We are also exposed to credit risk on our investment portfolio. We manage the exposure to credit risk in our municipal and corporate bond portfolio by investing in high quality securities and diversifying our holdings.

We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. The majority of our investment portfolio is invested in high credit quality, investment grade fixed maturity securities. As of March 31, 2020, none of our fixed maturity portfolio was unrated or rated below investment grade.

Inflation Risk

Inflationary factors such as increases in overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of operating expenses as a percentage of revenue, if the selling prices of our products do not increase with these increased costs.

Election Under the Jumpstart Our Business Startups Act of 2012

The Company currently qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. Accordingly, the Company is provided the option to adopt new or revised accounting guidance either (i) within the same periods as those otherwise applicable to non-emerging growth companies or (ii) within the same time periods as private companies.

The Company has elected to adopt new or revised accounting guidance within the same time period as private companies, unless, as indicated below, management determines it is preferable to take advantage of early adoption provisions offered within the applicable guidance. Our utilization of these transition periods may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the transition periods afforded under the JOBS Act.

OUR LEMONADE STAND

A letter from our co-founders

Since the dawn of time, insurance has both propelled progress and been revolutionized by it. Early humans risk-pooled intuitively, earning a claim on communal provisions in bad times by sharing their bounty in good ones. The Agricultural Revolution transformed risk pooling from an adaptive instinct to a facet of trade, with 'assurance' included in loan agreements throughout antiquity. A slew of inventions in the 14th century triggered the Commercial Revolution, which saw the ousting of lenders from insurance, and the inauguration of the first insurance companies. These thrived until the Scientific Revolution, when the discovery of probability theory signaled the toppling of every insurance company that predated it, and the emergence of the insurance dynasties that have reigned ever since.

A new revolution now threatens these hegemons.

The World Economic Forum labeled the transformations we are experiencing today the Fourth Industrial Revolution, and with good reason. The pace and breadth of today's innovations have no historical precedent, and they are spreading at an exponential, rather than linear, pace. As transformative as the prior revolutions were for insurance, there is reason to believe that today's will be even more so. No part of the value chain is immune this time: distribution models, business models, statistical tools, systems of management, cost structures, corporate structures, corporate culture, technology stacks, user experience, marketing channels, data sources, data uses, value propositions, human capital — all these and more are being upended.

Which is why we founded Lemonade.

We wouldn't know how to shepherd incumbents through these momentous changes; nor do we know of a technological solution to their innovator's dilemma. Our analyses led us to conclude that a new kind of insurance company, built from scratch on an unconflicted business model and cutting-edge technology, will enjoy structural advantages that will manifest ever more powerfully over time.

Lemonade aspires to be such a company.

We recognize this is an audacious undertaking, and the journey will be long and bumpy. We are energized by the David vs. Goliath dynamic, and enjoy making things from scratch: brands, experiences, technologies, products, cultures, organizations. But Lemonade is not everyone's cup of tea, which is why we wanted to outline our approach, in the hope that investors who share our thinking will be drawn to Lemonade, while those who do not will seek their fortunes elsewhere.

- *We are committed to planning, but not to plans.* Uncharted territory is just that: we have state-of-the-art kit, an intrepid team and an ambitious destination, but no map. So we explore, probe, and course correct. We think strategically, but are opportunistically opportunistic. Our squads hold daily 'stand-up' meetings, run weekly sprints and measure themselves against quarterly objectives, which in turn reflect our annual targets. These concentric planning cycles keep us on track, but also enable us to change plans from one day to the next. When opportunities present, or competitors react, or new data emerge, the tasks doled out at 'stand-up' the next morning adjust accordingly. That's the plan.

- *We are short term patient, but long term greedy.* We believe opportunities such as ours are rare and fleeting. Industries like insurance are reinvented once every few centuries. Optimizing for profitability is important, but can wait; we aim to first grow fast and capture as much market share, mind share, and as large a geographical footprint as possible. If we were to reverse that, we would have a finely honed business, but would risk losing

the market. That does not mean our bottom line does not guide or constrain us — it absolutely should and does. We do not launch products, open territories, or sell policies we believe will be a long-term drain, rather than a long-term gain. But the key phrase is 'long term.'

- *We are risk takers, not thrill seekers.* We endeavor to be driven by data, not emotions. But data are invariably incomplete, and while waiting for more data decreases error rates, it also blunts potential upside. We prefer to make decisions under conditions of uncertainty, and to abandon bad bets as soon as the data reveal them to be so. That translates into greater volatility, but also to better aggregate returns. It's a trade we are comfortable making.

- *We are transparent, except when we are not.* We will explain why we zig or zag, and be forthright about our past mistakes and future plans, except when revealing that information might hurt the business and its disclosure is not required by law. By disposition we are transparent, and default to sharing more rather than less. But we know that transparency is subject to diminishing returns, and at some point, negative returns. We try to be guided by that.

- *We see our job as value creation, not share price maximization.* We are not interested in our share price on a day to day, week to week or month to month basis. On these timescales share prices fluctuate for a myriad of reasons, some correlated with long term value creation, others uncorrelated, yet others inversely correlated. Success will reflect itself in our share price in the fullness of time, but short-term price flutters are noise, and we will not credit them as signals.

- *We believe values add value.* Lemonade is a Public Benefit Corporation, meaning that while we are about profit maximization over the long run, that is not all we are about. Our business decisions consider the greater good, and the value we are looking to create is measured in many currencies, money being but one of them. In any event, we reject the dichotomy between doing well and doing right. Ours is a world of increasing abundance, with consumers climbing ever higher on Maslow's hierarchy of needs. Lemonade users, by definition, already have a roof over their heads, so even as we protect their homes, we also want to enrich their sense of community, esteem, and self-actualization. These transform a transactional relationship into a meaningful one, a rarity in insurance. Increasingly, we believe, brands that exist narrowly for profit maximization will not even achieve that. In the 21st century, creating value requires a concomitant commitment to values.

The contest to be the preeminent insurance brand of the next century is just getting started, and for the first time in a long time, the title seems up for grabs. We have assembled a deft team, we are armed with the latest tech, and the winds of change are at our backs. None of these guarantee success, of course, and our competitors are entrenched and truly formidable. But we like our chances. After all, such has been the story of insurance since the dawn of time.

Daniel & Shai

BUSINESS

Our Mission

Harness technology and social impact to be the world's most loved insurance company.

Overview