

**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 June 30, 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

(State or other jurisdiction of
incorporation or organization)

80 E. Rich Street, Suite 500
Columbus, Ohio

(Address of principal executive offices)

84-2717903

(I.R.S. Employer
Identification Number)

43215

(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

Non-accelerated filer

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 July 27, 2023, the number of outstanding shares of the registrant's Class A common stock, par value \$0.0001 per share, was 9.5 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.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|---------------------------|
| <u>Special Note Regarding Forward-Looking Statements</u> | |
| <u>Part I. Financial Information</u> | |
| <u>Item 1. Condensed Consolidated Balance Sheets - Unaudited</u> | <u>1</u> |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Loss - Unaudited</u> | <u>2</u> |
| <u>Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity - Unaudited</u> | <u>3</u> |
| <u>Condensed Consolidated Statements of Cash Flows - Unaudited</u> | <u>5</u> |
| <u>Notes to Condensed Consolidated Financial Statements - Unaudited</u> | <u>6</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>22</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>41</u> |
| <u>Item 4. Controls and Procedures</u> | <u>42</u> |
| <u>Part II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>43</u> |
| <u>Item 1A. Risk Factors</u> | <u>44</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>45</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>46</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>47</u> |
| <u>Item 5. Other Information</u> | <u>48</u> |
| <u>Item 6. Exhibits</u> | <u>49</u> |
| <u>Signatures</u> | <u>51</u> |

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 and costs of customer acquisition, gross LAE ratio, gross expense ratio, gross combined ratio, quota share levels, changes in unencumbered cash balances 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 drive a significant long-term competitive advantage through our partnership with Carvana and other embedded partnerships;
 - our ability to develop embedded products for our new embedded insurance partners;
 - 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;
 - 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 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 | |
|--|-------------------|----------------------|
| | June 30, 2023 | December 31, 2022 |
| (in millions, except par value) | | |
| Assets | | |
| Investments: | | |
| Fixed maturities available-for-sale, at fair value (amortized cost: \$165.9 and \$134.2 at June 30, 2023 and December 31, 2022, respectively) | \$ 160.0 | \$ 128.4 |
| Short-term investments (amortized cost: \$2.7 and \$0.4 at June 30, 2023 and December 31, 2022, respectively) | 2.7 | 0.4 |
| Other investments | 4.4 | 4.4 |
| Total investments | 167.1 | 133.2 |
| Cash and cash equivalents | 628.0 | 762.1 |
| Restricted cash | 1.0 | 1.0 |
| Premiums receivable, net of allowance of \$2.2 and \$2.8 at June 30, 2023 and December 31, 2022, respectively | 127.6 | 111.9 |
| Reinsurance recoverable and receivable, net of allowance of \$0.2 at June 30, 2023 and December 31, 2022 | 130.2 | 148.8 |
| Prepaid reinsurance premiums | 73.7 | 74.2 |
| Other assets | 67.3 | 81.7 |
| Total assets | <u>\$ 1,194.9</u> | <u>\$ 1,312.9</u> |
| Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity | | |
| Liabilities: | | |
| Loss and loss adjustment expense reserves | \$ 246.5 | \$ 287.4 |
| Unearned premiums | 154.6 | 136.5 |
| Long-term debt and warrants | 297.4 | 295.4 |
| Reinsurance premiums payable | 90.4 | 119.8 |
| Accounts payable and accrued expenses | 37.8 | 39.7 |
| Other liabilities | 41.8 | 45.0 |
| Total liabilities | 868.5 | 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 June 30, 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, 9.4 and 9.2 shares issued and outstanding at June 30, 2023 and December 31, 2022 | — | — |
| Class B common stock, \$0.0001 par value, 269.0 shares authorized, 5.0 shares issued and outstanding at June 30, 2023 and December 31, 2022 | — | — |
| Additional paid-in capital | 1,865.7 | 1,850.7 |
| Accumulated other comprehensive loss | (5.9) | (5.8) |
| Accumulated loss | (1,645.4) | (1,567.8) |
| Total stockholders' equity | 214.4 | 277.1 |
| Total liabilities, redeemable convertible preferred stock and stockholders' equity | <u>\$ 1,194.9</u> | <u>\$ 1,312.9</u> |

See Notes to Condensed Consolidated Financial Statements - Unaudited

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------------|------------------|---------------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | (in millions, except per share data) | | | |
| Revenues: | | | | |
| Net premiums earned | \$ 63.9 | \$ 74.7 | \$ 123.9 | \$ 153.0 |
| Net investment income | 6.8 | 0.7 | 13.5 | 1.3 |
| Net realized (losses) gains on investments | — | (0.1) | — | 1.1 |
| Fee income | 3.8 | 4.4 | 7.0 | 9.3 |
| Other income | 0.3 | 0.7 | 0.5 | 1.1 |
| Total revenues | <u>74.8</u> | <u>80.4</u> | <u>144.9</u> | <u>165.8</u> |
| Operating expenses: | | | | |
| Loss and loss adjustment expenses | 59.5 | 95.7 | 122.8 | 192.4 |
| Sales and marketing | 6.1 | 21.4 | 9.7 | 36.7 |
| Other insurance expense (benefit) | 2.6 | (7.8) | 3.9 | (6.8) |
| Technology and development | 11.1 | 17.9 | 21.3 | 31.8 |
| General and administrative | 20.7 | 39.5 | 42.2 | 70.0 |
| Total operating expenses | <u>100.0</u> | <u>166.7</u> | <u>199.9</u> | <u>324.1</u> |
| Operating loss | (25.2) | (86.3) | (55.0) | (158.3) |
| Interest expense | (11.5) | (9.2) | (22.6) | (14.7) |
| Loss before income tax expense | (36.7) | (95.5) | (77.6) | (173.0) |
| Income tax expense | — | — | — | — |
| Net loss | <u>(36.7)</u> | <u>(95.5)</u> | <u>(77.6)</u> | <u>(173.0)</u> |
| Other comprehensive loss: | | | | |
| Changes in net unrealized losses on investments | (1.2) | (1.3) | (0.1) | (5.0) |
| Comprehensive loss | <u>\$ (37.9)</u> | <u>\$ (96.8)</u> | <u>\$ (77.7)</u> | <u>\$ (178.0)</u> |
| Loss per common share: basic and diluted (both Class A and B) | <u>\$ (2.55)</u> | <u>\$ (6.77)</u> | <u>\$ (5.43)</u> | <u>\$ (12.36)</u> |
| Weighted-average common shares outstanding: basic and diluted (both Class A and B) | 14.4 | 14.1 | 14.3 | 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 | | | | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Accumulated Loss | Total Stockholders' Equity |
|---|--|-----------------|----------------------------------|----------------|-------------|-------------------|----------------------------|--------------------------------------|------------------|----------------------------|
| | Shares | Amount | Class A Shares | Class B Shares | Amount | | | | | |
| | | | (in millions) | | | | | | | |
| Balance—March 31, 2023 | 14.1 | \$ 112.0 | 9.2 | 5.0 | \$ — | \$ 1,857.1 | \$ (4.7) | \$ (1,608.7) | \$ 243.7 | |
| Net loss | — | — | — | — | — | — | — | (36.7) | (36.7) | |
| Other comprehensive loss | — | — | — | — | — | — | (1.2) | — | (1.2) | |
| Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes | — | — | 0.2 | — | — | — | — | — | — | |
| Common stock—share-based compensation expense | — | — | — | — | — | 5.2 | — | — | 5.2 | |
| Warrant compensation expense | — | — | — | — | — | 3.9 | — | — | 3.9 | |
| Warrant issuance costs | — | — | — | — | — | (0.5) | — | — | (0.5) | |
| Balance—June 30, 2023 | <u>14.1</u> | <u>\$ 112.0</u> | <u>9.4</u> | <u>5.0</u> | <u>\$ —</u> | <u>\$ 1,865.7</u> | <u>\$ (5.9)</u> | <u>\$ (1,645.4)</u> | <u>\$ 214.4</u> | |
| Balance—January 1, 2023 | 14.1 | \$ 112.0 | 9.2 | 5.0 | \$ — | \$ 1,850.7 | \$ (5.8) | \$ (1,567.8) | \$ 277.1 | |
| Net loss | — | — | — | — | — | — | — | (77.6) | (77.6) | |
| Other comprehensive loss | — | — | — | — | — | — | (0.1) | — | (0.1) | |
| Common stock—option exercises and restricted stock units vesting, net of shares withheld for employee taxes | — | — | 0.2 | — | — | — | — | — | — | |
| Common stock—share-based compensation expense | — | — | — | — | — | 7.7 | — | — | 7.7 | |
| Warrant compensation expense | — | — | — | — | — | 8.3 | — | — | 8.3 | |
| Warrant issuance costs | — | — | — | — | — | (1.0) | — | — | (1.0) | |
| Balance—June 30, 2023 | <u>14.1</u> | <u>\$ 112.0</u> | <u>9.4</u> | <u>5.0</u> | <u>\$ —</u> | <u>\$ 1,865.7</u> | <u>\$ (5.9)</u> | <u>\$ (1,645.4)</u> | <u>\$ 214.4</u> | |

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 | | | | Accumulated Other Comprehensive (Loss) Income | Accumulated Loss | Total Stockholders' Equity | |
|---|--|-----------------|----------------------------------|----------------|-------------|----------------------------|---|---------------------|----------------------------|--|
| | Shares | Amount | Class A Shares | Class B Shares | Amount | Additional Paid-in Capital | | | | |
| | | | (in millions) | | | | | | | |
| Balance—March 31, 2022 | 14.1 | \$ 112.0 | 8.6 | 5.5 | \$ — | \$ 1,818.5 | \$ (3.3) | \$ (1,347.6) | \$ 467.6 | |
| Net loss | — | — | — | — | — | — | — | (95.5) | (95.5) | |
| Other comprehensive loss | — | — | — | — | — | — | (1.3) | — | (1.3) | |
| Conversion of Class B to Class A | — | — | 0.3 | (0.3) | — | — | — | — | — | |
| Common stock—share-based compensation expense | — | — | — | — | — | 7.4 | — | — | 7.4 | |
| Warrant compensation expense | — | — | — | — | — | 3.5 | — | — | 3.5 | |
| Warrant issuance costs | — | — | — | — | — | (0.4) | — | — | (0.4) | |
| Balance—June 30, 2022 | <u>14.1</u> | <u>\$ 112.0</u> | <u>8.9</u> | <u>5.2</u> | <u>\$ —</u> | <u>\$ 1,829.0</u> | <u>\$ (4.6)</u> | <u>\$ (1,443.1)</u> | <u>\$ 381.3</u> | |
| Balance—January 1, 2022 | 14.1 | \$ 112.0 | 7.9 | 6.1 | \$ — | \$ 1,806.1 | \$ 0.4 | \$ (1,270.1) | \$ 536.4 | |
| Net loss | — | — | — | — | — | — | — | (173.0) | (173.0) | |
| Other comprehensive loss | — | — | — | — | — | — | (5.0) | — | (5.0) | |
| Conversion of Class B to Class A | — | — | 0.9 | (0.9) | — | — | — | — | — | |
| 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 | — | — | — | — | — | 14.0 | — | — | 14.0 | |
| Warrant compensation expense | — | — | — | — | — | 8.8 | — | — | 8.8 | |
| Warrant issuance costs | — | — | — | — | — | (1.0) | — | — | (1.0) | |
| Term Loan warrants issued | — | — | — | — | — | 0.6 | — | — | 0.6 | |
| Balance—June 30, 2022 | <u>14.1</u> | <u>\$ 112.0</u> | <u>8.9</u> | <u>5.2</u> | <u>\$ —</u> | <u>\$ 1,829.0</u> | <u>\$ (4.6)</u> | <u>\$ (1,443.1)</u> | <u>\$ 381.3</u> | |

See Notes to Condensed Consolidated Financial Statements - Unaudited

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

| | Six Months Ended June 30, | |
|---|---------------------------|-----------------|
| | 2023 | 2022 |
| | (in millions) | |
| Cash flows from operating activities: | | |
| Net loss | \$ (77.6) | \$ (173.0) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Share-based compensation | 7.7 | 14.0 |
| Warrant compensation expense | 8.3 | 8.8 |
| Depreciation and amortization | 5.5 | 6.6 |
| Bad debt expense | 5.0 | 8.9 |
| Net realized gains on investments | — | (1.1) |
| Changes in operating assets and liabilities: | | |
| Premiums receivable | (20.7) | 7.0 |
| Reinsurance recoverable and receivable | 18.6 | (3.1) |
| Prepaid reinsurance premiums | 0.5 | 9.0 |
| Other assets | 14.6 | (3.8) |
| Losses and loss adjustment expenses reserves | (40.9) | (7.5) |
| Unearned premiums | 18.1 | (18.2) |
| Reinsurance premiums payable | (29.4) | 22.4 |
| Accounts payable and accrued expenses | (0.8) | 14.3 |
| Other liabilities | (3.2) | 10.8 |
| Net cash used in operating activities | <u>(94.3)</u> | <u>(104.9)</u> |
| Cash flows from investing activities: | | |
| Purchases of investments | (48.9) | (9.0) |
| Proceeds from maturities, call and pay downs of investments | 14.8 | 11.6 |
| Sales of investments | 0.2 | 2.2 |
| Capitalization of internally developed software | (5.1) | (5.3) |
| Purchases of fixed assets | (0.2) | — |
| Purchases of indefinite-lived intangible assets and transaction costs | — | (1.3) |
| Net cash used in investing activities | <u>(39.2)</u> | <u>(1.8)</u> |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options and restricted stock units, net of tax (withholding)/proceeds | (0.6) | 0.3 |
| Proceeds from issuance of debt and related warrants, net of issuance costs | — | 286.0 |
| Net cash (used in) provided by financing activities | <u>(0.6)</u> | <u>286.3</u> |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (134.1) | 179.6 |
| Cash, cash equivalents and restricted cash at beginning of period | 763.1 | 707.0 |
| Cash, cash equivalents and restricted cash at end of period | <u>\$ 629.0</u> | <u>\$ 886.6</u> |

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, which as of July 1, 2023 was redomiciled from Delaware to Ohio; 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 primarily a 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 Securities and Exchange Commission, or 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 and six months ended June 30, 2022.

The following tables present the effect of the revision on the condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2022, condensed consolidated statement of redeemable convertible preferred stock and stockholders' equity and condensed consolidated statement of cash flows as of and for the six months ended June 30, 2022.

| | Three Months Ended June 30, 2022 (unaudited) | | | Six Months Ended June 30, 2022 (unaudited) | | |
|---|--|-------------|--------------|--|-------------|--------------|
| | As reported | Adjustments | As Corrected | As reported | Adjustments | As Corrected |
| (in millions, except per share amounts) | | | | | | |
| Condensed consolidated statements of operations and comprehensive loss: | | | | | | |
| Sales and marketing | \$ 25.4 | \$ (4.0) | \$ 21.4 | \$ 40.1 | \$ (3.4) | \$ 36.7 |
| General and administrative | 29.9 | 9.6 | 39.5 | 59.9 | 10.1 | 70.0 |
| Total operating expenses | 161.1 | 5.6 | 166.7 | 317.4 | 6.7 | 324.1 |
| Operating loss | (80.7) | (5.6) | (86.3) | (151.6) | (6.7) | (158.3) |
| Loss before income tax expense | (89.9) | (5.6) | (95.5) | (166.3) | (6.7) | (173.0) |
| Net loss | (89.9) | (5.6) | (95.5) | (166.3) | (6.7) | (173.0) |
| Comprehensive loss | \$ (91.2) | \$ (5.6) | \$ (96.8) | \$ (171.3) | \$ (6.7) | \$ (178.0) |
| Weighted-average common shares outstanding: basic and diluted (both Class A and B) | 14.1 | | 14.1 | 14.0 | | 14.0 |
| Loss per common share: basic and diluted (both Class A and B) | \$ (6.38) | | \$ (6.77) | \$ (11.88) | | \$ (12.36) |

| | As of June 30, 2022 (unaudited) | | |
|--|---------------------------------|-------------|--------------|
| | As reported | Adjustments | As Corrected |
| (in millions) | | | |
| Condensed consolidated statement of redeemable convertible preferred stock and stockholders' equity: | | | |
| Accumulated loss | \$ (1,436.4) | \$ (6.7) | \$ (1,443.1) |
| Total stockholders' equity | \$ 388.0 | \$ (6.7) | \$ 381.3 |

| | Six Months Ended June 30, 2022 (unaudited) | | |
|---|--|-------------|--------------|
| | As reported | Adjustments | As Corrected |
| (in millions) | | | |
| Condensed consolidated statement of cash flows: | | | |
| Net loss | \$ (166.3) | \$ (6.7) | \$ (173.0) |
| Other assets | (10.5) | 6.7 | (3.8) |
| Net cash used in operating activities | \$ (104.9) | \$ — | \$ (104.9) |

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.

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 | |
|---|------------------|----------------------|
| | June 30, 2023 | December 31, 2022 |
| (dollars in millions) | | |
| Cash and cash equivalents | \$ 628.0 | \$ 762.1 |
| Restricted cash | 1.0 | 1.0 |
| Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows | <u>\$ 629.0</u> | <u>\$ 763.1</u> |

3. INVESTMENTS

The amortized cost and fair value of short-term investments and available-for-sale fixed maturity securities at June 30, 2023 and December 31, 2022 are as follows:

| June 30, 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 | \$ 15.2 | \$ — | \$ — | \$ (0.3) | \$ 14.9 |
| Municipal securities | 25.6 | — | — | (1.2) | 24.4 |
| Corporate debt securities | 70.0 | — | — | (2.7) | 67.3 |
| Residential mortgage-backed securities | 10.6 | — | — | (0.4) | 10.2 |
| Commercial mortgage backed securities | 29.2 | — | — | (1.2) | 28.0 |
| Other debt obligations | 15.3 | — | — | (0.1) | 15.2 |
| Total fixed maturities | 165.9 | — | — | (5.9) | 160.0 |
| Short-term investments | 2.7 | — | — | — | 2.7 |
| Total | \$ 168.6 | \$ — | \$ — | \$ (5.9) | \$ 162.7 |
| 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 June 30, 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 June 30, 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 June 30, 2023 and December 31, 2022:

| | June 30, 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 | \$ 9.1 | \$ (0.1) | \$ 5.3 | \$ (0.2) | \$ 14.4 | \$ (0.3) |
| Municipal securities | 7.9 | (0.1) | 14.9 | (1.1) | 22.8 | (1.2) |
| Corporate debt securities | 28.3 | (0.6) | 37.9 | (2.1) | 66.2 | (2.7) |
| Residential mortgage-backed securities | 6.7 | (0.1) | 2.0 | (0.3) | 8.7 | (0.4) |
| Commercial mortgage-backed securities | 13.4 | (0.3) | 14.5 | (0.9) | 27.9 | (1.2) |
| Other debt obligations | 10.8 | (0.1) | 1.5 | — | 12.3 | (0.1) |
| Total fixed maturities | 76.2 | (1.3) | 76.1 | (4.6) | 152.3 | (5.9) |
| Short-term investments | 1.0 | — | — | — | 1.0 | — |
| Total | \$ 77.2 | \$ (1.3) | \$ 76.1 | \$ (4.6) | \$ 153.3 | \$ (5.9) |

| | 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 June 30, 2023 and December 31, 2022, other investments related to our private equity investments were \$4.4 million. There were no realized gains or losses for the three and six months ended June 30, 2023. We recognized zero and \$1.2 million of realized gains for the three and six months ended June 30, 2022, respectively. We recorded the gain on sale of our private equity investments within net realized (losses) 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 and six months ended June 30, 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 and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| | (dollars in millions) | | | |
| Realized gains on investments | \$ — | \$ — | \$ — | \$ 1.2 |
| Realized losses on investments | — | (0.1) | — | (0.1) |
| Net realized (losses) gains on investments | \$ — | \$ (0.1) | \$ — | \$ 1.1 |

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 June 30, 2023:

| | June 30, 2023 | |
|---------------------------------------|-----------------------|------------|
| | Amortized Cost | Fair Value |
| | (dollars in millions) | |
| Due in one year or less | \$ 34.1 | \$ 33.5 |
| Due after one year through five years | 100.0 | 96.2 |
| Due five years through 10 years | 19.1 | 18.4 |
| Due after 10 years | 15.4 | 14.6 |
| Total | \$ 168.6 | \$ 162.7 |

The following table sets forth the components of net investment income for the three and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|--------|---------------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| | (dollars in millions) | | | |
| Interest on bonds | \$ 1.0 | \$ 0.5 | \$ 1.9 | \$ 1.1 |
| Interest on deposits and cash equivalents | 6.0 | 0.4 | 11.9 | 0.6 |
| Total | 7.0 | 0.9 | 13.8 | 1.7 |
| Investment expense | (0.2) | (0.2) | (0.3) | (0.4) |
| Net investment income | \$ 6.8 | \$ 0.7 | \$ 13.5 | \$ 1.3 |

The following tables summarize the credit ratings of short-term investments and available-for-sale fixed maturity securities at June 30, 2023 and December 31, 2022:

| S&P Global rating or equivalent | June 30, 2023 | | |
|---------------------------------|-----------------------|-----------------|-----------------------|
| | Amortized Cost | Fair Value | % of Total Fair Value |
| | (dollars in millions) | | |
| AAA | \$ 81.8 | \$ 79.1 | 48.6 % |
| AA+, AA, AA-, A-1 | 26.7 | 25.8 | 15.9 |
| A+, A, A- | 45.0 | 43.0 | 26.4 |
| BBB+, BBB, BBB- | 15.1 | 14.8 | 9.1 |
| Total | <u>\$ 168.6</u> | <u>\$ 162.7</u> | <u>100.0 %</u> |

| S&P Global rating or equivalent | December 31, 2022 | | |
|---------------------------------|-----------------------|-----------------|-----------------------|
| | 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 | <u>\$ 134.6</u> | <u>\$ 128.8</u> | <u>100.0 %</u> |

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide information about our financial assets measured and reported at fair value as of June 30, 2023 and December 31, 2022:

| | June 30, 2023 | | | |
|--|-----------------------|----------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| | (dollars in millions) | | | |
| Assets | | | | |
| Fixed maturities: | | | | |
| U.S. Treasury securities and agencies | \$ 13.1 | \$ 1.8 | \$ — | \$ 14.9 |
| Municipal securities | — | 24.4 | — | 24.4 |
| Corporate debt securities | — | 67.3 | — | 67.3 |
| Residential mortgage-backed securities | — | 10.2 | — | 10.2 |
| Commercial mortgage-backed securities | — | 28.0 | — | 28.0 |
| Other debt obligations | — | 15.2 | — | 15.2 |
| Total fixed maturities | 13.1 | 146.9 | — | 160.0 |
| Short-term investments | 2.4 | 0.3 | — | 2.7 |
| Cash equivalents | 404.3 | — | — | 404.3 |
| Total assets at fair value | \$ 419.8 | \$ 147.2 | \$ — | \$ 567.0 |

| | 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 June 30, 2023 and December 31, 2022, the carrying amounts and fair values of these financial instruments were as follows:

| | Carrying Amount as of June 30, 2023 | Estimated Fair Value as of June 30, 2023 | Carrying Amount as of December 31, 2022 | Estimated Fair Value as of December 31, 2022 |
|----------------|--|---|---|---|
| | (dollars in millions) | | | |
| Long-term debt | \$ 297.4 | \$ 310.2 | \$ 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:

| | Six Months Ended June 30, | |
|---|---------------------------|----------|
| | 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 | 123.6 | 191.9 |
| Prior years | (0.8) | 0.5 |
| Total incurred | 122.8 | 192.4 |
| Net paid loss and LAE related to: | | |
| Current year | 58.7 | 89.8 |
| Prior years | 99.0 | 96.0 |
| Total paid | 157.7 | 185.8 |
| Net loss and LAE reserves, June 30 | 176.1 | 247.3 |
| Plus reinsurance recoverable on unpaid losses | 70.4 | 65.4 |
| Gross loss and LAE reserves, June 30 | \$ 246.5 | \$ 312.7 |

Incurred losses and LAE attributable to prior accident years was a decrease of \$0.8 million and an increase of \$0.5 million for the six months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023, the development of incurred losses and LAE related to prior periods was a result of lower-than-expected reported losses on injury coverages, partially offset by higher-than-expected LAE on prior accident period claims. For the six months ended June 30, 2022, the development of incurred losses related to prior periods was primarily related to higher-than-expected reported losses on property damage, collision and comprehensive claims due to inflation. This was partially offset by lower-than-expected LAE on prior accident period claims.

6. REINSURANCE

The following table reflects amounts affecting the condensed consolidated statements of operations and comprehensive loss for reinsurance for the three and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------|-----------------------------|----------------|---------------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| (dollars in millions) | | | | |
| Premiums written: | | | | |
| Direct | \$ 128.1 | \$ 130.8 | \$ 251.9 | \$ 304.3 |
| Assumed | 16.9 | 9.3 | 27.8 | 23.0 |
| Ceded | (67.2) | (81.1) | (137.1) | (183.5) |
| Net premiums written | <u>\$ 77.8</u> | <u>\$ 59.0</u> | <u>\$ 142.6</u> | <u>\$ 143.8</u> |
| Premiums earned: | | | | |
| Direct | \$ 120.2 | \$ 159.3 | \$ 240.3 | \$ 324.8 |
| Assumed | 11.3 | 11.5 | 21.3 | 20.7 |
| Ceded | (67.6) | (96.1) | (137.7) | (192.5) |
| Net premiums earned | <u>\$ 63.9</u> | <u>\$ 74.7</u> | <u>\$ 123.9</u> | <u>\$ 153.0</u> |
| Losses and LAE incurred: | | | | |
| Direct | \$ 90.5 | \$ 152.2 | \$ 190.3 | \$ 303.9 |
| Assumed | 8.7 | 13.2 | 16.4 | 24.4 |
| Ceded | (39.7) | (69.7) | (83.9) | (135.9) |
| Net losses and LAE incurred | <u>\$ 59.5</u> | <u>\$ 95.7</u> | <u>\$ 122.8</u> | <u>\$ 192.4</u> |

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, or SOFR, with a 1.0% floor, plus 9.0%, plus 0.26161% per annum through June 30, 2023, after which the interest rate will be calculated on the SOFR with a 1.0% floor, plus 9.0%.

The following summarizes the carrying value of long-term debt as of June 30, 2023 and December 31, 2022:

| | June 30, 2023 | December 31, 2022 |
|--|-----------------------|-------------------|
| | (dollars in millions) | |
| Term Loan | \$ 300.0 | \$ 300.0 |
| Accrued interest payable | 7.8 | 7.3 |
| Unamortized discount, debt issuance costs and warrants | (10.4) | (11.9) |
| Total | <u>\$ 297.4</u> | <u>\$ 295.4</u> |

8. INCOME TAXES

The consolidated effective tax rate was zero for the three and six months ended June 30, 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 June 30, 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 June 30, 2023, we expect to incur approximately \$3.6 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 June 30, 2023, except as discussed above, we do not expect to incur any additional material expenditures in future periods related to restructuring actions that have occurred.

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 June 30, | | Six Months Ended June 30, | | Cumulative Incurred Through June 30, 2023 |
|---------------------------|-----------------------------|--------|---------------------------|--------|--|
| | 2023 | 2022 | 2023 | 2022 | |
| | (dollars in millions) | | | | |
| Restructuring costs: | | | | | |
| Employee costs | \$ 1.8 | \$ — | \$ 4.1 | \$ 5.6 | \$ 19.6 |
| Real estate exit costs | — | 0.6 | — | 2.1 | 2.1 |
| Other costs | 0.1 | — | 3.4 | 0.7 | 4.4 |
| Total restructuring costs | \$ 1.9 | \$ 0.6 | \$ 7.5 | \$ 8.4 | \$ 26.1 |

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 |
|---|-----------------------|--------|-------------|--|-----------------|
| | (dollars in millions) | | | | |
| Restructuring activity: | | | | | |
| Restructuring liability as of January 1, 2023 | \$ 3.1 | \$ 0.1 | \$ 3.2 | | |
| Expense incurred | 3.7 | 3.4 | 7.1 | | |
| Payments | (2.0) | (3.5) | (5.5) | | |
| Restructuring liability as of June 30, 2023 | \$ 4.8 | \$ — | \$ 4.8 | | |

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 June 30, 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 June 30, 2023.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------------|-----------------------------|--------|---------------------------|--------|
| | 2023 | 2022 | 2023 | 2022 |
| (dollars in millions) | | | | |
| Warrant compensation expense: | | | | |
| Sales and marketing | \$ — | \$ 3.5 | \$ — | \$ 8.8 |
| Other insurance expense (benefit) | 3.9 | — | 8.3 | — |
| Total warrant compensation expense | \$ 3.9 | \$ 3.5 | \$ 8.3 | \$ 8.8 |

As of June 30, 2023, there was \$12.8 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 June 30, 2023, we had 2.0 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 June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|--------|---------------------------|---------|
| | 2023 | 2022 | 2023 | 2022 |
| (dollars in millions) | | | | |
| Share-based compensation expense: | | | | |
| Loss and loss adjustment expenses | \$ 0.2 | \$ 0.2 | \$ 0.3 | \$ 0.4 |
| Sales and marketing | 0.1 | 0.3 | 0.2 | 0.4 |
| Other insurance expense (benefit) | 0.2 | 0.3 | 0.3 | 0.5 |
| Technology and development | 0.8 | 1.3 | 1.5 | 2.0 |
| General and administrative | 3.9 | 5.3 | 5.4 | 10.7 |
| Total share-based compensation expense | \$ 5.2 | \$ 7.4 | \$ 7.7 | \$ 14.0 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|---------------|---------------------------|----------------|
| | 2023 | 2022 | 2023 | 2022 |
| (dollars in millions) | | | | |
| Share-based compensation expense: | | | | |
| Restricted stock unit expense | \$ 4.9 | \$ 7.0 | \$ 7.0 | \$ 13.1 |
| Stock option expense | 0.3 | 0.4 | 0.7 | 0.9 |
| Total share-based compensation expense | <u>\$ 5.2</u> | <u>\$ 7.4</u> | <u>\$ 7.7</u> | <u>\$ 14.0</u> |

As of June 30, 2023, there was \$1.5 million and \$26.0 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 six months ended June 30, 2023 is as follows:

| Restricted Stock Units | Six Months Ended June 30, 2023 | | |
|---|--------------------------------|--|---------------------------|
| | 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 | 0.8 | 5.56 | |
| Vested | (0.4) | 50.86 | 2.0 |
| Forfeited, expired or canceled | (0.2) | 57.36 | |
| Nonvested at June 30, 2023 | <u>1.3</u> | <u>\$ 23.16</u> | <u>\$ 11.2</u> |

Stock Options

A summary of option activity for the six months ended June 30, 2023 is as follows:

| Options | Six Months Ended June 30, 2023 | | | |
|---|--------------------------------|---------------------------------|--|---------------------------|
| | 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 | — | 8.94 | | |
| Exercised | — | — | | — |
| Forfeited, expired or canceled | (0.1) | 44.87 | | |
| Outstanding and exercisable at June 30, 2023 | <u>0.1</u> | <u>\$ 33.75</u> | <u>4.80</u> | <u>\$ 0.4</u> |

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 alleged that Root Insurance Company breached its insurance contract and violated specific provisions of Louisiana law in settling her vehicle total loss claim. The complaint sought 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. This matter was settled for an immaterial amount and dismissed with prejudice on July 20, 2023.

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. OTHER COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in our accumulated other comprehensive (loss) income, or AOCI, for the three and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|----------|---------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| | (dollars in millions) | | | |
| Beginning balance | \$ (4.7) | \$ (3.3) | \$ (5.8) | \$ 0.4 |
| Other comprehensive loss before reclassifications | (1.2) | (1.4) | (0.1) | (5.1) |
| Net realized gains on investments reclassified from AOCI to net loss | — | 0.1 | — | 0.1 |
| Other comprehensive loss | (1.2) | (1.3) | (0.1) | (5.0) |
| Ending balance | \$ (5.9) | \$ (4.6) | \$ (5.9) | \$ (4.6) |

13. 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 and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|---|-----------|---------------------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| | (in millions, except per share amounts) | | | |
| Net loss | \$ (36.7) | \$ (95.5) | \$ (77.6) | \$ (173.0) |
| Weighted-average common shares outstanding: basic and diluted (both Class A and B) | 14.4 | 14.1 | 14.3 | 14.0 |
| Loss per common share: basic and diluted (both Class A and B) | \$ (2.55) | \$ (6.77) | \$ (5.43) | \$ (12.36) |

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 June 30, | |
|---|----------------|------|
| | 2023 | 2022 |
| | (in millions) | |
| Options to purchase common stock | 0.1 | 0.2 |
| Nonvested shares subject to repurchase | 0.1 | 0.1 |
| Restricted stock units | 1.3 | 1.3 |
| Redeemable convertible preferred stock (as converted to common stock) | 0.8 | 0.8 |
| Warrants to purchase common stock | 7.6 | 7.7 |
| Total | 9.9 | 10.1 |

14. GEOGRAPHICAL BREAKDOWN OF GROSS PREMIUMS WRITTEN

Gross premiums written by state is as follows for the three and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|-----------------------|-----------------------------|----------------|-----------------|----------------|---------------------------|----------------|-----------------|----------------|
| | 2023 | | 2022 | | 2023 | | 2022 | |
| | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| (dollars in millions) | | | | | | | | |
| State: | | | | | | | | |
| Texas | \$ 23.8 | 16.4 % | \$ 26.0 | 18.6 % | \$ 43.3 | 15.5 % | \$ 63.3 | 19.3 % |
| Georgia | 15.8 | 10.9 | 15.0 | 10.7 | 29.7 | 10.6 | 33.8 | 10.3 |
| Colorado | 11.9 | 8.2 | 9.8 | 7.0 | 22.5 | 8.0 | 20.5 | 6.3 |
| Pennsylvania | 7.6 | 5.2 | 7.7 | 5.5 | 16.9 | 6.0 | 17.7 | 5.4 |
| South Carolina | 10.6 | 7.3 | 4.8 | 3.4 | 16.8 | 6.0 | 11.9 | 3.6 |
| Utah | 7.4 | 5.1 | 7.1 | 5.1 | 14.6 | 5.2 | 16.1 | 4.9 |
| Arizona | 6.0 | 4.1 | 3.7 | 2.6 | 10.7 | 3.8 | 9.0 | 2.7 |
| Louisiana | 4.3 | 3.0 | 8.2 | 5.9 | 9.8 | 3.5 | 18.9 | 5.8 |
| Oklahoma | 4.8 | 3.3 | 4.6 | 3.3 | 9.5 | 3.4 | 10.9 | 3.3 |
| Nevada | 4.5 | 3.1 | 7.0 | 5.0 | 8.9 | 3.2 | 15.7 | 4.8 |
| All others states | 48.3 | 33.4 | 46.2 | 32.9 | 97.0 | 34.8 | 109.5 | 33.6 |
| Total | \$ 145.0 | 100.0 % | \$ 140.1 | 100.0 % | \$ 279.7 | 100.0 % | \$ 327.3 | 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 and 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 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 repairable and medical costs. These cost increases have resulted in greater claims severity. We continue to file in multiple states to establish rates that more closely follow the evolving loss cost trends. Rising interest rates have increased the cost of capital and may limit our ability to raise additional capital.

Comprehensive Reinsurance

We expect to continue to utilize reinsurance in the future. Our diversified approach to reinsurance allows us to optimize capital requirements while remaining flexible in response to changes in market conditions or changes specific to our own business. We may choose to amend, commute, and/or non-renew certain third-party reinsurance arrangements, which may result in us retaining more of our business in the future. To the extent we retain a larger share of our book of business, our capital requirements may increase.

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 June 30, | | Six Months Ended June 30, | |
|----------------------------------|---|-----------|---------------------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| | (dollars in millions, except premiums per policy) | | | |
| Policies in force | 203,840 | 297,716 | 203,840 | 297,716 |
| Premiums per policy | \$ 1,353 | \$ 1,077 | \$ 1,353 | \$ 1,077 |
| Premiums in force | \$ 551.6 | \$ 641.3 | \$ 551.6 | \$ 641.3 |
| Gross premiums written | \$ 145.0 | \$ 140.1 | \$ 279.7 | \$ 327.3 |
| Gross premiums earned | \$ 131.5 | \$ 170.8 | \$ 261.6 | \$ 345.5 |
| Gross profit/(loss) | \$ 12.7 | \$ (7.5) | \$ 18.2 | \$ (19.8) |
| Net loss | \$ (36.7) | \$ (95.5) | \$ (77.6) | \$ (173.0) |
| Direct contribution | \$ 29.3 | \$ (0.2) | \$ 47.9 | \$ 6.2 |
| Adjusted EBITDA | \$ (11.9) | \$ (63.2) | \$ (23.2) | \$ (115.0) |
| Net loss and LAE ratio | 93.1 % | 128.1 % | 99.1 % | 125.8 % |
| Net expense ratio | 57.4 % | 89.2 % | 56.6 % | 80.0 % |
| Net combined ratio | 150.5 % | 217.3 % | 155.7 % | 205.8 % |
| Gross loss ratio | 65.5 % | 87.0 % | 68.4 % | 85.6 % |
| Gross LAE ratio | 10.0 % | 9.9 % | 10.6 % | 9.5 % |
| Gross expense ratio | 42.7 % | 54.8 % | 41.5 % | 48.5 % |
| Gross combined ratio | 118.2 % | 151.7 % | 120.5 % | 143.6 % |
| Gross accident period loss ratio | 68.2 % | 84.8 % | 68.6 % | 83.1 % |

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 (benefit). 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 (losses) gains on investments, report costs, overhead allocated based on headcount, or Overhead, and salaries, health benefits, bonuses, employee retirement plan-related expenses and employee share-based compensation expense, or Personnel Costs, 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 reflect 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 (losses) 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, 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 the 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 (Losses) Gains on Investments

Net realized (losses) 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 mobile application 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 (benefit), 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 Personnel Costs for claims related employees; software expense; internally developed software amortization; and 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 (Benefit)

Other insurance expense (benefit) 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 considering progress toward achieving milestones for policies originated through the Integrated Platform as defined under the Carvana commercial agreement.

Technology and Development

Technology and development expense consists of software development costs related to our mobile application 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 June 30, 2023 and 2022

The following table presents our results of operations for the periods indicated:

| | Three Months Ended June 30, | | | |
|---|-----------------------------|-----------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change |
| | (dollars in millions) | | | |
| Revenues: | | | | |
| Net premiums earned | \$ 63.9 | \$ 74.7 | \$ (10.8) | (14.5)% |
| Net investment income | 6.8 | 0.7 | 6.1 | 871.4% |
| Net realized losses on investments | — | (0.1) | 0.1 | (100.0)% |
| Fee income | 3.8 | 4.4 | (0.6) | (13.6)% |
| Other income | 0.3 | 0.7 | (0.4) | (57.1)% |
| Total revenues | 74.8 | 80.4 | (5.6) | (7.0)% |
| Operating expenses: | | | | |
| Loss and loss adjustment expenses | 59.5 | 95.7 | (36.2) | (37.8)% |
| Sales and marketing | 6.1 | 21.4 | (15.3) | (71.5)% |
| Other insurance expense (benefit) | 2.6 | (7.8) | 10.4 | 133.3% |
| Technology and development | 11.1 | 17.9 | (6.8) | (38.0)% |
| General and administrative | 20.7 | 39.5 | (18.8) | (47.6)% |
| Total operating expenses | 100.0 | 166.7 | (66.7) | (40.0)% |
| Operating loss | (25.2) | (86.3) | 61.1 | (70.8)% |
| Interest expense | (11.5) | (9.2) | (2.3) | 25.0% |
| Loss before income tax expense | (36.7) | (95.5) | 58.8 | (61.6)% |
| Income tax expense | — | — | — | —% |
| Net loss | (36.7) | (95.5) | 58.8 | (61.6)% |
| Other comprehensive loss: | | | | |
| Changes in net unrealized losses on investments | (1.2) | (1.3) | 0.1 | (7.7)% |
| Comprehensive loss | \$ (37.9) | \$ (96.8) | \$ 58.9 | (60.8)% |

Revenue

Net Premiums Earned

Net premiums earned decreased \$10.8 million, or 14.5%, to \$63.9 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily due to lower policies in force as a result of reduced marketing expenditures, partially offset by an increase in premium per policy resulting from rate actions.

During the three months ended June 30, 2023 and 2022, we ceded approximately 51.4% and 56.3% of our gross premiums earned to third-party reinsurers, respectively. The change in ceding percentage between periods was primarily driven by retaining a 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 June 30, 2023 and 2022:

| | Three Months Ended June 30, | | | |
|------------------------|-----------------------------|----------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change |
| (dollars in millions) | | | | |
| Gross premiums written | \$ 145.0 | \$ 140.1 | \$ 4.9 | 3.5 % |
| Ceded premiums written | (67.2) | (81.1) | 13.9 | (17.1)% |
| Net premiums written | 77.8 | 59.0 | 18.8 | 31.9 % |
| Gross premiums earned | 131.5 | 170.8 | (39.3) | (23.0)% |
| Ceded premiums earned | (67.6) | (96.1) | 28.5 | (29.7)% |
| Net premiums earned | \$ 63.9 | \$ 74.7 | \$ (10.8) | (14.5)% |

The decrease in gross premiums earned was primarily due to lower policies in force. This decrease was partially offset by a 25.6% increase in premium per policy for automobile insurance primarily attributable to rate actions.

Net Investment Income

Net investment income increased \$6.1 million, or 871.4%, to \$6.8 million for the three months ended June 30, 2023 compared to the same period in 2022. The increase was primarily driven by \$6.0 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 \$36.2 million, or 37.8%, to \$59.5 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily driven by lower policies in force and better loss experience for the three months ended June 30, 2023 compared to the same period ended in 2022.

Gross accident period loss ratios decreased to 68.2% for the three months ended June 30, 2023, from 84.8% for the same period in 2022. The change in the ratios was mainly driven by growth in average premium per policy primarily attributable to rate actions. 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 an 8% increase in severity per claim and a 6% decrease in claim frequency for the three months ended June 30, 2023 compared to the same period in 2022. The claim severity and frequency estimates are based on bodily injury, collision, and property damage coverages, the claim frequency estimates are tenure mix adjusted.

Sales and Marketing

Sales and marketing expense decreased \$15.3 million, or 71.5%, to \$6.1 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was due to an \$8.8 million decrease in advertising, content development and sponsorship costs due to a shift in our direct marketing strategy. In addition, we experienced a \$3.5 million decline in warrant compensation expense related to the completion of the Integrated Platform pursuant to the Carvana commercial agreement in the prior year. We also experienced a \$2.1 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 (Benefit)

Other insurance expense (benefit) increased \$10.4 million, or 133.3%, to an expense of \$2.6 million for the three months ended June 30, 2023 compared to the same period in 2022. The increase was primarily driven by a \$6.9 million decrease in net ceding commission contra-expense as a result of a decline in ceded premiums and a \$3.8 million increase in Carvana warrant expense as a result of policies originating from the Integrated Platform. We also experienced a \$2.5 million increase in underwriting costs due to an increase in new writings. This was partially offset by a \$2.1 million decrease in premium write-offs and a \$1.7 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 \$6.8 million, or 38.0%, to \$11.1 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily driven by a \$6.0 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 \$18.8 million, or 47.6%, to \$20.7 million for the three months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily driven by a \$9.6 million write-off of prepaid marketing expense recognized in 2022 and an \$8.3 million decrease in Personnel Costs as a result of a decrease in headcount, primarily attributable to the involuntary workforce reductions in 2022.

Comparison of the Six Months Ended June 30, 2023 and 2022

The following table presents our results of operations for the periods indicated:

| | Six Months Ended June 30, | | | |
|---|---------------------------|-------------------|-----------------|----------------|
| | 2023 | 2022 | \$ Change | % Change |
| (dollars in millions) | | | | |
| Revenues: | | | | |
| Net premiums earned | \$ 123.9 | \$ 153.0 | \$ (29.1) | (19.0)% |
| Net investment income | 13.5 | 1.3 | 12.2 | 938.5 % |
| Net realized gains on investments | — | 1.1 | (1.1) | (100.0)% |
| Fee income | 7.0 | 9.3 | (2.3) | (24.7)% |
| Other income | 0.5 | 1.1 | (0.6) | (54.5)% |
| Total revenues | 144.9 | 165.8 | (20.9) | (12.6)% |
| Operating expenses: | | | | |
| Loss and loss adjustment expenses | 122.8 | 192.4 | (69.6) | (36.2)% |
| Sales and marketing | 9.7 | 36.7 | (27.0) | (73.6)% |
| Other insurance expense (benefit) | 3.9 | (6.8) | 10.7 | 157.4 % |
| Technology and development | 21.3 | 31.8 | (10.5) | (33.0)% |
| General and administrative | 42.2 | 70.0 | (27.8) | (39.7)% |
| Total operating expenses | 199.9 | 324.1 | (124.2) | (38.3)% |
| Operating loss | (55.0) | (158.3) | 103.3 | (65.3)% |
| Interest expense | (22.6) | (14.7) | (7.9) | 53.7 % |
| Loss before income tax expense | (77.6) | (173.0) | 95.4 | (55.1)% |
| Income tax expense | — | — | — | — % |
| Net loss | (77.6) | (173.0) | 95.4 | (55.1)% |
| Other comprehensive loss: | | | | |
| Changes in net unrealized losses on investments | (0.1) | (5.0) | 4.9 | (98.0)% |
| Comprehensive loss | \$ (77.7) | \$ (178.0) | \$ 100.3 | (56.3)% |

Revenue

Net Premiums Earned

Net premiums earned decreased \$29.1 million, or 19.0%, to \$123.9 million, for the six months ended June 30, 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 six months ended June 30, 2023 and 2022, we ceded approximately 52.6% and 55.7% of our gross premiums earned to third-party reinsurers, respectively. The change in ceding percentage between periods was primarily driven by retaining a 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 six months ended June 30, 2023 and 2022:

| | Six Months Ended June 30, | | | |
|------------------------|---------------------------|----------|-----------|----------|
| | 2023 | 2022 | \$ Change | % Change |
| | (dollars in millions) | | | |
| Gross premiums written | \$ 279.7 | \$ 327.3 | \$ (47.6) | (14.5)% |
| Ceded premiums written | (137.1) | (183.5) | 46.4 | (25.3)% |
| Net premiums written | 142.6 | 143.8 | (1.2) | (0.8)% |
| Gross premiums earned | 261.6 | 345.5 | (83.9) | (24.3)% |
| Ceded premiums earned | (137.7) | (192.5) | 54.8 | (28.5)% |
| Net premiums earned | \$ 123.9 | \$ 153.0 | \$ (29.1) | (19.0)% |

The decrease in gross premiums earned was primarily due to lower policies in force. This decrease was partially offset by a 25.6% increase in premium per policy for automobile insurance primarily attributable to rate actions.

Net Investment Income

Net investment income increased \$12.2 million, or 938.5%, to \$13.5 million for the six months ended June 30, 2023 compared to the same period in 2022. The increase was primarily driven by \$11.7 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 \$69.6 million, or 36.2%, to \$122.8 million for the six months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily due to lower policies in force and better loss experience for the six months ended June 30, 2023 compared to the same period in 2022.

Gross accident period loss ratios decreased to 68.6% for the six months ended June 30, 2023, from 83.1% for the same period in 2022. The change in the ratios was driven by growth in average premium per policy primarily attributable to rate actions. 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 an 8% increase in severity per claim and a 6% decrease in claim frequency for the six months ended June 30, 2023 compared to the same period in 2022. The claim severity and frequency estimates are based on bodily injury, collision, and property damage coverages, the claim frequency estimates are tenure mix adjusted.

Sales and Marketing

Sales and marketing expense decreased \$27.0 million, or 73.6%, to \$9.7 million for the six months ended June 30, 2023 compared to the same period in 2022. The decrease was due to an \$11.5 million decrease in advertising, content development and sponsorship costs due to a shift in our direct marketing strategy. In addition, we experienced an \$8.8 million decline in warrant compensation expense related to the completion of the Integrated Platform pursuant to the Carvana commercial agreement in the prior year. We also experienced a \$3.9 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 (Benefit)

Other insurance expense (benefit) increased \$10.7 million, or 157.4%, to an expense of \$3.9 million for the six months ended June 30, 2023 compared to the same period in 2022. The increase was primarily driven by an \$8.3 million increase in Carvana warrant expense as a result of policies originating from the Integrated Platform and a \$6.2 million decrease in net ceding commission contra-expense as a result of the decline in ceded premiums. We also experienced a \$2.2 million increase in underwriting costs due to an increase in new writings. This was partially offset by a \$4.0 million decrease in premium write-offs, and a \$3.0 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 \$10.5 million, or 33.0%, to \$21.3 million for the six months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily driven by an \$8.6 million decrease in Personnel Costs as a result of a decrease in headcount, primarily attributable to the involuntary workforce reductions in 2022. We also experienced a \$2.3 million decrease in software development expense as a result of initiatives to reduce operating costs. This was partially offset by a \$0.7 million increase in amortization of internally developed software.

General and Administrative

General and administrative decreased \$27.8 million, or 39.7%, to \$42.2 million for the six months ended June 30, 2023 compared to the same period in 2022. The decrease was primarily driven by a \$17.4 million decrease in Personnel Costs as a result of a decrease in headcount, primarily attributable to the involuntary workforce reductions in 2022, and a \$10.1 million write-off of prepaid marketing expense recognized in 2022.

Non-Operating Expenses

Interest Expense

Interest expense increased \$7.9 million, or 53.7%, to \$22.6 million for the six months ended June 30, 2023 compared to the same period in 2022. The increase was primarily due to a \$7.8 million increase in debt interest expense as a result of a greater average interest rate and a higher average outstanding debt as of June 30, 2023 compared to the same period in 2022.

Other Comprehensive Loss

Changes in Net Unrealized Losses on Investments

Changes in net unrealized losses on investments decreased \$4.9 million, or 98.0%, to \$0.1 million for the six months ended June 30, 2023 compared to the same period in 2022. The decrease 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 and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|-----------------------------|----------|---------------------------|----------|
| | 2023 | 2022 | 2023 | 2022 |
| | (dollars in millions) | | | |
| Total revenue | \$ 74.8 | \$ 80.4 | \$ 144.9 | \$ 165.8 |
| Loss and loss adjustment expenses | (59.5) | (95.7) | (122.8) | (192.4) |
| Other insurance (expense) benefit | (2.6) | 7.8 | (3.9) | 6.8 |
| Gross profit/(loss) | 12.7 | (7.5) | 18.2 | (19.8) |
| Net investment income | (6.8) | (0.7) | (13.5) | (1.3) |
| Net realized losses (gains) on investments | — | 0.1 | — | (1.1) |
| Adjustments from other insurance expense ⁽¹⁾ | 14.9 | 8.5 | 27.9 | 17.1 |
| Ceded premiums earned | 67.6 | 96.1 | 137.7 | 192.5 |
| Ceded loss and loss adjustment expenses | (39.7) | (69.7) | (83.9) | (135.9) |
| Net ceding commission and other ⁽²⁾ | (19.4) | (27.0) | (38.5) | (45.3) |
| Direct contribution | \$ 29.3 | \$ (0.2) | \$ 47.9 | \$ 6.2 |

(1) Adjustments from other insurance expense includes report costs, Personnel Costs, 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 and six months ended June 30, 2023 and 2022:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------|-----------------------------|------------------|---------------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| | (dollars in millions) | | | |
| Net loss | \$ (36.7) | \$ (95.5) | \$ (77.6) | \$ (173.0) |
| Adjustments: | | | | |
| Interest expense | 10.7 | 8.5 | 21.1 | 13.5 |
| Income tax expense | — | — | — | — |
| Depreciation and amortization | 2.7 | 2.7 | 5.3 | 5.3 |
| Share-based compensation | 5.2 | 7.4 | 7.3 | 11.9 |
| Warrant compensation expense | 3.9 | 3.5 | 8.3 | 8.8 |
| Restructuring costs ⁽¹⁾ | 1.9 | 0.6 | 7.5 | 8.4 |
| Write-offs and other ⁽²⁾ | 0.4 | 9.6 | 4.9 | 10.1 |
| Adjusted EBITDA | <u>\$ (11.9)</u> | <u>\$ (63.2)</u> | <u>\$ (23.2)</u> | <u>\$ (115.0)</u> |

(1) Restructuring costs consist of employee costs, real estate exit costs, and other. This includes share-based compensation of zero and \$0.4 million for the three and six months ended June 30, 2023, respectively, and zero and \$2.1 million for the three and six months ended June 30, 2022, respectively. This also includes depreciation and amortization of \$0.1 million and \$0.2 million for the three and six months ended June 30, 2023, respectively, and \$0.3 million and \$1.3 million for the three and six months ended June 30, 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. This includes write-off of prepaid marketing expenses of zero for the three and six months ended June 30, 2023 and \$9.6 million and \$10.1 million for the three and six months ended June 30, 2022, respectively. Legal and other fees related to the purported misappropriation of funds by a former senior marketing employee in 2022 of \$0.4 million and \$2.4 million for the three and six months ended June 30, 2023, respectively, and zero for the three and six months ended June 30, 2022.

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, bank failures and our utilization of reinsurance. 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 have increased the cost of capital and may limit our ability to raise additional capital. We utilize reinsurance arrangements to grow our business in a capital-efficient manner and mitigate risk. Over time our strategy continues to evolve and we may choose to amend, commute, and/or non-renew certain third-party reinsurance agreements, which may result in us retaining more of our business in the future. To the extent we retain a larger share of our book of business our capital requirements may increase.

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, which as of July 1, 2023 was redomiciled from Delaware to Ohio. 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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 through June 30, 2023, after which the interest rate will be calculated on the SOFR with a 1.0% floor, plus 9.0%.

Liquidity

As of June 30, 2023, we had \$628.0 million in cash and cash equivalents, of which \$520.3 million was held outside of regulated insurance entities. We also had \$162.7 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.

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:

| | Six Months Ended June 30, | |
|---|---------------------------|------------|
| | 2023 | 2022 |
| | (in millions) | |
| Net cash used in operating activities | \$ (94.3) | \$ (104.9) |
| Net cash used in investing activities | (39.2) | (1.8) |
| Net cash (used in) provided by financing activities | (0.6) | 286.3 |

Net cash used in operating activities for the six months ended June 30, 2023 was \$94.3 million compared to \$104.9 million of net cash used in operating activities for the six months ended June 30, 2022. The decrease in cash used in operating activities was primarily due to a decline in net loss incurred as a result of a decrease in loss and LAE due to lower policies in force and better loss experience and initiatives that reduced operating costs including our prior year organizational realignment and involuntary workforce reductions that reduced payroll, employee-related expenditures and facility costs. Timing of reinsurance receipts and an increase in unearned premiums also contributed to the decrease in cash used in operating activities. This was partially offset timing of reinsurance payments and claim payments during the six months ended June 30, 2023 compared to the same period in 2022.

Net cash used in investing activities for the six months ended June 30, 2023 was \$39.2 million compared to \$1.8 million of net cash used in investing activities for the six months ended June 30, 2022. The increase in cash used in investing activities was primarily due to purchases of investments and capitalization of internally developed software, which was partially offset by proceeds from sales, maturities, calls and pay downs of investments.

Net cash used in financing activities for the six months ended June 30, 2023 was \$0.6 million due to taxes paid related to net share settlement of vested restricted stock units. Net cash provided by financing activities for the six months ended June 30, 2022 was \$286.3 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 six months ended June 30, 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 June 30, 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 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. Testing of the design and operating effectiveness of the enhanced background check process have been completed. 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 June 30, 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 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# | Non-Employee Director Compensation Policy | | | | | 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 | | | | | |

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 thereunto duly authorized.

Root, Inc.

Date: August 2, 2023

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

Date: August 2, 2023

By: /s/ Megan Binkley
Megan Binkley
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Root, Inc.
Non-Employee Director Compensation Policy

Adopted: June 5, 2023

Each member of the Board of Directors (the “**Board**”) of Root, Inc. (the “**Company**”) who is not an employee of the Company (each, a “**Non-Employee Director**”) will receive the compensation described in this Non-Employee Director Compensation Policy (this “**Director Compensation Policy**”) for his or her Board service, subject to the terms and conditions set forth herein.

This Director Compensation Policy may be amended or modified, or any provision of it waived, at any time in the sole discretion of the Board or the Compensation Committee of the Board (the “**Compensation Committee**”).

Notwithstanding the foregoing, the Board or Compensation Committee may make supplemental grants to Non-Employee Directors in its discretion.

Annual Retainers

This Director Compensation Policy will be effective as of the date of its adoption, as set forth above (the “**Effective Date**”), except that the rates of the retainers set forth below shall be effective as of January 1, 2022. The annual cash compensation amounts will be payable in equal quarterly installments in arrears on the last day of each fiscal quarter in which the service occurs, prorated for any partial months of service.

Commencing on the Effective Date, each Non-Employee Director will be eligible to receive the following annual cash retainers (the “**Retainers**”) for service on the Board (as applicable):

(a) **Annual Board Service Retainer.**

- (i) All Eligible Directors: \$50,000
- (ii) Chair of the Board: \$20,000 (in addition to regular Annual Board Service Retainer)
- (iii) Lead Independent Director: \$20,000 (in addition to regular Annual Board Service Retainer)

(b) **Annual Committee Member Service Retainer.**

- (i) Member of the Audit Committee: \$10,000
- (ii) Member of Compensation Committee: \$7,500
- (iii) Member of the Nominating and Governance Committee: \$5,000
- (iv) Member of the Strategy Committee: \$5,000

(c) **Annual Committee Chair Service Retainer** (in lieu of Annual Committee Member Service Retainer).

- (i) Chair of the Audit Committee: \$20,000
- (ii) Chair of Compensation Committee: \$15,000
- (iii) Chair of the Nominating and Governance Committee: \$10,000
- (iv) Chair of the Strategy Committee: \$10,000

Prior to December 31 of each year, each Non-Employee Director shall be given the opportunity to elect to receive 50% or 100% of his or her Retainers with respect to the following calendar year in the form of common stock of the Company ("**Common Stock**") rather than cash, which Common Stock shall be granted in the form of fully-vested restricted stock units ("**RSUs**"). If the Non-Employee Director elects to receive 50% of his or her Retainers in the form of Common Stock, the value of such Common Stock on the date of grant shall equal 110% of the cash value of the related Retainers. If the Non-Employee Director elects to receive 100% of his or her Retainers in the form of Common Stock, the value of such Common Stock on the date of grant shall equal 120% of the cash value of the related Retainers. Each such grant shall take place without any further action of the Board or Compensation Committee, and shall be made at the close of business on the same date that the corresponding Retainer would have been paid. The number of shares of Common Stock granted to the Non-Employee Director shall be determined in a manner consistent with the section below entitled "Calculation of Value of an RSU Award." The grant shall be made under the Company's 2020 Equity Incentive Plan (the "**Plan**") and the Company's Restricted Stock Unit Award Notice and Agreement, in the form adopted from time to time by the Board or Compensation Committee (the "**Form of RSU Agreement**").

Equity Compensation

Commencing on the Effective Date, each eligible Non-Employee Director will be eligible to receive the equity compensation set forth below. Equity awards will be granted under the Plan and Form of RSU Agreement.

(a) **Initial Equity Grant.** Upon appointment to the Board, and without any further action of the Board or Compensation Committee, at the close of business on the day of such appointment, a Non-Employee Director will automatically receive a restricted stock unit ("**RSU**") award having a value of \$175,000 (the "**Initial RSU**"), prorated from the date of appointment until the date of the next Annual Meeting. Each Initial RSU will vest on the date of the next following Annual Meeting (or the date immediately preceding the date of the following year's Annual Meeting if the Non-Employee Director's service as a director ends at such meeting as a result of the director's failure to be re-elected or the director not standing for re-election).

(b) **Annual Equity Grants.** Following the Effective Date, each person who is then a Non-Employee Director, will receive an RSU grant annually having a value of \$175,000 (the "**Annual RSU**") granted on the date as determined by the Board or Compensation Committee. Each Annual RSU will vest on the date of the following year's Annual Meeting of the Company's Stockholders (the "**Annual Meeting**") (or the date immediately preceding the date of the following year's Annual Meeting if the Non-Employee Director's service as a director ends at such meeting as a result of the director's failure to be re-elected or the director not standing for re-election).

(c) **Vesting; Change of Control.** The vesting of each Annual RSU is subject to the Non-Employee Director's Continuous Service (as defined in the Plan) on the applicable vesting date of each such award. Notwithstanding the foregoing, for each Non-Employee Director who remains in Continuous Service with the Company until immediately prior to the closing of a Change in Control (as defined in the Plan), such Non-Employee Director's then-outstanding Annual RSU will become fully vested immediately prior to the closing of such Change in Control.

(d) **Calculation of Value of an RSU Award.** The value of an RSU award to be granted under this Director Compensation Policy will be determined based on the unweighted average closing price of a share of Common Stock over the thirty (30) consecutive trading day period immediately preceding the date that is five (5) trading days prior to the date of grant of such award.

Non-Employee Director Compensation Limit

Notwithstanding anything herein to the contrary, the cash compensation and equity compensation that each Non-Employee Director is eligible to receive under this Director Compensation Policy shall be subject to the limits set forth in Section 3(d) of the Plan.

Ability to Decline Compensation

A Non-Employee Director may decline all or any portion of his or her compensation under this Director Compensation Policy by giving notice to the Company prior to the date cash is to be paid or equity awards are to be granted, as the case may be.

Expenses

The Company will reimburse each Non-Employee Director for any ordinary and reasonable out-of-pocket expenses actually incurred by such director in connection with in-person attendance at and participation in Board and committee meetings; provided, that such director timely submits to the Company appropriate documentation substantiating such expenses in accordance with the Company's travel and expense policy as in effect from time to time.

* * * * *

**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: August 2, 2023

/s/ Alexander Timm

Alexander Timm

Chief Executive Officer and Director

(Principal Executive Officer)

**Certification of 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: August 2, 2023

/s/ Megan Binkley

Megan Binkley

Chief Financial Officer

(Principal Financial Officer)

**Certification of Chief Executive Officer and 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, 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 June 30, 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: August 2, 2023

/s/ Alexander Timm

Alexander Timm

Chief Executive Officer and Director

(Principal Executive Officer)

/s/ Megan Binkley

Megan Binkley

Chief Financial Officer

(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.