improve over time. As our company grows and accumulates more internal loss and premium data, our Data Science and Actuarial teams can construct more accurate predictive models. This is the flywheel at work.

We are now deploying the third iteration of our internal pricing model. Due to the increase in size of our internal dataset, this iteration reflects a step change in our approach whereby we are able to accurately adjust more rating elements. This allows us to provide fairer and more accurate rates to our customers. This third iteration of the pricing model improves loss cost accuracy by ~20%, and early signs are that the fourth iteration will produce an even more substantial benefit. We also expect further improvement in loss-adjustment expense, which we believe already is in line with industry-leading levels and will naturally experience further operating leverage as the business scales and our claims-related technology continues to improve.

Q3 Gross Profit (Loss)

$1M vs ($36M) prior year

Q3 Adjusted Gross Profit (Loss)

$10M vs ($27M) prior year

We're proud of our progress here, particularly in the third quarter when we generated adjusted gross profit of $10 million (substantially better than a loss of $27 million in the third quarter 2019) due to improvement in direct loss ratio, loss-adjustment expense ratio, and variable expenses, net of reinsurance ceding commissions. Our gross profit also improved to $1 million for the quarter from a loss of $36 million in the third quarter of 2019.

Adjusted gross profit fully incorporates the work we've done on our reinsurance program, a critical efficiency lever for Root.

We set out in 2020 to land the right reinsurance structure for our business today. We're proud to say that beginning July 1, we transfer 70% of our premiums and related losses to reinsurers, while also gaining a 25% commission on written premium to offset some of our up-front and ongoing costs. For more information on our reinsurance program implemented in the third quarter, see Appendix.

This reinsurance program is exactly what we need to allow our equity capital to drive growth and build a deeper moat around our technological advantage—and that's what really matters.

Reinsurance has implications for GAAP Revenue, and our new reinsurance program will cause a reduction in GAAP Revenue versus prior quarters. This is why we use Direct Earned Premium as our primary topline metric for the business. It removes the volatility of our reinsurance program and captures the revenues received from our customers.

Third objective

Optimize customer acquisition via direct marketing and a strong user experience

It is well known in the auto insurance industry that consumers are migrating from agency to direct channels and driving accelerated growth for direct-to-consumer brands.

We are well positioned to benefit from this structural tailwind, even more so given the growing consumer preference for mobile within the direct channel.

Simply put, we meet consumers where they are, on their phones. We acquire 75% of our customers through direct mobile channels, driven by our unique onboarding experience that can be completed in as fast as 47 seconds, which is highly differentiated and not easily replicated with legacy systems. This is our primary distribution source—not merely a "nice to have" or afterthought as it is for many carriers.

This is only one part of an equation driving a long-term cost of acquisition advantage versus the industry. Our data science-led marketing strategy is another vital part of this equation and inherent to the data DNA of Root. We use data driven targeting strategies across our marketing channels.

Our digital distribution model also allows us to be more agile when we see opportunity present itself, or in some cases, slow with caution.

At the onset of COVID-19 in March, we reduced our performance marketing spend, maintaining and monitoring it with a watchful eye during the second quarter. In the third quarter, we resumed pre-COVID levels of marketing spend as we saw signs that the pandemic was accelerating structural shifts in auto insurance that support Root's direct-to-consumer and telematics strategies.

Our third and fourth quarter marketing strategies focus on a "test and invest" approach as we set the stage for our push into more states in 2021 following our shell acquisition.

We are targeting a build-out of new channels, such as streaming video, to establish a set of diverse acquisition channels that work together. Additionally, we launched a brand-focused campaign in the lead up to the presidential election in an effort to make Root more of a household name. The campaign, titled *Unapologetic*, features NASCAR driver and advocate Bubba Wallace.

This work highlights the importance of bold progress and reflects Root's culture and commitment to fair pricing based on driving performance rather than demographics. The video received 13+ million organic impressions on social media and garnered strong media attention, resulting in more than 400 million earned media impressions.

The Bubba Wallace video received 13 million organic impressions on social media and garnered strong media attention, resulting in more than 400 million earned media impressions.

At Root we are always looking for new ways to solve a problem.

While we have a team building a differentiated customer acquisition funnel, the question was posed in the quarter "What about the customers we underwrite out? Could we help them find insurance elsewhere and potentially launch a new revenue stream for the company?"

In less than a month, we launched a program to redirect customers with their permission to other carriers, and in so doing were able to offset 3% of our customer acquisition spend in the month of October. This is just an example of what is possible with the nimble technology infrastructure we have at Root.

In the near term, we expect the amplified brand spend will take time to drive acquisition efficiency and will result in elevated customer acquisition cost levels for the next two quarters. However, the longer-term benefit will far outweigh any pressure, particularly as we expand our footprint nationally.

FY2020 Outlook

We prioritize growth because our business enjoys the network effects of big data and scale. These items turn our flywheel and help to unlock the full potential of our business model. More data allows us to deploy even more advanced algorithms, which allows us to further differentiate our product from the rest of the market while becoming an even better underwriter. As our flywheel continues to develop, we expect our operational scale will realize economies of scale and grow margins. We base all our strategic decision making on building a business for long-term sustainable growth and profitability. The near-term targets that we're establishing today demonstrate that we are on track in delivering this framework.

While 2020 has been a year that no one could have expected, Root will deliver strong financial results: industry-leading growth; significant unit economic improvements; and a series of capital raises to fortify the strongest balance sheet amongst insurance technology companies.

With the philosophy we've outlined serving as our underlying guiding principles at Root, our current outlook for Full Year 2020 is as follows:

Direct Earned Premium
$595M–$600M

Adjusted Gross Profit
$14M–$16M

Root is a long-term-focused company and management team. We're excited about our 2020 accomplishments, but even more about what is to come. We'll share our 2021 outlook when we report our Q4 and FY2020 results. We look forward to active engagement with our investors, and keeping you updated on our progress as we continue on this exciting journey together.

- Alex

Alex Timm
Co-Founder & CEO

Dan

Daniel Rosenthal
CFO

We base all our strategic decision making on building a business for long-term sustainable growth and profitability. The near-term targets that we're establishing today demonstrate that we are on track in delivering this framework.

Non-GAAP financial measure

This letter and statements made during the above referenced webcast may include information relating to adjusted gross profit(loss), which is a "non-GAAP financial measure." This non-GAAP financial measure has not been calculated in accordance with generally accepted accounting principles in the United States, or 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(loss) should not be construed as an indicator 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 this non-GAAP financial measure, in conjunction with GAAP financial measures, as an integral part of managing our business and to, among other things: (1) monitor and evaluate the performance of our business operations and financial performance; (2) facilitate internal comparisons of the historical operating performance of our business operations; (3) 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; (4) review and assess the operating performance of our management team; (5) analyze and evaluate financial and strategic planning decisions regarding future operating investments; and (6) plan for and prepare future annual operating budgets and determine appropriate levels of operating investments.

We have not reconciled adjusted gross profit outlook to GAAP gross profit because we do not provide an outlook for GAAP gross profit due to the uncertainty and potential variability of factors used to calculate GAAP gross profit. Because we cannot reasonably predict such items, a reconciliation of the non-GAAP financial measure outlook to the corresponding GAAP measure is not available without unreasonable effort. We caution, however, that such items could have a significant impact on the calculation of GAAP gross profit.

For more information regarding the non-GAAP financial measures discussed in this release, please see "Non-GAAP financial measures" and "Reconciliation of GAAP to Non-GAAP financial measures" below.

Forward-looking statements

This letter contains—and statements made during the above-referenced webcast will contain— forward-looking statements relating to, among other things, the future performance of Root and its consolidated subsidiaries that are based on Root's current expectations, forecasts and assumptions and involve risks and uncertainties. These statements include, but are not limited to, statements regarding:

- Our expected financial results for the fourth quarter of 2020
- Our ability to retain existing customers and acquire new customers and expand our customer reach
- Our ability to remove the use of credit score from our rating variables no later than 2025
- Our expectations regarding our future financial performance, including total revenue, gross profit, adjusted gross profit, direct loss ratio, marketing costs, direct LAE ratio, quota share levels and expansion of our renewal premium base

- The impact of the COVID-19 pandemic on our business and financial performance
- Our goal to be licensed in all states in the United States and the timing of obtaining additional licenses and launching in new states
- Our ability to transfer 70% of our premiums and related losses to reinsurers, while also gaining a 25% commission on written premium to offset some of our up-front and ongoing costs in the future
- The accuracy and efficiency of our telematics and behavioral data, and our ability to gather and leverage additional data
- Our ability to release new products and features and the timing of those releases, including our new Algorithm Version 4.0
- Our ability to underwrite risks accurately and charge profitable rates
- Our ability to drive improved conversion and decrease the costs of customer acquisition
- Our ability to operate a "capital-light" business and obtain and maintain reinsurance contracts
- Our ability to realize economies of scale and grow margins
- Our ability to expand our distribution channels through additional partnership relationships, digital media and referrals
- Our ability to protect our intellectual property and any costs associated therewith
- Our ability to expand domestically and internationally

Root's actual results could differ materially from those predicted or implied by such forward-looking statements, and reported results should not be considered as an indication of future performance.

Factors that could cause or contribute to such differences also include, but are not limited to, those factors that could affect Root's business, operating results and stock price included under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Root's Registration Statement on Form S-1 or Quarterly Report on Form 10-Q at http://ir.joinroot.com or the SEC's website at www.sec.gov.

Undue reliance should not be placed on the forward-looking statements in this letter or the above-referenced webcast, which are based on information available to Root on the date hereof. Such forward-looking statements do not include the potential impact of any acquisitions or divestitures that may be announced and/or completed after the date hereof. We assume no obligation to update such statements.

Financial statements

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

	As of	
	September 30, 2020	December 31, 2019
	(in millions, except par value)	
Assets		
Investments:		
Fixed maturities available-for sale, at fair value (amortized cost: $216.4 and $118.7 at September 30, 2020 and December 31, 2019, respectively)	$ 222.0	$ 119.3
Short-term investments (amortized cost: $2.5 and $3.5 at September 30, 2020 and December 31, 2019, respectively)	2.5	3.5
Total investments	224.5	122.8
Cash and cash equivalents	217.8	391.7
Restricted cash	1.0	24.9
Premiums receivable, net of allowance of $7.1 and $2.0 at September 30, 2020 and December 31, 2019, respectively	138.4	122.7
Reinsurance recoverable	104.1	25.3
Prepaid reinsurance premiums	119.1	17.4
Fixed assets, net	9.6	10.2
Deferred acquisition costs	1.8	3.3
Other assets	22.2	10.3
Total assets	$ 838.5	$ 728.6
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Deficit		
Liabilities:		
Loss and loss adjustment expense reserves	$ 225.3	$ 140.7
Unearned premiums	165.1	145.4
Long-term debt and warrants	220.0	192.2
Reinsurance premiums payable	166.4	25.7
Accounts payable and accrued expenses	61.5	29.8
Other liabilities	10.2	8.4
Total liabilities	848.5	542.2
Commitments and Contingencies (Note 11)		
Redeemable convertible preferred stock, $0.0001 par value, 161.8 and 158.9 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively (liquidation preference of $597.5 and $549.8 at September 30, 2020 and December 31, 2019, respectively) (Note 8)	560.4	560.4
Stockholders' deficit:		
Common stock, $0.0001 par value, 42.5 and 44.4 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively (Note 8)	—	—
Treasury stock, at cost	(0.8)	(0.1)
Additional paid-in capital	39.5	10.5
Accumulated other comprehensive income	5.6	0.6
Accumulated loss	(614.7)	(385.0)
Total stockholders' deficit	(570.4)	(374.0)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	$ 838.5	$ 728.6

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS - UNAUDITED

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in millions, except per share data)			
Net premiums earned	$ 44.9	$ 75.8	$ 278.4	$ 174.4
Net investment income	1.1	1.1	4.3	2.8
Net realized gains on investments	0.1	—	0.2	—
Fee income	4.4	2.7	13.0	6.5
Total revenue	50.5	79.6	295.9	183.7
Operating expenses:				
Loss and loss adjustment expenses	76.1	100.9	303.3	210.5
Sales and marketing	36.9	34.4	90.1	73.6
Other insurance (benefit) expense	(26.3)	15.2	0.3	34.1
Technology and development	12.9	7.0	40.2	15.4
General and administrative	16.6	9.0	58.8	31.4
Total operating expenses	116.2	166.5	492.7	365.0
Interest expense	19.5	13.3	32.9	15.9
Loss before income tax expense	(85.2)	(100.2)	(229.7)	(197.2)
Income tax expense	—	—	—	—
Net loss	(85.2)	(100.2)	(229.7)	(197.2)
Other comprehensive income:				
Changes in unrealized gain on investments	0.1	0.1	5.0	0.8
Comprehensive loss	$ (85.1)	$ (100.1)	$ (224.7)	$ (196.4)
Loss per common share: basic and diluted	$ (2.20)	$ (2.88)	$ (5.94)	$ (5.99)
Weighted-average common shares outstanding: basic and diluted	38.8	34.8	38.7	32.9

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(in millions)	
Cash flows from operating activities:		
Net loss	$ (229.7)	$ (197.2)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	1.9	0.8
Tender offer	25.1	8.6
Depreciation and amortization	10.6	2.4
Bad debt expense	16.7	5.4
Warrants fair value adjustment	16.0	—
Payment-in-kind interest expense	6.8	—
Realized gains on investments	(0.2)	—
SAFE fair value adjustment	—	11.2
Changes in operating assets and liabilities:		
Premiums receivable	(32.4)	(66.7)
Reinsurance recoverable	(78.8)	(22.3)
Prepaid reinsurance premiums	(101.7)	(6.2)
Deferred acquisition costs	1.5	(1.6)
Other assets	(9.6)	(0.6)
Losses and loss adjustment expenses reserves	84.6	77.2
Unearned premiums	19.7	74.1
Reinsurance premiums payable	140.7	25.4
Accounts payable and accrued expenses	31.6	15.9
Other liabilities	2.4	1.0
Net cash used in operating activities	(94.8)	(72.6)
Cash flows from investing activities:		
Purchases of investments	(138.1)	(104.3)
Proceeds from maturities, call and pay downs of investments	31.2	29.9
Sales of investments	9.4	—
Capitalization of internally developed software	(3.9)	(4.1)
Purchases of fixed assets	(1.7)	(3.8)
Net cash used in investing activities	(103.1)	(82.3)
Cash flows from financing activities:		
Proceeds from exercise of stock options	1.4	1.8
Proceeds from issuance of preferred stock, net	—	349.9
Purchase of treasury stock	(0.2)	—
Proceeds from debt issuance	13.5	100.0
Debt issuance costs	(1.4)	(2.7)
Repayments of long-term debt	(13.2)	(15.3)
Proceeds from SAFE	—	10.0
Net cash provided by financing activities	0.1	443.7
Net (decrease) increase in cash, cash equivalents and restricted cash	(197.8)	288.8
Cash, cash equivalents and restricted cash at beginning of year	416.6	122.3
Cash, cash equivalents and restricted cash at end of year	$ 218.8	$ 411.1
Supplemental disclosures:		
Interest paid	$ 3.3	$ 2.8
Income taxes paid	—	—
Leasehold improvements - non-cash	—	0.4
Purchase of treasury stock - non-cash	0.5	—

Supplemental financial information

KEY PERFORMANCE INDICATORS

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in millions, except Premiums per Policy)			
Policies in Force				
Auto	322,423	242,631	322,423	242,631
Renters	7,367	825	7,367	825
Premiums per Policy				
Auto	$ 929	$ 877	$ 929	$ 877
Renters	$ 139	$ 122	$ 139	$ 122
Premiums in Force				
Auto	$ 599.1	$ 425.6	$ 599.1	$ 425.6
Renters	$ 1.0	$ 0.1	$ 1.0	$ 0.1
Direct Written Premium	$ 164.6	$ 119.6	$ 471.1	$ 307.4
Direct Earned Premium	$ 154.4	$ 99.9	$ 450.2	$ 233.3
Gross Profit/(Loss)	$ 0.7	$ (36.5)	$ (7.7)	$ (60.9)
Gross Margin	1.4 %	(45.9)%	(2.6)%	(33.2)%
Adjusted Gross Profit/(Loss)	$ 9.7	$ (27.2)	$ 17.1	$ (40.0)
Ratio of Adjusted Gross Profit/(Loss) to Total Revenue	19.2 %	(34.2)%	5.8 %	(21.8)%
Ratio of Adjusted Gross Profit/(Loss) to Direct Earned Premium	6.3 %	(27.2)%	3.8 %	(17.1)%
Direct Loss Ratio	89.8 %	113.3 %	84.2 %	103.6 %
Direct LAE Ratio	9.9 %	12.7 %	9.7 %	11.4 %

WRITTEN AND EARNED PREMIUM

	Three Months Ended September 30,			
	2020	2019	$ Change	% Change
	(dollars in millions)			
Direct written premium	$ 164.6	$ 119.6	$ 45.0	37.6 %
Ceded written premium	(189.1)	(15.4)	(173.7)	1127.9 %
Net written premium	(24.5)	104.2	(128.7)	(123.5)%
Direct earned premium	154.4	99.9	54.5	54.6 %
Ceded earned premium	(109.5)	(24.1)	(85.4)	354.4 %
Net earned premium	$ 44.9	$ 75.8	$ (30.9)	(40.8)%

	Nine Months Ended September 30,			
	2020	2019	$ Change	% Change
	(dollars in millions)			
Direct written premium	$ 471.1	$ 307.4	$ 163.7	53.3 %
Ceded written premium	(274.7)	(65.1)	(209.6)	322.0 %
Net written premium	196.4	242.3	(45.9)	(18.9)%
Direct earned premium	450.2	233.3	216.9	93.0 %
Ceded earned premium	(171.8)	(58.9)	(112.9)	191.7 %
Net earned premium	$ 278.4	$ 174.4	$ 104.0	59.6 %

ADJUSTED GROSS PROFIT/(LOSS)

The following table provides a reconciliation of total revenue to adjusted gross profit/(loss) for three and nine months ended September 30, 2020 and 2019.

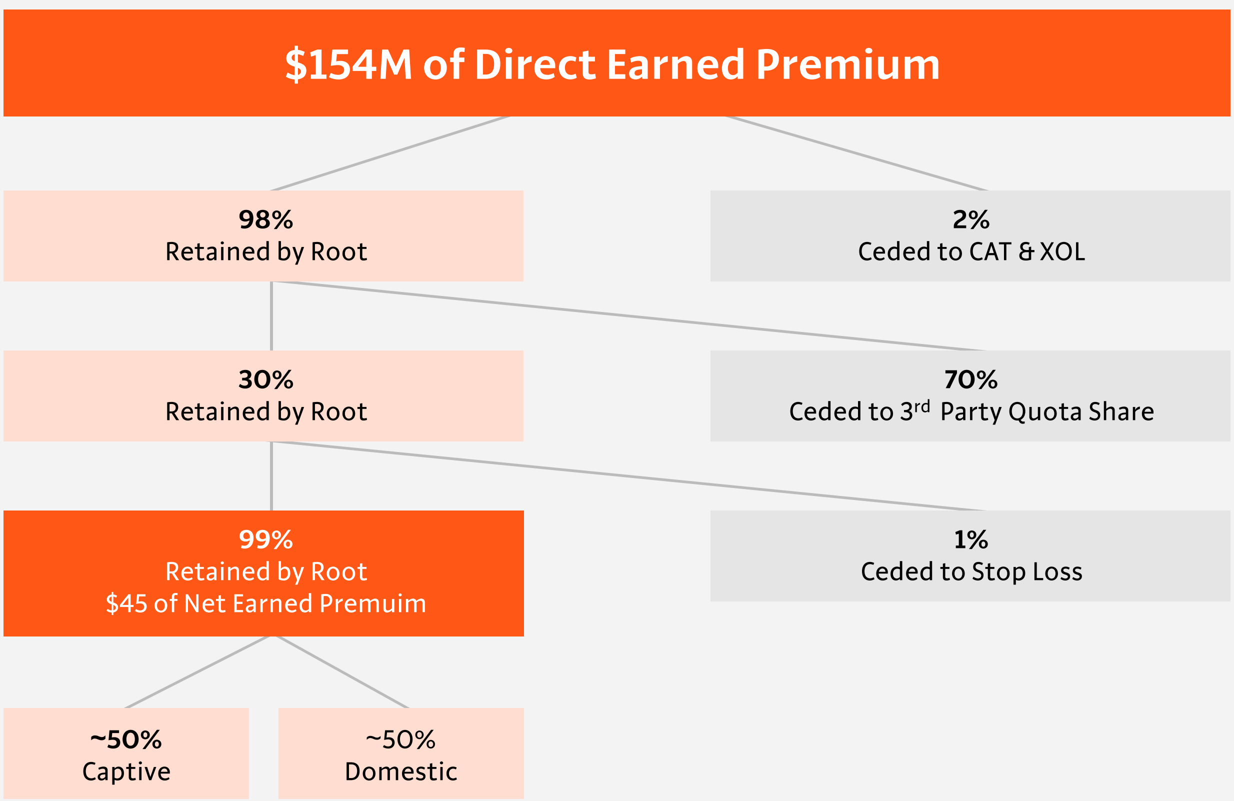
	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(dollars in millions)			
Total revenue	$ 50.5	$ 79.6	$ 295.9	$ 183.7
Loss and loss adjustment expenses	(76.1)	(100.9)	(303.3)	(210.5)
Other insurance benefit (expense)	26.3	(15.2)	(0.3)	(34.1)
Gross profit/(loss)	0.7	(36.5)	(7.7)	(60.9)
Gross margin	1.4 %	(45.9)%	(2.6)%	(33.2)%
Less:				
Net investment income	(1.1)	(1.1)	(4.3)	(2.8)
Net realized gains on investments	(0.1)	—	(0.2)	—
Adjustments from other insurance benefit (expense)(1)	10.2	10.4	29.3	23.7
Adjusted gross profit/(loss)	$ 9.7	$ (27.2)	$ 17.1	$ (40.0)
Direct earned premium	$ 154.4	$ 99.9	$ 450.2	$ 233.3
Ratio of adjusted gross profit/(loss) to total revenue	19.2 %	(34.2)%	5.8 %	(21.8)%
Ratio of adjusted gross profit/(loss) to direct earned premium	6.3 %	(27.2)%	3.8 %	(17.1)%

(1) Adjustments from other insurance benefit (expense) includes report costs, personnel costs, allocated overhead, licenses, professional fees and other.

Appendix

Q3 2020 Reinsurance program

The diagram below outlines the impact of our reinsurance program that we established in the third quarter, and walks from direct earned premium to net earned premium.



Annex

Historical & projected share count

As of November 24, 2020, the number of outstanding shares of the Root Inc.'s Class A common stock, par value $0.0001 per share, was 59,443,588, and the number of outstanding shares of the Root Inc.'s Class B common stock, par value $0.0001 per share, was 191,354,938. Total common shares outstanding across all classes of common stock on November 24, 2020 was 250,798,526. The fully diluted share count as of November 24, 2020 also includes 11,369,112 options and restricted stock units (RSUs), as all outstanding warrants prior to Initial Public Offering were exercised and included in the total common shares outstanding.

For purposes of calculating basic and diluted loss per share for the three-month and twelve-month periods ending December 31, 2020, the Company projects weighted average total shares outstanding to be approximately 185 million and 75 million shares, respectively. This calculation excludes the impact of outstanding options and RSUs because of their anti-dilutive effect.

Root Inc

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