



APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Lemonade Inc Q4 2025 results

Share Price	US\$61.67
Date	20th February 2026

RESULTS SUMMARY

Lemonade reported a guidance and consensus-beating result. While the company remains a nascent player in the insurance industry in the US and is still loss-making, operational metrics continue to trend in the right direction towards management's long-guided EBITDA profitability by Q4-2026.

- **Revenue grew 53% year on year to \$228m**, ahead of consensus expectations of \$218m.
- **Adjusted EBITDA was a loss of just \$5m** compared with expectations of -\$13m and a meaningful improvement compared to Q4-24 (-\$23.8m).
- **Adjusted EPS came in at a loss of -\$0.28/share**, compared with consensus expectations of -\$0.39/share.

OUR LONG-TERM INVESTMENT VIEW

Lemonade was founded in 2015 as an AI-first insurance company, long before AI was the buzzword we know of today. The company utilises a digital-native approach to customer onboarding and claims management, with 98% of policies sold via AI and around 50% of claims handled by its AI bots, yielding a substantial operational cost advantage compared with legacy insurers that have much higher headcounts, manual processes and legacy systems. More recently, its telematics approach to auto insurance has led it to partner with Tesla in insuring their cars and offering discounted premiums when driven in FSD mode. Importantly, auto insurance remains a small part (~15%) of the company's \$1.2bn in-force premium (IFP) book but is likely to represent the greatest long-term opportunity for growth – the US auto insurance industry alone is around \$400 billion in size (annual premium).

Lemonade management has given itself a long-term target of reaching \$10 billion of IFP, without being specific about time frame. While ambitious, the markets they operate in are large enough to support this, but we think a more realistic scenario is the business growing to ~\$4.5bn IFP by the end of the decade through a combination of a steady increase in the pace of customer acquisition from current levels (+550k customers in 2025), as well as growth in average premiums through mix shift in favour of auto and cross-selling from single policy to multi-policy customers. The group also intends to retain more risk (ie smaller portion of premiums ceded to reinsurers), so revenue should grow much faster than IFP. **This is a business moving through a J-curve from losses currently (albeit lower than recent years), to break-even by end-'26 and we expect the above dynamic gives it the potential to be a business generating \$3.5-4bn of revenue by 2030 (~40% CAGR from FY25)**, with operating margins expanding from current losses to potentially the early to mid-teens percentage. Under that scenario, this has the potential to be a \$150-200/share stock within 5 years (20x EV/EBIT). However, the risk/reward profile is high, the stock is very volatile as a result and likely suitable only for risk-tolerant investors, or as a very small component of an appropriately diversified portfolio seeking to add alpha from businesses which possess substantial upside optionality.

UNPACKING THE Q4 2025 RESULTS

- **Customer numbers** expanded by 114k during Q4 to just shy of 3 million to end the year.
- **Premium per customer** expanded by 7% year on year and \$11 sequentially to \$414. This metric benefitted from a mix shift toward auto policies, which while still small in the overall mix,
- The group's **loss ratio improved to 52%** compared to 63% a year ago, but it should be noted that around **9% points of the improvement related to favourable prior period developments (PPD)** (ie losses coming in lower than provided for in

carry a far higher average premium (\$2000 vs \$250 for homeowners' insurance, for example).

- **In force premium (IFP)** rose 31% year on year to \$1.24bn at the end of 2025.
- **Net earned premiums rose 77% in Q4** as a result of the above policy growth, as well as the group retaining more risk on its books – net earned premiums amounted to 62% of gross earned premiums (Q4-25: 44.7%) and management has previously guided for this to rise to 80% in time.
- **Operating expenses grew by 34%** year on year to \$285m, inclusive of loss and loss adjustment expenses rising 49%. Excluding the above, operating costs grew by 24%, with marketing rising 35%. Stock based compensation doubled to \$20m on a year on year basis, and accounted for around 7% of the cost base. Share dilution is an ongoing point of focus for investors in Lemonade, and the diluted share count rose by 4.5% year on year – some of which is likely down to the share price gain over the last year bringing more previously issued options into the money.

previous underwriting periods). Still, the loss ratio is competitive by industry standards – a far cry from the 80%+ figures of a few years ago – and signals that Lemonade's lack of current profitability is principally an issue of lack of scale rather than poor unit economics.

- While initially trading higher post the release of this result, **Lemonade's stock closed around 6% lower on the day**. We believe this could be the result of **management guidance for Q1-26 and FY26 that did not materially exceed consensus expectations**: IFP is expected to grow 30% in Q1-26, with an adjusted EBITDA loss of -\$22-25m for Q1 – much in line with sell-side expectations (already at -\$24m for Q1). Full year EBITDA was guided to -\$48-52m, albeit reiterating an expectation of positive EBITDA in Q4-26. Management also guided to higher marketing expenses, which may have been perceived negatively. Nevertheless, we expect the group to outperform its own guidance this year.

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4th Floor, Block A, Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | Tel: +27 (0)21 524 4678 | Email: privateclients@omwealth.co.za