UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2023
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from____________to____________

Commission File Number: 001-39658

ROOT, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**84-2717903**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
80 E. Rich Street, Suite 500 Columbus, Ohio	**43215**
(Address of principal executive offices)	**(Zip Code)**

(866) 980-9431
(Registrant’s telephone number, including area code)

N/A
(Former name, former address and former fiscal year if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, $0.0001 par value per share	ROOT	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of April 27, 2023, the number of outstanding shares of the registrant’s Class A common stock, par value $0.0001 per share, was 9.3 million and the number of outstanding shares of the registrant’s Class B common stock, par value $0.0001 per share, was 5.0 million.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to retain existing customers, acquire new customers and expand our customer reach;
- our expectations regarding our future financial performance, including total revenue, gross profit/(loss), net income/(loss), direct contribution, adjusted EBITDA, net loss and loss adjustment expense, or LAE, ratio, net expense ratio, net combined ratio, gross loss ratio, marketing costs, gross LAE ratio, gross expense ratio, gross combined ratio, quota share levels and expansion of our new and renewal premium base;
- our ability to realize profits, acquire customers, retain customers, contract with additional partners to utilize the product, or achieve other benefits from our embedded insurance offering;
- our ability to expand our distribution channels through additional partnership relationships, digital media and referrals;
- our ability to reduce customer acquisition costs and realize other expected benefits related to the partnership with Carvana Group, LLC, or Carvana;
- our ability to drive a significant long-term competitive advantage through our partnership with Carvana;
- the impact of supply chain disruptions, increasing inflation, a recession and/or disruptions to properly functioning financial and capital markets and interest rates on our business and financial condition;
- our ability to reduce operating losses and extend our capital runway;
- our goal to be licensed in all states in the United States and the timing of obtaining additional licenses and launching in new states;
- the accuracy and efficiency of our telematics and behavioral data, and our ability to gather and leverage additional data;
- our ability to materially improve retention rates and our ability to realize benefits from retaining customers;
- our ability to underwrite risks accurately and charge profitable rates;
- our ability to maintain our business model and improve our capital and marketing efficiency;
- our ability to drive improved conversion and decrease the cost of customer acquisition;
- our ability to maintain and enhance our brand and reputation;
- our ability to effectively manage the growth of our business;
- our ability to raise additional capital efficiently or at all;
- our ability to improve our product offerings, introduce new products and expand into additional insurance lines;
- our ability to cross sell our products and attain greater value from each customer;
- our lack of operating history and ability to attain profitability;
- our ability to compete effectively with existing competitors and new market entrants in our industry;
- future performance of the markets in which we operate;

- our ability to operate a “capital-efficient” business and obtain and maintain reinsurance contracts;
- our ability to realize economies of scale;
- the impact of the COVID-19 pandemic and governmental responses thereto on our business and financial condition;
- our ability to attract, motivate and retain key personnel, or hire personnel, and to offer competitive compensation and benefits;
- our ability to deliver a vertically integrated customer experience;
- our ability to develop products that utilize our telematics to drive better customer satisfaction and retention;
- our ability to protect our intellectual property and any costs associated therewith;
- our ability to develop an autonomous claims experience;
- our ability to take rate action early and react to changing environments;
- our ability to meet risk-based capital requirements;
- our ability to realize the benefits anticipated from our Texas county mutual fronting arrangement;
- our ability to expand domestically;
- our ability to stay in compliance with laws and regulations that currently apply or become applicable to our business;
- the impact of litigation or other losses;
- the effect of increasing interest rates on our available cash and our ability to maintain compliance with our credit agreement;
- our ability to maintain proper and effective internal control over financial reporting and remediate existing deficiencies;
- our ability to continue to meet the Nasdaq Stock Market, or Nasdaq, listing standards; and
- the growth rates of the markets in which we compete.

You should not rely on forward-looking statements as predictions of future events. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described under the heading “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained herein. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made and we undertake no obligation to update them to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

Unless the context otherwise indicates, references in this report to the terms “Root,” “the Company,” “we,” “our” and “us” refer to Root, Inc. and its subsidiaries.

We may announce material business and financial information to our investors using our investor relations website (ir.joinroot.com). We therefore encourage investors and others interested in Root to review the information that we make available on our website, in addition to following our filings with the Securities and Exchange Commission, or SEC, webcasts, press releases and conference calls.

Part I. Financial Information

Item 1. Financial Statements

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

	As of	
	March 31, 2023	December 31, 2022
	(in millions, except par value)	
Assets		
Investments:		
Fixed maturities available-for-sale, at fair value (amortized cost: $131.1 and $134.2 at March 31, 2023 and December 31, 2022, respectively)	$ 126.4	$ 128.4
Short-term investments (amortized cost: $0.1 and $0.4 at March 31, 2023 and December 31, 2022, respectively)	0.1	0.4
Other investments	4.4	4.4
Total investments	130.9	133.2
Cash and cash equivalents	679.3	762.1
Restricted cash	1.0	1.0
Premiums receivable, net of allowance of $2.3 and $2.8 at March 31, 2023 and December 31, 2022, respectively	113.5	111.9
Reinsurance recoverable and receivable, net of allowance of $0.2 at March 31, 2023 and December 31, 2022	129.4	148.8
Prepaid reinsurance premiums	74.1	74.2
Other assets	72.9	81.7
Total assets	$ 1,201.1	$ 1,312.9
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity		
Liabilities:		
Loss and loss adjustment expense reserves	$ 259.6	$ 287.4
Unearned premiums	141.1	136.5
Long-term debt and warrants	296.3	295.4
Reinsurance premiums payable	85.9	119.8
Accounts payable and accrued expenses	26.0	39.7
Other liabilities	36.5	45.0
Total liabilities	845.4	923.8
Commitments and Contingencies (Note 11)		
Redeemable convertible preferred stock, $0.0001 par value, 100.0 shares authorized, 14.1 shares issued and outstanding at March 31, 2023 and December 31, 2022 (liquidation preference of $126.5)	112.0	112.0
Stockholders' equity:		
Class A common stock, $0.0001 par value, 1,000.0 shares authorized, 9.2 shares issued and outstanding at March 31, 2023 and December 31, 2022	—	—
Class B common stock, $0.0001 par value, 269.0 shares authorized, 5.0 shares issued and outstanding at March 31, 2023 and December 31, 2022	—	—
Additional paid-in capital	1,857.1	1,850.7
Accumulated other comprehensive loss	(4.7)	(5.8)
Accumulated loss	(1,608.7)	(1,567.8)
Total stockholders' equity	243.7	277.1
Total liabilities, redeemable convertible preferred stock and stockholders' equity	$ 1,201.1	$ 1,312.9

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS - UNAUDITED

	Three Months Ended March 31,	
	2023	2022
	(in millions, except per share data)	
Revenues:		
Net premiums earned	$ 60.0	$ 78.3
Net investment income	6.7	0.6
Net realized gains on investments	—	1.2
Fee income	3.2	4.9
Other income	0.2	0.4
Total revenues	70.1	85.4
Operating expenses:		
Loss and loss adjustment expenses	63.3	96.7
Sales and marketing	3.6	15.3
Other insurance expense	1.3	1.0
Technology and development	10.2	13.9
General and administrative	21.5	30.5
Total operating expenses	99.9	157.4
Operating loss	(29.8)	(72.0)
Interest expense	(11.1)	(5.5)
Loss before income tax expense	(40.9)	(77.5)
Income tax expense	—	—
Net loss	(40.9)	(77.5)
Other comprehensive income (loss):		
Changes in net unrealized gains (losses) on investments	1.1	(3.7)
Comprehensive loss	$ (39.8)	$ (81.2)
Loss per common share: basic and diluted (both Class A and B)	$ (2.88)	$ (5.54)
Weighted-average common shares outstanding: basic and diluted (both Class A and B)	14.2	14.0

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY - UNAUDITED

	Redeemable Convertible Preferred Stock		Class A and Class B Common Stock						
	Shares	Amount	Class A Shares	Class B Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Loss	Total Stockholders' Equity
					(in millions)				
Balance—January 1, 2023	14.1	$ 112.0	9.2	5.0	$ —	$ 1,850.7	$ (5.8)	$ (1,567.8)	$ 277.1
Net loss	—	—	—	—	—	—	—	(40.9)	(40.9)
Other comprehensive gain	—	—	—	—	—	—	1.1	—	1.1
Common stock—share-based compensation expense	—	—	—	—	—	2.5	—	—	2.5
Warrant compensation expense	—	—	—	—	—	4.4	—	—	4.4
Warrants issuance costs	—	—	—	—	—	(0.5)	—	—	(0.5)
Balance—March 31, 2023	14.1	$ 112.0	9.2	5.0	$ —	$ 1,857.1	$ (4.7)	$ (1,608.7)	$ 243.7
Balance—January 1, 2022	14.1	$ 112.0	7.9	6.1	$ —	$ 1,806.1	$ 0.4	$ (1,270.1)	$ 536.4
Net loss	—	—	—	—	—	—	—	(77.5)	(77.5)
Other comprehensive loss	—	—	—	—	—	—	(3.7)	—	(3.7)
Conversion of Class B to Class A	—	—	0.6	(0.6)	—	—	—	—	—
Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes	—	—	0.1	—	—	0.4	—	—	0.4
Reclassification of early-exercised stock options from liabilities	—	—	—	—	—	0.1	—	—	0.1
Common stock—share-based compensation expense	—	—	—	—	—	6.6	—	—	6.6
Warrant compensation expense	—	—	—	—	—	5.3	—	—	5.3
Warrants issuance costs	—	—	—	—	—	(0.6)	—	—	(0.6)
Term Loan warrants issued	—	—	—	—	—	0.6	—	—	0.6
Balance—March 31, 2022	14.1	$ 112.0	8.6	5.5	$ —	$ 1,818.5	$ (3.3)	$ (1,347.6)	$ 467.6

See Notes to Condensed Consolidated Financial Statements - Unaudited

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

	Three Months Ended March 31,	
	2023	2022
	(in millions)	
Cash flows from operating activities:		
Net loss	$ (40.9)	$ (77.5)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	2.5	6.6
Warrant compensation expense	4.4	5.3
Depreciation and amortization	2.7	3.6
Bad debt expense	2.8	4.6
Net realized gains on investments	—	(1.2)
Changes in operating assets and liabilities:		
Premiums receivable	(4.4)	(13.6)
Reinsurance recoverable and receivable	19.4	(4.4)
Prepaid reinsurance premiums	0.1	(5.9)
Other assets	8.9	6.0
Losses and loss adjustment expenses reserves	(27.8)	(11.8)
Unearned premiums	4.6	12.4
Reinsurance premiums payable	(33.9)	24.9
Accounts payable and accrued expenses	(13.5)	(0.4)
Other liabilities	(8.6)	0.2
Net cash used in operating activities	(83.7)	(51.2)
Cash flows from investing activities:		
Purchases of investments	(4.8)	(8.5)
Proceeds from maturities, call and pay downs of investments	8.2	4.3
Sales of investments	—	1.9
Capitalization of internally developed software	(2.5)	(2.7)
Purchases of indefinite-lived intangible assets and transaction costs	—	(1.3)
Net cash provided by (used in) investing activities	0.9	(6.3)
Cash flows from financing activities:		
Proceeds from exercise of stock options and restricted stock units, net of tax proceeds/(withholding)	—	0.2
Proceeds from issuance of debt and related warrants, net of issuance costs	—	286.0
Net cash provided by financing activities	—	286.2
Net (decrease) increase in cash, cash equivalents and restricted cash	(82.8)	228.7
Cash, cash equivalents and restricted cash at beginning of period	763.1	707.0
Cash, cash equivalents and restricted cash at end of period	$ 680.3	$ 935.7

See Notes to Condensed Consolidated Financial Statements - Unaudited

ROOT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

1. NATURE OF BUSINESS

Root, Inc. is a holding company which, directly or indirectly, maintains 100% ownership of each of its subsidiaries, including, among others, Root Insurance Company, an Ohio-domiciled insurance company; Root Property & Casualty Insurance Company, a Delaware-domiciled insurance company; and Root Reinsurance Company, Ltd., a Cayman Islands-domiciled reinsurance company, together with Root, Inc., “we,” “us” or “our.” We were formed in 2015 and began writing personal auto insurance in July 2016.

We are a technology company operating a primarily direct-to-consumer model with the majority of our personal insurance customers acquired through mobile applications and our embedded platform. We offer auto and renters insurance products underwritten by Root Insurance Company and Root Property & Casualty Insurance Company.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—In our opinion, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. All such adjustments are of a normal and recurring nature. These condensed consolidated financial statements are unaudited and, accordingly, should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC on February 22, 2023, or the 2022 10-K.

Basis of Consolidation—The unaudited condensed consolidated financial statements include the accounts of Root, Inc. and its subsidiaries, all of which are wholly owned. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. All intercompany accounts and transactions have been eliminated.

Use of Estimates—The preparation of the unaudited condensed consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates reflected in our unaudited condensed consolidated financial statements include, but are not limited to, reserves for loss and loss adjustment expense, or LAE, allowance for expected credit losses on premium receivables and valuation allowances for income taxes.

Revision of Previously Issued Financial Statements—During the fourth quarter of 2022, we identified errors in our first, second and third quarter financial statements for 2022 and revised the quarterly presentation of certain sales and marketing and general and administrative expenses on our condensed consolidated statements of operations and comprehensive loss related to the purported misappropriation of funds by a senior marketing employee. The errors did not impact periods prior to 2022.

In accordance with SEC Staff Accounting Bulletin, or SAB, No. 99, *Materiality*, and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, we assessed the materiality of these errors on our financial statements and concluded the errors were not material to the unaudited interim financial statements for the three months ended March 31, 2022.

The following tables present the effect of the revision on the condensed consolidated statements of operations and comprehensive loss, condensed consolidated statements of redeemable convertible preferred stock and stockholders' equity and condensed consolidated statements of cash flows as of and for the three months ended March 31, 2022.

	Three Months Ended March 31, 2022 (unaudited)		
	As reported	Adjustments	As Corrected
Condensed consolidated statement of operations and comprehensive loss data:	(in millions, except per share amounts)		
Sales and marketing	$ 14.7	$ 0.6	$ 15.3
General and administrative	30.0	0.5	30.5
Total operating expenses	156.3	1.1	157.4
Operating loss	(70.9)	(1.1)	(72.0)
Loss before income tax expense	(76.4)	(1.1)	(77.5)
Net loss	(76.4)	(1.1)	(77.5)
Comprehensive loss	$ (80.1)	$ (1.1)	$ (81.2)
Weighted-average common shares outstanding: basic and diluted (both Class A and B)	14.0		14.0
Loss per common share: basic and diluted (both Class A and B)	$ (5.46)		$ (5.54)

	As of March 31, 2022 (unaudited)		
	As reported	Adjustments	As Corrected
Condensed consolidated statement of redeemable convertible preferred stock and stockholders equity data:	(in millions)		
Accumulated loss	$ (1,346.5)	$ (1.1)	$ (1,347.6)
Total stockholders' equity	$ 468.7	$ (1.1)	$ 467.6

	Three Months Ended March 31, 2022 (unaudited)		
	As reported	Adjustments	As Corrected
Condensed consolidated statement of cash flows data:	(in millions)		
Net loss	$ (76.4)	$ (1.1)	$ (77.5)
Other assets	4.9	1.1	6.0
Net cash used in operating activities	$ (51.2)	$ —	$ (51.2)

Reverse Stock Split— In August 2022, an authorized subcommittee of our board of directors approved a reverse stock split of our Class A and Class B common stock at a ratio of 1-for-18. On August 12, 2022, we filed a Certificate of Amendment to our Amended and Restated Certificate of Incorporation to effect a 1-for-18 reverse stock split of our Class A and Class B common stock. As a result of the reverse stock split, every 18 shares of our issued or outstanding pre-reverse split common stock of each class were combined into one share of common stock of such class. No fractional shares were issued upon the reverse stock split. On August 15, 2022, our Class A common stock began trading on a split-adjusted basis on the Nasdaq Stock Market. Accordingly, all historical per share data, number of shares outstanding and other common stock equivalents for the periods presented in the accompanying condensed consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect the reverse stock split.

COVID-19—In March 2020, the World Health Organization declared COVID-19 a global pandemic. The COVID-19 pandemic and governmental responses thereto have impacted and may further impact the broader economic environment, including creating or exacerbating supply chain disruptions and inflation and negatively impacting unemployment levels, economic growth, the proper functioning of financial and capital markets and interest rates. As the COVID-19 pandemic continues, there is ongoing uncertainty around the severity and duration of the pandemic and the pandemic's potential impact on our business and our financial performance. Accordingly, we cannot predict the impact that it may have on our future results of operations and financial condition.

Cash, Cash Equivalents and Restricted Cash—The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amount in the condensed consolidated statements of cash flows:

	As of	
	March 31, 2023	December 31, 2022
	(dollars in millions)	
Cash and cash equivalents	$ 679.3	$ 762.1
Restricted cash	1.0	1.0
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 680.3	$ 763.1

3. INVESTMENTS

The amortized cost and fair value of short-term investments and available-for-sale fixed maturity securities at March 31, 2023 and December 31, 2022 are as follows:

	March 31, 2023				
	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)				
Fixed maturities:					
U.S. Treasury securities and agencies	$ 9.4	$ —	$ —	$ (0.2)	$ 9.2
Municipal securities	21.9	—	—	(1.0)	20.9
Corporate debt securities	59.2	—	0.1	(2.3)	57.0
Residential mortgage-backed securities	5.4	—	—	(0.3)	5.1
Commercial mortgage backed securities	23.8	—	—	(1.0)	22.8
Other debt obligations	11.4	—	0.1	(0.1)	11.4
Total fixed maturities	131.1	—	0.2	(4.9)	126.4
Short-term investments	0.1	—	—	—	0.1
Total	$ 131.2	$ —	$ 0.2	$ (4.9)	$ 126.5

	December 31, 2022				
	Amortized Cost	Allowance for Expected Credit Losses	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in millions)				
Fixed maturities:					
U.S. Treasury securities and agencies	$ 11.3	$ —	$ —	$ (0.3)	$ 11.0
Municipal securities	21.4	—	—	(1.2)	20.2
Corporate debt securities	60.5	—	—	(2.7)	57.8
Residential mortgage-backed securities	5.5	—	—	(0.3)	5.2
Commercial mortgage backed securities	24.4	—	—	(1.2)	23.2
Other debt obligations	11.1	—	0.1	(0.2)	11.0
Total fixed maturities	134.2	—	0.1	(5.9)	128.4
Short-term investments	0.4	—	—	—	0.4
Total	$ 134.6	$ —	$ 0.1	$ (5.9)	$ 128.8

Management reviewed the available-for-sale securities at each balance sheet date to consider whether it was necessary to recognize a credit loss as of March 31, 2023 and December 31, 2022. We do not intend to sell the investments and it is not more likely than not that we will be required to sell the security before recovery. Management concluded that the available-for-sale securities’ unrealized losses were due to non-credit related factors and, therefore, there was no allowance for credit loss as of March 31, 2023 and December 31, 2022.

The following tables reflect the gross unrealized losses and fair value of short-term investments and available-for-sale fixed maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2023 and December 31, 2022:

	March 31, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Fixed maturities:						
U.S. Treasury securities and agencies	$ 6.0	$ (0.1)	$ 2.2	$ (0.1)	$ 8.2	$ (0.2)
Municipal securities	2.7	—	15.9	(1.0)	18.6	(1.0)
Corporate debt securities	13.7	(0.3)	36.2	(2.0)	49.9	(2.3)
Residential mortgage-backed securities	0.9	—	2.1	(0.3)	3.0	(0.3)
Commercial mortgage-backed securities	4.4	(0.1)	16.8	(0.9)	21.2	(1.0)
Other debt obligations	4.7	(0.1)	1.6	—	6.3	(0.1)
Total fixed maturities	32.4	(0.6)	74.8	(4.3)	107.2	(4.9)
Short-term investments	0.1	—	—	—	0.1	—
Total	$ 32.5	$ (0.6)	$ 74.8	$ (4.3)	$ 107.3	$ (4.9)

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	(dollars in millions)					
Fixed maturities:						
U.S. Treasury securities and agencies	$ 6.9	$ (0.1)	$ 4.1	$ (0.2)	$ 11.0	$ (0.3)
Municipal securities	11.5	(0.5)	8.2	(0.7)	19.7	(1.2)
Corporate debt securities	45.3	(1.6)	11.5	(1.1)	56.8	(2.7)
Residential mortgage-backed securities	2.2	—	1.9	(0.3)	4.1	(0.3)
Commercial mortgage-backed securities	18.3	(0.8)	4.6	(0.4)	22.9	(1.2)
Other debt obligations	6.8	(0.2)	—	—	6.8	(0.2)
Total fixed maturities	91.0	(3.2)	30.3	(2.7)	121.3	(5.9)
Short-term investments	0.1	—	—	—	0.1	—
Total	$ 91.1	$ (3.2)	$ 30.3	$ (2.7)	$ 121.4	$ (5.9)

Other Investments

As of March 31, 2023 and December 31, 2022, other investments related to our private equity investments were $4.4 million. We recognized zero and $1.2 million of realized gains for the three months ended March 31, 2023 and 2022, respectively. We recorded the gain on sale of our private equity investments within net realized gains on investments in our condensed consolidated statements of operations and comprehensive loss. There were no unrealized gains and losses or impairment losses recognized on private equity investments for the three months ended March 31, 2023 and 2022.

The following table reflects the gross and net realized gains and losses on short-term investments, available-for-sale fixed maturities and other investments that have been included in the condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
	(dollars in millions)	
Realized gains on investments	$ —	$ 1.2
Realized losses on investments	—	—
Net realized gains on investments	$ —	$ 1.2

The following table sets forth the amortized cost and fair value of short-term investments and available-for-sale fixed maturity securities by contractual maturity at March 31, 2023:

	March 31, 2023	
	Amortized Cost	Fair Value
	(dollars in millions)	
Due in one year or less	$ 28.8	$ 28.3
Due after one year through five years	75.4	72.3
Due five years through 10 years	15.4	15.0
Due after 10 years	11.6	10.9
Total	$ 131.2	$ 126.5

The following table sets forth the components of net investment income for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022
	(dollars in millions)	
Interest on bonds	$ 0.9	$ 0.6
Interest on deposits and cash equivalents	5.9	0.2
Total	6.8	0.8
Investment expense	(0.1)	(0.2)
Net investment income	$ 6.7	$ 0.6

The following tables summarize the credit ratings of short-term investments and available-for-sale fixed maturity securities at March 31, 2023 and December 31, 2022:

	March 31, 2023		
S&P Global rating or equivalent	**Amortized Cost**	**Fair Value**	**% of Total Fair Value**
	(dollars in millions)		
AAA	$ 59.8	$ 57.6	45.5 %
AA+, AA, AA-, A-1	20.2	19.6	15.5
A+, A, A-	37.5	35.9	28.4
BBB+, BBB, BBB-	13.7	13.4	10.6
Total	$ 131.2	$ 126.5	100.0 %

	December 31, 2022		
S&P Global rating or equivalent	**Amortized Cost**	**Fair Value**	**% of Total Fair Value**
	(dollars in millions)		
AAA	$ 62.5	$ 59.9	46.5 %
AA+, AA, AA-, A-1	19.9	19.1	14.8
A+, A, A-	38.4	36.5	28.3
BBB+, BBB, BBB-	13.8	13.3	10.4
Total	$ 134.6	$ 128.8	100.0 %

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide information about our financial assets measured and reported at fair value as of March 31, 2023 and December 31, 2022:

	March 31, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in millions)			
Assets				
Fixed maturities:				
U.S. Treasury securities and agencies	$ 7.3	$ 1.9	$ —	$ 9.2
Municipal securities	—	20.9	—	20.9
Corporate debt securities	—	57.0	—	57.0
Residential mortgage-backed securities	—	5.1	—	5.1
Commercial mortgage-backed securities	—	22.8	—	22.8
Other debt obligations	—	11.4	—	11.4
Total fixed maturities	7.3	119.1	—	126.4
Short-term investments	—	0.1	—	0.1
Cash equivalents	464.3	—	—	464.3
Total assets at fair value	$ 471.6	$ 119.2	$ —	$ 590.8

	December 31, 2022			
	Level 1	Level 2	Level 3	Total Fair Value
	(dollars in millions)			
Assets				
Fixed maturities:				
U.S. Treasury securities and agencies	$ 9.2	$ 1.8	$ —	$ 11.0
Municipal securities	—	20.2	—	20.2
Corporate debt securities	—	57.8	—	57.8
Residential mortgage-backed securities	—	5.2	—	5.2
Commercial mortgage-backed securities	—	23.2	—	23.2
Other debt obligations	—	11.0	—	11.0
Total fixed maturities	9.2	119.2	—	128.4
Short-term investments	—	0.4	—	0.4
Cash equivalents	487.3	—	—	487.3
Total assets at fair value	$ 496.5	$ 119.6	$ —	$ 616.1

We estimate the fair value of all our different classes of Level 2 fixed maturities and short-term investments by using quoted prices from a combination of an independent pricing vendor or broker/dealer, pricing models, quoted prices of securities with similar characteristics or discounted cash flows. All significant inputs were observable in the active markets.

Private Equity Investments Measured at Fair Value on a Non-Recurring Basis

Private equity investments that have been remeasured during the period due to an observable event or impairment are classified within Level 3 in the fair value hierarchy because we estimate the value based on valuation methods which may include a combination of the observable transaction price at the transaction date and other unobservable inputs including volatility, rights, and obligations of the investments we hold. See Note 3, “Investments,” for further information on our private equity investments.

Fair Value of Long-Term Debt

The carrying amount of long-term debt is recorded at the unpaid balance, net of discount and debt issuance costs. The fair value of outstanding long-term debt is classified within Level 2 of the fair value hierarchy. The fair value is based on a model referencing observable interest rates and spreads to project and discount cash flows to present value. As of March 31, 2023 and December 31, 2022, the carrying amounts and fair values of these financial instruments were as follows:

	Carrying Amount as of March 31, 2023	Estimated Fair Value as of March 31, 2023	Carrying Amount as of December 31, 2022	Estimated Fair Value as of December 31, 2022
	(dollars in millions)			
Long-term debt	$ 296.3	$ 309.8	$ 295.4	$ 309.7

The carrying amounts of other short-term financial instruments approximates their fair value due to their short-term nature.

5. LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The following provides a reconciliation of the beginning and ending reserve balances for loss and LAE, net of reinsurance:

	Three Months Ended March 31,	
	2023	2022
	(dollars in millions)	
Gross loss and LAE reserves, January 1	$ 287.4	$ 320.2
Reinsurance recoverable on unpaid losses	(76.4)	(79.5)
Net loss and LAE reserves, January 1	211.0	240.7
Net incurred loss and LAE related to:		
Current year	61.9	96.8
Prior years	1.4	(0.1)
Total incurred	63.3	96.7
Net paid loss and LAE related to:		
Current year	24.4	36.4
Prior years	64.0	57.7
Total paid	88.4	94.1
Net loss and LAE reserves, March 31	185.9	243.3
Plus reinsurance recoverable on unpaid losses	73.7	65.1
Gross loss and LAE reserves, March 31	$ 259.6	$ 308.4

Incurred losses and LAE attributable to prior accident years was an increase of $1.4 million and a decrease of $0.1 million for the three months ended March 31, 2023 and 2022, respectively. For the three months ended March 31, 2023, the development of incurred losses and LAE related to prior periods was primarily driven by higher-than-expected reported losses on material damage claims due to higher vehicle repair costs and higher-than-expected LAE on prior accident period claims. For the three months ended March 31, 2022, the development of incurred losses related to prior periods was primarily related to lower-than-expected LAE on prior accident period claims, offset by higher-than-expected reported losses on material damage claims from inflationary impacts.

6. REINSURANCE

The following table reflects amounts affecting the condensed consolidated statements of operations and comprehensive loss for reinsurance for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
	(dollars in millions)	
Premiums written:		
Direct	$ 123.8	$ 173.5
Assumed	10.9	13.7
Ceded	(69.9)	(102.4)
Net premiums written	$ 64.8	$ 84.8
Premiums earned:		
Direct	$ 120.1	$ 165.5
Assumed	10.0	9.2
Ceded	(70.1)	(96.4)
Net premiums earned	$ 60.0	$ 78.3
Losses and LAE incurred:		
Direct	$ 99.8	$ 151.7
Assumed	7.7	11.2
Ceded	(44.2)	(66.2)
Net losses and LAE incurred	$ 63.3	$ 96.7

In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, we would be liable to the policyholder for such defaulted amounts.

7. LONG-TERM DEBT

In January 2022, we entered into a $300.0 million five-year term loan, or Term Loan, with the principal amount due and payable upon maturity on January 27, 2027. Interest is payable quarterly and is determined on a floating interest rate currently calculated on the Secured Overnight Financing Rate, with a 1.0% floor, plus 9.0%, plus 0.26161% per annum.

The following summarizes the carrying value of long-term debt as of March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
	(dollars in millions)	
Term Loan	$ 300.0	$ 300.0
Accrued interest payable	7.4	7.3
Unamortized discount, debt issuance costs and warrants	(11.1)	(11.9)
Total	$ 296.3	$ 295.4

8. INCOME TAXES

The consolidated effective tax rate was zero for the three months ended March 31, 2023 and 2022. The difference between these rates and the U.S. federal income tax rate of 21% was primarily due to a full valuation allowance on our U.S. deferred tax assets.

As of March 31, 2023 and December 31, 2022, we did not have any unrecognized tax benefits for uncertain tax positions and had no interest or penalties related to uncertain tax positions.

9. RESTRUCTURING COSTS

In 2022, we conducted strategic initiatives to reduce operating costs, improve efficiency, and increase focus on our strategic priorities. These initiatives resulted in restructuring actions that included a reduction in workforce levels, contract terminations, and in certain instances, a reduction in office space. These restructuring actions include the following costs:

Employee costs—consist of severance, benefits, share-based compensation, and employee compensation expense dependent upon continuous employment for certain employees and related employee costs.

Real estate exit costs—consist of real estate exit costs primarily related to accelerated amortization of right-of-use assets, leasehold improvements and furniture and fixtures.

Other costs—primarily consist of contract termination costs incurred as part of our efforts to improve efficiency and reduce operating costs and accelerated expense for software that no longer has economic benefit.

As of March 31, 2023, we expect to incur approximately $5.5 million of employee compensation expense, dependent upon continuous employment for certain employees, to be recognized ratably through the fourth quarter of 2023. We expect a cash expenditure related to these employee compensation costs in January 2024. As of March 31, 2023, we do not expect to incur any material additional expenditures related to real estate exit costs and other costs in future periods.

The following table displays restructuring costs recorded in general and administrative expenses on the condensed consolidated statements of operations and comprehensive loss:

	Three Months Ended March 31,		Cumulative Incurred Through March 31, 2023
	2023	2022	
Restructuring costs:	(dollars in millions)		
Employee costs	$ 2.3	$ 5.6	$ 17.8
Real estate exit costs	—	1.5	2.1
Other costs	3.3	0.7	4.3
Total restructuring costs	$ 5.6	$ 7.8	$ 24.2

The following table displays a rollforward of the accrual for restructuring costs recorded in other liabilities on the condensed consolidated balance sheets:

	Employee costs	Other costs	Total liability
Restructuring activity:	(dollars in millions)		
Restructuring liability as of January 1, 2023	$ 3.1	$ 0.1	$ 3.2
Expense incurred	1.9	3.3	5.2
Payments	(1.9)	(3.3)	(5.2)
Restructuring liability as of March 31, 2023	$ 3.1	$ 0.1	$ 3.2

10. SHARE-BASED COMPENSATION

Warrants

In October 2021, we issued Carvana eight tranches of warrants, comprised of three tranches of "short-term warrants" and five tranches of "long-term warrants," with the opportunity to purchase a maximum of 7.2 million shares of Class A common stock. As of March 31, 2023, we determined the remaining unvested short-term warrants were probable of vesting. Under that scenario, it is not a possible outcome for the long-term warrants to also vest, so they are considered not probable of vesting. We recognized warrant compensation expense related to these equity-classified warrants based on progress toward completing the integrated automobile insurance solution for Carvana's online buying platform, or the Integrated Platform and policies originating through the Integrated Platform. All of these warrants are out-of-the-money and therefore have no intrinsic value as of March 31, 2023.

The following table displays warrant compensation expense recorded in the condensed consolidated statements of operations and comprehensive loss:

	Three Months Ended March 31,	
	2023	2022
	(dollars in millions)	
Warrant compensation expense:		
Sales and marketing	$ —	$ 5.3
Other insurance expense	4.4	—
Total warrant compensation expense	$ 4.4	$ 5.3

As of March 31, 2023, there was $16.7 million of unrecognized compensation cost related to warrants. The remaining costs are expected to be recognized over a period of approximately two years.

Employee Share-Based Compensation

We maintain an equity incentive plan, or the Plan, for the issuance and grant of equity awards (restricted stock, restricted stock units, or RSUs, and incentive and nonqualified stock options) to our officers, directors, employees and certain advisors. As of March 31, 2023, we had 2.6 million common shares authorized and available for issuance under the Plan.

The following table displays share-based compensation expense recorded in the condensed consolidated statements of operations and comprehensive loss:

	Three Months Ended March 31,	
	2023	2022
	(dollars in millions)	
Share-based compensation expense:		
Loss and loss adjustment expenses	$ 0.1	$ 0.2
Sales and marketing	0.1	0.1
Other insurance expense	0.1	0.2
Technology and development	0.7	0.7
General and administrative	1.5	5.4
Total share-based compensation expense	$ 2.5	$ 6.6

The following table provides total share-based compensation expense by type of award:

	Three Months Ended March 31, 2023	2022
	(dollars in millions)	
Share-based compensation expense:		
Restricted stock unit expense	$ 2.1	$ 6.1
Stock option expense	0.4	0.5
Total share-based compensation expense	$ 2.5	$ 6.6

As of March 31, 2023, there was $1.7 million and $26.9 million of unrecognized compensation cost related to unvested stock options and RSUs, respectively. The remaining costs are expected to be recognized over a period of approximately three years for unvested stock options and four years for RSUs.

Restricted Stock Units

A summary of RSU activity for the three months ended March 31, 2023 is as follows:

	Three Months Ended March 31, 2023		
Restricted Stock Units	Number of Shares	Weighted-Average Grant Date Fair Value per Share	Aggregate Intrinsic Value
	(in millions, except per share amounts)		
Nonvested at January 1, 2023	1.1	$ 51.81	$ 5.0
Granted	—	4.51	
Vested	—	60.00	0.3
Forfeited, expired or canceled	(0.2)	57.49	
Nonvested at March 31, 2023	0.9	$ 49.73	$ 3.8

Stock Options

A summary of option activity for the three months ended March 31, 2023 is as follows:

	Three Months Ended March 31, 2023			
Options	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value
	(in millions, except exercise price and term amounts)			
Outstanding and exercisable at January 1, 2023	0.2	$ 38.15	5.63	$ 0.2
Granted	—	—		
Exercised	—	—		—
Forfeited, expired or canceled	—	52.25		
Outstanding and exercisable at March 31, 2023	0.2	$ 37.49	3.31	$ 0.2

11. COMMITMENTS AND CONTINGENCIES

From time to time, we are party to litigation and legal proceedings relating to our business operations. Except as disclosed below, we do not believe that we are party to any current or pending legal action that could reasonably be expected to have a material adverse effect on our financial condition or results of operations and cash flow.

On February 9, 2023, a purported class action complaint was filed against the Company's subsidiary, Root Insurance Company, in the U.S. District Court for the Middle District of Louisiana (Case No. 3:23-cv-00089-JWD-RLB) by an individual on her behalf and further claiming to represent a putative class of insureds. The complaint alleges that Root Insurance Company breached its insurance contract and violated specific provisions of Louisiana law in settling her vehicle total loss claim. The complaint seeks damages to include payment of alleged benefits owed under the policy, in addition to pre- and post-judgment interest, statutory penalties, attorneys fees and costs, and injunctive relief on behalf of the named plaintiff and the putative class members. The Company believes that the claims in this lawsuit are without merit and intends to defend against them vigorously. The lawsuit is in its early stages. Therefore, at this time, we cannot predict the outcome or estimate the likelihood or magnitude of our possible or potential loss contingency.

On December 19, 2022, a purported class action complaint was filed against the Company's subsidiary, Root Insurance Company, in the U.S. District Court for the Western District of Texas (Case No. 1:22-cv-01328-LY) by an individual on her behalf and further claiming to represent a putative class of insureds. The complaint alleges that Root Insurance Company breached its insurance contract and violated specific provisions of the Texas Prompt Payment of Claims Act for an alleged failure to include sales tax in total loss vehicle settlements. The complaint seeks damages to include payment of alleged benefits owed under the policy, in addition to pre- and post-judgment interest and attorneys fees on behalf of the named plaintiff and the putative class members. Root Insurance Company has moved to dismiss the claims set forth in the complaint. The Company believes that the claims in this lawsuit are without merit and intends to defend against them vigorously. The lawsuit is in its early stages. Therefore, at this time, we cannot predict the outcome or estimate the likelihood or magnitude of our possible or potential loss contingency.

On June 27, 2022, a verified shareholder derivative complaint was filed against certain of the Company's current and former officers and directors in the U.S. District Court for the District of Delaware (Case No. 1:22-cv-00865). The Company was named as a nominal defendant. The complaint alleges that defendants made false or misleading statements and omissions of purportedly material fact, in violation of Section 10(b) of the Securities Exchange Act of 1934, or the Exchange Act, and Rule 10b-5 thereunder, breached their fiduciary duties and/or aided and abetted the breach of fiduciary duties, were unjustly enriched, wasted corporate assets, and are liable under Section 11(f) of the Securities Act of 1933, or the Securities Act, in connection with and following the Company's initial public offering. The complaint seeks unspecified damages. The Company believes that the claims in this lawsuit are without merit and intends to defend against them vigorously. The lawsuit is currently stayed pending final resolution of the below matter and, at this time, we are unable to predict the outcome and we cannot estimate the likelihood or magnitude of our possible or potential loss contingency.

On March 19, 2021, a purported class action complaint was filed against the Company and certain of its current and former officers and directors in the U.S. District Court for the Southern District of Ohio (Case No. 2:21-cv-01197) on behalf of certain Root shareholders. The complaint alleges that defendants made false or misleading statements and omissions of purportedly material fact, in violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder, and of Sections 11 and 15 of the Securities Act in connection with and following the Company's initial public offering. The complaint seeks unspecified damages. The defendants motion to dismiss the claims set forth in the complaint was granted and the lawsuit was dismissed with prejudice on March 31, 2023, which dismissal has been appealed. The Company believes that the claims in this lawsuit are without merit and intends to defend against them vigorously. The lawsuit is in the early stages and, at this time, we are unable to predict the outcome and we cannot estimate the likelihood or magnitude of our possible or potential loss contingency.

We are contingently liable for possible future assessments under regulatory requirements for insolvencies and impairments of unaffiliated insurance companies.

12. LOSS PER SHARE

The following table displays the computation of basic and diluted loss per share for both Class A and Class B common stock for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
	(in millions, except per share amounts)	
Net loss	$ (40.9)	$ (77.5)
Weighted-average common shares outstanding: basic and diluted (both Class A and B)	14.2	14.0
Loss per common share: basic and diluted (both Class A and B)	$ (2.88)	$ (5.54)

We excluded the following potentially dilutive common stock equivalents, presented based on amounts outstanding at each period end, from the computation of diluted loss per share attributable to common shareholders for the periods indicated because including them would have had an anti-dilutive effect:

	As of March 31,	
	2023	2022
	(in millions)	
Options to purchase common stock	0.2	0.3
Nonvested shares subject to repurchase	0.1	0.1
Restricted stock units	0.9	0.5
Redeemable convertible preferred stock (as converted to common stock)	0.8	0.8
Warrants to purchase common stock	7.6	7.6
Total	9.6	9.3

13. GEOGRAPHICAL BREAKDOWN OF GROSS PREMIUMS WRITTEN

Gross premiums written by state is as follows for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
State	(dollars in millions)			
Texas	$ 19.5	14.5 %	$ 37.3	19.9 %
Georgia	13.9	10.3	18.8	10.0
Colorado	10.6	7.9	10.7	5.7
Pennsylvania	9.3	6.9	10.0	5.3
Utah	7.2	5.3	9.0	4.8
South Carolina	6.2	4.6	7.1	3.8
Louisiana	5.5	4.1	10.7	5.7
Arizona	4.7	3.5	5.3	2.8
Oklahoma	4.7	3.5	6.3	3.4
Nevada	4.4	3.3	8.7	4.6
All others states	48.7	36.1	63.3	34.0
Total	$ 134.7	100.0 %	$ 187.2	100.0 %

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes and the discussion under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the Securities and Exchange Commission, or SEC, on February 22, 2023, or the 2022 10-K. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading “Special Note Regarding Forward-Looking Statements” in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading “Risk Factors” in this Quarterly Report on Form 10-Q and in the 2022 10-K for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements.

Our Business

Root is a tech-enabled insurance company revolutionizing personal insurance with a pricing model based upon fairness and a modern customer experience. We operate primarily a direct-to-consumer model in which we currently acquire the majority of our customers through mobile applications. We are also focused on expanding our embedded insurance platform, where we acquire customers through strategic partnerships.

We believe the Root advantage is derived from our unique ability to efficiently and effectively bind auto insurance policies quickly, through direct and embedded channels, aided by segmenting individual risk based on complex behavioral data and proprietary telematics. Our customer experience is built for ease of use and a product offering made possible with our full-stack insurance structure. These are all uniquely integrated into a single cloud-based technology platform that captures the entire insurance value chain—from customer acquisition to underwriting to claims and administration to ongoing customer engagement.

Our model benefits from portfolio maturity. As we scale the business and develop our embedded products, our results are disproportionately weighted towards new customers compared to traditional insurance carriers. As we build an underlying base of recurring customers, we expect the following financial impacts:

- ***Improved loss ratio.*** Renewal premiums, referring to premiums from a customer’s second term and beyond, have lower loss ratios as compared to new premiums in the customer’s first term. As we grow our business, we anticipate, consistent with industry norms, that a greater proportion of our premiums will be from customer renewals and drive down the loss ratio across our portfolio. We also continue to revise contracts to tighten underwriting and implement rate increases to control the impact of increased loss costs.

- ***Reduced marketing as a percentage of premium***. Certain recurring customer premiums have no associated customer acquisition costs and minimal underwriting costs, driving profitability. As we grow our business, we anticipate, consistent with industry norms, that a greater proportion of our premiums will be from customer renewals without associated marketing costs.

- ***Increased revenue per customer***. Over time we expect to refine our fee schedules to be more consistent with industry norms. This, paired with strengthened underwriting, will facilitate the opportunity to generate additional fee revenue per customer.

We use technology to drive efficiency across all functions, including distribution, underwriting, policy administration and claims in particular. We believe this allows us to operate with a cost to acquire and cost to serve advantage. We continue to develop machine learning loss models, which allows us to respond more quickly to changes in the market, improve pricing segmentation and take appropriate and timely rate actions. We efficiently acquire customers directly through multiple channels, including embedded, digital (performance), channel media, referrals and agency. Our evolving acquisition strategy includes utilizing our embedded platform through current and future embedded partners. Traditionally, our marketing costs have historically been well below industry averages, although in any given period, these costs can vary by acquisition strategy, channel mix, by state, or due to seasonality or due to the competitive environment. Today, we acquire the vast majority of our customers through mobile applications and our embedded platform. We believe that through prudent investment in and diversification of our marketing channels, including a focus on embedded insurance through our current and future strategic partners, and leveraging proprietary data science and technology will position us for more sustainable, long-term and profitable growth.

As a full-stack insurance company, we currently employ a “capital-efficient” model, which utilizes a variety of reinsurance structures at elevated levels of reinsurance. These reinsurance structures deliver three core objectives (1) top-line growth without a commensurate increase in regulatory capital requirements, (2) support of customer acquisition costs and (3) protection from outsized losses or tail events. We expect to maintain an elevated level of third-party quota share reinsurance while scaling our business in order to operate a capital-efficient business model. As our business scales, we expect to have the flexibility to reduce our quota share levels to maximize the return to shareholders.

Given the significant impact of reinsurance on our results of operations, we use certain gross basis key performance indicators to manage and measure our business operations and enhance investor understanding of our business model prior to reinsurance. We believe our long-term success will be apparent through the progression of our gross metrics. Results of operations on a gross basis alone are not achievable under our regulatory landscape given our historical top-line growth and resulting capital requirements, which are relieved, in part, by obtaining reinsurance.

In addition to our gross basis metrics, management uses adjusted earnings before interest, tax, depreciation, amortization, or adjusted EBITDA, as an integral part of managing our business. We believe adjusted EBITDA provides investors with useful insight into our business because such measure eliminates the effects of certain charges that are not directly attributable to our underlying operating performance. For additional information, including definitions of these key metrics, see “— Key Performance Indicators” and for reconciliations of Direct Contribution and adjusted EBITDA to the most directly comparable generally accepted accounting principles in the United States, or GAAP, metric, see “— Non-GAAP Financial Measures.”

Recent Developments Affecting Comparability

General Macroeconomic Factors

Economic instability has led to acute inflationary pressures, supply chain disruptions, rising interest rates, a downturn in equity markets and recent bank failures. There is a risk of inflation remaining elevated for an extended period, which could cause claims and claim expenses to increase, impact the performance of our investment portfolio or have other adverse effects. We have seen an increase in the value of used vehicles and replacement parts. These cost increases have resulted in greater claims severity while being partially offset by higher subrogation recoveries on damaged vehicles.We continue to file in multiple states to establish rates that more closely follow the evolving loss cost trends. Rising interest rates and reduced equity values have increased the cost of capital and may limit our ability to raise additional capital.

COVID-19 Impact

In March 2020, the World Health Organization declared COVID-19 a global pandemic. The COVID-19 pandemic and governmental responses thereto have impacted and may further impact the broader economic environment, including creating or exacerbating supply chain disruptions and inflation and negatively impacting unemployment levels, economic growth, the proper functioning of financial and capital markets and interest rates.

As the COVID-19 pandemic continues, there is ongoing uncertainty around the severity and duration of the pandemic and the pandemic’s potential impact on our business and our financial performance. See the section titled “Risk Factors” in the 2022 10-K for more details.

Comprehensive Reinsurance

We expect to continue to utilize reinsurance in the future, and our diversified approach to reinsurance allows us to be flexible in response to changes in market conditions or our own business changes, which allows us to strategically fuel growth and technology investment by optimizing the amount of capital required.

Key Performance Indicators

We regularly review a number of metrics, including the following key performance indicators, to evaluate our business, measure our performance, identify trends in our business, prepare financial projections and make strategic decisions. We believe these non-GAAP and operational measures are useful in evaluating our performance, in addition to our financial results prepared in accordance with GAAP. See the section titled "— Non-GAAP Financial Measures" for additional information regarding our use of direct contribution and adjusted EBITDA and their reconciliations to the most directly comparable GAAP measures.

	Three Months Ended March 31,	
	2023	2022
	(dollars in millions, except premiums per policy)	
Policies in force	199,685	335,273
Premiums per policy	$ 1,292	$ 1,040
Premiums in force	$ 516.0	$ 697.4
Gross premiums written	$ 134.7	$ 187.2
Gross premiums earned	$ 130.1	$ 174.7
Gross profit/(loss)	$ 5.5	$ (12.3)
Net loss	$ (40.9)	$ (77.5)
Direct contribution	$ 18.6	$ 6.4
Adjusted EBITDA	$ (11.3)	$ (51.8)
Net loss and LAE ratio	105.5 %	123.5 %
Net expense ratio	55.7 %	71.3 %
Net combined ratio	161.2 %	194.8 %
Gross loss ratio	71.5 %	84.1 %
Gross LAE ratio	11.2 %	9.1 %
Gross expense ratio	40.3 %	42.4 %
Gross combined ratio	123.0 %	135.6 %
Gross accident period loss ratio	69.3 %	81.5 %

Policies in Force

We define policies in force as the number of current and active auto insurance policyholders underwritten by us as of the period end date. We view policies in force as an important metric to assess our financial performance because policy growth drives our revenue growth, expands brand awareness, deepens our market penetration, and generates additional data to continue to improve the functioning of our platform.

Premiums per Policy

We define premiums per policy as the ratio of gross premiums written on auto insurance policies in force at the end of the period divided by policies in force. We view premiums per policy as an important metric since the higher the premiums per policy the greater the amount of earned premium we expect from each policy.

Premiums in Force

We define premiums in force as premiums per policy multiplied by policies in force multiplied by two. We view premiums in force as an estimate of annualized run rate of gross premiums written as of a given period. Since our auto policies are six-month policies, we multiply this figure by two in order to determine an annualized amount of premiums in force. We view this as an important metric because it is an indicator of the size of our portfolio of policies as well as an indicator of expected earned premium over the coming 12 months. Premiums in force is not a forecast of future revenue nor is it a reliable indicator of revenue expected to be earned in any given period. We believe that our calculation of premiums in force is useful to investors and analysts because it captures the impact of fluctuations in customers and premiums per policy at the end of each reported period, without adjusting for known or projected policy updates, cancellations and non-renewals.

Gross Premiums Written

We define gross premiums written, as the total amount of gross premium on policies that were bound during the period less the prorated impact of policy cancellations. Gross premiums written includes direct premiums and assumed premiums. We view gross premiums written as an important metric because it is the metric that most closely correlates with changes in gross premiums earned. We use gross premiums written, which excludes the impact of premiums ceded to reinsurers, to manage our business because we believe that it reflects the business volume and direct economic benefit generated by our customer acquisition activities, which along with our underlying underwriting and claims operations (gross loss ratio and gross LAE) are the key drivers of our future profit opportunities. Additionally, premiums ceded to reinsurers can change significantly based on the type and mix of reinsurance structures we use, and, as such, we have the optionality to fully retain the premiums from customers acquired in the future.

Gross Premiums Earned

We define gross premiums earned as the amount of gross premium that was earned during the period. Premiums are earned over the period in which insurance protection is provided, which is typically six months. Gross premiums earned includes direct premiums and assumed premiums. We view gross premiums earned as an important metric as it allows us to evaluate our premium levels prior to the impacts of reinsurance. It is the primary driver of our consolidated GAAP revenues. As with gross premiums written, we use gross premiums earned, which excludes the impact of premiums ceded to reinsurers to manage our business, because we believe that it reflects the business volume and direct economic benefit generated by our customer acquisition activities, which along with our underlying underwriting and claims operations (gross loss ratio and gross LAE) are the key drivers of our future profit opportunities.

Gross Profit/(Loss)

We define gross profit/(loss) as total revenue minus net loss and LAE and other insurance expense. We view gross profit/(loss) as an important metric because we believe it is informative of the financial performance of our core insurance business.

Direct Contribution

We define direct contribution, a non-GAAP financial measure, as gross profit/(loss) excluding net investment income, net realized gains on investments, report costs, salaries, health benefits, bonuses, employee retirement plan related expenses and employee share-based compensation expense, allocated overhead, licenses, net commissions, professional fees and other expenses, ceded premiums earned, ceded loss and LAE, and net ceding commission and other. Net ceding commission and other is comprised of ceding commission received in connection with reinsurance ceded, partially offset by amortization of excess ceding commission, and other impacts of reinsurance ceded which are included in other insurance expense. After these adjustments, the resulting calculation is inclusive of only those gross variable costs of revenue incurred on the successful acquisition of business. We view direct contribution as an important metric because we believe it measures progress towards the profitability of our total policy portfolio prior to the impact of reinsurance.

See the section titled “— Non-GAAP Financial Measures” for a reconciliation of total revenue to direct contribution.

Adjusted EBITDA

We define adjusted EBITDA, a non-GAAP financial measure, as net loss excluding interest expense, income tax expense, depreciation and amortization, share-based compensation, warrant compensation expense, restructuring charges, write-off of prepaid marketing expenses, legal fees and other items that do not reflect our ongoing operating performance. After these adjustments, the resulting calculation represents expenses directly attributable to our operating performance. We use adjusted EBITDA as an internal performance measure in the management of our operations because we believe it provides management and other users of our financial information useful insight into our results of operations and 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.

See the section titled “— Non-GAAP Financial Measures” for a reconciliation of net loss to adjusted EBITDA.

Net Loss and LAE Ratio

We define net loss and LAE ratio expressed as a percentage, as the ratio of net loss and LAE to net premiums earned. We view net loss and LAE ratio as important metric because it allows us to evaluate loss trends as a percentage of net premiums and believe it is useful for investors to evaluate those separately from other operating expenses.

Net Expense Ratio

We define net expense ratio expressed as a percentage, as the ratio of all operating expenses less loss and LAE and less fee income to net premiums earned. We view net expense ratio as important because it allows us to analyze our expense and acquisition trends, net of fee income, and allows investors to evaluate these expenses exclusive of our loss and LAE expenses.

Net Combined Ratio

We define net combined ratio expressed as a percentage, as the sum of net loss and LAE ratio and net expense ratio. We view net combined ratio as important because it allows us to analyze our underwriting result trends and is a key indicator of overall profitability and health of the overall business. We believe it is useful to investors to evaluate these components separately and in the aggregate when reviewing our underwriting performance. A net combined ratio under 100% indicates an underwriting profit, while a net combined ratio greater than 100% indicates an underwriting loss.

Gross Loss Ratio

We define gross loss ratio expressed as a percentage, as the ratio of gross losses to gross premiums earned. Gross loss ratio excludes LAE. We view gross loss ratio as an important metric because it allows us to evaluate incurred losses and LAE separately prior to the impact of reinsurance.

Gross LAE Ratio

We define gross LAE ratio expressed as a percentage, as the ratio of gross LAE to gross premiums earned. We view gross LAE ratio as an important metric because it allows us to evaluate incurred losses and LAE separately. Currently, we do not cede any of our LAE to our third-party quota share reinsurance treaties; therefore, we actively monitor LAE ratio as it has a direct impact on our results regardless of our reinsurance strategy.

Gross Expense Ratio

We define gross expense ratio expressed as a percentage as the ratio of gross operating expenses less loss and LAE and less fee income to gross premiums earned. We view gross expense ratio as important because it allows us to analyze the underlying expense base of the business and establish expense targets, prior to the impact of reinsurance. We believe gross expense ratio is useful for investors to further evaluate business health and performance, prior to the impact of reinsurance.

Gross Combined Ratio

We define gross combined ratio expressed as a percentage as the sum of the gross loss ratio, gross LAE ratio and gross expense ratio. We view gross combined ratio as important because it allows us to evaluate financial performance and establish targets that we believe more closely reflects the underlying performance and profitability of the business prior to reinsurance. Further, we believe it is useful for investors to evaluate these components separately and in the aggregate when reviewing our gross underwriting performance. A gross combined ratio under 100% indicates an underwriting profit while a gross combined ratio greater than 100% indicates an underwriting loss, prior to the impact of reinsurance.

Gross Accident Period Loss Ratio

Gross accident period loss ratio, expressed as a percentage, represents all losses and claims expected to arise from insured events that occurred during the applicable period regardless of when they are reported and finally settled divided by gross premiums earned for the same period. Changes to our loss reserves are the primary driver of the difference between our gross accident period loss ratio and gross loss ratio. We believe that gross accident period loss ratio is useful in evaluating expected losses prior to the impact of reinsurance.

Components of Our Results of Operations

Revenue

We generate revenue from net premiums earned, net investment income, net realized gains on investments, fee income and other income.

Net Premiums Earned

Premiums written are deferred and earned pro rata over the policy period. Net premiums earned represents the earned portion of our gross premiums written, less the earned portion that is ceded to third-party reinsurers under our reinsurance agreements. We expect net premiums earned to decrease in the short-term as our policies in force decrease continues to outpace premiums written from new business. In the near-term, we expect to grow new writings with our embedded products and greater premiums per policy to generate growth in net premiums earned.

Net Investment Income

Net investment income represents interest earned from our fixed maturity and short-term investments and cash and cash equivalents and unrealized gains and losses from our private equity investments less investment expenses. Net investment income is directly correlated with the overall size of our investment portfolio, market level of interest rates and changes in fair value of our private equity investments. Net investment income will vary with the size and composition of our investment portfolio, market returns and the investment strategy.

Net Realized Gains on Investments

Net realized gains on investments represents the difference between the amount received by us on the sale of an investment as compared to the investment's amortized cost basis.

Fee Income

For those policyholders who pay premiums on an installment basis, we charge a flat fee for each installment related to the additional administrative costs associated with processing more frequent billing. We recognize this fee income in the period in which we process each installment.

Other Income

Other income is primarily comprised of revenue earned from distributing website and app policy inquiry leads in geographies where we do not have a presence, recognized when we generate the lead; commissions earned for homeowners policies placed with third-party insurance companies where we have no exposure to the insured risk, recognized on the effective date of the associated policy.

Operating Expenses

Our operating expenses consist of loss and LAE, sales and marketing, other insurance expense, technology and development, and general and administrative expenses.

Loss and Loss Adjustment Expenses

Loss and LAE include the costs incurred for claims, payments made and estimated future payments to be made to or on behalf of our policyholders, including expenses needed to adjust or settle claims, net of amounts ceded to reinsurers. Loss and LAE include an amount determined using adjuster determined case-base estimates for reported claims and actuarial determined unpaid claim estimates using past experience and historical emergence patterns for unreported losses and LAE. These reserves are a liability established to cover the estimated ultimate cost to settle insured losses. The unpaid loss estimates consider loss trends, mix of business, and other risk factors impacting claims settlement. The method used to estimate unpaid LAE liability is based on claims transaction data, including the relative cost of adjusting and settling a range of claim types from express material damage claims to more complex injury cases.

Loss and LAE are net of amounts ceded to reinsurers. We enter into reinsurance contracts to limit our exposure to potential losses as well as to provide additional capacity to write more business. These expenses are a function of the size and term of the insurance policies we write and the loss experience associated with the underlying risks. Loss and LAE may be paid out over a period of years.

Various other expenses incurred during claims processing are considered LAE. These amounts include claims related salaries, health benefits, bonuses, employee retirement plan related expenses and employee share-based compensation expense, or Personnel Costs, for claims related employees; software expense; internally developed software amortization; and overhead allocated based on headcount, or Overhead.

Sales and Marketing

Sales and marketing expense includes spending related to performance and embedded channels, channel media, advertising, branding, public relations, sponsorship, consumer insights and referral fees. These expenses also include related Personnel Costs, Overhead and certain warrant compensation expense related to our embedded channel. We incur sales and marketing expenses for all product offerings. Sales and marketing are expensed as incurred. Certain warrant compensation expense is recognized on a pro-rata basis considering progress toward completing the Integrated Platform under the Carvana commercial agreement.

We plan to continue investing in and diversifying our marketing channels, including costs incurred related to our embedded channel, to attract and acquire new customers, increase our brand awareness, and expand our product offerings within certain markets. We expect that in the long term, our sales and marketing will decrease as a percentage of revenue as the proportion of renewals to our total business increases.

Other Insurance Expense

Other insurance expense includes underwriting expenses, credit card and policy processing expenses, premium write-offs, insurance license expenses, certain warrant compensation expense related to our embedded channel, and Personnel Costs and Overhead related to actuarial and certain data science activities. Other insurance expense also includes amortization of deferred acquisition costs like certain commissions, premium taxes and report costs related to the successful acquisition of a policy. Other insurance expense is expensed as incurred, except for costs related to deferred acquisition costs that are capitalized and subsequently amortized over the same period in which the related premiums are earned. These expenses are also recognized net of ceding commissions earned. Certain warrant compensation expense is recognized on a pro-rata basis for policies originated from the Integrated Platform towards milestones as defined under the Carvana commercial agreement.

Technology and Development

Technology and development expense consists of software development costs related to our mobile app and homegrown information technology systems; third-party services related to infrastructure support; Personnel Costs and Overhead for engineering, product, technology, and certain data science activities; and amortization of internally developed software. Technology and development is expensed as incurred, except for development and testing costs related to internally developed software that are capitalized and subsequently amortized over the expected useful life. Over time, we expect technology and development to decrease as a percentage of revenue.

General and Administrative

General and administrative expenses primarily relate to external professional service expenses; Personnel Costs and Overhead for corporate functions; and depreciation expense for computers, furniture and other fixed assets; write-offs; and restructuring costs which include employee costs, real estate exit costs and other costs. General and administrative expenses are expensed as incurred. We expect general and administrative expenses to decrease as a percentage of total revenue over time.

Non-Operating Expenses

Interest Expense

Interest expense is not an operating expense; therefore, we include these expenses below operating expenses. Interest expense primarily relates to interest incurred on our long-term debt, certain fees that are expensed as incurred and amortization of debt issuance costs. In addition, changes in the fair value of warrant liabilities that were associated with our long-term debt are recorded as interest expense.

Results of Operations

Comparison of the Three Months Ended March 31, 2023 and 2022

	Three Months Ended March 31,			
	2023	2022	$ Change	% Change
	(dollars in millions)			
Revenues:				
Net premiums earned	$ 60.0	$ 78.3	$ (18.3)	(23.4)%
Net investment income	6.7	0.6	6.1	1,016.7 %
Net realized gains on investments	—	1.2	(1.2)	(100.0)%
Fee income	3.2	4.9	(1.7)	(34.7)%
Other income	0.2	0.4	(0.2)	(50.0)%
Total revenues	70.1	85.4	(15.3)	(17.9)%
Operating expenses:				
Loss and loss adjustment expenses	63.3	96.7	(33.4)	(34.5)%
Sales and marketing	3.6	15.3	(11.7)	(76.5)%
Other insurance expense	1.3	1.0	0.3	30.0 %
Technology and development	10.2	13.9	(3.7)	(26.6)%
General and administrative	21.5	30.5	(9.0)	(29.5)%
Total operating expenses	99.9	157.4	(57.5)	(36.5)%
Operating loss	(29.8)	(72.0)	42.2	(58.6)%
Interest expense	(11.1)	(5.5)	(5.6)	101.8 %
Loss before income tax expense	(40.9)	(77.5)	36.6	(47.2)%
Income tax expense	—	—	—	— %
Net loss	(40.9)	(77.5)	36.6	(47.2)%
Other comprehensive income (loss):				
Changes in net unrealized gains (losses) on investments	1.1	(3.7)	4.8	129.7 %
Comprehensive loss	$ (39.8)	$ (81.2)	$ 41.4	(51.0)%

Revenue

Net Premiums Earned

Net premiums earned decreased $18.3 million, or 23.4%, to $60.0 million, for the three months ended March 31, 2023, compared to the same period in 2022. The decrease was primarily due to lower policies in force, partially offset by an increase in premium per policy resulting from rate actions.

During the three months ended March 31, 2023 and 2022, we ceded approximately 53.9% and 55.2% of our gross premiums earned to third-party reinsurers, respectively. The change in ceding percentage between periods was primarily driven by retaining a slightly larger share of our book of business.

The following table presents gross premiums written, ceded premiums written, net premiums written, gross premiums earned, ceded premiums earned and net premiums earned for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,			
	2023	2022	$ Change	% Change
	(dollars in millions)			
Gross premiums written	$ 134.7	$ 187.2	$ (52.5)	(28.0)%
Ceded premiums written	(69.9)	(102.4)	32.5	(31.7)%
Net premiums written	64.8	84.8	(20.0)	(23.6)%
Gross premiums earned	130.1	174.7	(44.6)	(25.5)%
Ceded premiums earned	(70.1)	(96.4)	26.3	(27.3)%
Net premiums earned	$ 60.0	$ 78.3	$ (18.3)	(23.4)%

The decrease in gross premiums earned was primarily due to lower policies in force. This decrease was partially offset by 24.2% increase in premium per policy for automobile insurance primarily attributable to rate actions.

Net Investment Income

Net investment income increased $6.1 million, or 1,016.7%, to $6.7 million for the three months ended March 31, 2023 compared to the same period in 2022. The increase was primarily driven by $5.7 million in higher interest and dividends received as a result of investing more in higher yielding investments.

Operating Expenses

Loss and Loss Adjustment Expenses

Loss and LAE decreased $33.4 million, or 34.5%, to $63.3 million for the three months ended March 31, 2023 compared to the same period in 2022. The decrease was primarily due to lower policies in force and better loss experience for the three months ended March 31, 2023 compared to the same period in 2022.

Gross accident period loss ratios decreased to 69.3% from 81.5% for the three months ended March 31, 2023 and 2022, respectively. The change in the ratios was driven by growth in average premium per policy primarily attributable to rate actions and improved tenure mix as our book of business matures. This was partially offset by higher loss costs as a result of increased severity per claim due to higher vehicle repair and medical costs. We experienced a 12% increase in severity per claim and a 7% decrease in claim frequency for the three months ended March 31, 2023 compared to the same period in 2022. The claim severity and frequency estimates are tenure mix adjusted based on bodily injury, collision, and property damage coverages.

Sales and Marketing

Sales and marketing expense decreased $11.7 million, or 76.5%, to $3.6 million for the three months ended March 31, 2023 compared to the same period in 2022. The decrease was due to a $5.3 million decline in warrant compensation expense related to the completion of the Integrated Platform pursuant to the Carvana commercial agreement in the prior year and a $2.6 million decrease in content development and partnership costs due to a shift in direct marketing strategy. We also experienced a $1.7 million decrease in Personnel Costs as a result of a decrease in headcount, primarily attributable to the involuntary workforce reductions in 2022.

Other Insurance Expense

Other insurance expense increased $0.3 million, or 30.0%, to $1.3 million for the three months ended March 31, 2023 compared to the same period in 2022. The increase was primarily driven by a $4.4 million increase in Carvana warrant expense as a result of policies originating from the Integrated Platform and a $2.1 million increase in amortization of deferred acquisition costs related to the successful acquisition of policies. This was partially offset by decreases in premium write-offs of $1.9 million, premium taxes of $1.3 million, payment processing fees of $0.9 million and net ceding commission contra-expense of $0.7 million primarily attributable to a decline in gross premiums written. We also experienced a $1.3 million decrease in Personnel Costs as a result of a decrease in headcount, due to the involuntary workforce reductions in 2022.

Technology and Development

Technology and development decreased $3.7 million, or 26.6%, to $10.2 million for the three months ended March 31, 2023 compared to the same period in 2022. The decrease was primarily driven by a $2.7 million decrease in Personnel Costs as a result of a decrease in headcount, primarily attributable to the involuntary workforce reductions in 2022.

General and Administrative

General and administrative decreased $9.0 million, or 29.5%, to $21.5 million for the three months ended March 31, 2023 compared to the same period in 2022. The decrease was primarily driven by a $9.2 million decrease in Personnel Costs as a result of a decrease in headcount, primarily attributable to the involuntary workforce reductions in 2022.

Non-Operating Expenses

Interest Expense

Interest expense increased $5.6 million, or 101.8%, to $11.1 million for the three months ended March 31, 2023 compared to the same period in 2022. The increase was primarily due to a $5.4 million increase in debt interest expense as a result of a greater average interest rate and a higher average outstanding debt as of March 31, 2023 compared to the same period in 2022.

Other Comprehensive Income (Loss)

Changes in Net Unrealized Gains (Losses) on Investments

Changes in net unrealized gains (losses) on investments increased $4.8 million, or 129.7%, to net unrealized gains of $1.1 million for the three months ended March 31, 2023 compared to the same period in 2022. The increase is primarily attributable to investments being reinvested at maturity in securities that reflect the current interest rate environment.

Non-GAAP Financial Measures

The non-GAAP financial measures below 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, direct contribution and adjusted EBITDA 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: (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.

Direct Contribution

For the definition of direct contribution and why management believes this measure provides useful information to investors, see "— Key Performance Indicators."

The following table provides a reconciliation of total revenue to direct contribution for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
	(dollars in millions)	
Total revenue	$ 70.1	$ 85.4
Loss and loss adjustment expenses	(63.3)	(96.7)
Other insurance expense	(1.3)	(1.0)
Gross profit/(loss)	5.5	(12.3)
Net investment income	(6.7)	(0.6)
Net realized gains on investments	—	(1.2)
Adjustments from other insurance expense[(1)]	13.0	8.6
Ceded premiums earned	70.1	96.4
Ceded loss and loss adjustment expenses	(44.2)	(66.2)
Net ceding commission and other[(2)]	(19.1)	(18.3)
Direct contribution	$ 18.6	$ 6.4

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

(2) Net ceding commission and other is comprised of ceding commissions received in connection with reinsurance ceded, partially offset by amortization of excess ceding commission and other impacts of reinsurance ceded.

Adjusted EBITDA

For the definition of adjusted EBITDA and why management believes this measure provides useful information to investors, see "— Key Performance Indicators."

The following table provides a reconciliation of net loss to adjusted EBITDA for the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
	(dollars in millions)	
Net loss	$ (40.9)	$ (77.5)
Adjustments:		
Interest expense	10.4	5.0
Income tax expense	—	—
Depreciation and amortization	2.6	2.6
Share-based compensation	2.1	4.5
Warrant compensation expense	4.4	5.3
Restructuring costs(1)	5.6	7.8
Write-offs and other(2)	4.5	0.5
Adjusted EBITDA	$ (11.3)	$ (51.8)

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(1) Restructuring costs consist of employee costs, real estate exit costs, and other. This includes $0.4 million and $2.1 million of share-based compensation for the three months ended March 31, 2023 and 2022, respectively. This also includes $0.1 million and $1.0 million in depreciation and amortization for the three months ended March 31, 2023 and 2022, respectively. For further information on restructuring costs, see Note 9, "Restructuring Costs," in the Notes to Condensed Consolidated Financial Statements.

(2) Write-offs and other primarily reflects legal costs, write-off of prepaid marketing expense and other items that do not reflect our ongoing operating performance.

Liquidity and Capital Resources

General

Since inception, we have financed operations primarily through sales of insurance policies and the net proceeds we have received from our issuance of stock and debt and from sales of investments. Cash generated from operations is highly dependent on being able to efficiently acquire and maintain customers while pricing our insurance products appropriately. We are continuously evaluating alternatives for efficiently funding our ongoing operations. We expect, from time to time, to engage in a variety of financing transactions for such purposes.

Certain events may impact our liquidity such as the economic instability resulting in acute inflationary pressures, supply chain disruptions, rising interest rates, a downturn in equity markets and recent bank failures. There is a risk of inflation remaining elevated for an extended period, which could cause claims and claim expenses to increase, impact the performance of our investment portfolio or have other adverse effects. Rising interest rates and reduced equity values have increased the cost of capital and may limit our ability to raise additional capital.

Regulatory Considerations

We are organized as a holding company, but our primary operations are conducted by two of our wholly-owned insurance subsidiaries, Root Insurance Company, an Ohio-domiciled insurance company, and Root Property & Casualty Insurance Company, a Delaware-domiciled insurance company. The payment of dividends by our insurance subsidiaries is subject to restrictions set forth in the insurance laws and regulations of the States of Ohio and Delaware. To date, our insurance subsidiaries have not paid any dividends and, as of March 31, 2023, they were not permitted to pay any dividends without approval of the applicable superintendent, commissioner and/or director.

If our insurance subsidiaries' businesses grow or the regulatory requirements change, the amount of capital we are required to maintain to satisfy our risk-based capital requirements may increase significantly. To comply with these regulations, we may be required to maintain capital in the insurance subsidiaries that we would otherwise invest in our growth and operations. As of March 31, 2023, our insurance subsidiaries maintained a risk-based capital level that is in excess of an amount that would require any corrective actions on our part.

Our wholly-owned, Cayman Islands-based reinsurance subsidiary, Root Reinsurance Company, Ltd., or Root Re, maintains a Class B(iii) insurer license under Cayman Islands Monetary Authority, or CIMA. At March 31, 2023, Root Re was subject to compliance with certain capital levels and a net premiums earned to capital ratio of 15:1, which we maintained as of March 31, 2023. The capital ratio can fluctuate at Root Re's election, subject to regulatory approval. Root Re's primary sources of funds are capital contributions from the holding company, assumed insurance premiums and net investment income. These funds are primarily used to pay claims and operating expenses and to purchase investments. Root Re must receive approval from CIMA before it can pay any dividend to the holding company.

Financing Arrangements

On January 26, 2022, we closed on a $300.0 million five-year term loan, or Term Loan. The maturity of the Term Loan is January 27, 2027. Interest is payable quarterly and is determined on a floating interest rate calculated on the Secured Overnight Financing Rate, with a 1.0% floor, plus 9%, plus 0.26161% per annum.

Liquidity

As of March 31, 2023, we had $679.3 million in cash and cash equivalents, of which $523.6 million was held outside of regulated insurance entities. We also had $126.5 million in marketable securities.

Our cash and cash equivalents primarily consist of bank deposits and money market funds. Our marketable securities primarily consist of U.S. Treasury securities and agencies, municipal securities, corporate debt securities, residential and commercial mortgage-backed securities, and other debt obligations.

We believe that our existing cash and cash equivalents, marketable securities and cash flow from operations will be sufficient to support short-term working capital and capital expenditure requirements for at least the next 12 months and for the foreseeable future thereafter.

Our long-term capital requirements depend on many factors, including our insurance premium growth rate, rate adequacy, renewal activity, the timing and the amount of cash received from customers, the performance of our products, including the success of our embedded partnerships, loss cost trends, the timing and extent of spending to support development efforts, the introduction of new and enhanced products, the continuing market adoption of offerings on our platform, operating costs, and the ongoing uncertainty in the global markets resulting from the global COVID-19 pandemic.

Currently, our debt covenants require cash and cash equivalents held in entities other than our insurance subsidiaries to be at least $200.0 million at all times. This threshold may be reduced to $150.0 million under two sets of circumstances: issuing 62,500 insurance policies through our Carvana embedded product and achieving a ratio of direct contribution to gross premiums earned of 12%; or ceasing any customer acquisition spend outside of the Carvana commercial agreement and reducing our monthly cash burn to no greater than $12.0 million.

Through prudent deployment of capital we believe we have sufficient resources, and access to additional debt and equity capital, to adequately meet our obligations as they come due.

Cash Flows

The following table summarizes our cash flow data for the periods presented:

	Three Months Ended March 31,	
	2023	2022
	(in millions)	
Net cash used in operating activities	$ (83.7)	$ (51.2)
Net cash provided by (used in) investing activities	0.9	(6.3)
Net cash provided by financing activities	—	286.2

Net cash used in operating activities for the three months ended March 31, 2023 was $83.7 million compared to $51.2 million of net cash used in operating activities for the three months ended March 31, 2022. The increase in cash used in operating activities was primarily due to timing of reinsurance payments and receipts, claim payments and payments of accounts payable and accrued expenses during the three months ended March 31, 2023 compared to the same period in 2022. This was partially offset by a decline in net loss incurred.

Net cash provided by investing activities for the three months ended March 31, 2023 was $0.9 million, primarily due to proceeds from maturities, calls and pay downs, which was partially offset by purchases of investments and capitalization of internally developed software. Net cash used in investing activities for the three months ended March 31, 2022 was $6.3 million, primarily due to purchases of investments and indefinite-lived intangible assets and capitalization of internally developed software, which was partially offset by sales, maturities, calls and pay downs of investments.

Net cash provided by financing activities for the three months ended March 31, 2023 was zero. Net cash provided by financing activities for the three months ended March 31, 2022 was $286.2 million primarily due to proceeds from our Term Loan.

Material Cash Requirements from Contractual and Other Obligations

There have been no material changes to our contractual and other obligations from those described in our 2022 10-K. We believe we have sufficient resources, and access to additional debt and equity capital, to adequately meet our obligations as they come due.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on our financial condition, results of operations, liquidity or cash flows.

Critical Accounting Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of the condensed consolidated financial statements in conformity with GAAP requires our management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the period. We evaluate our significant estimates on an ongoing basis, including, but not limited to, estimates related to reserves for loss and LAE, premium write-offs and valuation allowance on our deferred tax assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

Our critical accounting estimates are described under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates,” in our 2022 10-K and the Notes to Condensed Consolidated Financial Statements appearing elsewhere in this Quarterly Report on Form 10-Q. During the three months ended March 31, 2023, there were no material changes to our critical accounting estimates from those discussed in our 2022 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the quantitative and qualitative market risk disclosures included in the 2022 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of March 31, 2023, our disclosure controls and procedures were not effective at the reasonable assurance level, due to the material weakness in internal control over financial reporting described below.

Previously Disclosed Material Weakness

We disclosed in Part II, Item 9A Controls and Procedures in the 2022 Form 10-K that we had identified a material weakness in internal control over financial reporting related to monitoring and the control environment, including the circumvention of control activities, that contributed to the fraud perpetrated by a former senior marketing employee, and aggregated to a material weakness. Specifically, the material weakness related to inadequate hiring practices for employees in senior leadership positions whose roles and responsibilities include the initiation of transactions with third parties, and ineffective control and monitoring activities, including the circumvention of certain control activities, related to the review, authorization and approval of third-party vendors, and associated contracts for services, and approval of third-party vendor payments.

Status of Management's Remediation Efforts

We are in process of taking, or have taken the following steps to remediate the material weakness described above:

- Enhanced our policy to require more comprehensive hiring practices for individuals in senior leadership positions, which includes more robust background checks than we require for all employees.

- Improving the design of internal vendor management processes and controls, including the hiring of dedicated procurement resources in the first quarter of 2023 to ensure contracts, including amendments, are appropriately reviewed, authorized in accordance with our delegation of authority policies, and approved.

- Clarified the design of vendor payment controls to prescribe the criteria an approver must review, in addition to invoice requests, to adequately support payments to vendors.

- Implemented more stringent monitoring controls to ensure compliance with contract reviews, approval authority limits and vendor payment policies.

We are committed to maintaining a strong internal control environment, and believe that these remediation actions, when fully implemented, will represent significant improvements in our controls under the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Additional remediation measures may be required, which may require additional implementation time. We will continue to assess the effectiveness of our remediation efforts in connection with our evaluation of internal control over financial reporting. The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively.

Changes in Internal Control over Financial Reporting

Except as described above, there were no changes during the quarter ended March 31, 2023 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

From time to time, we are party to litigation and legal proceedings relating to our business operations. While the outcome of all legal actions is not presently determinable, except as noted in Note 11, “Commitments and Contingencies,” in the Notes to Condensed Consolidated Financial Statements, we do not believe that we are party to any current or pending legal action that could reasonably be expected to have a material adverse effect on our financial condition or results of operations and cash flow.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in the 2022 10-K. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A, “Risk Factors” in the 2022 10-K. You should not interpret the disclosure of any risk factor to imply the risk has not already materialized.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

None.

Dividend Policy

We have never declared or paid cash dividends on our stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Dividend, Repurchase and Working Capital Restrictions

We are a holding company that transacts a majority of its business through operating subsidiaries. Our regulated insurance subsidiaries are subject to restrictions on the dividends they may pay, which could impact our ability to pay dividends to stockholders in the future.

The payment of any extraordinary dividend by one of our regulated insurance subsidiaries requires the prior approval of the superintendent of the supervisory Department of Insurance, or DOI. “Extraordinary dividend” is defined under the Ohio Revised Code and Delaware Insurance Code, or Code, as: (i) any dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of (a) 10% of an insurer’s policyholder surplus as of December 31 of the preceding year, or (b) an insurer’s net income for the 12-month period ending December 31 of the preceding year or (ii) any dividend or distribution paid by an insurer from a source other than earned surplus. As of December 31, 2022, neither Root Insurance Company nor Root Property & Casualty Insurance Company were permitted to pay any dividends to us without approval of the superintendent of the supervisory DOI. See the section titled “Risk Factors—Risks Related to Our Business—Failure to maintain our risk-based capital at the required levels could adversely affect our ability to maintain regulatory authority to conduct our business,” included in the 2022 10-K.

In addition, insurance regulators have broad powers to prevent a reduction of statutory surplus to inadequate levels, and there is no assurance that dividends of the maximum amount calculated under any applicable formula would be permitted. The Ohio DOI and the Delaware DOI may in the future adopt statutory provisions more restrictive than those currently in effect.

Further, our Term Loan includes covenants that require us to maintain certain levels of liquidity and restrict us from declaring or making cash dividend or other distributions and from repurchasing our common stock outside of the ordinary course of business or in excess of certain specified limits during the term of the applicable loan agreements.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

(a) Exhibits.

Exhibit Number	Description of Exhibit	Incorporation by Reference: Form	SEC File Number	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Root, Inc.	8-K	001-39658	3.1	October 30, 2020	
3.2	Certificate of Amendment to Amended and Restated Certificate of Incorporation of Root, Inc.	8-K	001-39658	3.1	August 15, 2022	
3.3	Amended and Restated Bylaws of Root, Inc.	10-K	001-39658	3.3	February 22, 2023	
3.4	Certificate of Designations of Series A Preferred Stock, filed with the Delaware Secretary of State on October 1, 2021	8-K	001-39658	3.1	October 1, 2021	
4.1	Form of Class A common stock certificate.	S-1/A	333-249332	4.1	October 20, 2020	
4.2	Common Stock Purchase Warrants, dated as of October 1, 2021, by and between Root, Inc. and Carvana Group, LLC	8-K	001-39658	4.1	October 1, 2021	
4.3	Form of Common Stock Purchase Warrant (Tranche 1), dated January 26, 2022	8-K	001-39658	4.1	January 27, 2022	
4.4	Form of Common Stock Purchase Warrant (Tranche 2)	8-K	001-39658	4.2	January 27, 2022	
10.1#	Executive Employment Agreement with Megan Binkley	8-K	001-39658	10.1	March 1, 2023	
10.2#	Separation and Transition Agreement dated February 20, 2023, between Daniel Rosenthal and Root, Inc.	10-K	001-39658	10.34	February 22, 2023	
10.3#	Retention Bonus Agreement between Megan Binkley and Root, Inc.					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document					
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					

101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

# Indicates management contract or compensatory plan.

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates them by reference.

SIGNATURES

Pursuant to the requirements of the Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned.

	Root, Inc.	
Date: May 3, 2023	By:	/s/ Alexander Timm
		Alexander Timm
		Chief Executive Officer and Director
		(*Principal Executive Officer*)
	Root, Inc.	
Date: May 3, 2023	By:	/s/ Megan Binkley
		Megan Binkley
		Interim Chief Financial Officer and Treasurer
		(*Principal Financial Officer and Principal Accounting Officer*)

Exhibit 10.3

November 16, 2022

RE: Retention Bonus Agreement

Dear Megan,

We are pleased to offer you this Retention Bonus Agreement (“Agreement”) to encourage your continued employment with Root Inc. or one of its subsidiaries (collectively, “the Company”). This Agreement does not modify the terms of your employment, or any agreement relating to confidentiality, trade secrets, and non-competition/non-solicitation, including any letter agreement, employment agreement or proprietary information and inventions agreement, which shall continue in full force and effect.

Duration

The term of this Agreement begins on November 16, 2022 and ends on December 29, 2023, with December 29, 2023 being the “Retention Date.”

Duties

You will be expected to perform all your job duties, as you do now, with a professional demeanor and quality work product.

Retention Bonus

You will be eligible to earn a one-time retention bonus of $325,000 (the “Retention Bonus”), less applicable withholdings and payroll deductions, subject to the terms and conditions described below. In order to earn the Retention Bonus, **you must be actively employed with the Company on the Retention Date.** If earned, the Retention Bonus will be paid in a lump sum on the Company’s next regularly scheduled payroll date following the Retention Date.

You will not be eligible for or earn the Retention Bonus if, prior to the Retention Date, you voluntarily resign your employment or the Company terminates your employment for cause (as defined herein).

For purposes of this Agreement only, the term “for cause” shall have the meaning ascribed to such term in any written agreement between you and the Company defining such term and, in the absence of such agreement, such term means the occurrence of any of the following events: (A) your participation in a fraud or act of dishonesty (or an attempted fraud or act of dishonesty) that results in (or could result in) material harm to the Company or its affiliates, including but not limited to material harm to reputational interests; (B) your gross negligence, willful misconduct, or material failure to comply with a written instruction of the Company; (C) your violation of a fiduciary duty or duty of loyalty owed to the Company or its affiliates; (D) your misappropriation of the assets or business opportunities of the Company or any of its affiliates; (E) your conviction of, or plea of no contest with respect to, any felony, or of any misdemeanor involving dishonesty or moral turpitude; (F) your material breach of any fully executed agreement between you and the Company or any of its affiliates or any applicable Company policies; or (G) persistent, unsatisfactory performance or neglect of your job duties. The determination that a termination of your employment is either for cause or without cause will be made by the Company, in its sole discretion.

You may be eligible for payment of the Retention Bonus if, prior to the Retention Date, the Company terminates your employment without Cause, or if your employment is terminated by way of a reduction-in-force or due to a Change in Control as defined in the Root, Inc. 2020 Equity Incentive Plan, as amended or amended and restated from time to time. In any of these circumstances, to earn the Retention Bonus, you must execute and deliver a general release of all known and unknown claims in a release agreement acceptable to the Company (the "**Release**") within the applicable deadline set forth in the Release, but in no event later than forty five (45) calendar days following your employment termination date, and permit the Release to become effective and irrevocable in accordance with its terms (such effective date of the Release, the "**Release Effective Date**"). If earned, the Retention Bonus will be paid to you in a lump sum amount, less applicable withholdings and payroll deductions, on the first administratively possible payroll pay date following the Release Effective Date.

At-Will Employment

No specific term of employment is intended by the terms outlined above, by inference or otherwise. Your employment is and continues to be at-will. In particular, this Agreement does not guarantee or imply your continued employment through the Retention Date or thereafter.

Employee Signature:	/s/ Megan Binkley Megan Binkley
Total Rewards Leader Signature:	/s/ Jennifer Neu Jennifer Neu Senior Director, Total Rewards

EXHIBIT 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Alexander Timm, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Root, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting ((as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2023

/s/ Alexander Timm
Alexander Timm
Chief Executive Officer and Director
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Interim Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Megan Binkley, certify that:

1 I have reviewed this quarterly report on Form 10-Q of Root, Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting ((as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 3, 2023

/s/ Megan Binkley
Megan Binkley
Interim Chief Financial Officer and Treasurer
(*Principal Financial Officer*)

EXHIBIT 32.1

Certification of Chief Executive Officer and Interim Chief Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to the requirements set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code ("18 U.S.C. 1350"), Alexander Timm, Chief Executive Officer of Root, Inc. (the "Company") and Megan Binkley, Interim Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1 The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2023 to which this certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2 The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 3, 2023

/s/ Alexander Timm
Alexander Timm
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Megan Binkley
Megan Binkley
Interim Chief Financial Officer and Treasurer
(Principal Financial Officer)

This certification accompanies this Quarterly Report on Form 10-Q. The certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Root, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in any such filing.