S&P Global
Market Intelligence

Root, Inc. NasdaqGS:ROOT

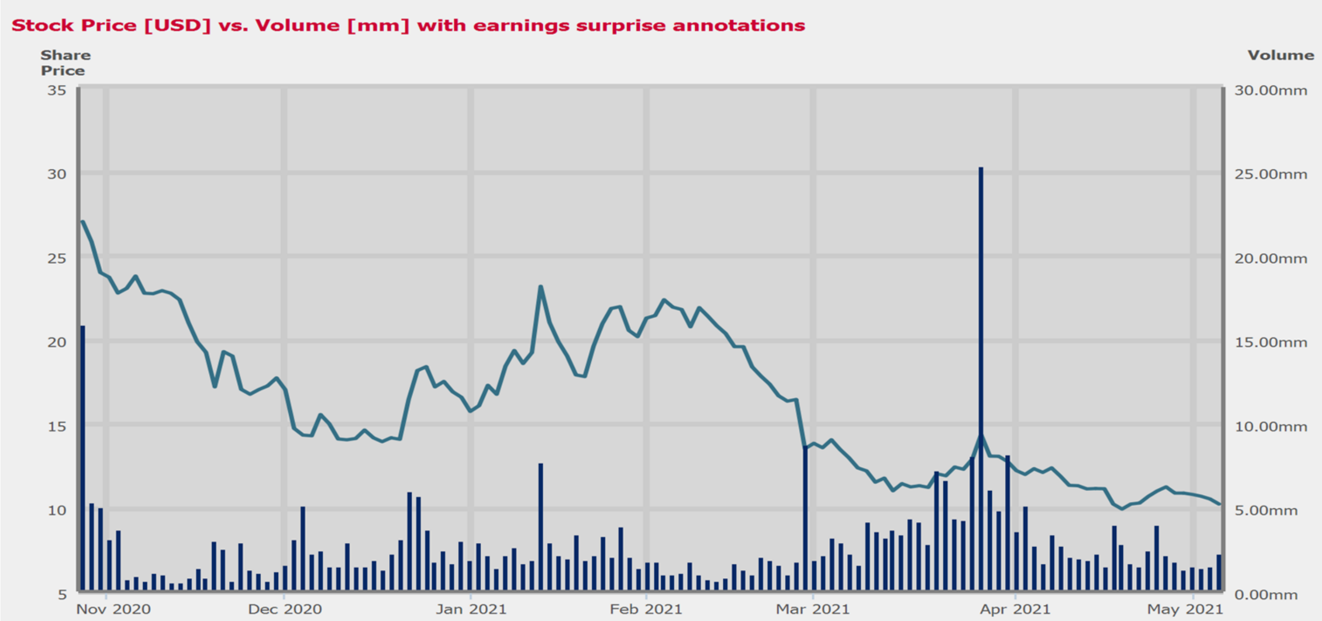
FQ1 2021 Earnings Call Transcripts

Thursday, May 06, 2021 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.81)	NA	NA	(0.45)	(3.93)	NA	NA	(2.08)
Revenue (mm)	49.38	NA	NA	66.02	345.06	NA	NA	292.77

Currency: USD
Consensus as of May-06-2021 4:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	(0.33)	(2.20)	NM
FQ4 2020	(0.81)	(0.72)	NM

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EXECUTIVES

Alexander Edward Timm
Co-Founder, CEO & Director

Daniel Harris Rosenthal
CFO & Director

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

Joshua Michael Siegler
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Robert Charles Zeller
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Ryan James Tunis
Autonomous Research LLP

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Goldman Sachs Group, Inc., Research Division

ATTENDEES

Joe Laroche

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Root, Inc. First Quarter 2021 Earnings Call. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Joe Laroche, Director of Investor Relations. Thank you. You may begin.

Joe Laroche

Good morning, and thank you for joining us today. Root is hosting this call to discuss its first quarter 2021 earnings results. Participating on today's call are Alex Timm, Co-Founder and CEO; and Dan Rosenthal, Chief Financial Officer.

Last evening, Root issued a shareholder letter announcing its financial results. While this call will reflect items discussed within that document, for a more complete information about our financial performance, we also encourage you to read our annual report on Form 10-K for the year ended December 31, 2020, and our quarterly report on Form 10-Q for the quarter ended March 31, 2021, to be filed with the Securities and Exchange Commission.

Before we begin, I want to remind you that matters discussed on today's call will include forward-looking statements related to our operating performance, financial goals and business outlook, which are based on management's current beliefs and assumptions. Please note that these forward-looking statements reflect our opinions as of the date of this call, and we undertake no obligation to revise this information as a result of new developments that may occur.

Forward-looking statements are subject to various risks uncertainties and other factors that could cause our actual results to differ materially from those expected and described today. In addition, we are subject to a number of risks that may significantly impact our business and financial results.

For a more detailed description of our risk factors, please review our Form 10-K for the year ended December 31, 2020, where you will see a discussion of factors that could cause the company's actual results to differ materially from these statements as well as our shareholder letter released yesterday evening. A replay of this conference call will be available on our website under the Investor Relations section.

I would also like to remind you that during the call, we will discuss some non-GAAP measures while reviewing Root's performance. You can find the reconciliation of those historic non-GAAP measures to the nearest comparable GAAP measure in the shareholder letter and our filings with the SEC, which are posted on our website at ir.joinroot.com.

I will now turn the call over to Alex Timm, Root's Co-Founder and CEO.

Alexander Edward Timm
Co-Founder, CEO & Director

Thanks, Joe. On today's call, I'll be providing additional context around Root's Q1 performance. I'll share insights into how we are increasingly leveraging our data science advantage to drive growth and improve operations and efficiency. I'll also talk about how we're elevating the experience we deliver to our customers, creating further separation from competitors. Then I'll turn the call over to Dan for a deep dive into our Q1 financials and path to sustained profitability.

For the first time ever, Root generated over $200 million in direct written premiums in a quarter. This was a 23% year-over-year increase. And we did this while delivering $27 million of direct contribution. Our increase in profitability was driven primarily by improvements in our loss ratio. This is no accident. It was the direct result of disciplined, focused execution.

As we continue to build our datasets, we create increasingly more predictive algorithms, improving our unit economics and enabling lower prices for consumers. We founded Root based on the belief that data and technology can fundamentally disrupt the $260 billion auto insurance industry. Keep in mind, this is an industry dominated by competitors, who were founded before World War II.

At Root, we have built an insurance company from the ground up based entirely on our own technology and machine learning. By creating highly advanced predictive algorithms, we are creating better experiences at better prices for consumers. Driving all of this work is our commitment to eliminating discrimination and bias and a product mandated by the government.

So let me double-click on what this means for consumers and specifically what we delivered in Q1. The biggest moment of truth in an insurance product is the claims experience. Root offers one of the fastest claims turnaround times in the industry. This is powered by our mobile platform that makes the claims process easy for customers and our proprietary claims automation system that makes response times fast.

We have reduced the time between our customer notifying us of an accident and the estimate work beginning from days to seconds. This enables us to put cash in the hands of our customers in half the time of our competitors. And we are well on our way to delivering a fully autonomous claims experience to our customers.

If 2020 taught us anything, it's that people want to and deserve to be treated fairly in all aspects of life. We have the unique ability to change the industry toward the arc of what's right. And we know that consumers are increasingly choosing brands, experiences and products that align with their own values and sense of fairness.

The state of the world today has put a bright light on injustice and bias, and Root is leaning in to evolve our industry away from both. To address this, last year, we announced a Drop The Score initiative, a public call out of industry reliance on credit score and the inherent bias that the use of credit score perpetuates.

We called upon state commissioners, industry leaders and advocacy groups to work toward removing credit as a rating variable. In Q1, we doubled-down on these efforts releasing a detailed report of the bias that comes from using credit score to price insurance and kicking off a grassroots campaign in educating consumers on the issue. And we're beginning to see the tide shift.

Washington state recently ruled against the industry giants' request to keep credit score as a rating variable. Just a few weeks ago, 30 advocacy groups asked the National Association of Insurance Commissioners to address the racially discriminatory use of credit-based insurance scores. As the swell of support for this industry shaking change grows, it's clear that those with other ways of measuring risk will win. Our data science leads firmly positions us to do so.

As we continue to build better products at better prices, while putting control back into the hands of the consumer, we will continue to fuel growth and drive sustainable long-term profit. We'll do this through applying our data science and engineering expertise in everything we do. I'm thankful for the continued support of our investors, our team and our customers.

With that, I'll turn the call over to Dan.

Daniel Harris Rosenthal
CFO & Director

Thanks, Alex, and good morning, everyone. The first quarter of 2021 was a successful one across both our growth and profitability measures, and we are really proud of how our team hit the ground running. You will find our full GAAP financial results contained in the shareholder letter we published yesterday evening and here are some highlights.

On the top line, we grew direct written premium 23% year-over-year to $203 million, our first quarter over $200 million. This also represents sequential growth of 39% above Q4. March was particularly strong, and we believe some demand may have been pulled forward from April and May due to government stimulus. Also, as a result of the timing of the written premium growth, our direct earned premium increased 11% year-over-year to $160 million.

Shifting to profitability, direct loss ratio was 71% for the first quarter, including approximately $10 million of favorable direct prior period development, primarily impacting accident year 2020. Adjusting for the impact of that prior development, direct accident period loss ratio totaled 77%, a 3-point improvement year-over-year against Q1 2020 and a 29-point improvement from Q1 2019, removing noise related to the pandemic.

Direct contribution, really the key profitability metric for the business, was $27 million for the quarter, a big improvement from a loss of $11 million in Q1 2020. Direct contribution was 17% of direct earned premium for the quarter. The improvement in direct contribution was driven primarily by the direct loss ratio as I covered above.

The first quarter tends to be stronger seasonally as customers are out shopping. And the impact of stimulus and return to work has fueled car demand. That created a great marketing environment for us, providing momentum towards our growth goals. As Alex mentioned, we're investing heavily to ensure we can scale our customer acquisition spend over the long-term while keeping the CAC profile of the business intact. To this end, we continued our Test and Invest approach in Q1 to build a broader set of acquisition channels.

We mentioned on our Q4 call that our state management activity contributed significantly to our loss ratio results, and that has continued in Q1. We are managing the business at a state level, adjusting pricing where necessary. In the quarter, we completed 8 filings. The state management Team successfully added an additional state to our seasoned portfolio. This portfolio expansion and targeted investment in seasoned states drove seasoned premiums to 73% of earned premiums in Q1 along with a sequentially better seasoned loss ratio.

So for the first quarter, we have a lot of good momentum in our existing markets, and we're hard at work expanding into new states. We now have the required licenses to operate in 48 states. Licensure is the necessary and challenging first step to writing policies, and we now are in the process of filing our product, forms and pricing models in multiple states. We will share more on our progress here in the coming months.

We run the business on a direct basis, and it's on my team and me to manage the capital and reinsurance components of the business. To that end, I am pleased to announce that we have successfully placed a multiyear reinsurance treaty with a panel that includes current relationships as well as a few new names. By shifting the date to April 1, we were able to attain better terms by also building better alignment with our reinsurance partners, all of which is in line with guidance we provided you on our Q4 call. We are excited about the breadth and strength of our reinsurance programs as they remain a key component of capital structure.

We are very encouraged by what we accomplished in our first quarter. We grew the business the right way, taking advantage of a strong demand environment and we delivered solid improvement in direct contribution and accident period loss ratio. Our Q1 results demonstrate that our business model is working. That said, 1 quarter does not a year make, and our team remains laser-focused on delivering the expectations that we have shared.
With that, Alex and I look forward to your questions.

Question and Answer

Operator

[Operator Instructions] Your first question is from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Dan and Alex, I just want to just make sure I understand comments this quarter as compared to last quarter. I think it might be just semantics on the way I'm thinking about what you said, but I want to make sure. Last quarter, it was -- you wanted to focus on launching in new states where you've proven your model was okay. And it felt like that was a bit of a slowdown in the national expansion plan. But this quarter, you're now licensed in every -- almost every state, and starting to roll out forms and pricing in a few of those new states, 11 or 12 new states that you have licensed in. Is that a difference? Is it now that you're confident in the model and you can go and launch in newer states? Or is it just simply getting licenses out there and ready to go?

Daniel Harris Rosenthal
CFO & Director

No. We've got you, Mike. This is Dan, and thanks for the question. So the short answer, Mike, is that nothing is different from what we talked about on the Q4 call. The positive that we are disclosing as of last night is that we have utilized the Shell entity to secure licenses in 48 states now. And what that means for us, as you know, is that's step 1 in the process. And now we are in the process of filing our product and our forms and all of our telematics and pricing models to be able to put Root in the market and begin writing policies. And that work is actively advanced in, as we said, several states, all in line with what we talked about on the Q4 call.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Good. So when you say this quarter that you're in the process of filing forms and pricing models in several of the new states, that means that you -- what you were saying last quarter and now is that you do have confidence in that model to expand it into the newer states?

Daniel Harris Rosenthal
CFO & Director

Absolutely. That's right. As you know, we don't control the regulators. It's a necessary part of the process. It's something that we have invested deeply in over the years. We have a wonderful Head of Regulatory Relations, who's the former President of the NAIC. Alex himself is an actuary, which, as you know, is quite unique, helps in those regulatory conversations as well, but it's still a process in each state. And we are actively engaged in that process in the states where we are not yet writing policies.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. The second question then is just on comments. You listed 5 or 6 different reasons why the margins improved this quarter. I want to focus on one of those, if I can, for a second here is, and you talked about this before, but maybe we can drill down more into better targeted marketing initiatives for good characteristics. What does that mean? How are you doing that? How are you improving your targeting -- your targeted marketing to focus on better driving characteristics?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. It's a good question. What we've really focused on is inside of our marketing channels and our marketing platforms is the ability to leverage all of the rich data that comes through those digital platforms in order to make sure that we're showing the right ad to the right customer at the right time. And as we have grown, we've gotten more and more data, which has allowed us to fine-tune those data science models and put those across more and more of our marketing channels. And that has allowed us to effectively skew the mix toward a more preferred book of business and toward lower loss ratio customers.

Operator

Your next question is from Ross Sandler with Barclays.

Ross Adam Sandler
Barclays Bank PLC, Research Division

I'll leave the insurance questions to the experts, but just had a question about growth. So your auto PIF was up pretty nice sequentially. And you just mentioned some of the marketing efficiency that you're getting. So how do we think about that going forward? Have we turned the corner, and we should expect kind of sequential net adds on that? And then can you talk about the retention rates, how are the retention rates trending? Any improvement there?

Daniel Harris Rosenthal
CFO & Director

Thanks, Ross. This is Dan. So first, on PIF, I think everything is in line with what we have talked about on prior calls. We are encouraged by the growth that we saw in the first quarter. We're focused on executing our plan for the rest of the year. We're focused on moving into additional states later this year, as I mentioned earlier. And all of that will drive PIF growth and direct written premium growth in line with the guidance that we gave on prior calls.

Similarly, our retention rates are in line with prior quarters as well. As we've talked about, we are deploying multiple strategies focused on enhancing retention. And we expect that you'll see those strategies pay off and show up in the numbers, but it takes time, Ross, as you know, for that to happen. And at the same time, you're seeing -- you're going to see an influx of new writings associated with the growth that, as we have talked about, will impact our loss ratio.

So you have these tailwinds and headwinds associated with the loss ratio that we continue to see playing out consistent with what we talked about on the Q4 call that net-net over the course of the year will show loss ratio improvement.

Operator

Your next question is from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

First question, the pull forward of April-May shopping behavior into this quarter. Do you expect that then to result in some slowdown in the next quarter? Or do you think the -- I guess, put differently, are your full year expectations still intact? Or do you think that you could actually come in ahead of the outlook?

Daniel Harris Rosenthal
CFO & Director

Thanks, Yaron. As you know, we've made clear we're not in the habit of providing quarterly guidance. So I'm not going to focus in too much on Q2 versus Q1. Although, as you mentioned, we did see a pull forward of demand from April and May, we believe, into March, in part associated with the government stimulus.

As far as the year outlook, we just issued our annual guidance a little more than 2 months ago. And if something changes that warrants an update, we'll, of course, come back to you. But as you know, we're 5 years removed from writing our first policy, doing something disruptive that has never been done before, and we're encouraged by the first quarter results. The business model is working. The quarter exceeded our expectations. We know what the path is from here, and we're focused on executing on our 2021 plan, consistent with the guidance that we provided in February.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And the seasoned earned premiums as a percentage of total earned premiums clearly saw a nice move up there or continued to move up there this quarter. Can you maybe help us think or try to quantify where that ends at kind of the end of 2021, considering that you are trying to maybe accelerate growth? I realize that directionally, we may see a little bit of pressure, but is it -- are we talking about 60% of the book, 70% of the book, 80% of the book, any help you can offer there would be much appreciated.

Daniel Harris Rosenthal
CFO & Director

Thanks, Yaron. I think more or less in line with the trend that you're seeing is consistent with how our investment in seasoned states will continue to show up. We've talked about before, we have focused our growth on our seasoned states where you see that sustainable, repeatable growth, and I expect that, that will continue. Part of the uncertainty around it is just -- as we're working with regulators of the states that are not yet seasoned, how quickly will that happen to be able to get our telematics and pricing models into market, so that they can become seasoned states. Because, of course, our goal ultimately is that all states will become seasoned states as we work with regulators to put our models into market.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Got it. I'll just try to sneak in 1 more, if I may. Prior year development, can you maybe talk about what drove the release there?

Daniel Harris Rosenthal
CFO & Director

Yes. It's just, as you would expect Yaron, continued work by our reserving team, looking at different trends and development of particularly bodily injury claims, and particularly, most of it was tied to fiscal year 2020.

Operator

[Operator Instructions] And your next question is from Phil Stefano with Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Dan, I appreciate the update on the reinsurance treaty renewal. Just a quick numbers type question and then kind of more theoretical. Is the 70% session the right way to think about the combined reinsurance quota share? And then as we think about the pushback in the renewal date, can you talk to us maybe about the terms and conditions or how the conversations went with the panel? What feedback were you getting from the new participants?

Daniel Harris Rosenthal
CFO & Director

Thanks, Phil. Yes, our cession rate for the quarter was 63%, and that was in line with expectations and what we talked about back on the Q4 call. If you'll recall, we talked about the cession rate coming down and then building back up in the second half of the year, closer to that 70% number that you referenced. And we are still in line with that trend as we have completed the April 1st treaty.

We're very pleased to obviously report out in the letter that we successfully placed the treaty. The terms are favorable to the treaty that we did on July 1. We've got a great panel of reinsurers that includes both new and existing partners. And so we did see the economics improve. We saw the treaty move from a 1-year treaty to a multiyear treaty and it's all consistent with our overall reinsurance strategy that we've talked about.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. And switching gears a bit and going back to the autonomous claims processing. I understood that this is an opportunity to move faster than average on the claims payment side, which I think just improves the user experience for the product. I guess, how do we think about the quality control or the review process for this? I mean is there efficacy testing on past claim payments that were done? Do you sample past claim payments? Is the process is working as intended? Can you talk to us about that side of it?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. The short answer is, yes, there's lots of defect detection and monitoring devices throughout that entire process. The way we do this is we originally do it where the machine and the humans actually both will process and look at claims and so that we can actually compare what the machine is doing versus what humans are doing. And that also allows us to always have a control set, so that we can always be A/B testing and looking at it in a very quantitative manner. We're happy because actually, the faster that we close claims, the cheaper we close claims. Claims do not get better with age. That generally holds because all sorts of bad things can happen over time if you don't close a claim. So we're actually seeing that severity is benefiting from a lot of the automation.

Operator

Your next question is from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

A couple of questions from me. I guess, first, for Dan. Just on the seasonality, which sounds like it helped PIF as well as just the stimulus checks also helping PIF. And Dan, you mentioned some demand being pulled forward. I guess, I'm wondering, is there any way to size this pull forward impact on growth? It sounds like you guys have a pretty good insight into it having a benefit. So wondering if you could size that for us.

And secondly, just on the loss ratio, good to see the 77% direct accident period loss ratio continuing to improve. I guess I'm wondering what the benefit was from 10-year mix on the loss ratio, if I look year-over-year? And specifically, how it compares to the 5-point benefit you guys got in full year '20?

Daniel Harris Rosenthal
CFO & Director

Thanks, David. So on the first question, we're not sizing the pull forward of the demand. I think, as you can imagine, we're doing a lot on the marketing front, including both our traditional performance marketing strategies as well as our work around brand. And we're doing a lot of test and investing. And we're really seeing the fruits of that come forward. We think that the stimulus had an impact. And frankly, as the second quarter progresses, we'll get a better understanding of that, and we'll come back and talk to you about it. But it was significant enough, David, that we wanted to convey it both in the letter as well as live.

As far as from the accident period loss ratio, it's very interesting. I think when we talked earlier back in Q4, we thought that in the first quarter, our renewal percentage as a percentage of direct earned premium would still be a bit bigger. And the new writings growth in the first quarter obviously had more of an impact when you see our first $200 million quarter in company history.

And so we believe, as you start to see that earn in, you will see some of that season, but there's no question that the loss ratio conversation and the 10-year mix conversation is this -- is in line with prior quarters, which is we are going to have a year of significant growth, and those new writings are going to drive pressure on the loss ratio in the short term, offset by the state management and segmentation work as well as the focus on investing in the seasoned states.

Operator

Your next question is from Elyse Greenspan with Wells Fargo.

And your next question is from Matt Carletti with JPMorgan Securities (sic) [JMP Securities].

Matthew John Carletti
JMP Securities LLC, Research Division

Matt Carletti with JMP Securities. I noticed in the letter, you touched on a new feature in the app, particularly with the test drive called Checkpoints. I was hoping you could talk about that a little bit kind of what the feedback has been. I noted the lift and engagement you cited, but particularly, are there any read-throughs yet to the impact that, that might have on churn in terms of people sticking with the test drive and converting or staying on as a policyholder?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. So we focus a lot on making sure that during that test drive period, that there's lots of ways for consumers to engage and understand how they're driving, how they're progressing throughout the process. And that includes rewards, it includes badges, it includes different things like your driving scores that you can review. And as we continue to improve those features and iterate on those features, we see material uplift in engagement. So people opening the app, engaging with the app during that test drive period.

And that does 2 things. The first, it definitely increases the conversion rates. So as consumers are more engaged, they will then tend to purchase more disproportionately. And the second is what you mentioned is there is a correlation between engagement and post-bind and long-term retention. And so we believe as we continue to invest in product and continue to rapidly shift new features to the app, that we will continue to discover more and more features. And that's really what we do here all day every day.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then maybe 1 other, if I can, just more insurance question. There's been some talk on other companies' calls during the quarter of really kind of eyes open towards severity trends and how the economy reopening and some of the influences on the labor pool and other things could have for severity upticks later in the year. Just curious what your guys' view is on that matter and what might set Root apart versus kind of the average auto insurer when dealing with that?

Alexander Edward Timm
Co-Founder, CEO & Director

To date -- we monitor severity and frequency trends all the time. To date, we have not seen a particular acceleration in our severity trends in the data that we're seeing. I will say as we monitor that and we see severity trends come through, we will certainly bake that in and -- appropriately for the rate levels.

We're constantly -- because we have such rich data on our claims and because we settle claims so quickly, partly because most of our consumers have, obviously, the mobile app installed, and so lots of our claims come through the mobile app, which gives us better data on particular claims. The -- that allows us, though, basically to monitor that data real-time much faster. And so as we see that data come through, we would take rate.

Operator

Your next question is from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

So my first question was on the marketing side of things. So as you guys mentioned, right, there was some growth pull forward, but it still sounds like you guys are positive about growth, I guess, in the bigger sense. And so should we still expect marketing to kind of continue to ramp up?

Daniel Harris Rosenthal
CFO & Director

Thanks, Elyse. Yes, everything is consistent with what we've talked about on prior calls. And the first quarter played out in that sense as we had expected. We are still on track to slightly more than double our sales and marketing spend for the year. We are focused on investing in diversifying our marketing channels. We are having some brand spend after previously really doing nothing on that front, and we're seeing real success in terms of awareness of the authenticity of the Root brand. And so as we talked about, our customer acquisition cost has been a bit elevated in the fourth quarter and continuing into this year, but these are the right investments to make. And we are encouraged by the growth that is coming as a result of those investments.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Great. And then you, I think, mentioned that the direct contribution was seasonally stronger in the Q1. I was just hoping to get a little bit more color there. And there are other quarters where we should think about that being seasonally weaker? And then when you set the guide last quarter for the direct contribution for the full year, I'm assuming then that guide inferred a stronger Q1, perhaps not as strong as it was, but had that kind of seasonality built in.

Daniel Harris Rosenthal
CFO & Director

Thanks, Elyse. It is fair to say that there is some loss ratio seasonality in the business and, obviously, with respect to the Root book as well. I think Root is in a bit of a different situation than legacy insurers, who have been around for 50 or 100 or more years, in the sense that our book is still developing on that significant growth curve, and so is going to be impacted by the growth of new writings throughout the year.

And so that's really what our guide back in February for the year, it intended and assumed and that continues today. We expect that new writings will grow significantly as the year progresses, that, that will elevate the loss ratio slightly. But the -- again, as I said, offset by the segmentation, state management and season state investments that we'll make. Overall, when you put that together, that leads to our direct contribution guide for the year, and we are confident in that guidance.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then I guess, one last one, if I could sneak it in. So you said that you're not in the process of, I guess, updating guidance quarterly, which makes sense. But is there a plan at a certain point in the year to update the guidance like after 2 quarters? Or is it just so you'll lay out annual guidance and kind of see -- then will just see how the year comes in?

Daniel Harris Rosenthal
CFO & Director

Yes, it's the latter, Elyse. We're focused on executing on our plan. We feel good about the plan that we put forward in February, and that's really where our focus is. As I said earlier, if something changes dramatically that really warrants an update, of course, we will come back to you and talk about it. But at this point, we are staying laser-focused on our plan.

Operator

Your next question is from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

In terms of the drivers who you put on the books in the back half of March, I assume a high proportion of those drivers were formerly individuals with noncontinuous coverage, who bought auto insurance after receiving a stimulus check. Do those drivers yet have a telematics score? And are they reserved for on the books at a loss ratio equivalent to or higher than most of the customers that come into your funnel?

Alexander Edward Timm
Co-Founder, CEO & Director

So this is Alex. So first, because our reserves -- we obviously don't set reserves for future claims. So the reserves would reflect prior accidents, and there would not be a material portion of those on the books from a March cohort at this time. In terms of loss ratio and unit economic performance of that cohort, we think we've got the right pricing and underwriting in place for those cohorts.

And so if you are somebody who we don't think is going to necessarily be continuously insured with us for a long period of time, we think that's okay. We believe we know how to price those customers. We believe we know how to make sure that we're acquiring them at the appropriate customer acquisition cost. And so we like those customers. We don't think there's anything wrong with those customers, but we also fully know that they're different, and that's part of the reason why segmentation is so important. We -- again, on the loss reserves, you would not see that reflected currently because our loss reserves are for past accidents.

Joshua David Shanker
BofA Securities, Research Division

And would you expect that over time, that those drivers have a different telematics score than a broad cohort of drivers or...

Alexander Edward Timm
Co-Founder, CEO & Director

No. The telematics is independent, and actually, we created as such. So telematics is independent of rating cells. If we saw a lot of correlation between rating cells and telematics, then the telematics wouldn't be nearly as useful.

Joshua David Shanker
BofA Securities, Research Division

Okay. And then could you update us on what's going on in Georgia, and how that's impacting your policy count?

Daniel Harris Rosenthal
CFO & Director

Thanks, Josh. This is Dan. Yes, in Georgia, I imagine that you've seen a rate increase approved by the Georgia regulator. We had mentioned on prior calls that that filing had been pending and will continue to evolve. Simply put, we are working to season states and get our special sauce into states. That includes Georgia, which today is in unseasoned or a new state. And so that work with the regulator is very important.

And previously, if you go back, we were underpriced in Georgia. And that's something that as we evaluated the performance there and looked at our models, we have fixed, and we are in the process of fixing. And that's why you see the rate increase in Georgia and the work that's going on there. And we feel now that we are improved in our underwriting. And as we focus growth in Georgia, it will be done in the right way.

Joshua David Shanker
BofA Securities, Research Division

I know it's not 9:00, if I can sneak one other item in. I know you guys don't give us newly issued policies or gross policy adds. Is there a number in your given financials that you would point us to in serve tracking new sales as a thing that -- show us that number in a way that's satisfying?

Daniel Harris Rosenthal
CFO & Director

Yes, Josh, I think we don't touch on that in our disclosures. But what we do show is -- what basically I've guided you to is that retention is in line with prior quarters as well as with our S-1. And from that, you can discern a lot of information. We have put a lot of disclosure out there around our PIF and the different components that make it up.

Operator

Your next question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here for you. First one, just curious, Metromile announced this morning that they're going to now start accepting Bitcoin for premium payments as well as claims payments. What's your thoughts on that? Any challenges that, that presents?

Alexander Edward Timm
Co-Founder, CEO & Director

This is Alex. We think that there certainly could be challenges to accepting Bitcoin, but we don't see that as a strong consumer demand right now. We really just do whatever our consumers are asking for and make sure that we're really focused there when we think about payment flexibility and payment options. And although it might be a fun item to talk about, we just don't see real consumers really wanting to transact with Bitcoin at this point.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Great. And then I guess my second question, I'm just curious, as we're transitioning from a period where there was very, very low miles driven and consumer driving habits may have been kind of different back in 2020 than kind of today. Are you seeing anything different? And how is that kind of affecting your kind of telematics product just because now all of a sudden people may be driving the 20 miles to work where they weren't during 2020?

Alexander Edward Timm
Co-Founder, CEO & Director

Well, that's a great question. We monitor the impacts of COVID very closely. We've seen mileage in general basically rebound to pre-COVID levels. And we also, through the pandemic, were making sure that we are monitoring our scores, so that we weren't overreacting to temporary dips in mileage. And we've done that now. We feel good about where the algorithms are, where they're coming out. And again, like I said, we've seen mileage fully recover in our book at this point.

Operator

Our next question is from Josh Siegler with Cantor Fitzgerald.

Joshua Michael Siegler
Cantor Fitzgerald & Co., Research Division

Can you provide some color on how we'll be approaching pricing and base rate increases moving forward, both in new states and existing ones?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. The way that we approach pricing is on a very segmented individual state basis. So we have a state management function that we have built out that really constantly looks at what are the claim cost trends in each state, where do we believe that's headed, and therefore, what rate do we need to take or not take. Right now, we feel good about where our overall national indication is. You can expect us to continue to make fine-tune adjustments on a per state basis, though, going forward.

Joshua Michael Siegler
Cantor Fitzgerald & Co., Research Division

Great. I was also wondering, how does the recent Apple privacy update really impact your ability to attract data on the phone, both for telematics and for national...

Alexander Edward Timm
Co-Founder, CEO & Director

This is something we've dealt with for actually a long time. We -- with the rollout -- mini rollouts of the new iOS systems have had lots of different privacy changes. For us, we haven't seen a material impact. We went through iOS 14.5, the rollout there. And really, we were able to manage it quite well. So we have not seen a material falloff in the sharing of data from our consumers.

Operator

Your next question is from Ryan Tunis with Autonomous.

Ryan James Tunis
Autonomous Research LLP

So my question, I guess, is just on some of the pull forward stuff with the growth. You added a similar number of PIFs this quarter that you did a year ago. You spent about twice as much on marketing. So I guess the average cost per ad is up a bit. I guess my question is like if you think about the fact that marketing -- CAC efficiency is down a little bit, why would you assume that there's some pull forward going on? Like why wouldn't you just assume that you're spending more on advertising is a little bit less efficiency, but this is just. I'm just trying to understand why you think this is stimulus related?

Alexander Edward Timm
Co-Founder, CEO & Director

Seasonality, whether it's stimulus or tax season is true every year at the company and generally would be true in the industry broadly. So we would see that. In terms of the customer acquisition cost, particularly compared to last year, we also have -- we don't manage customer acquisition cost in isolation. We really look at it relative to the mix of business that we're bringing in and the target loss ratios that we're bringing in, so that we can make sure that we're appropriately managing the unit economics in terms of lifetime value to CAC.

So we don't look at CAC again just in isolation. We have many customers who are going to stay with us we know for decades and decades. That should have much higher customer acquisition cost for a customer that might stay with us for 6 months. And so we can't just look at that in isolation. And that's part of the reason why we have launched a lot of our data science models on our marketing platforms that allow us to basically bid for the right amount for the right consumers.

In terms of the pull forward, it is something that we expect every year it to happen. Again, there is seasonality with the stimulus. We do believe that, that had some sort of impact to pull forward that demand.

Daniel Harris Rosenthal
CFO & Director

And just to quickly expand on that, this is Dan. The way we really saw that show up is just from a conversion standpoint. As we look at channel diversity that Alex just touched on as well as some of the brand building expense, obviously, one of the things that we track very carefully is conversion and timing of conversion. And that's where we saw, we believe the impact of pulling forward into March.

Ryan James Tunis
Autonomous Research LLP

Got it. And just, I guess, from thinking about the, obviously, vehicle miles driven are up more frequency, we've seen at all the underwriters hasn't fallen as much as we'd have thought. I think Texas has kind of helped industry results a little bit in the first quarter. Can you just talk a little bit about maybe what you saw in February, from a frequency standpoint, the type of benefit you thought you might have gotten from the Texas freezing event?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. So the Texas freezing event certainly did not help, because we do cover weather. So with the -- with any sort of winter events and those sorts of things, you will see actually increased frequency. In general, in Texas, we also saw during that period of time, a reduction in demand because lots of people lost power. But going forward, we don't see that being a material driver or obviously a frequency.

Operator

Our next question is from Youssef Squali with Truist.

Robert Charles Zeller
Truist Securities, Inc., Research Division

This is Robert, on for Youssef. Just wondering if you can touch on how policies enforced growth and retention have trended thus far in the quarter or maybe in April?

Daniel Harris Rosenthal
CFO & Director

Thanks, Robert. We're here today talking about the first quarter. So I don't want to get into development thus far in the second quarter. Obviously, we're encouraged by the growth that we saw in the first quarter, showing up in direct written premium, showing up in PIF at the same time that our loss ratio came down.

Operator
And there are no further questions at this time. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.