

Lemonade, Inc. (LMND)

Equity research note | Interim review | Prepared 26 August 2026

WATCHLIST Unchanged from previous report	Last close (25 Aug 2026)	\$54.42
	Change since 5 Aug note	+0.6%
	Price / FY26 revenue guidance	~3.44x
	Price / in-force premium	~2.93x
	Probability-weighted fair value	\$60.35
	Implied upside to fair value	+10.9%

Three Weeks of Almost Nothing

This is a reaffirmation, and it is worth saying so plainly at the outset rather than manufacturing a new angle. Lemonade closed at \$54.42 on 25 August against \$54.11 on 4 August, a move of 0.6% across fifteen sessions. No new results have been published, no guidance has been revised, and the single event on which the entire investment case turns, the promised swing to positive adjusted EBITDA in the fourth quarter of 2026, remains where it was: one quarter away and unverified.

Two things did move. Morgan Stanley, which downgraded Lemonade to Hold on 5 August with a \$65 target, cut that target again on 19 August to \$56 while maintaining the rating. That is now the third target reduction from a Hold-rated broker in a month, alongside Piper Sandler at \$51 and KBW's upgrade to Hold at \$48. The sell-side has converged almost unanimously on the same position this note has held since the July print: a good business at a price that requires proof it has not yet furnished. Truist's maintained Buy is the outlier.

The second is that the technical damage from the 23.7% reaction-day fall has begun to repair. The price has reclaimed the twenty-day average, the MACD histogram has crossed positive, and the reaction-day low of \$46.16 has held on every subsequent test. That is a base forming, not a trend reversing, and it does not change the rating.

Do the Published Levels Still Hold?

Level from the 5 August note	Then	Now (25 Aug)	Status
Last close	\$54.11	\$54.42	Effectively unchanged
Probability-weighted fair value	\$61.30	\$60.35	Trimmed 1.5%; upside narrows to 10.9%
Reconsideration zone on price alone	\$46 - \$48	Low held at \$46.16	Tested and defended; never revisited
Price / FY26 revenue guidance	~3.4x	~3.44x	Unchanged; guidance also unchanged
Upgrade trigger: Q4 adjusted EBITDA positive	One quarter away	Still one quarter away	The whole case still rests here

The published levels hold. The fair-value estimate is trimmed marginally to reflect the compression in sell-side targets, which lowers the plausible exit multiple in the bull case rather than changing any operating assumption. The upgrade trigger is unchanged because the event that constitutes it has not yet occurred.

What the Sell-Side Convergence Actually Says

Between 29 July and 19 August, William Blair maintained Hold, KBW upgraded to Hold at \$48, Piper Sandler maintained Hold and cut to \$51, Morgan Stanley downgraded to Hold at \$65 and then cut to \$56, and Truist maintained Buy. The

distribution is unusual: an upgrade and a downgrade arriving at the same rating from opposite directions, with targets clustering between \$48 and \$56 around a \$54 price.

That pattern describes a stock the market believes is roughly correctly priced for what is currently knowable, which is precisely the definition of a Watchlist position. It is not a bearish signal. KBW upgrading from a lower rating to Hold at a target below the market implies the fall went far enough; Morgan Stanley cutting from \$65 to \$56 implies the recovery has gone as far as the evidence supports. Both are saying the same thing about the same unresolved question.

The operating case set out in the 5 August note is untouched by any of this. In-force premium growth of 32.5% has now accelerated for eleven consecutive quarters, the loss adjustment expense ratio reached a record 5%, adjusted free cash flow has been positive for five quarters, and the adjusted EBITDA loss halved year on year to \$19 million. Equally untouched is the caution: the reported 79% revenue growth still substantially reflects a reinsurance retention decision rather than demand, and the additional underwriting risk that decision transfers onto the balance sheet has not yet been tested by a severe catastrophe season.

Valuation

Metric	Value	Assessment
Price (25 Aug 2026 close)	\$54.42	33.0% below the 100-session high of \$81.23
Approximate market capitalisation	~\$4.18bn	Scaled from the 4 August implied figure
Price / FY26 revenue guidance	~3.44x	A software multiple on an insurance balance sheet
Price / in-force premium	~2.93x	The more conservative denominator
Sell-side target range	\$48 - \$56	Clustered around the market price
Probability-weighted fair value	\$60.35	10.9% above the current price

Market capitalisation is scaled from the \$4.16 billion implied by reported loss per share at the 4 August close, adjusted for the 0.6% price move. It is this note's own derivation, not a company-reported figure. FY26 revenue guidance midpoint is \$1.215 billion; in-force premium is the reported \$1.43 billion at 30 June 2026.

The valuation debate is exactly where the last note left it. Lemonade is priced on revenue because it does not yet earn a return on equity to capitalise, and the reinsurance retention decision that inflated reported revenue simultaneously moved the business toward the end of the spectrum where revenue multiples are least appropriate. At 3.44 times forward revenue and 2.93 times in-force premium, the price sits between what a growing insurtech and a conventional insurer would command. Whether that is cheap or expensive is entirely a function of the fourth quarter.

Technical Position

Indicator (25 Aug 2026)	Value	Reading
Close	\$54.42	Above the 20-day, below the 50- and 100-day
SMA20	\$51.74	Price 5.2% above; reclaimed since the last note
SMA50	\$59.58	Price 8.7% below; the first real resistance
SMA100	\$58.92	Price 7.6% below
SMA200	not computed	Insufficient history in the 100-session series; not estimated
RSI(14)	48.9	Neutral
MACD / signal / histogram	-1.88 / -2.52 / 0.64	Histogram crossed positive from -1.75
ATR(14)	\$2.81	5.2% of price, down from 8.3%

Indicator (25 Aug 2026)	Value	Reading
20-day range	\$46.16 - \$55.05	Base building above the reaction-day low

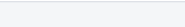
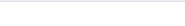
Indicators computed from 100 daily OHLCV sessions (2 April to 25 August 2026). The 200-day average could not be derived from that window and has deliberately not been estimated.

The most useful number in that table is the average true range, which has fallen from 8.3% of price to 5.2%. The panic has drained out of the tape. What remains is a stock consolidating in a narrow band above its reaction-day low with the fifty- and hundred-day averages, clustered near \$59, forming an obvious ceiling roughly 8% above. A break of that cluster would be the technical confirmation that the market has decided the quarter was a buying opportunity; it has not happened yet.

Risks

Risk	Probability	Severity	Comment
Higher retained underwriting risk	High	High	The reinsurance change behind the 79% headline leaves Lemonade absorbing more adverse loss experience
Catastrophe exposure	Medium	High	Homeowners and renters concentration entering the peak of the North Atlantic season
Q4 adjusted EBITDA inflection missed	Medium	High	The single dated, binary test the whole thesis rests on; a deferral into 2027 would be severe
Still pre-profitability	High	Medium	Net loss of \$43m a quarter; adjusted EBITDA excludes real costs
Car insurance execution	Medium	High	Largest addressable line, no track record through a full loss cycle
Valuation sensitivity	High	Medium	A 23.7% fall on an in-line quarter showed how little disappointment the price tolerates
Financing cost	Low	Medium	\$250m of synthetic agents capital at ~9.8% requires acquired cohorts to clear a high hurdle
CFO succession	Low	Medium	Nick Stead takes over on 1 January 2027, immediately before the promised first profitable year

Scorecard

Category	Score	Comment
Business Quality	 6/10	Record 5% LAE ratio is genuine differentiation; underwriting remains hard
Financial Strength	 6/10	~\$1.2bn cash and five quarters of positive adjusted FCF, but still loss-making
Competitive Advantage	 6/10	Claims-handling cost roughly half that of competitors; distribution less clear
Management	 7/10	Eleven quarters of accelerating IFP and a halved EBITDA loss; CFO handover pending
Growth Potential	 8/10	IFP +32.5% and accelerating; car insurance +60% off a small base
Valuation	 5/10	3.44x forward revenue for a pre-profit insurer, 33% below the recent high
Risk (10 = lowest risk)	 4/10	Higher retained risk, catastrophe exposure, 5.2% daily ATR
Technical Setup	 5/10	Reclaimed the 20-day and MACD crossed positive; 50-day still overhead

Scored 1-10, where 10 is always best, including Risk. Weightings: growth 16, valuation 16, risk 15, business quality 14, financial strength 12, competitive advantage 12, management 10, technicals 5. Overall Investment Score: **59 / 100**, unchanged from the 5 August note. The prior note scored Risk on the same direction as this one (its label read "higher = safer"), so no restatement was required for comparability. Only Technical Setup moved, from 4 to 5.

Recommendation: Watchlist (reaffirmed, on unchanged grounds)

The rating stays at Watchlist and the reasoning behind it is the same reasoning as three weeks ago, which is the honest thing to report when nothing material has occurred. Lemonade is growing its actual premium base by roughly a third, doing so faster each quarter for nearly three years, handling claims at about half the cost of its competitors, and is one quarter away from the first positive adjusted EBITDA it has ever produced. At 33% below the July high, the price is no longer assuming that outcome is already banked.

The reason to wait is also unchanged, and it is not general caution. Every strand of the thesis converges on a single dated event. If the fourth quarter delivers positive adjusted EBITDA as guided, the operating-leverage argument resolves in Lemonade's favour and a Buy would be justified at a materially higher price than today's. If it slips into 2027, a business with rising retained underwriting risk, a \$43 million quarterly net loss and a 3.44 times revenue multiple has a long way to fall, and the rating would move to Avoid. Third-quarter results, due in late October or early November, will supply the last read on the trajectory before that test.

Two things would change the view before then. A break above the fifty- and hundred-day cluster near \$59 on convincing volume, or a retreat to the \$46-48 reaction-day area, would each shift the risk-reward enough to warrant reassessment on price alone. Absent either, the correct action is to keep watching.

Scenario Analysis

Scenario	Prob.	Path	Fair value	Conditions
Bull	25%	Q4 EBITDA positive on schedule	\$80	2027 delivers the first full year of positive adjusted EBITDA; IFP compounds above 30%; multiple holds near 3.4x forward revenue
Base	45%	Guidance met, no upgrade	\$63	Q4 turns positive, operating leverage arrives gradually, multiple settles near 2.8x forward revenue
Bear	30%	Inflection deferred	\$40	Catastrophe losses or rising growth spend push profitability into 2028; multiple compresses toward 2.0x

Probabilities sum to 100%. Probability-weighted fair value: \$60.35, approximately 10.9% above the 25 August close of \$54.42, against \$61.30 and 13.3% in the 5 August note. The trim reflects sell-side target compression lowering the plausible bull-case exit multiple, not any change to the operating assumptions. The spread between the bull and bear outcomes remains unusually wide, which is itself the argument for waiting.

Final Verdict

Three weeks have passed and the position is identical. That is not an evasion; it is the finding. Lemonade's operating metrics are good and improving, its valuation is defensible only on an outcome that has not yet occurred, and the market, having marked the shares down 23.7% and then recovered roughly half of it, has settled into the same undecided posture with a sell-side target band of \$48 to \$56 straddling a \$54 price.

The one substantive development is that volatility has collapsed, from an 8.3% average daily range to 5.2%, and the reaction-day low has held on every test. A base is forming. Whether it is a base for a recovery or a shelf before a further decline is not knowable from the chart, and will be decided by an earnings report that arrives in roughly six months. Paying today for that answer, at a multiple that already assumes a favourable one, remains the wrong trade. Watchlist, with the same trigger and the same patience.

Sources

Alpha Vantage - daily OHLCV series, 2 April to 25 August 2026 (TIME_SERIES_DAILY) • Lemonade, Inc. Q2 2026 financial results release and earnings call, 29 July 2026 • moomoo news search - Lemonade analyst actions, 29 July to 19 August 2026, covering Morgan Stanley, Piper Sandler, KBW, William Blair and Truist • Prior Beating The Bull research note on Lemonade, 5 August 2026

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