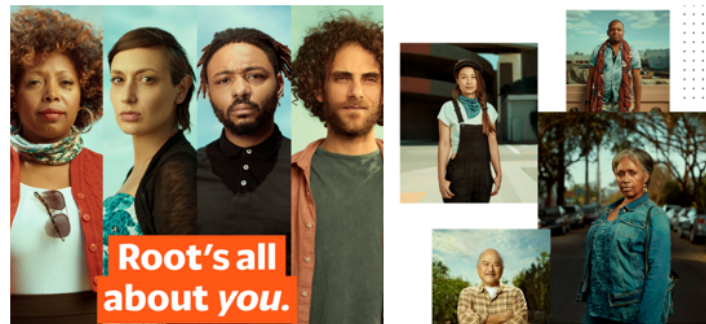


Root Insurance (ROOT)

Leveling the Playing Field of Car Insurance

What every trader needs to know about one of the most heavily shorted stocks in the market



Traditional Credit-Based Car Insurance Perpetuates Economic and Racial Inequalities as one in three American cannot afford essentials because of car insurance premiums

https://cdn.brandfolder.io/5S4BNCY2/at/698pbtzrh95kf8p8gkgcr5/RootInc_Drop_theScore_ConsumerReport.pdf

Enter Root Insurance

One of the most heavily shorted stocks in the market (see paragraph below) is a recent IPO of a company who is looking to disrupt the \$266 billion auto insurance industry through telematics and direct to consumer auto insurance that eliminates the legacy factors that are more based on credit score and demographics than on actual driving.

ROOT is the only insurance carrier where 100% of customers have the company's mobile app installed, which the company uses to collect better data that gives ROOT a "four-year head start" in being able to better price insurance on actual driving behavior. With over 10 billion miles of driving data and hundreds of

thousands of actual claims, ROOT has the best data analytics in the industry. As noted in ROOT's S-1:

*"We use an internally developed claims infrastructure to capture comprehensive structured data, contributing to our data advantage when combined with telematics experience and iterated over time. This integrated data set drives a current UBI score that is **almost ten times more predictive than an industry-leading UBI provider according to Milliman.**"*

"We have what we believe is the largest set of miles tracked with proprietary telematics and associated claims, providing what we believe to be a four-year head start and a critical first mover advantage."

<https://www.sec.gov/Archives/edgar/data/0001788882/000162828020014828/roots-1a3.htm>

The objective is simple. 50% of the claims in dollar terms come from 10-15% of the worst drivers.

This is where the story gets interesting.....

ROOT's Shareholders Include the Best Tech Investors in the World

If this technology is real, then ROOT is a gamechanger. Citron has never seen a shareholder list that is as tech savvy as the ones underpinning ROOT.

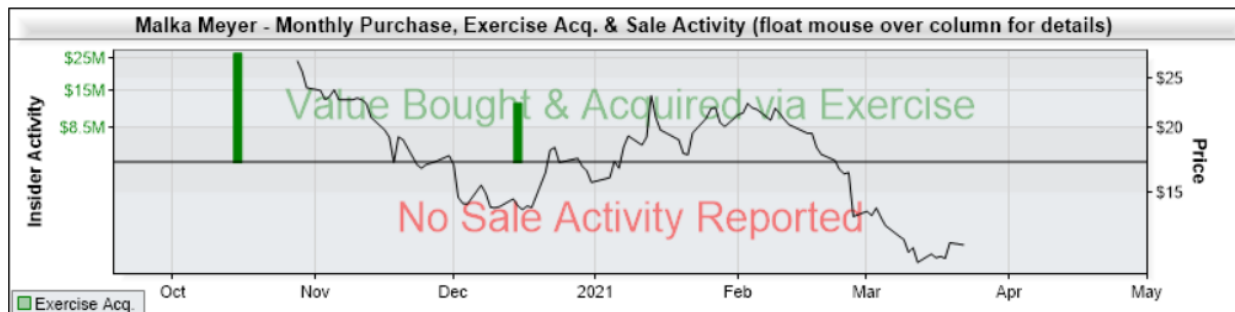
Can you fool one smart guy? Yes. However, it is tough to fool many smart guys. ROOT's shareholder list includes:

- Silver Lake
- Dragoneer
- Coatue
- Hillhouse
- Tiger Global
- Whale Rock
- Durable Capital
- DST Global
- Redpoint Ventures

Five months ago, Silver Lake and early Snowflake investor Dragoner each invested \$250 million in ROOT over 100% higher at the IPO price of \$27. Hillhouse also added to their previous investment at \$27.

Two years ago, ROOT raised \$350 million in its Series E Funding from top tech investors including Coatue, DST Global, Redpoint Ventures, and Tiger Global at a valuation of \$3.65 billion or over 20% higher than ROOT’s market cap today.

Ribbit Capital, which is founded by MELI board member Meyer Malka, participated in ROOT’s Series E Funding and then proceed to buy 1 million shares at the IPO price of \$27 and an additional 754K shares in the open market at \$16.55.



1 transactions shown 6-month As Of

			Transaction Detail					
Company	Rating	Relation	Date	Type	Shares	Avg. Price	Value	Form
Root Inc/OH		>10% Own	12/30/20	Purchase	753,976	\$16.55	\$12.5M	4
Root Inc/OH		>10% Own	10/30/20	Purchase	1,000,000	\$27.00	\$27.0M	4

<https://ir.joinroot.com/news-releases/news-release-details/root-inc-announces-pricing-initial-public-offering>
<https://www.businesswire.com/news/home/20190909005247/en/Root-Insurance-Raises-350-Million-in-Series-E-Funding-Led-by-Coatue-and-DST-Global>

Rarely, do investors get the opportunity to invest in a disruptive technology company at a significant discount to the prices paid by the leading tech investors in the world who had the ability to do a deep dive into the technology and cohort data.

And now this is where the story gets most interesting.

Like a \$15 CVNA in 2017... the real time short interest data on ROOT from short interest analytics firm S3 Partners last week shows that ROOT’s short interest has further increased to 12.2 million shares short with short interest as a % of float

now between 44% and 79%. ROOT is now the most highly shorted stock with a market cap above \$1 billion in North America.



Ihor Dusaniwsky
@ihors3

\$ROOT short interest is \$136M
12.15M shares shorted
78.54% of Float
43.99% S3 SI% Float
6.07% fee
Shares shorted up +391K shares, worth \$4.4 million,
+3.3%, last week.

StocksandNBA @StocksandN · Mar 17
Replying to @ihors3
Could you provide an update on \$ROOT please?

12:07 PM · Mar 17, 2021 · Twitter Web App

Name	Market Cap	SI %	Eqty Flt]
<Enter Filter>			
Investable Universe (58)	5.32B	█	25.18%
ROOT INC/OH -CLASS A	3.09B	█	42.94%
CONTEXTLOGIC INC - A	9.57B	█	41.74%
ACADEMY SPORTS & OUTDOO...	2.15B	█	40.91%
BLINK CHARGING CO	1.46B	█	37.22%
PUBMATIC INC-CLASS A	2.32B	█	35.79%
SEER INC	2.79B	█	35.16%
C4 THERAPEUTICS INC	1.63B	█	30.74%
IGM BIOSCIENCES INC	2.56B	█	30.62%
SMILEDIRECTCLUB INC	4.01B	█	30.17%
DISCOVERY INC - A	38.09B	█	29.70%
SOCIAL CAPITAL HEDOSOPHI ...	1.66B	█	29.58%
SENSEONICS HOLDINGS INC	1.02B	█	28.60%
INOVIO PHARMACEUTICALS I...	1.86B	█	28.06%
MICROSTRATEGY INC-CL A	5.96B	█	27.72%
PETCO HEALTH AND WELLNES...	5.74B	█	27.22%
WORKHORSE GROUP INC	1.68B	█	26.24%

Why the Stock is Here Today

Last year was a bad year for an auto insurance company to go public with so much uncertainty around the future of the business due to COVID.

Even the bears will admit, ROOT has great management that knows insurance and technology. However, ROOT has done a poor job of telling their story to Wall Street. There isn't even an investor presentation on their website.

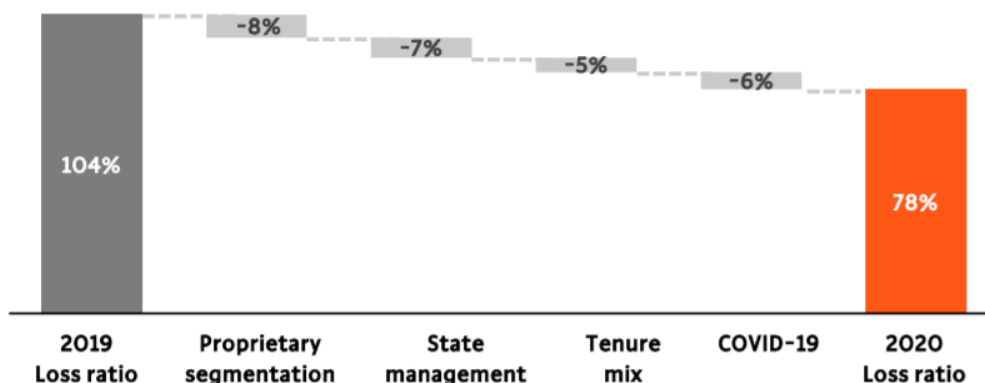
The good news is that this can easily be changed while ROOT has built the hard part – the technology.

Just like an early day CVNA, ROOT has experienced its share of short reports and fraud claims and broken business models arguments.

The original bear argument was centered around ROOT's high loss ratios vs. competitors. However, ROOT disproved the bear case with additional disclosure in the company's Q4 2020 shareholder letter showing that it is important to consider that ROOT has a younger customer base and to analyze loss ratios by cohort rather than on an aggregate level given that ROOT's loss ratios improve significantly as the customer base ages. As you can see below, as the mix of seasoned states have increased, loss ratios have improved.

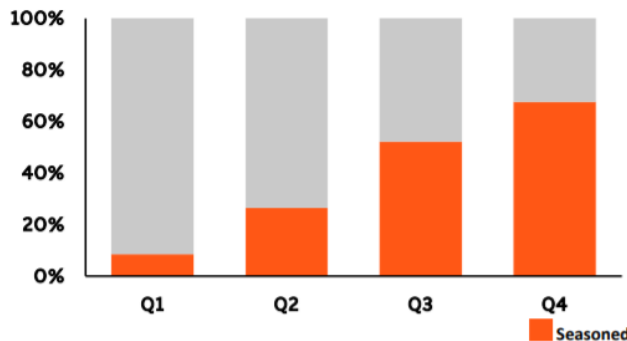
Letter to Shareholders: FY 2020

2020 Direct Accident Period Loss Ratio improvement

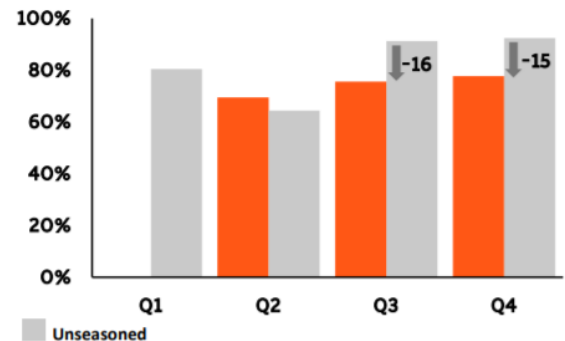


1. Proprietary segmentation: improved risk segmentation in pricing through telematics UBI model and pricing algorithm
2. State management: state-level pricing and underwriting adjustments
3. Tenure mix: impact to blended loss ratio from proportion of premium in each term tenure, loss ratio improves with each subsequent term, with largest impact first term to first renewal
4. COVID-19: exposure associated with COVID-19

Direct Earned Premium by seasoned versus unseasoned states



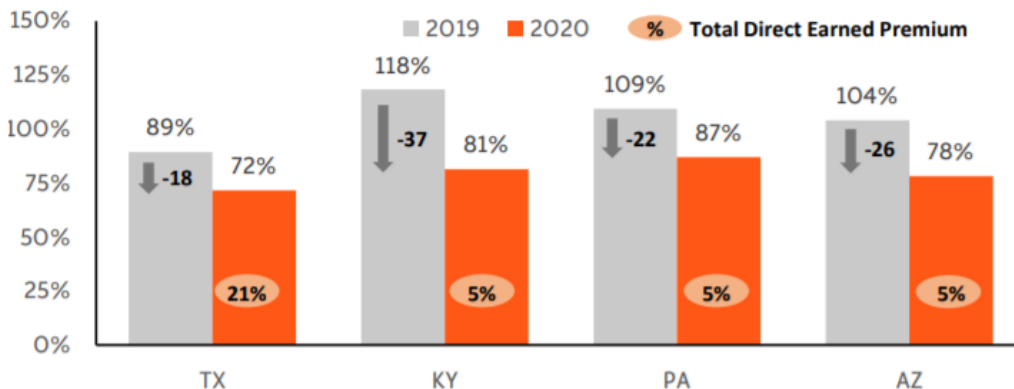
Loss Ratio by seasoned versus unseasoned states



Note: Loss ratio is Direct Accident Period Loss Ratio and excludes Q1 seasoned loss ratio due to minimal premium volume in the quarter

Loss ratio improvement in Root's four largest seasoned states

Second half of 2019 versus second half of 2020



Note: Loss ratio is Direct Accident Period Loss Ratio for second half of 2019 compared to second half of 2020

<https://ir.joinroot.com/static-files/a815dec9-e8fb-435b-9ab8-b422d4f773ca>

The latest short report from this week calling the company an “insurance scam” and highlighting customer complaints is just reaching in our view. Yes, like every other insurance company there are customer complaints against ROOT.

However, as of the end of 2020, ROOT had 323K auto and 8K renters policies in force. According to the NAIC, there were a total of 49 auto and 1 renters complaints against ROOT in 2020.

**ROOT, INC. AND SUBSIDIARIES
KEY PERFORMANCE INDICATORS - UNAUDITED**

	Three Months Ended December 31,		Years Ended December 31,	
	2020	2019	2020	2019
(dollars in millions, except Premiums per Policy)				
Policies in Force				
Auto.....	322,759	281,310	322,759	281,310
Renters.....	7,739	1,747	7,739	1,747

🏠
Map
Committees
Members
Products
Education
Consumers
Industry

RESULTS BY COMPLAINT CODE

Shown below are the number of closed confirmed complaints by complaint code for the company you have selected.

- [Results by Complaint Code](#)
- [Results by Complaint Index](#)
- [Results by State](#)
- [Results by Licensing](#)
- [Results by Financial](#)

- [Back to Search](#)

Root Ins Co

Number of Complaints by Type of Coverage

This Complaint Counts By Code Report is for Root Ins Co and is based on the criteria you selected. Only insurance departments that supplied complaints are listed.

Code Type	Code Name	Count
Auto	Private Passenger	49
Auto	Liability	22
Auto	Collision	4
Auto	Comprehensive	4
Auto	State Specific	2
Auto	UM/UIIM	1
Homeowners	Renters/Tenants	1
Homeowners	State Specific	1

I want to see a complaint report by:

Type of Coverage

Reason for Complaint

Disposition

I want to see complaints for: (All) ▼

I want to see complaints submitted by the following: (All) ▼

Year: 2020 ▼

Slide to filter complaint counts

1 49

NAIC Company Code: 10974

Why Now? Growth is Re-Accelerating Based on 3rd Party Data

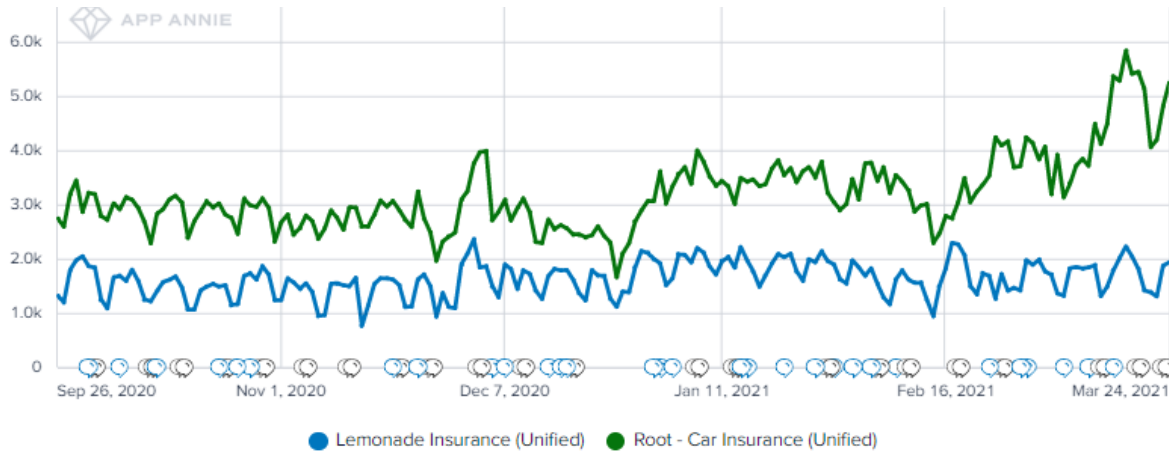
After intentionally pulling back on growth last year due to uncertainty around COVID, management is focused on accelerating growth this year. As noted by ROOT CFO Daniel Rosenthal on the Q4 2020 earnings call:

“We were able to show strong growth despite the decision to pull back on marketing spend towards the end of the first quarter resulting from the global pandemic and surrounding macroeconomic and regulatory uncertainty.”

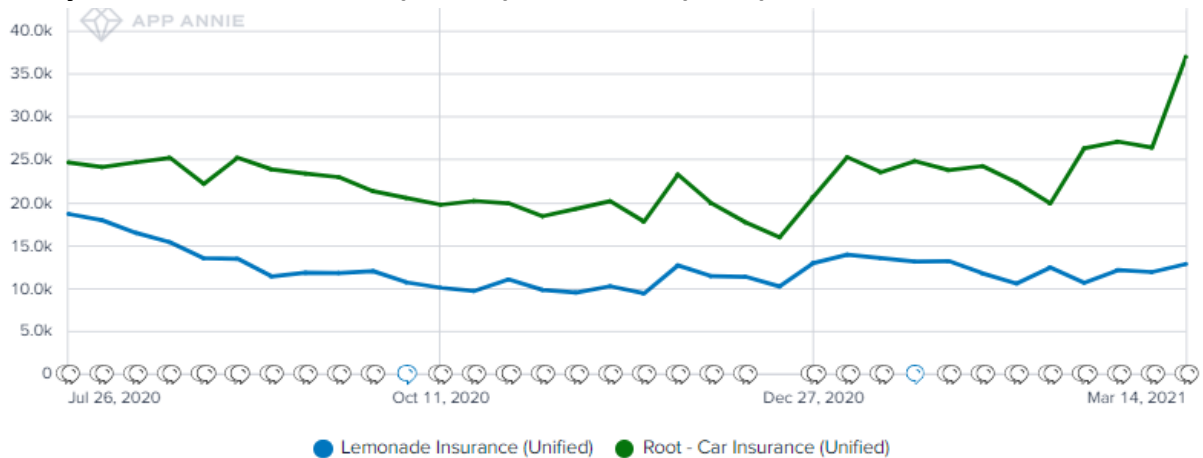
“We plan to more than double our sales and marketing investments in 2021 following a COVID-driven pullback in 2020. This investment in marketing fuels an accelerating growth trajectory throughout the year.”

This step up in sales and marketing investment appears to be paying off as we are seeing an acceleration in ROOT daily and weekly app downloads this month based on leading 3rd party app data.

Daily Downloads – ROOT (Green) vs. LMND (Blue)



Weekly Downloads – ROOT (Green) vs. LMND (Blue)



Why are there so many “smart funds” in this stock”???

After doing much research and speaking to as many sources as possible, Citron has come to the understanding that while bears might look at this as just another insurance company, the shareholders, who are a collection of the best tech funds in the world, understand the enterprise software aspect of the company.

We now see that Tesla wants to get in the insurance business but their data is only for one vehicle and they have never seen a claim.

These are some of the statements we read in ROOT's S-1:

"Our strategy has also established the technological foundation for an enterprise software offering, diversifying our revenue streams over time."

"We are commercializing our mobile telematics and technology platform capabilities across an array of industries including personal and commercial auto insurance, fleet management, ride sharing and broader financial services. This takes advantage of technology investment already made to create a SaaS based product with a recurring revenue model, where fees are generated based on the number of vehicles or drivers measured and with no retained risk exposure."

"We have developed a distinct enterprise offering leveraging our existing technology and capabilities. In March 2020, we launched our first set of enterprise technology products to provide telematics-based data collection and trip tracking and today we have agreements with multiple clients. We will continue investing in and growing this product offering to create a distinct and scalable software-as-a-service recurring revenue stream absent risk retention."

"We will look to expand into the international market, both as a consumer-facing insurer in certain markets and through enterprise software in other markets, enabling select insurance companies with mobile telematics data collection and scoring capabilities."

This means selling information to ride sharing services globally about how to rate their own drivers and assess their liability risks... this part of the business alone can be worth the market cap.

Valuation

We will not even compare this to LMND, because they are two different businesses but at LMND's multiple ROOT would trade at \$65. And if ROOT is successful in capturing 2% of the \$266 billion US auto insurance market then just the insurance side is worth 10x.

BUT... instead of doing Voodoo math, there is no reason this stock is worth less than its IPO price of \$27. This is at the crosshairs of disruptive technology and an ESG trend that is too strong to ignore.

Conclusion

We believe ROOT is a misunderstood short. This is a disruptive tech company and investors have an opportunity to buy the stock at bargain prices vs. what the smartest tech investors in the world paid just five months ago.

Cautious Investing to All

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