Root (ROOT) / 7 May 25 / 2025 Q1 Earnings call transcript

Company Profile

Matthew LaMalva	executive
Alexander Timm	executive
Megan Binkley	executive
Thomas Mcjoynt-Griffith	analyst
Elyse Greenspan	analyst
Charlie Rodgers	analyst

Operator

Greetings, and welcome to the Root, Inc.

First Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Matt LaMalva. Thank you.

You may begin.

Matthew LaMalva

Thank you for joining us. Root is hosting this call to discuss its first quarter 2025 earnings results. Participating on today's call are Alex Timm, Co-Founder and Chief Executive Officer; and Megan Binkley, Chief Financial Officer.

Earlier today, Root issued a shareholder letter announcing its financial results.

While this call will reflect items discussed within that document, for more complete information about our financial performance, we also encourage you to read our first quarter 2025 Form 10-Q, which was filed with the Securities and Exchange Commission earlier today.

Before we begin, I want to remind you that matters discussed on today's call will include forward-looking statements related to our operating performance, financial goals and business outlook, which are based on management's current beliefs and assumptions. Please note that these forward-looking statements reflect our opinions as of the date of this call, and we are not obligated to revise this information as a result of new developments that may occur.

Forward-looking statements are subject to various risks, uncertainties and other factors that could cause our actual results to differ materially from those expected and described today.

For a more detailed description of our risk factors, please review our most recent 10-K, 10-Q and shareholder letter. A replay of this conference call will be available on our website under the Investor Relations section.

I would also like to remind you that during the call, we will discuss some non-GAAP measures while talking about Root's performance.

You can find reconciliations of these historical measures to the nearest comparable GAAP measures in our financial disclosures, all of which are posted on our website at ir.joinroot.com.

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

Alexander Timm

Thanks, Matt.

Our momentum from 2024 continued into the new year as we delivered strong results across our operations, producing another profitable quarter. We entered 2025 from a position of strength, thanks to our superior technology, strong capitalization and scalable fixed expense base.

We improved our gross premiums written by 24% from the first quarter of 2024 and generated net income of $18 million, operating income of $24 million and adjusted EBITDA of $32 million.

Additional accomplishments for the quarter include growing policies in force, delivering strong loss ratios, continuing investments in our pricing and underwriting technology, and making progress to diversify our distribution.

Our strong performance in the first quarter was enabled by seasonal favorability, largely driven by tax refunds, elevated shopping behavior and lower miles driven. We tend to see this benefit in the first quarter of every year and do not expect this tailwind to persist into the rest of 2025. Most importantly, we have achieved this growth while maintaining our underwriting discipline, which continues to be our North Star.

We continue to be excited for the path ahead as we focus on lifetime unit economics, expand our partnerships channel and reinvest in our business to drive long-term returns. The progress achieved over the past few quarters was possible due to the foundation we fortified in recent years, and we believe this foundation will continue to drive momentum in our business for years to come.

Within our direct channel, we have found success in data-rich, lower funnel channels, and we'll continue to scale these wins while leveraging our expertise to expand into mid- to upper funnel strategies. These R&D investments are at an early stage as we collect more data, and we only scale those channels that meet or exceed our unit economic targets.

Our direct channel is supported by our world-class mobile-first telematics product, creating delightful customer experiences at better prices.

Through our partnership channel, building differentiated access to customers remains a core pillar in our long-term growth strategy. This channel has seen quarterly new writings more than double year-over-year as our pipeline continues to expand across the automotive, financial services and agent subchannels.

We have expanded our partner roster to include over 20 total partners, launching 2 new strategic partnerships, one with Hyundai Capital America or HCA and one with Experian, this quarter.

In March, we announced our partnership with Hyundai Capital America to bring data-driven competitive rates and a more connected experience to HCA customers. This partnership aims to optimize the strength of both companies to address evolving industry needs and set new benchmarks for customer satisfaction.

We are in the early stages of this exciting partnership that continues to expand our distribution and look forward to sharing updates as the partnership evolves.

Our partnership with Experian offers Root Insurance through Experian's insurance marketplace, providing their members expanded access to affordable and personalized car insurance options. By leveraging our technology, this integration enhances and streamlines the insurance shopping experience, delivering data-driven competitive rates to Experian members.

Our progress is driven by a proprietary tech stack that can seamlessly integrate into existing partner platforms, enabling access to potential customers at contextually relevant times. We remain confident in our long-term growth avenues across both channels while maintaining a focus on national expansion.

As of the end of the first quarter, we are happy to report that we are in 35 states and also filed our product with Michigan, which is currently pending regulatory approval. This builds on our list of states with outstanding filings, which also includes Washington, New Jersey and Massachusetts.

We are excited to expand our geographic presence in our quest to become national. Above all, providing customers a delightful experience and a great price no matter what channel they come through remains our top priority.

As we invest in our growth, we will maintain our laser-focused mindset on disciplined underwriting driven by our proprietary technology platform and data science algorithms.

While we cannot predict the future, we are able to react swiftly and appropriately through rate actions when it comes to changes in loss costs, including implications from imposed tariffs.

As we demonstrated previously in the post-pandemic hyperinflationary environment, we leverage automation in our underwriting process, empowering us to quickly identify trends, seek regulatory approval and ultimately earn rate through our book. Particularly in times of high macroeconomic uncertainty, we are able to leverage our frequent actuarial reviews to incorporate changing trends into our pricing algorithms and continually offer the best prices to our best drivers.

At Root, it's all about the long term. That means we invest our capital to drive intrinsic value creation based on an economic framework over the life of the customer, not calendar period results. We believe a disciplined adherence to this framework creates a tremendous opportunity for long-term investors.

I will now hand the call over to Megan to discuss our first quarter operating results in more detail.

Megan Binkley

Thanks, Alex. Overall, it was an excellent start to 2025. We experienced another quarter of strong performance on unit economics, underwriting and expense management.

For the first quarter, as Alex mentioned, we delivered net income of $18 million, a $25 million improvement year-over-year.

We also generated operating income of $24 million and adjusted EBITDA of $32 million, improvements of $18 million and $17 million year-over-year, respectively.

In the first quarter, we saw material increases in policies in force, gross written premium and gross earned premium when compared to the first quarter of 2024 and the fourth quarter of 2024.

Our growth in the first quarter was driven by both our direct and partnership channels and enabled by the continued disciplined deployment of acquisition investment at our lifetime unit economic targets.

As we've consistently noted, we do not defer the majority of our customer acquisition costs over the life of our customer, which leads to accelerated expense recognition relative to earned premium. We achieved this growth while delivering a first quarter gross accident period loss ratio of 58%, a strong result that is enabled by our continued investment in data science and technology. Note that we benefit from a favorable seasonality trend in the first quarter as there are fewer miles driven in the winter months and also higher purchasing power resulting from tax season refunds. We achieved a net combined ratio of 96% in the quarter, a 6-point improvement on a year-over-year basis, reinforcing the ongoing discipline in how we manage the business and deploy capital.

We are well capitalized for the opportunities ahead of us.

Our unencumbered capital was $347 million at the end of the period. And given our strong underwriting performance, we are also in a position of excess capital across our insurance subsidiaries. This allows us to better optimize our operating structure and more flexibly deploy growth capital for high-return opportunities.

Q1 was the first quarter to reflect our run rate interest expense savings from the recently amended debt facility with BlackRock. The current facility allows for performance-based step-downs in our interest expense tied to our debt-to-capital ratio, the first of which we were able to realize in the first quarter, which reduced our interest rate by 25 basis points. This illustrates that as our business continues to perform, we will have opportunities to reduce our cost of capital.

We remain focused on growing in a thoughtful and disciplined manner through expanding our footprint and distribution channels and investing in opportunities for the business that present high return potential over the long term. We believe continued investments in our people and technology infrastructure as well as targeted customer acquisition investment to enable profitable growth is the right decision to drive long-term success and shareholder value.

Running the business in a lifetime unit economic framework may impact the degree of GAAP profitability in any given quarter, but we believe our approach will ultimately translate to strong calendar year results.

We are excited for our future and appreciate your continued support.

With that, we look forward to your questions.

Operator

[Operator Instructions] The first question we have is from Tommy McJoynt of KBW.

Thomas Mcjoynt-Griffith

The first one is looking at the new business mix.

So the partnership mix had been rising pretty significantly on a sequential basis the last couple of quarters, but was up only 2 points sequentially in the first quarter here. Was that a function of unusually strong opportunity on the direct side in the first quarter? And then how do you think about that partnership mix perhaps over the rest of the year?

Alexander Timm

Thanks, Tommy. I'd say that that was really a function of -- we saw a very strong quarter in direct growth. It's always seasonally very strong. We do expect that to abate more going forward.

And so I think you're going to see the percent from partnerships in terms of the number of new writings that we're generating each quarter increase through the remainder of the year.

Thomas Mcjoynt-Griffith

Got it.

Okay. And we did see the step-up in your growth spend through the sales and marketing line, as you had previously communicated. Can you talk about your expectations for the quarterly cadence of that growth spend for the rest of this year as well?

Alexander Timm

I think, again, usually, Q1, we see really strong seasonality. We did see that again this quarter. That's driven by tax season. And we also saw some pull-up of demand, we believe, into the quarter.

And so we've kept -- as we look forward, for example, this quarter-to-date, we've kept PIF roughly flat. Long term, I think usually, again, you're going to see Q1 be the best quarter.

I think in terms of longer-term growth expectations throughout the year, we're continuing to work on state expansion. We're adding additional partnerships, both HCA and Experian that we've announced this quarter. And then on direct, we're continuing to experiment to mid-, upper funnel.

So we think long term, there's a lot of growth.

But on a quarter-by-quarter basis, we're going to continue to run our marketing machine that optimizes for, really, the net present value of our business. And that typically, on the direct channel, particularly occurs in Q1.

And so I think that's going to be the highest quarter. But, Megan, would you say anything else?

Megan Binkley

No, I think, Alex, you covered it. I mean, from a Q1 perspective, really proud of the growth that we saw in Q1. I mean, we really capitalized on the opportunities to increase our sales and marketing investment in the quarter. And as Alex mentioned, tax season, we saw, was a bit more amplified this quarter than what we've seen previously.

Thomas Mcjoynt-Griffith

And then just last question, I'll sneak in here.

Looking at the geographical breakdown disclosure in your Q, looks like you saw some really strong growth in some select states like California and Florida. Can you talk about your state -- your expansion sort of strategy in the individual states in terms of how long it takes to deploy marketing dollars and ramp up on a state-by-state basis would be helpful.

Alexander Timm

Thanks, Tommy. When we launch into new states, we're very, very diligent.

And so we usually launch with pretty conservative pricing and underwriting. And then as we observe the data and the loss cost data coming through to ensure that we're hitting our target margins, that's when you'll start to see us open up a little bit.

And sometimes we have to adjust pricing there.

You saw that in a couple of states that we've launched recently, for example.

And so you may see us adjust pricing shortly thereafter as well.

And so really, we take a very measured approach. And then as we gain confidence as that data comes through, that's really when you start to see the growth come through.

And so that can take anywhere from 6 months to a year.

Operator

The next question we have is from Elyse Greenspan of Wells Fargo.

Elyse Greenspan

My first question, you were highlighting, I think, seasonality on the growth side in terms of -- I think you mentioned tax refunds. I'm not sure if you have a sense of what the contribution to growth was there. Also, I don't know if perhaps you saw an impact, some pull-forward, just given the looming impact of tariffs and just both of those kind of contribution to policy growth in the Q1, I was hoping to get more color there. And then how are you thinking about policy growth over the balance of the year?

Alexander Timm

Thanks, Elyse. Yes, I'd say the tax season, that's always a fairly

[Audio Gap]

that every year. And we saw that again this year.

And so that's been pretty consistent year-over-year. It was maybe slightly more extreme this year than what we've seen in previous years.

Tariffs, particularly in our partnerships channel where we are selling insurance directly embedded with a vehicle, we do believe that those potentially pulled up some demand.

And so you also saw that.

In terms of the remainder of the year and our PIF growth trajectory, Megan, would you like to take that?

Megan Binkley

Yes.

I think in terms of what Alex mentioned, I think the only thing that I would layer on is, as we enter Q2, I mean, we are seeing that PIF is roughly flat quarter-to-date. And really, that's in line with our expectations. We did bring on a significant number of new writings in Q1. And typically, at least on the direct side, we do see a higher churn associated with that increased growth penalty for some of the early-stage cohorts.

Elyse Greenspan

And then I guess sticking on the tariff side, I think in the prepared remarks, right, you guys were highlighting how you can react pretty quickly to trend and seek approval for rates, if needed. Is your expectation that you guys will need to take rates to offset some of the tariff impact? And then we've kind of thought that the impact of tariffs would be about a mid-single-digit or 5% increase to severity. Is that within what you guys are expecting as well?

Alexander Timm

We've run a number of different scenarios. We do believe that it's going to be low- to mid-single-digit impact on the loss ratio.

So when we look at it, though, our loss ratios have been below our current loss ratio targets.

And so we believe we have more than enough room to absorb any of the tariffs in the current form given our best estimates.

But absolutely, I will say if we need to take rate, we will take rate. And we believe that that's been -- actually, a core competitive advantage of the company is that by being run on a modern tech chassis and having automated rating systems, that has allowed us to be in front of, really, we believe, almost all of our competitors in terms of being able to take rates very quickly. And you saw that in 2023, right, where we were growing and taking significant market share as a company, while most others were still on the sidelines.

And so although that there may be some near-term macroeconomic uncertainty, we believe just by virtue of being nimble in a tech company, we can certainly move much quicker.

Elyse Greenspan

And then my last question, it's been a few quarters in a row of positive earnings for you guys. I know you guys have steered away a bit from giving precise guidance, but just how you see -- obviously, there was a seasonality benefit in the Q1, but still decently profitable.

So how do you guys see yourself in terms of remaining profitable over the balance of the year?

Megan Binkley

Yes. Thanks, Elyse. It's a good question. And what I would say is, yes, this is our third consecutive quarter of profitability. Q1, as you mentioned, does have the seasonal component to it, both on growth and on loss ratio.

I think we've covered our expectations on growth in previous responses. But one thing I do want to highlight is the loss ratio is typically higher in Q2 and Q3 driven by Q2 is heavy convective storm season and then Q3 is hurricane season.

So we do expect that the loss ratio will increase in Q2 and Q3 to align with our long-term target, which is between 60% and 65%.

But the other thing I would say, too, is we're not expecting to run rate a single quarter, extrapolate results into the future. We're going to continue being very opportunistic on our direct marketing side, and you'll see us continue to take that approach.

Operator

[Operator Instructions] The next question we have is from Andy Andersen of Jefferies.

Charlie Rodgers

This is Charlie on for Andrew. I know we've been talking about growth on the call so far, and I get that we're going to probably see a shift in mix of growth for the balance of the year move towards the partnership channel, but I guess how should we think about the contribution of new partnerships? I'm thinking like HCA or Experian partnership and the potential impacts to PIF growth there, like how long do they take to ramp? Do you expect them to be big contributors this year?

Alexander Timm

Thanks, Charlie.

In terms of new partnerships, in general, I would say, typically, when we onboard a new partner, it does take us time to ramp.

And so we are in the early stages of the partnership, and we're going to share more details as that partnership and product continues to progress.

Charlie Rodgers

Okay. And then I guess just on kind of frequency and severity, I get that we've talked at length about tariffs, but it seems like 5% benefit from frequency, but there was also -- severity was up 7%.

So how should we, I guess, first, be thinking about -- was there anything driving frequency down that you guys would call out that we should maybe think about as being nonrecurring or perhaps recurring? And then on severity, are you guys taking any steps or thinking that you may need to take any steps to adjust pricing there?

Alexander Timm

Thanks, Charlie. I would say that the trends have been roughly in line with what we've observed and what we've sort of anticipated.

And so I don't think it was, in terms of frequency or severity trends, a quarter that was outside of the bounds of our reasonable expectations.

We have seen some mix shift.

So we have shifted more as -- particularly as we've launched more partnership channels into -- or more partnerships into a more preferred customer segment. That segment, typically, you will see lower frequency and a bit higher severity, but we also believe that our pricing plans have sort of appropriately accounted for that in our segmentation model.

So we feel pretty good about where trend is today.

Operator

At this time, there are no further questions. And with that, this concludes today's conference call. Thank you for joining us.

You may now disconnect your lines.