

Hippo Second Quarter 2021 Earnings Transcript

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Thank you, operator. Good afternoon everybody and thank you for joining Hippo's Second Quarter 2021 Earnings Conference Call.

Earlier today, Hippo issued a Shareholder Letter announcing its second quarter results, which is also available at investors.hippo.com. Leading today's discussion will be Hippo's Chief Executive Officer Assaf Wand, President Rick McCathron and Chief Financial Officer Stewart Ellis. Following management's prepared remarks, we will open up the call to questions.

Before we begin, I would like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that is based on management's current expectations as of the date of the presentation. Forward-looking statements include, but are not limited to, Hippo's expectations or predictions of financial and business performance and conditions and competitive and industry outlook. Forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results and/or from our forecasts, including those set forth in Hippo's Form 8-K filed today.

For more information, please refer to the risks, uncertainties and other factors discussed in Hippo's SEC filings. All cautionary statements that we make during this call are applicable to any forward-looking statements we make wherever they appear. You should carefully consider the risks and uncertainties and other factors discussed in Hippo's SEC filings. Do not place undue reliance on forward-looking statements as Hippo is under no obligation and expressly disclaims any responsibility for updating, altering or otherwise revising any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Running through some of the technicalities associated with the recent public listing event. The transaction was accounted for as a reverse recapitalization and Reinvent Technology Partners Z will be treated as the acquired company for financial statement reporting purposes. Hippo Holdings Inc., prior to the business combination, was deemed the predecessor and Hippo, after the business combination, will be the successor SEC registrant, meaning that Hippo's financial statements for

periods prior to the consummation of the Business Combination will be disclosed in Hippo's future periodic reports. No goodwill or other intangible assets were recorded, in accordance with GAAP. For more details, please see our filings with the SEC.

Additionally, during this conference call, we will also refer to non-GAAP financial measures such as Total Generated Premium and adjusted EBITDA. Our GAAP results and description of our non-GAAP financial measures with a full reconciliation to GAAP can be found in the second quarter 2021 Shareholder Letter which has been furnished to the SEC and available on our website.

And with that, I'll turn the call over to Assaf Wand, Co-Founder and CEO of Hippo.

Assaf Wand, Chief Executive Officer

Thank you Chris, and thank you all for joining us today.

We are incredibly proud to report our Q2 financial results for the first time as a public company. This was a quarter that was not only reflective of what we told you we would do, it was reflective of who we are. Our Q2 performance showed Hippo's growth strategy coming to life.

We achieved 101% YoY growth in Total Generated Premium during the second quarter, reaching \$159 million. Our Q2 results demonstrate the power of the Hippo Platform and the power of the Hippo Strategy, and I couldn't be prouder of the effort and determination of the Hippo team that drives these results.

Looking ahead, we have growing visibility and confidence that we will not only meet the expectations we previously set for the year, but exceed them. Accordingly, we are increasing our full year guidance for Total Generated Premium from \$544 million to \$565 million.

At Hippo, we are transforming the home insurance market with a fundamentally different experience that customers are rapidly embracing:

- A homeowners policy from Hippo is a better, more modern policy;
- The policy from Hippo is customized and is designed with the consumer in mind;
- The buying experience with Hippo is technology-enabled to be the easiest policy purchase on the market;
- Hippo policies comes with both smart home technology, and a proactive partner to help you protect your home.
- And lastly, when God forbid something bad happens, the Hippo team earns our customers' future business by being there for them, with care, efficiency, and effectiveness, in their time of need.

This strategy has allowed us to continue to take share in this vast, \$110 Billion market, and to surpass "half a billion dollars" of Total Generated Premium in Force at the end of Q2, a 96% increase over the past year.

Although we are still at the beginning of our journey, our growth strategy is firing on all cylinders, and we believe we are primed to continue sustained growth for the long-term.

And this is not just a vision....it is our mission.

And it's not just incremental premium that we delivered in Q2 - we also continued to build an increasingly solid foundation for future growth.

- We expanded into new markets,
- We signed new partnerships, and
- We launched new products in the home vertical, continuing our work to build and scale the industry's first vertically integrated home protection platform.

We executed on our geographic expansion plan, launching our products in 3 new states. And we are on track to achieve our goal of 40 states by the end of 2021.

We continued to strengthen our omni-channel distribution strategy by launching new distribution partnerships with 2 of the top 10 US insurance carriers, a top-15 home builder, a top 5 loan originator, and 2 leading smart home providers.

Further, we doubled our MGA underwriting capacity by signing partnerships with Ally Financial and Incline P&C Group to serve as additional carriers, thus reducing the capital that would otherwise be needed to support our future growth.

Finally, we launched two new products: Inspection protection for home buyers to protect against issues missed during the home inspection process. And second, our first commercial product, offering insurance to Homeowners associations in the 350,000 communities with HoAs across the US.

In home insurance, unlike in other insurance lines, weather is one of the biggest drivers of short-term loss ratio. Therefore, a diversified portfolio of policies enables a more stabilized result. Expansion and diversification proceed one state at a time as regulators approve new programs like Hippo.

Just like when you build a diversified portfolio of stocks to reduce volatility, as we expand into more states and diversify geographically, our loss ratio should become more and more consistent over time. In a very real way, the success of our dynamic growth strategy paves the way to reducing our long-term loss ratio and improving bottom line profitability.

Let me conclude by saying that the team at Hippo is very pleased and proud to now be trading as a public company. While the form of our ownership has changed, the conviction and determination of our team has not. We are a growth driven company that is determined to transform the home insurance business. We will offer Hippo policies across the United States. We will drive growth and focus on bottom line metrics as we grow. We will carefully deploy the more than \$900 million that we have on our balance sheet, to enhance our product offering and our growth, in order to become a leader in this industry.

As I noted earlier, home insurance is a vast, \$110 Billion industry, and we, at Hippo, have now crossed the \$500 Million mark. While this is a great milestone for the company... We are just beginning. Thank you and let me now turn it over to our CFO, Stewart.

Stewart Ellis, Chief Financial Officer

Thanks, Assaf.

As Assaf mentioned, Q2 results show our strategy coming to life, with balanced growth across channels, and across geographies.

Let me start with Total Generated Premium, which represents the total amount of new and renewal business in a given period across all our platforms, including Hippo policies, agency policies we sell on behalf of 3rd party carriers, and other programs that we support through Spinnaker, the carrier we acquired in September of last year.

Total Generated Premium in Q2 grew 101% year over year to \$158.7 million. The “in-force” version of this metric, Total Generated Premium In-Force, grew 96% year over year to \$500.6 million.

Total Generated Premium is a great indicator of the long-term value we are building at Hippo because it is recurring, predictable, and unaffected by things like severe weather, which in homeowners insurance, can create short-term and seasonal fluctuations that impact loss ratio and profitability.

I mentioned that the growth was balanced across channels. For the homeowners portion of our business... independent agents and other insurance companies represented 58% of our new generated premium. 25% of new generated premium came from our direct-to-consumer channel. And 17% came through partners like home builders, mortgage servicers, and other players in the real estate and home protection ecosystem.

We also continue to grow and diversify our business across geographies to reduce our concentration in any one area. For example, Texas represented only 19% of new generated homeowners premium in Q2, down from 33% in Q2 of last year, and from 65% in Q2 of 2019.

Expanding distribution channel relationships and increasing geographic coverage are two areas where our technology platform provides an advantage. Because our platform allows us to bind a policy via a custom Hippo API, customers can purchase a policy from us, in many cases without ever leaving the website of one of our partners, a capability that presents Hippo with unique distribution opportunities. Because we own and control our technology stack, we can also launch in new geographies much more quickly than we otherwise would if we were dependent on a 3rd-party policy management system.

One of the key drivers of our long-term unit economics, customer retention, remained strong and continued to improve this quarter. We measure retention as dollars of premium from a cohort of

customers that renewed in the current period divided by the dollars of premium generated by that same cohort of customers a year ago. Our year-one homeowners retention grew to 88% during Q2, and cohorts in their second and third years continued to improve beyond this level as they aged.

Our revenue, which grew 76% year over year to \$20.9 million for the quarter, is a mixture of net earned premium for risk we retain on our balance sheet, commission income from premium where we are not the primary bearer of the risk, as well as service, fee, and investment income. The growth in revenue was driven primarily by the continued growth in our Total Generated Premium.

Our Gross Loss Ratio this quarter was 161% compared to 106% in Q2 of 2020, driven by three main factors:

- First, we experienced severe hailstorms in parts of Texas where we have concentration in our book. We have a normalized catastrophic weather load built into our actuarially predicted loss ratio, but the hailstorms in Q2 were well beyond normal levels. According to industry data, Q2 residential CAT losses in Texas were the 3rd highest reported in the past 24 years, which is when Property Claim Services began breaking out losses by line of business.
- Second, in Q2, we had a small amount of negative development from the anomalous TX winter storm Uri. While this contributed an incremental 14 percentage points to our gross loss ratio, it did not negatively impact our P&L on a net basis, underscoring the benefits of our reinsurance strategy.
- Finally, like other homeowners carriers, we experienced significant increases in loss severity year over year due to steep, but temporary, industry-wide disruptions in supply chains, increases in building material costs, and tightening of labor markets as a result of the Covid 19 pandemic.

Q2 Operating expenses, excluding loss and loss adjustment expenses as well as other non-cash interest and other expenses, increased 54% from prior year to \$47 million. Of this, \$22.2 million relates to sales and marketing, an increase of \$4.9 million, or 28%, compared to prior year. The other major reason for the increase is growth in headcount, as we continued to add new Hippo employees across all core functions. As of Q2 our headcount was 603 up 117% from 278 last year.

Our Adjusted EBITDA Loss for Q2 was \$42.3 million, an increase of \$23.5 million compared to Q2 last year, driven by the increase in loss ratio and continued investments in our platform and team to support our long-term strategy.

Finally, as Assaf mentioned above, we ended the quarter well-capitalized and in a strong position to continue executing on our plan and investing in future opportunities.

Including the net proceeds from taking the company public, we had total cash, cash equivalents, and investments at the end of Q2 of over \$900 million.

Looking forward, we remain confident in the execution of our growth strategy and believe we will exceed the forecast we shared previously. As Assaf mentioned earlier, we are increasing our full year guidance for Total Generated Premium from \$544 million to between \$560 and 570 million with a midpoint of \$565 million.

I'd now like to turn it over to Rick McCathron, our President, to put Q2's loss ratio in context and to say a bit more about the progress we made in the quarter to bring our actuarially indicated loss ratio down to our long-term target level.

Richard McCathron, President

Thanks, Stewart.

Loss Ratio is one of the most important drivers of our long-term profitability. This metric will vary year to year and quarter to quarter due to seasonal impacts from weather. In particular, given the current geographic distribution of our customers, Q2 typically represents a seasonal high for severe weather. This is why a primary focus of ours is on geographic diversification to drive down the volatility of this metric over time.

Beyond geographic diversification, we have been tightening our UW model, expanding our product portfolio, and optimizing our rates to ensure the right price for the right risk. It is important to recognize that we are trying to build in 10 years what incumbents have built over decades. The difference between the average age of Hippo's customer cohorts and those of legacy players makes it challenging to compare their performance with ours.

I am pleased to report that during Q2, despite the unfortunate weather, we have made great progress on initiatives that should significantly improve our long-term loss ratio and we are encouraged by leading indicators that suggest these actions are already having a positive impact on future loss numbers.

I want to highlight three examples from the many concrete steps that we are taking in this area:

- First, geographical diversification out of Texas. As recently as 2019, approximately 2/3rds of our new homeowners premium was written in Texas. We have deliberately focused on growth outside of Texas in order to achieve a more geographically balanced portfolio. Over time, this should dramatically reduce our exposure to the kinds of weather events we experienced in Q2 and lower the volatility of our loss ratio.
- Second, because of the flexibility of our technology platform, we have the ability to incorporate new data sources for both pricing and underwriting quickly, and we have done just that in Q2. While it will take some time for these actions to positively impact our overall loss ratio, early indicators are encouraging. During the first six months of the year, our early term frequency in both Texas and California have shown significant improvements. In these two states, where we

have been focusing most of our underwriting actions, early term loss frequency has improved by 40% and 37%, respectively, vs. 2020.

- Third, we have also been diversifying our product portfolio within the homeowners vertical. Our HO5 product for newly built homes where we have strategic partnerships with some of the largest homebuilders in the country has been performing exceptionally well with loss ratios at approximately 40% over the past 12 months. It is a key competitive advantage for us, and we have doubled down our efforts to expand its share of our overall book, which has helped this product grow five to six times faster than our more mature Homeowners products. Our proprietary APIs enable our technology to integrate with homebuilders' sales systems, so our partners can provide their customers a simple, personalized insurance offer precisely when *their* customers are in the market for a policy. This is an example of how we leverage technology and form innovative distribution channels to access better risk.
- And fourth, we are taking strategic actions to ensure our rates are adequate and aligned with the increased severity and inflationary trends we have been seeing recently across the industry.

Lastly, we have significantly deepened our bench of top industry talent adding, 5 leaders in the areas of risk, underwriting, actuarial and insurance product management from respected industry players such as USAA, Chubb, AIG, Swiss Re, and RenRe.

We are confident and have early indications that our strategy to reduce the Loss Ratio will get us to our long-term targets. With growth and diversification, we expect our loss ratio to improve significantly. It will take time, but given the traction and performance of our growth strategy, I am confident that we will get there.

And now, let me turn it back over to Assaf for some final words.

Assaf Wand, Chief Executive Officer

Thanks Rick. And thanks to everyone for joining Hippo's first earnings call today.

In summary, this is just the beginning for Hippo. As our Q2 results proudly demonstrate, we have the right strategy, the right team, and resources to execute our growth strategy. We are on the path to gain significant share and transform this massive market. We believe Hippo is the future of home insurance.

With that, we'd be happy to take your questions.

Q&A

Operator

Christopher Martin with KBW, please proceed.

Christopher Martin, KBW

Hey guys, congrats on the IPO and posting your first earnings call. And I'm sure there seems to be a bit of relief to go through the last few months and get to here today, but it's probably just going to get harder as everything is maturing and growing at the same time. But I have two questions here. And the first one, I'd like to begin with a theme that the media has picked up and what some investors have been interested in. Can you comment, I guess you'd say the seemingly high level of redemptions after the IPO? And does this have any impact on potential growth of the company or strategy that you might be implementing?

Stewart Ellis, Chief Financial Officer

Hi Chris, this is Stewart here. Happy to speak to this one. I think first, it's important to understand that we structured the transaction to take us public with a large PIPE relative to the size of the cash and trust and so pro forma for the transaction, at the end of the second quarter, as we said, we have more than \$900 million on the balance sheet. And the short answer to your question is that the redemptions don't change any of our plans with respect to investing in our business over the next few years to pursue our long-term goals. I'd also like to highlight, one thing that we mentioned in the in the earlier portion of the call, is that we have also just signed partnerships with both Ally Financial and Incline as carrier partners for our MGA and that in and of itself will also reduce the capital that we otherwise would have needed to support our growth. So while the redemptions weren't, obviously what we hoped, we don't expect that they will have any impact on our ability to invest in the future or to pursue our plan.

Christopher Martin, KBW

Okay, yeah, great. That makes a lot of sense, especially those announcements last week, which I imagine didn't come online 13 days ago, whatever it is now. And the other one is just looking at the growth of premiums has actually outpaced revenue here. And as far as the significant increase in headcount—we're seeing some commentary in the personal lines players, both by your peers, and some of the other top 10 names, and even these advertising platforms themselves have talked about how customer acquisition costs are on the rise, and kind of either near term hindrance to growth or even scaling back and attempting growth, because of what the market is right now in the marketing, advertising sales. And then, you know, you'd mentioned there the increase in sales and marketing

expenses, were not aligned necessarily with how much growth you've had. What have you sort of seen in your target markets? And what does that kind of mean for broader expansion plan if the personal lines are seeing this type of expense growth on the customer acquisition side? And are there anything that's been outside of your expectations?

Stewart Ellis, Chief Financial Officer

Thanks again, Chris, this is Stewart again, I'll take this one as well, I think first thing to understand about Hippo as distinct from some other players in the industry, is that we've always pursued an omni channel distribution strategy. It's been our core belief, to design our entire experience from the very beginning around what is best for our customers. And on the distribution side, that means that we want customers to be able to buy a policy from Hippo, where they want to buy a policy from Hippo, that might be through our website, it might be by calling us on the phone, it might be through an existing agent relationship that they already have. It might be from the home builder, that they're just buying a new home from, like Lennar. There are a lot of different ways that people might want to buy policy, and we want to be present in all of them. One of the benefits to us of the omni channel distribution strategy is that it is resilient to fluctuations in advertising costs or other things that might be going on in any one component of our channels. And it's also cash efficient in a way that helps us to expand new geographies, since the partner and the agent channel in particular, are things that we pay for based on collected premium over time. So the question about advertising expenses and acquisition costs is, I think it's important to keep that in mind that we're always very disciplined, as we think about spending money in direct consumer advertising channels. That said, we have not seen increases in our own sector, for our business in need costs or other things in the funnel. So we feel very, very strongly about our distribution strategy. We're not scaling back our investment in sales and marketing. In fact, because of our strong unit economics and high customer retention, we feel like you know, now is the time to get aggressive. We want to continue to invest going forward, I think you'll start to see us spend more building and improving and expanding the nationally recognized brand that we hope to build, so that everyone can start to hear the Hippo story directly from us. So we feel good about our distribution strategy. And we feel like we're on track.

Operator

Thank you, Mr. Martin. The next question comes from Arvind Ramnani with Piper Sandler, please proceed.

Arvind Ramnani, Piper Sandler

Thanks for taking my question. I just wanted to really get your thoughts on bundling, you know, certainly announced a partnership with Metromile. But why don't we get your thinking on, you know,

why don't you take in a more purposeful approach to launching your own auto product versus bundling with Metromile.

Assaf Wand, Chief Executive Officer

Thanks, Arvind, this is Assaf, I'll take this one. I actually want to break it down into two components. There's a micro and a macro component. So on the micro level, we just believe in focus. And our focus is to be the best home production platform in the world. Now, what you realize is that there's actually no correlation between some of the different lines. For instance, auto is a high frequency and low severity and home is a low frequency and high severity product. There is also some misalignment and so it's not exactly the same claim organization, it's not the same people that need to do it, it's not the same underlying experience. It's just a different line where there's not enough synergy. However, we always want to offer our customers the best policies in the market for what they need. We do not create products if we don't have enough conviction inside that we can offer our customers something which is utilizing technology better, using data in a better way, or just giving them a better customer experience. And in this case, for auto we just couldn't get that conviction. Hence, we partner with some of the best of breed providers in the market. For this it's Metromile for some of our customers, and that is our approach for how to do everything. So our customers are still going to get a bundle. They're just not going to get two products that are being produced by Hippo. So that's on the micro level. Now, I want to raise another point, which is our thinking about it in the macro level. What you're seeing in trends in the world, especially in the world of FinTech is that the world is actually unbundling. And you also see this in insurance because for every Geico product that is being sold by essence, you're unbundling someone else's home and auto bundle. But back to the point of this unbundling trend. Just think about your life before, I don't know five to 10 years ago, Arvind, you used to go to your bank. And in the bank, you used to have your savings and your checking account. you used to take your credit card, you used to take your student loans there, your mortgage, you used to do your trading in the bank, everything used to be bank-centric. But right now, moving forward five to 10 years further. Your credit card is with the airline that you're using. You take your student loan from one provider, you take your mortgage from another provider, and you're trading with another company. The world is moving to an area of best of breed products that are very customer centric and are easier for customers to actually engage with. And that's what we believe would happen in insurance. And we have a lot of belief that Hippo is going to be one of the biggest benefactors of this trend.

Operator

Thank you, Mr. Ramnani. The next question comes from Matt Carletti with JMP Securities. Proceed.

Matt Carletti, JMP Securities

Thanks for taking my questions. First off, I just want to follow up on some of Chris's questioning on customer acquisition costs. And just ask kind of a follow on in the sense of can you talk a little bit about how you view LTV to CAC by distribution channel, are they relatively similar or are there wide variances in kind of which channel a customer comes through to Hippo?

Stewart Ellis, Chief Financial Officer

I'll take this one. There are some variances and they spring from the different structural way that these channels work. So in the direct-to-consumer channel, it works like a traditional customer acquisition funnel where we will spend advertising dollars upfront to bring people to the website or to bring people to the phone. And some percentage of those leads will turn into customers. And so when you when you have a situation like that you have acquisition cost up front, and then you earn that acquisition cost back over the life of the customer. Typically, customer lifetimes in homeowners insurance are pretty lengthy relative to a lot of other consumer products. It's a service that when people sign up, they tend to stay with their home insurance provider. So the average industry customer lifetime is in excess of eight years. And when we look at our data, we see very high customer satisfaction, we see very high net promoter scores. And we see very high premium retention. And I mentioned our first year retention in this quarter was 88% on a premium basis. And for cohorts that have entered their second and third years, the numbers just go up from there. And so we have upfront acquisition costs in the in the direct channel followed by being able to benefit from the full economics of that customer down the road. In the other two channels, the economics work slightly differently. We don't pay anything upfront to external parties to acquire a customer through an independent agent, or another insurance company or through a partner. We share premium that is collected from those customers over time. And so in the purest sense, there is no LTV to CAC, because there's not really any CAC. And so the way we think about this internally, is we take the first year of premium that we would share with that partner. And we treat that as customer acquisition cost, even though it's not marketing capital at risk. And when you do that math, it starts to approximate what you'd see in a traditional technology LTV to CAC ratio. The producer and the partner channels, when crafted on this basis, have a slightly higher LTV to CAC than the direct-to-consumer. And so the way I tend to think about this is we pay more for a direct to consumer customer. And then we get to keep more because the lifetime value is higher. And in the other two channels, because we pay a little bit less, the lifetime value is less. On a blended basis, we think it's five to six times at our long-term loss ratio targets. The direct will be slightly lower than that on a ratio basis, and the other channels are going to be slightly higher than that on a ratio basis. But all of this, the higher and the attractive unit economics for us stem from the fact that we have very high customer retention relative to some other lines of insurance.

Matt Carletti, JMP Securities

That's really helpful. Thank you. The next question, I want to ask was you commented a little bit about the Ally and Incline partnerships. I was hoping that beyond capital leverage, can you peel back the onion a little bit on your strategic thinking there? And then from a numbers perspective, should we expect any real loss ratio impact as these come on or any impacts related to some of the other underwriting actions I think Rick spoke about.

Richard McCathron, President

Hey, Matt, this is Rick, I'll go ahead and answer that question. As you mentioned, Stuart already addressed sort of that support of our capital like structure, which reduces the amount of capital we need, and the use of our own capital to support our growth. But the Ally and the Incline partnership does is it essentially doubles our underwriting capacity, which certainly makes our capital-light structure work well. The question that you were, I think, driving towards is what does it do from a loss ratio or underwriting perspective? And the use of multiple carriers allows us to further segment our underwriting customers, both existing and new customers across multiple underwriting companies. So over time, as you have segmented business further, you generally see a more positive underwriting result because you are placing them with the right carrier, the right risk, the right underwriting guidelines, etc. So we believe that having multi-carrier does support improvements in our underwriting model.

Matt Carletti, JMP Securities

Thanks for that, last one, if I can just want to touch on the loss ratio. Can you break it apart for us and help me with you mentioned a few items? Obviously, the hail in the quarter in Texas, some adverse development from Uri last quarter, which I think that there's a number put on that 14 points, and then kind of the general severity from supply chain and labor shortages, things like that. Can you help us quantify kind of how much impact the hail had in the quarter and then your best assessment of kind of how much that severity is impacting things currently.

Stewart Ellis, Chief Financial Officer

We generally have not broken out the specifics of individual storm events or series of storm events. We did breakout Uri on a gross basis this quarter the development there, simply because we wanted to help people understand a little bit because that was such an anomalous storm. But on a net basis Uri really didn't have any negative development to us. And so the impact I think in in Texas, it's important to understand for us because our book of business is more concentrated in Texas, than in other areas of the country. because historically, we started in California and Texas. And so in 2019, something like 65% of our new premium was coming from Texas. But we've been diversifying away

from Texas over the past couple years, so 33% in Q2 of 2020. 19% in this quarter. We will have some legacy exposure to severe convective storm risk, the hailstorms that happened in Q2. What I can say, as I mentioned before, is this was truly an unusual year, in the second quarter was the third worst on record since PCS started breaking out the loss ratio. The growth that we are experiencing in areas outside of Texas, though, should bring this down as a source of volatility in our overall portfolio going forward. And the other things that we're doing on the loss side operationally to add new data sources, to bring on new smart home initiatives, to bring on products within homeowners like the HO5 and the HOA product that are not going to be subject to this kind of this kind of loss risk, I think will help us over time. But this is obviously something historically Q2 has been a bit of a seasonal peak for us. And this was just a bit higher peak than we've experienced in the past.

Matt Carletti, JMP Securities

And then from a broad severity standpoint, is there any way you can help us think about kind of your view there of what that's driving higher? And then obviously, I would assume it's just a lot of pricing to try to combat that going forward.

Richard McCathron, President

Yeah I'll go ahead and take that one. Yes. I mean, it's clear, I think every insurance company in the sector is talking about increase in severity, predominantly because of supply chain issues, because of labor shortages. COVID had a massive impact on that. We are seeing that go down, so we think that that was a temporary blip. But we of course monitor that significantly. We're constantly monitoring both frequency and severity numbers, we're constantly looking at how we can reduce those beyond just pricing actions. When Stewart mentioned our product expansion, and as I mentioned in the opening comments are doubling down on our HO5 new construction, our strategic partnership with Lennar, we're putting IoT devices, water shut off valves, all these sorts of things in new construction houses that dramatically improve the loss ratio for those.

Matt Carletti, JMP Securities

Thank you very much for the color, very helpful and best of luck.

Operator

The next question comes from the line of Christopher Martin with KBW. Please proceed.

Christopher Martin, KBW

Hey, guys, thanks for taking my questions here again, circling back. Just wanted to see if you can comment on with all the things that are in your numbers you've given and the growth you've shown and then with your discussion around the flattening of the loss ratio, break down the geographic diversification, the tightening of the model for rate optimization, looking at balance sheet approach, are you able to comment at all on a path to profitability, either at the EBITDA level or not necessarily explicit guidance, but just a discussion on getting towards that breakeven and where it goes from there in the future.

Stewart Ellis, Chief Executive Officer

We did put a forecast out publicly earlier this year, so I direct folks to that for historical reference. But I want to talk for a moment about the way we think about the path to profitability. We know that the at scale, well diversified book of business that is properly priced where we assigned the right price to the right risk, there is an opportunity to be profitable in home insurance. We also know that by partnering with our customers, and using the technology that we have that Rick mentioned and that we've talked about previously, it is possible to help our customers avoid losses from happening in the first place. And our belief is that when you combine that true customer-centric model, the technology that we use that gives us access, not only to the ability to help our customers avoid loss, but two preferred pools of customers through partners like Lennar and other home builders, through mortgage servicers where people are actively shopping for home insurance, that there is an opportunity to bring loss ratio to an advantageous level. What we believe internally is that we are at the very beginning of taking share in this incredibly large market. And as long as our return on investment in sales and marketing and customer acquisition is high, we should continue to invest aggressively, because we're nowhere close to bumping up against market share constraints. And one of the biggest drivers, as we've mentioned of the high return on investment is the fact that our customers are having a good experience with Hippo, and they're staying with us. And so when we have a strong unit economics, and we have a business that we know can be profitable on a long-term basis, it makes sense to invest in scale. And so we will continue to be opportunistic. As I said, we're at the beginning of the journey here. So we think that as long as there's opportunity, it makes sense to continue to invest. Obviously, we're very disciplined as we think about spending money on growth. But in a real way, as we've talked, growth is the path to profitability, you know, the more geographic diversification we have in our business, the less volatile our loss ratio will become, and the greater confidence we will have in continuing to make those investments. So we see a very virtuous cycle here, that we'll be able to keep going for many years. Rick, do you want to say anything in addition to this question?

Richard McCathron, President

Yeah. Thanks, Stuart. And, Chris, thanks for the question. A couple other things. As I mentioned earlier, the leading indicator of what we're doing is early term losses, the frequency of early term

losses. And the actions that we have taken clearly show an improvement. When you're looking at the reduction of 40% and 37%, respectively, you're really seeing a reduction in early term losses. And one thing to remember is that our cohorts are very young, compared to other cohorts, as those cohorts age over time, and we have a larger book, a larger portion of our business, that's renewal business, that in itself, in addition to the geographical diversification, and the growth in other places, will absolutely get us where we need to be.

Christopher Martin, KBW

Awesome that's really great. Thanks a lot and good luck.

Operator

Thank you, Mr. Martin. Thanks, everyone for joining. This concludes today's conference. You may now disconnect.