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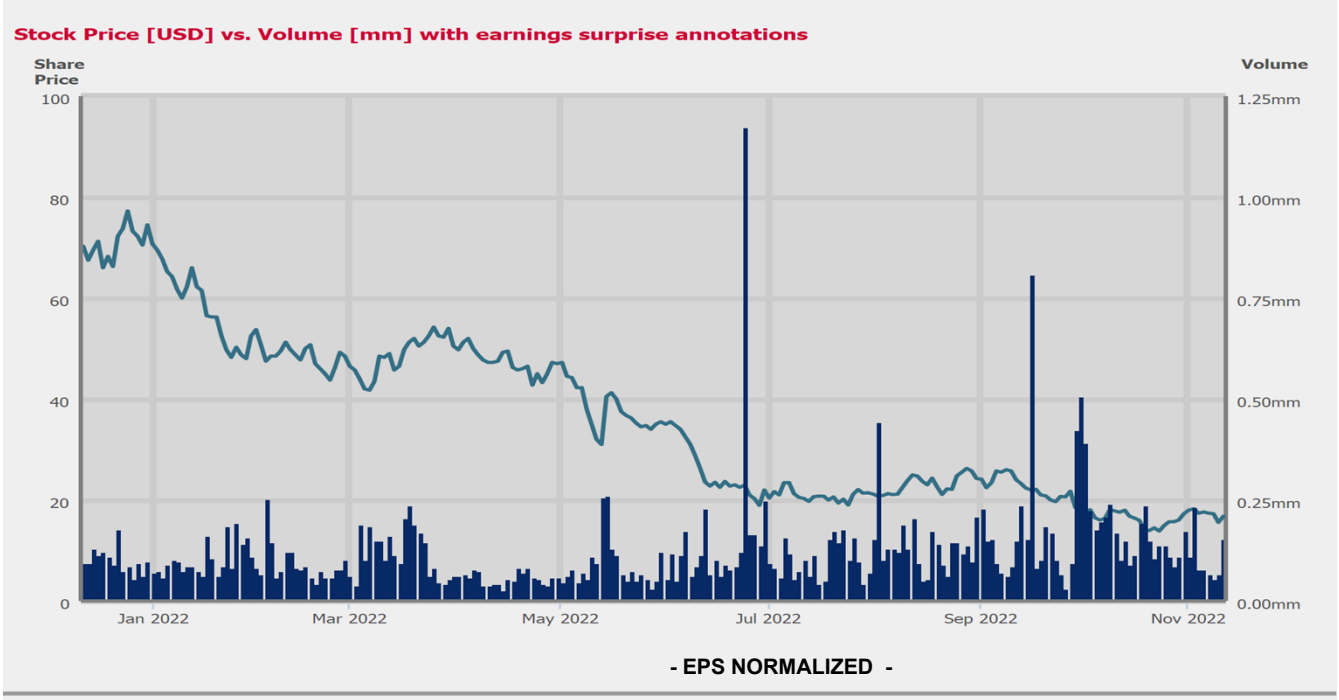
FQ3 2022 Earnings Call Transcripts

Thursday, November 10, 2022 10:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(2.75)	NA	NA	(2.87)	(11.44)	NA
Revenue (mm)	29.67	NA	NA	31.53	119.45	NA

Currency: USD
Consensus as of Nov-11-2022 2:40 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	(1.75)	NA	NM
FQ4 2021	(1.75)	(2.86)	NM
FQ1 2022	(2.25)	(2.92)	NM
FQ2 2022	(2.75)	(3.28)	NM

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Call Participants

EXECUTIVES

Clifford Henry Gallant
Vice President of Investor Relations

Richard Lyn McCathron
President, CEO & Director

Stewart Andrew Ellis
CFO & Treasurer

ANALYSTS

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Karol Chmiel

Michael Wayne Phillips
Morgan Stanley, Research Division

Morris Propp

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

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Presentation

Operator

Good evening. Thank you for attending today's Hippo Third Quarter 2022 Earnings call. My name is Megan, and I'll be your moderator for today's call. All lines will be muted during the presentation portion of the call with an opportunity for questions and answers at the end. [Operator Instructions.] I would now like to pass the conference over to your host, Cliff Gallant. Cliff, please go ahead.

Clifford Henry Gallant
Vice President of Investor Relations

Thank you, operator. Good afternoon, everybody, and thank you for joining Hippo's third quarter earnings conference call. Earlier, Hippo issued a shareholder letter announcing its results, which is available at investor.hippo.com. Leading today's discussions will be Hippo Chief Executive Officer and 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'd like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that are based on management's current expectations as of the date of this 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 forecast, 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, in particular, in the section entitled Risk Factors. All cautionary statements are applicable to any forward-looking statements we make whenever 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.

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 third quarter 2022 shareholder letter, which has been furnished to the SEC and available on our website.

And with that, I'll turn the call over to Rick McCathron, our President and CEO.

Richard Lyn McCathron
President, CEO & Director

Good afternoon, and thank you for joining us. Hippo's business model is proving itself and our investments in technology are paying off. We've executed on our dual goals of growth and improved loss ratio despite this year's challenges from inflation, supply chain dislocation and one of the worst hurricane losses in history. We remain confident that we are building a superior underwriting model and an industry-leading technology stack.

At Hippo, we strive to help our customers enjoy the homes through enhanced home protection and services. But some events like major hurricanes are unavoidable. At such times, we do our best to help customers get through those difficulties and back to enjoying their homes. This quarter, I'm proud of HIP's response to the tragedy of Hurricane Ian. As we speak, well over half of Hurricane Ian reported claims have been paid. We are delivering on our service promise to our customers in a crisis while also executing on improving our financial performance.

Our customer base reached 332,000 by quarter's end. Customer acquisition and retention is driving accelerating net commission revenue and steady total generated premium growth. Included in our customer count are Hippo homeowners' insurance policyholders as well as Hippo agency customers who still receive the Hippo experience while placed with third-party carriers. Our Hippo blended premium retention across both Hippo policies and agency customers was 90% in the quarter, up from 89% in Q2. Our customers are happy and are staying with us.

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[TGP] growth accelerated and was up 36% versus the prior year quarter. We continued to see strength in our builder channel, which is our best loss ratio segment. Despite some slowdowns in housing markets, we expect the attractiveness of our model for distribution partnerships will lead to new relationships and continued strong growth. We also increased the geographical diversification of our portfolio with growth in the states where we have entered over the past year, including New York, North Carolina and Massachusetts.

We're having great success in attracting our target customers, a group we call [Generation Better], which we estimate to account for a third of all U.S. homeowners. A key characteristic of Generation B is a desire to proactively protect and maintain their homes and a willingness to use technology to be better homeowners. Through a targeted marketing efforts in Q3 2022, we estimate that over 75% of our new business was Generation Better customers. With this cohort, we expect higher consumer retention, better loss ratios and an opportunity to cross-sell as we expand our offering of home care services.

Excluding the impact of Hurricane Ian, our gross loss ratio in Q3 was 58%, an improvement of 70 percentage points from Q3 last year, despite challenging market conditions where inflationary pressures have dampened results across the industry. Our industry-leading technology platform leverages rapid data integration and quickly re-underwrite and reprice our book to incorporate inflationary trends into our pricing.

In addition, we've gotten better at attracting our target market and have improved our geographical balance. We expect these improvement trends to continue and the superiority of our underwriting platforms to become increasingly apparent over time. While Stewart will say more about hurricane in a moment, I wanted to note that the net losses to Hippo at a consolidated level from this event were only $4.7 million. And of that, only $900,000 related to Hippos homeowners programs.

Our small net losses in Florida from Hurricane Ian was not a simple stroke of luck. We've made strategic decisions that limit our exposure in that space. First, we have been cautious about adding Florida exposure to our portfolio due to both the unique weather and legal environments. Second, our Hippo homeowners business in Florida is exclusively through our builders program. New home construction with the latest in design and technology in craftsmanship, better able to withstand nature's fury.

Hippo's third quarter adjusted EBITDA loss was $54.8 million, including $4.7 million of losses related to Hurricane Ian. When we reported our 2Q 2022 adjusted EBITDA loss of $55.8 million, we said we expected Q3 2022 to be our peak loss quarter. We beat that expectation despite one of the worst industry events in history because revenue growth and underlying gross loss ratio improvements are accelerating and that the expense reduction actions we've taken are beginning to have their intended effect. Barring unusual weather, we expect our Q4 2022 adjusted EBITDA loss will be below $50 million with continued improvement thereafter. We have also continued to invest in our technology and service capabilities to drive long-term growth and superior customer experience.

In the fourth quarter, we expect to launch our [Book a Pro] feature for Texas customers via our mobile app. This new feature will connect homeowners who need help from home improvement professionals like plumbers and electricians with a highly rated provider in our network. Additionally, our customers will be able to message our home care experts to get advice via our mobile app. We aim to aggressively scale these capabilities across more locations, services and providers as part of our goal of becoming our customers' go-to destination for home care. We're very proud of what we have achieved this quarter and of the business we're building. Thank you.

Now I'd like to turn the call over to Stewart, our CFO.

Stewart Andrew Ellis
CFO & Treasurer

A: Thanks, Rick. Our third quarter financial results demonstrate that we have reached the turning point on our path to profitability. As Rick mentioned, our third quarter EBITDA loss was $54.8 million, which includes $4.7 million of losses and related expenses that are directly the result of Hurricane Ian. As we indicated at our Investor Day in September, we expect improving adjusted EBITDA results going forward, continuing in the fourth quarter and into 2023 with profitability achieved by late 2024.

In the third quarter, we had robust growth across our segments and geographies, while also substantially improving our loss ratio. Let me provide a few highlights. Our builder business is thriving accounting for 26% of total Hippo and agency premiums in the quarter and nearly half of our new business. The builder channel remains a highlight of our portfolio, generating agency fees and attractive loss ratios with new homes that are frequently constructed with home monitoring sensors and other safety equipment as standard options.

As Rick mentioned, our customer base continues to grow, reaching 332,000 customers during the quarter. Demand for our products and services remain strong and customer retention has continued to improve with Hippo blended premium retention across both Hippo policies and agency customers coming in at 90% in the quarter, up from 89% in Q2. We saw growth throughout our 40 states as we

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began to build a presence in the Northeast and Mid-Atlantic. In our historically largest markets like Texas and California, we also saw growth, but with a careful eye towards geographic balance within those states.

Spinnaker's Fronting business represented $83 million of non-Hippo TGP in Q3, up from $49 million in the year ago quarter. At Spinnaker, we provide other MGAs access to our balance sheet and insurance licenses in exchange for fronting fees on the premium that they produce. All of these factors supported our revenue reaching $30.7 million in the quarter, which was up 44% from Q3 last year and an acceleration of our growth relative to Q2.

As Rick mentioned earlier, excluding the impact of Hurricane Ian, our Q3 gross loss ratio would have been the best ever 58%. This is highly encouraging and an early indication of the success of our rate actions and re-underwriting efforts taken in the first half of 2022. Reserves developed favorably again in the quarter, benefiting the loss ratio by 18 percentage points, including 8 percentage points from non-PCS events and 10 percentage points from previous period PCS cat events. With respect to Hurricane Ian, the Hippo program performed meaningfully better than the industry on both a gross and net basis.

At a consolidated level, Ian was a $73.1 million gross and $4.7 million net loss event, representing 52 percentage points of gross loss ratio and 44 percentage points of net loss ratio. Importantly, though, of the gross losses, only $7 million or 5 percentage points of gross loss ratio related to the Hippo homeowners program. The remaining $66 million of gross losses related to other programs supported by Spinnaker, of which $40 million relates to programs that we've previously placed into runoff back in the spring of this year. The net impact of Ian from homes covered by Hippo policies was only $900,000 or 9 percentage points of net loss ratio. Even with the full impact of Hurricane Ian at a consolidated level, we are comfortable maintaining our full year gross loss ratio guidance of 90% or less.

Sales and marketing costs were $29.4 million versus the prior year quarter's $22.4 million and above the run rate for the first half of 2022 as we upped our targeted marketing efforts to take advantage of the opportunity to market in recently approved states. Technology and development expenses were $14.8 million versus the prior year quarter's $8.3 million. Stock-based compensation of $6.5 million versus $1.1 million in the prior year quarter, drove much of the increase. The stock-based compensation increase reflects higher headcount compared to a year ago, some refreshing of stock incentives and the acquisition of our development team in Poland.

General and administrative expenses were $19 million versus the prior year quarter's $13.4 million, with stock-based compensation expense representing $3.1 million of the increase year-over-year. Our unrestricted cash and investments as of September 30, 2022, were $677 million. While we remain highly conservative in our asset allocation, as interest rates have risen, we have shifted the balance of our cash into short-duration, highly related securities to capture additional yield. We expect that our cash and investment balance will decline at lower rates going forward.

At the end of the quarter, Spinnaker policyholder surplus was $132 million. Net loss attributable to Hippo was $129.2 million or $5.66 per share compared to a loss of $30.9 million or $2 per share in the prior year quarter. Most significantly, we wrote off our remaining goodwill asset of $53.5 million in the quarter, and we had a onetime earnings charge of $1.8 million related to our cost reduction actions.

I would like to close by reiterating that we are maintaining our 2022 full year guidance. We expect total generated premium will be between $790 million and $810 million, up over 30% for the year at the midpoint of the range. We expect our revenues to be between $119 million and $121 million. We expect our gross loss ratio will be below 90%, including the effect of Hurricane Ian and we expect our 2022 full year adjusted EBITDA loss to be between $197 million and $203 million, with further improvement in 2023 before turning positive at the end of 2024.

Thank you, and I'll now turn it over to Rick for his closing remarks.

Richard Lyn McCathron
President, CEO & Director

A: Thank you, Stewart. In the toughest of times, we have done what others in the industry have not, execute on fundamental improvement while gaining market share. Our focus is now to achieve adjusted EBITDA profitability, a goal we expect to reach by late 2024 while we add the products and services we offer to American homeowners. We're very excited and determined to achieve our mission.
Now we'd be happy to take any questions.

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Question and Answer

Operator

[Operator Instructions.] My first question is from the line of Karol Chmiel with JMP.

Karol Chmiel

Just a question regarding Ian and two-part question. Basically, as a young homeowner, insurer, what are you -- I mean how do you think you fare from a customer's point of view? That's the first part. And then second part is, have you -- are there any lessons from this event?

Richard Lyn McCathron
President, CEO & Director

Karol, thanks for the question. First of all, I think I cannot be more pleased with the team on how we responded to Ian and multiple facets. First of all, we were very proactive on identifying customers that were within path, having direct conversations with those customers prior to the hurricane happening and then an immediate follow-up of those customers to identify any prospective damage. The feedback that we've got, and we shared a few testimonials in the material, has been nothing but positive. And I think our team stepped up to make sure that we fulfilled the promise that we would make when somebody took out a new business policy.

The other aspect that I think is really important is I do think this demonstrates the discipline we have from an underwriting perspective, on how we enter markets and what product we offer. So, we entered Florida with our homebuilders policy. And I think it demonstrated how we compare to model results and the very small amount of losses on the Hippo program demonstrated that we made the right decision on how we entered Florida. It also magnifies the difference in quality of policies when they come from new builders like Lennar. And I think when you look at all of the information coming out showing that the new construction homeowners policies at current codes, more reinforced building really resulted in a positive way for us. It's one of the reasons why we're -- we continue to be very bullish on the homebuilders channel and why we are absolutely doing everything we can to increase our portfolio that includes homebuilders.

Stewart Andrew Ellis
CFO & Treasurer

And this is Stewart. I'll add just one quantitative benefit to that, that we've seen. I think Rick mentioned that we performed better than expected because of the new construction and the rapid response. I think if you look at the standard industry models for expected loss based on our portfolio of coverage in the areas that were effective, we're performing meaningfully better than what the industry would have assumed based on historical data. And so, that is encouraging to us in a quantitative sense as well. We're about a third below the average model estimates.

Operator

Our next question comes from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question, more of a numbers question. So, the 58% gross loss ratio, excluding the impact of Ian, does that include some of the favorable development? I think you called out 18 points in the shareholders' letter. And if so, how much of that 18 points, is it only the 8 points of non-PCS development that I should be factoring in?

Stewart Andrew Ellis
CFO & Treasurer

No, it includes the full 18 points of favorable development. So, absent the favorable development, it would have been 70 percentage points or 70% loss ratio.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. Let me follow up on --

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Stewart Andrew Ellis
CFO & Treasurer

Sorry, 76%, excuse me.

Yaron Joseph Kinar
Jefferies LLC, Research Division

76%: Okay. Got it. So, where -- I guess that still leaves this quarter as a bit weaker than the previous quarters of the year. Where did the deterioration come from the 76% versus, I think, 66% last quarter.

Stewart Andrew Ellis
CFO & Treasurer

I think the last quarter would also have included favorable development. We've had favorable development in each of the quarters this year. If you adjust for the favorable development in prior quarters, I do think it is a meaningful improvement, especially year-over-year. It's a substantial improvement as each of our quarters have been in 2021, versus 2021, excuse me.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. Then the decision to write off goodwill. Can you maybe talk a little bit about that and what drove that?

Stewart Andrew Ellis
CFO & Treasurer

Yes. So, happy to take that one. I think as part of our compliance with GAAP, we generally do routine testing of goodwill. And we generally perform that test in the second half of the year. We've seen, as I know everyone has been seeing in the market, very significant depressions in valuations. And if you look at our stock, in particular, over the past few quarters, it's trading below our cash balance. And so, that was an indication that we should assess the goodwill and -- we looked at a number of factors, but that was a fairly important one. And overall, concluded that given that the market value of the company is trading below our cash balance, it's hard to [suggest by] not taking some action to write it down.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Understood. And maybe one final one on my end. I think at the Investor Day, you had talked about the Book a Pro app. And at the time you left it open, the economics of it open, a little bit. Can you maybe talk through how you're thinking about getting remunerated for that business?

Richard Lyn McCathron
President, CEO & Director

Yes. I think it's important to recognize sort of our philosophical thoughts at Hippo related to a product market fit. We generally -- when we launch a program or we're contemplating launching a program, it's very important for us to optimize for the customer, what they deem important, do testing on what they feel that what they would be willing to pay for any type of product. What we want to avoid when we launch something that is so new like this feature that, from our perspective, doesn't really exist, the idea of what value we can bring to that customer. And we don't want to create a false positive or a false negative related to how we're going to monetize that. So, we have different mechanisms in which we're testing to determine the best way to monetize our total home protection services. But that's something, from our perspective that comes later. Once we know exactly what the customer wants that we're fulfilling those needs and that we've met the promise of helping them protect the joy of homeownership.

Stewart Andrew Ellis
CFO & Treasurer

Yaron, by the way, that's one of the reasons why on Investor Day, we did not put a meaningful number related to how we're going to monetize that over time. We think that, that's upside.

Operator

Our next question comes from the line of Michael Phillips with Morgan Stanley.

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Michael Wayne Phillips
Morgan Stanley, Research Division

How do you respond to the idea that maybe taking such amounts of favorable development on property lines, there's lots of inflation is a risky bet right now.

Richard Lyn McCathron
President, CEO & Director

Yes, Michael, I'll go ahead and take that one. I think if you look at traditionally how insurance companies adjust for inflation and building cost replacements, [Coverage A] replacement, there's usually some arbitrary inflation guard. From the beginning of Hippo's offering, we re-underwrite every single policy at every single renewal and we run it through our replacement cost estimators. So, if, in fact, we see 20% inflation as an example. And the building we were covering, or the home we were covering, Coverage A, was $400,000. At that renewal, we would make Coverage A $480,000. So, from our perspective, we believe that we get exposure increase and rate increase at the policy level at every single renewal, which dramatically reduces any uncertainty on what inflation trends are. If we've missed it and we're a little bit high, we'll adjust that at next renewal. If we missed it and we're a little bit low, we'll adjust that at next renewal at the policy level.

Stewart Andrew Ellis
CFO & Treasurer

And Mike, this is Stewart. With respect to this reserve release, we're constantly looking at the development curves for the claims that we've received that we paid, the IBNR associated with those, and we have estimates for how various events and various cohorts of customers claims are going to develop. And when the actual experience begins to indicate that we're over reserved, we adjust. So, it's not our intent to over reserve, but we have been getting better operationally as we've matured as an organization. And in certain circumstances, some of the reserves from 2021 related to very large events that we've been able to look at the experience curve since then, and we believe that the reserves are not bringing us -- or the release is not bringing us to a level of reserve that is any different than what we've had at each of the past quarters in terms of adequacy for future development. We feel very good about the reserving amounts that are left on the balance sheet.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. And then can you just talk again about kind of the impact of the economic slowdown and what they might have in different parts of your business, particularly in the builder program and how that might -- not just that program but any other segments of your business might be impacted?

Richard Lyn McCathron
President, CEO & Director

Yes, it's a good question. And I think everybody is aware that there is a slowdown in the builder channel. I think if you consider our early stage in that channel, the opportunities of new builds even at a depressed level, we think we're just at the tip of the iceberg with the partners that we have in this particular space. So, even if a given partner might be reducing the amount of housing starts that they have, we think that there's still massive upside in our funnel and the conversations we're having to bring more partners in that area. So, we don't think that this will slow down our trajectory and builders for several years.

Stewart Andrew Ellis
CFO & Treasurer

And outside the builder channel, we're still seeing -- I think we're a small enough share in the market where general mortgage rate increases and other things have not yet materialized as a meaningful impact as we think about growth.

Richard Lyn McCathron
President, CEO & Director

Yes. And keep in mind, our target customer, the Generation Better customers, I was referring to. These are customers that we believe are looking for a partner to protect their home and they haven't found it in the industry. And we are finding those customers. They've identified us as that partner. And that's not somebody that only moves when they move into a house that's new to them. These are people that switch at renewal, and we're seeing a significant number of our Generation Better customers as switchers, not just people that have newly moved into a house.

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Operator

Thank you. Next question comes from the line of Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is just on reinsurance costs. I know you guys have a bit longer term relationships. So, I just wanted to understand how higher reinsurance costs, could (inaudible) make its way in? I mean, how important of an input is that to your path to profitability?

Richard Lyn McCathron
President, CEO & Director

Yes, Alex. It's a really good question. And I think everybody should be aware that the reinsurance market is hardening in a pretty significant way, both on a quota share perspective and an XOL perspective. I'm pleased to your point, I'm pleased that we have multiyear capacity with several of our partners. So, at any given renewal on reinsurance renewal cycle, we are not looking for replacing the entire reinsurance portfolio. We also have the benefit of dramatically improving loss ratios. And when reinsurers are generally looking at where they want to deploy their capacity, they are looking for people that have the ability to react quickly. And that's something that our tech stack allows us to do. I think inflation is a great example of that. So, I think what we're finding is there is likely going to be a pretty significant shift industry-wide as it relates to demand and capacity within the reinsurance space when we generally create our proformas looking forward, such as the one that we displayed during our Investor Day. We take an approach that we think is a likely outcome, not an aggressive one. So, from our perspective, I think we're well positioned given the improvement in loss ratio, given the fact that we have multiyear capacity. And we do have segments of our business that are performing exceptionally well, like the builders business, which is something that reinsurers are very interested in participating on. So, I think it's still a little early to tell given the hardening of the retro market as well. But this is not something that is concerning us at this point.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. The only other question I had was just when you think about whether it's MGA commissions or the way your reinsurance arrangements work. Is there any kind of tail that we need to consider from Hurricane Ian? I'm just thinking through Hurricane Uri, there's a little bit of a tail as it related to the net loss ratio. I mean do we need to consider things like that related to Ian?

Stewart Andrew Ellis
CFO & Treasurer

Yes. I think our -- if you're talking about from us specifically, I think the answer is no. Ian was not a significant event on the Hippo program. I do want to point out, we said this in our prepared remarks, the vast majority of the gross loss was not a Hippo loss on Spinnaker paper. It was the legacy fronting business that did have some exposure in Florida. So, from us specifically, Ian was not a significant event by any stretch of the imagination. If you're thinking industry-wide, I actually think our performance in Ian in cat-prone areas with new construction does motivate reinsurers to ask the question, where do we want to put our capacity? And is that -- does Hippo have a unique proposition in cat exposed areas where new builders are building homes, are those homes better? And I think you can see example after example of neighborhoods that have new construction that have very little damage versus next door, the neighborhood that might be 10 or 15 or 20 years old that had massive damage. So, I think industry-wide, there may be a bit of a headwind there. But from us, I'm actually looking at it as a tailwind.

Operator

Thank you. Our next question comes from the line of Tommy McJoynt with KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

How do you guys think about the sales and marketing spend going forward? And if you could touch on how does the growth in the builder JVs impact your sales and marketing spend? Is it fair to think that the relative amount of sales and marketing spend will need to be less as that builder channel grows.

Stewart Andrew Ellis
CFO & Treasurer

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Yes. Tommy, this is Stewart. Thanks for the question. I think I'll say a couple of things about sales and marketing. We've always had, as you know, a fairly balanced go-to-market approach. We sell our policies primarily through the lens of trying to think about where our customers want to buy them. And so, if our customer wants to buy it directly from us, we'll sell it directly from us. If our customer wants to buy through an independent agent or through a partner of ours, we'll sell through those channels. And if a customer is buying a brand-new home, we make that very easy by embedding insurance in those transactions. And so, changes in sales and marketing are things where we have an ability to respond to the market environment and to tune our spend to the conditions and to achieve the highest return on those investments that we can. One of the things that is happening in our 2022 results is, and we've said this in earlier calls during the year, we've been rolling out new states. And so, -- and we've also been taking rate action in the existing states that we're in. And we didn't really want to sell aggressively into states where we haven't yet gotten rate adequacy or obviously not possible to sell until we're approved in new states. And so, as we've gotten rate adequacy in more of our existing states and as we've been able to roll out new states where we feel like we are adequately priced, it gives us a broader geographic area to spend our marketing dollars. And that's why you see sales and marketing climbing in the third quarter relative to Q2. That's because we have more areas in the country where we feel like we are properly priced and able to spend those dollars wisely.

With the builder channel, obviously, that's a partner-based channel. I don't think it directly impacts the decisions we would make in terms of how to spend either brand-oriented dollars or user acquisition dollars in the direct channel. So, we've -- our partnerships with the builder channels are designed to be economically independent and attractive to all parties on their own. And our ability to spend marketing dollars in the direct channel is sort of unrelated to the partner or the independent agent channel.

Richard Lyn McCathron
President, CEO & Director

Yes, Tommy. And just to be really clear, we are -- we have never been the type of company that looks to acquire company acquire customers at the cost of LTV. And so, our omnichannel approach creates that discipline. If we believe any particular type of customer acquisition is outside our comfort zone or our thresholds, we just discontinue that until it gets within our threshold. We are not in the business of buying business. We're in the business of acquiring business that we think has a very positive LTV, whether that's through a builder, whether that's through an agent, whether that's direct to consumer or through some other form of partnership. And we do have a lot of discipline, and we'll maintain that discipline throughout our existence.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then just remind me, if you said, how much of your builder channel volume is structured through the JV structures that you have versus more just traditional partnerships, I guess?

Stewart Andrew Ellis
CFO & Treasurer

I think at this point, most of the builder channel is structured through the JVs, and that works well for very large builders. For the smaller builders and as we expand more broadly in the builder universe, that level of upfront investment may be a bit more complicated than makes sense for those individual builders. And so, we do have other options that simplify those arrangements where we would pay upfront for leads that we can then sell our policies to, or other third-party policies to through our agency. So, I think as we roll out more broadly in the builder universe, you'll see a rising percentage that are more on a lease model, but at the moment, it's mostly joint venture.

Operator

Thank you. There are no additional questions waiting at this time. [Operator Instructions.] Our next question comes from the line of Morris Propp with Propp Companies.

Morris Propp

Hello. I'm a new investor. And I like your business model, I like everything. The only thing I don't like is that you've burned through a better part of the $1 billion, and you've got $600,000 in the bank -- $600 million, sorry. You've got $600 million in the bank. And you're talking about profitability at the end out two years. It's not my first rodeo. My problem is when people start building businesses and they have a lot of cash, they spend a lot of cash pretty quickly. And it's like the guy jumping off the sky scrapper, everything's good so far, until he hits the ground. So, I would like you guys to sharpen your pencils. And I would really like you to start focusing on an earlier attainment of profitability. But I'm an investor. I'm not an analyst. I think you guys have a great opportunity here.

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You've got great leadership. Please, just don't think that, that $600 million cushion gives you the right to have extra fat. Anyway, it's a comment. And I wish you well as the new investor. Thank you.

Richard Lyn McCathron
President, CEO & Director

Morris, thanks for the investment, first of all. And we appreciate the comment. I do think -- I'll reiterate something that that I said at Investor Day because we fundamentally agree with you. We don't think having the war chest that we have gives us a right to spend the money on anything other than long-term value creation for investors. And so, one of the things that I said specifically on Investor Day is it is our intention to be good stewards of the capital to continue to grow the business to get cash flow positive without the need to raise outside dollars, barring any completely unforeseen circumstance, we have a lot of discipline in this company. I think it's important that we have the balance between insurance and technology of the company. And I do absolutely agree with you that we have to be very thoughtful in everything that we do, even when we have the war chest that we do. So, I appreciate the comment. I agree with the comment.

Operator

Thank you. There are no additional questions waiting at this time. So, I'll pass the conference back over to the management team for additional remarks.

Richard Lyn McCathron
President, CEO & Director

Great. Thank you very much. We really appreciate everybody joining. We look forward to talking with you next quarter. Thank you very much.

Operator
That concludes the Hippo Third Quarter 2022 Earnings call. Thank you for your participation. You may now disconnect your lines.

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