

Lemonade, Inc. (LMND)

Post-earnings equity research note | Q2 FY2026 reported 29 July 2026 | Prepared 5 August 2026

WATCHLIST

Unchanged from previous report

Last close (4 Aug 2026)	\$54.11
Move since the print (28 Jul close \$62.11)	-12.9%
Reaction-day fall (29 Jul)	-23.7%
In-force premium	\$1.43bn (+32.5%)
Price / FY26 revenue guidance	~3.4x
Probability-weighted fair value	\$61.30

What the Quarter Changed

Lemonade reported a quarter that looked, on the headline, exceptional, and the shares fell 23.7% on the day. Reconciling those two facts is the entire task of this report, and the reconciliation turns on a single distinction between two growth rates the company disclosed.

Revenue of \$294.4 million grew 79% year over year and beat the \$290.88 million consensus by 1.2%. In-force premium, which is the annualised value of the policies actually on the books, grew 32.5% to \$1.43 billion. The gap between 79% and 32.5% is not organic outperformance. Management attributed it to higher premium retention following reinsurance renewals: Lemonade is now keeping a larger share of the premium it writes rather than ceding it to reinsurers. That raises reported revenue without a single additional policy being sold, and it simultaneously transfers more underwriting risk onto Lemonade's own balance sheet.

The honest read is therefore that Lemonade's underlying growth rate is roughly 32.5%, which is very good and has now accelerated for eleven consecutive quarters, and that the 79% figure is an artefact of a risk-retention decision. Adjusted earnings came in at a loss of \$0.56 per share, exactly in line with the forecast rather than ahead of it, and full-year guidance was reiterated rather than raised. For a share priced on acceleration, an in-line loss and an unchanged outlook were enough to trigger the fall.

Q2 FY2026 reported results

Measure	Q2 FY26	Q2 FY25	Change	vs consensus
Revenue	\$294.4m	\$164.4m	+79%	Beat (\$290.88m est.)
In-force premium	\$1.43bn	\$1.08bn	+32.5%	11th consecutive acceleration
Adjusted EPS	-\$0.56	-\$0.60	improved	In line (-\$0.56 est.)
Net loss	\$43m	\$44m	narrowed	—
Gross profit	\$113m	\$64m	+76%	—
Adjusted gross profit	\$114m	\$66m	+74%	—
Adjusted EBITDA	-\$19m	-\$41m	loss halved	—
Adjusted free cash flow	+\$19m	—	5th straight positive quarter	—
Loss adjustment expense ratio	5%	—	Record low	—
Customers added in quarter	~166,000	—	+12%	—

Measure	Q2 FY26	Q2 FY25	Change	vs consensus
Premium per customer	—	—	+8%	—
Annual dollar retention	85%	85%	flat	—
Car insurance revenue	—	—	+60%	—
Cash and investments	~\$1.2bn	—	—	—

Source: Lemonade Q2 2026 results release and earnings call transcript, 29 July 2026. Consensus figures are aggregator estimates.

Guidance

Measure	Guidance	Action
Q3 2026 revenue	\$323 - 326m	Implies +69% growth
Q3 2026 in-force premium growth	+33%	Reiterated
FY2026 revenue	\$1.21 - 1.22bn	Reiterated (+65%)
FY2026 in-force premium growth	+33%	Reiterated
Adjusted EBITDA, Q4 2026	positive	Maintained — the key near-term test
First full year of positive adjusted EBITDA	2027	Maintained
IFP growth vs growth spending	IFP to outpace from 2027	The stated operating-leverage inflection

Everything in that table was reiterated. Nothing was raised. For a company whose equity story depends on an approaching profitability inflection, the absence of an upgrade after a quarter this operationally strong was read by the market as a signal that the inflection is not arriving early. The single most important line is positive adjusted EBITDA in the fourth quarter of 2026: it is now one quarter away, it has been promised repeatedly, and it will be the first hard verification the company has offered.

Business Quality and the Technology Claim

Lemonade's central claim is that an insurer built on automation can operate at structurally lower cost than incumbents, and this quarter produced the best evidence for it the company has yet published. The loss adjustment expense ratio, which measures the cost of handling claims as a share of premium, fell to 5%, a record low. President Shai Wininger stated on the call that competitors spend almost twice as much as Lemonade on handling claims. If that gap is durable, it is a genuine and quantifiable cost advantage rather than a marketing position.

Wininger also made a point that echoes across this earnings season: Lemonade is “model-agnostic” and not tied to any single frontier model provider, with the move from evaluating a new model to implementing it taking hours. A small insurer treating AI capability as a commodity input it can swap freely is better positioned than one that has committed capital to a particular provider.

The growth engine remains intact and broadening. Roughly 166,000 customers were added, up 12%, with premium per customer up 8% and annual dollar retention steady at 85%. Car insurance revenue grew 60%, and the company launched autonomous vehicle coverage in Colorado and Indiana. Car is the largest addressable line Lemonade has entered and the least proven, which makes it simultaneously the biggest opportunity and the biggest execution risk.

Two governance and financing items deserve mention. Longtime chief financial officer Tim Bixby will move to the board on 1 January 2027, with Nick Stead succeeding him. A planned, pre-announced succession is the least disruptive form of CFO change, but it does arrive immediately before the year in which the company has promised its first full year of positive adjusted EBITDA. Separately, the synthetic agents financing programme now provides \$250 million of growth capital at a cost of roughly 9.8%, which funds customer acquisition without equity dilution but at a rate that requires the

resulting cohorts to perform.

Risks

Risk	Probability	Severity	Comment
Higher retained underwriting risk	High	High	The reinsurance change that inflated revenue also means Lemonade absorbs more of any adverse loss experience. This is the direct cost of the 79% headline.
Catastrophe exposure	Medium	High	Homeowners and renters concentration means a single severe event can erase several quarters of margin progress
Still pre-profitability	High	Medium	Net loss of \$43m. Positive adjusted EBITDA is guided but unproven, and adjusted EBITDA excludes real costs.
Rising operating expenses	Medium	Medium	General and administrative and technology spending rose sharply; operating leverage is promised from 2027, not demonstrated
Car insurance execution	Medium	High	A large, competitive, capital-hungry line where Lemonade has no track record through a full loss cycle
Valuation sensitivity	High	Medium	A 23.7% fall on an in-line quarter demonstrates 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

Valuation

At \$54.11 Lemonade carries a market capitalisation of approximately \$4.16 billion, which is roughly 3.4 times the midpoint of full-year revenue guidance and about 2.9 times in-force premium. Those are software multiples applied to an insurance balance sheet, and that mismatch is the core of the valuation debate. Established insurers are valued on book value and return on equity, because their earnings are a spread on capital at risk. Lemonade is valued on revenue growth, because it does not yet earn a return on equity to capitalise.

The bull resolution is that Lemonade is a technology company that happens to distribute insurance, so the software multiple is appropriate and the 5% loss adjustment expense ratio is the proof. The bear resolution is that retaining more premium, as this quarter's reinsurance change did, moves the company toward the insurer end of that spectrum rather than the software end, and insurers do not trade at 3.4 times revenue.

The share price has already absorbed a good deal of this argument. Down 12.9% from the pre-release close and 33.4% below the 100-session high of \$81.23, the valuation is markedly less demanding than it was a month ago, while the operating metrics have improved. That is the strongest single argument for a more constructive view, and it is why the probability-weighted fair value of \$61.30 sits 13.3% above the current price rather than below it.

Metric	Value	Assessment
Price (4 Aug 2026 close)	\$54.11	Up 17.2% from the 29 Jul low of \$46.16
Approximate market capitalisation	~\$4.16bn	Implied from reported loss per share
Price / FY26 revenue guidance	~3.4x	A software multiple on an insurance balance sheet
Price / in-force premium	~2.9x	—
Adjusted EBITDA (quarter)	-\$19m	Halved year over year; positive guided for Q4
Adjusted free cash flow	+\$19m	Positive in five consecutive quarters

Metric	Value	Assessment
Probability-weighted fair value	\$61.30	Approximately 13.3% above the current price

Market Reaction and Technical Position

Lemonade closed at \$62.11 on 28 July. On 29 July, following the pre-market release, it fell 23.7% to \$47.38 on 7.07 million shares, roughly 4.7 times the twenty-day average volume. It then stabilised at \$48.57 and \$48.31 on 30 and 31 July before recovering 9.8% to \$53.05 on 3 August and 2.0% to \$54.11 on 4 August. The shares are 17.2% above the reaction-day low and 12.9% below the pre-release close.

The pattern is consistent with an initial overreaction followed by reconsideration, but the recovery has not been sufficient to repair the technical damage. The price remains below the twenty-, fifty- and hundred-day averages, all of which cluster between \$60 and \$63, and the MACD histogram remains negative. The relative strength index of 41.2 is neutral rather than oversold. With an average true range of 8.3% of price, this is among the most volatile names in coverage and position sizing must reflect that.

Indicator (as of 4 Aug 2026)	Value	Reading
Close	\$54.11	Below all computable moving averages
SMA20	\$62.31	Price 13.2% below
SMA50	\$60.64	Price 10.8% below
SMA100	\$60.43	Price 10.5% below
SMA200	not computed	Insufficient history in the 100-session series; not estimated
RSI(14)	41.2	Neutral, not oversold
MACD / signal / histogram	-3.22 / -1.47 / -1.75	Bearish
ATR(14)	\$4.50	8.3% of price — exceptionally volatile
100-session range	\$46.16 - \$81.23	Price in the lower third

Indicators computed from 100 daily OHLCV sessions (12 Mar - 4 Aug 2026). The 200-day average could not be derived from that window and has deliberately not been estimated.

Scorecard

Category		Score	Comment
Business quality		6/10	Record 5% LAE ratio is genuine differentiation; underwriting remains a hard business
Financial strength		6/10	\$1.2bn of cash and five quarters of positive adjusted free cash flow, but still loss-making
Competitive advantage		6/10	Claims-handling cost roughly half that of competitors; distribution advantage less clear
Management		7/10	Eleven quarters of accelerating growth and a halved EBITDA loss; CFO succession adds mild uncertainty
Growth potential		8/10	IFP +32.5% and accelerating; car insurance +60% off a small base
Valuation		5/10	3.4x forward revenue for a pre-profit insurer, though 33% below the recent high
Risk (higher = safer)		4/10	Higher retained risk, catastrophe exposure, 8.3% daily ATR

Category		Score	Comment
Technical setup		4/10	Below all moving averages with a negative MACD, though bouncing off the low

Overall Investment Score: 59/100

Weightings: growth 16, valuation 16, risk 15, business quality 14, financial strength 12, competitive advantage 12, management 10, technicals 5.

Recommendation: Watchlist (reaffirmed)

The rating is unchanged at Watchlist. The quarter improved the operating case and the share price fall improved the entry case, but neither moved far enough to justify a Buy on a business that has not yet proved it can earn money.

What genuinely improved: adjusted EBITDA loss halved to \$19 million, adjusted free cash flow was positive for a fifth consecutive quarter, the loss adjustment expense ratio reached a record 5%, and in-force premium growth accelerated for an eleventh straight quarter. Those are the metrics that determine whether the profitability inflection arrives, and all four moved the right way.

What did not improve: the company is still losing \$43 million a quarter, guidance was reiterated rather than raised, and the headline 79% revenue growth substantially reflects a decision to retain more underwriting risk rather than to sell materially more insurance. An investor who reads 79% as demand growth is being misled by an accounting consequence of a reinsurance renewal, and this report treats 32.5% as the real number.

The trigger for an upgrade is specific and close. Lemonade has guided to positive adjusted EBITDA in the fourth quarter of 2026, one quarter away. Delivering it would convert the profitability story from a promise into a demonstrated fact and would justify a Buy even at a higher price than today's. Failing to deliver it, or deferring it into 2027, would call the entire operating-leverage thesis into question and would move the rating to Avoid. A retreat toward the \$46-48 reaction-day area in the interim would also merit reconsideration on price alone.

Scenario analysis

Scenario	Prob.	Path	Fair value	Conditions
Bull	25%	Q4 EBITDA positive on schedule	\$82	2027 delivers first full year of positive adjusted EBITDA; IFP compounds above 30%; multiple holds near 3.5x forward revenue
Base	45%	Guidance met, no upgrade	\$64	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: \$61.30, approximately 13.3% above the 4 August close of \$54.11. The spread between the bull and bear outcomes is unusually wide, which is itself the argument for waiting.

Final Verdict

Lemonade delivered a good quarter and was punished for a great-looking one. The 79% revenue headline set an expectation the underlying business was never going to meet, and when investors examined the composition and found a reinsurance retention decision rather than a demand surge, they marked the shares down 23.7% in a session.

Stripped of that distortion, this is a company growing its actual premium base by roughly a third, doing so faster each quarter for nearly three years, handling claims at half the cost of its competitors, and now one quarter away from its first positive adjusted EBITDA. That is a credible path, and at 33% below the recent high the price is no longer assuming it is already complete.

The reason to wait is that every part of the thesis converges on a single event that has not happened yet. If the fourth quarter turns adjusted EBITDA positive as promised, the argument resolves in Lemonade's favour and a higher price will still be justified. If it does not, a business with an 8.3% average daily move, rising retained underwriting risk and a 3.4 times revenue multiple has a long way to fall. Watchlist is not indecision here; it is the recognition that a specific, dated, binary test is one quarter away and that there is no premium for guessing at it.

Sources

Lemonade, Inc. — Q2 2026 financial results release (29 Jul 2026) • Investing.com — Lemonade Q2 2026 earnings call transcript and analyst Q&A • Alpha Vantage — daily OHLCV series, 12 Mar to 4 Aug 2026 • moomoo news search — Lemonade coverage, Jun to Aug 2026

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