S&P Global
Market Intelligence

Root, Inc. NasdaqGS:ROOT

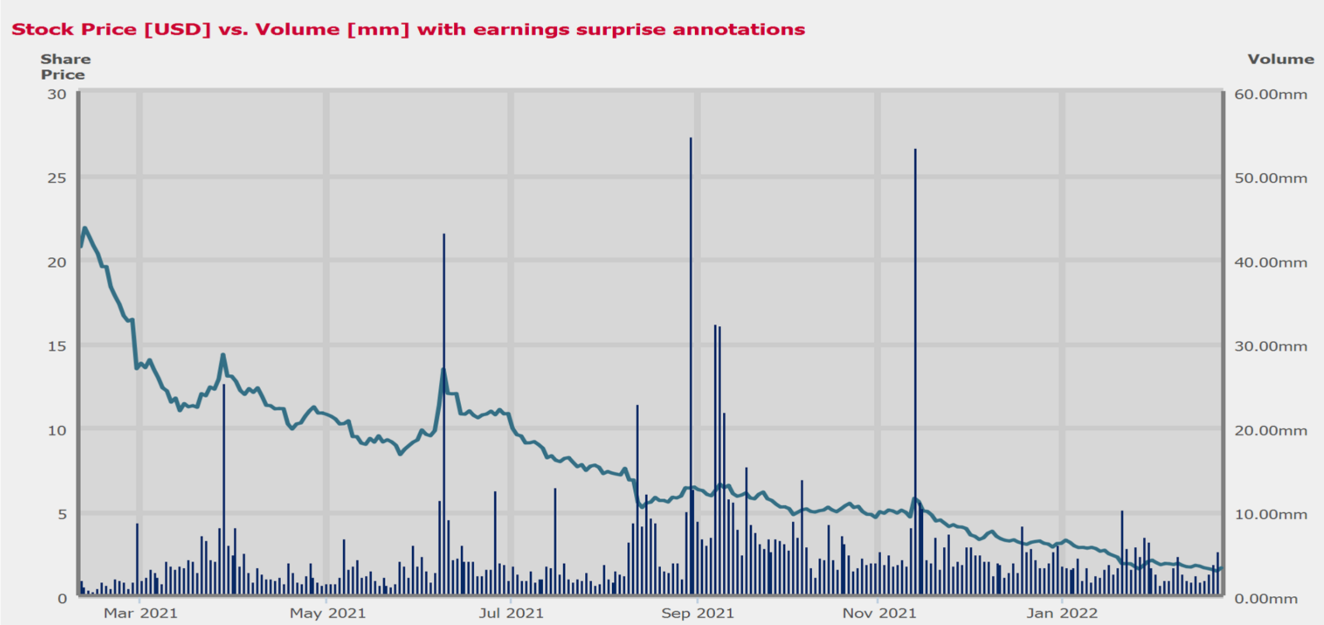
FQ4 2021 Earnings Call Transcripts

Thursday, February 24, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.47)	(0.38)	NM	(0.41)	(2.13)	(2.03)	NM	(1.53)
Revenue (mm)	61.86	93.20	▲50.66	69.58	312.22	345.40	▲10.63	274.89

Currency: USD
Consensus as of Feb-25-2022 6:50 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	(0.46)	(0.40)	NM
FQ2 2021	(0.50)	(0.72)	NM
FQ3 2021	(0.66)	(0.53)	NM
FQ4 2021	(0.47)	(0.38)	NM

Table of Contents

Call Participants

EXECUTIVES

Alexander Edward Timm
Co-Founder, CEO & Director

Christine Patrick
Vice President of Investor Relations

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

Frank Phillip Palmer
Chief Insurance Officer

Matt Bonakdarpour
Chief Technology Officer

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Ismael Dabo
Morgan Stanley, Research Division

Joshua Michael Siegler
Cantor Fitzgerald & Co., Research Division

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

Ryan James Tunis
Autonomous Research LLP

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Unknown Analyst

Presentation

Operator

Thank you for standing by, and welcome to the Fourth Quarter 2021 Earnings Conference Call. [Operator Instructions] As a reminder, today's conference call is being recorded. I would now like to turn the conference over to your host, Ms. Christine Patrick, Vice President of Investor Relations. Please go ahead.

Christine Patrick
Vice President of Investor Relations

Good morning, and thank you for joining us today. Root is hosting this call to discuss its fourth quarter 2021 earnings results. Participating on today's call are Alex Timm, Co-Founder and CEO; and Dan Rosenthal, Chief Operating Officer, Chief Revenue Officer and Chief Financial Officer.

During the question-and-answer portion of the call, our presenters will be joined by Matt Bonakdarpour, Chief Technology Officer; and Frank Palmer, Chief Insurance Officer. Last evening, Root issued a shareholder letter announcing its financial results. While, this call will reflect items within that document for more complete information about our financial performance, we also encourage you to read our 2021 Form 10-K.

Before we begin, I want to remind you that matters discussed on today's call will include forward-looking statements related to our operating performance, financial goals and business outlook, which are based on management's current beliefs and assumptions. Please note that these forward-looking statements reflect our opinions as of the date of this call, and we undertake no obligation to revise this information as a result of new developments that may occur.

Forward-looking statements are subject to various risks, uncertainties and other factors that could cause our actual results to differ materially from those expected and described today. In addition, we are subject to a number of risks that may significantly impact our business and financial results.

For a more detailed description of our risk factors, once again, please review our Form 10-K where you will see a discussion of factors that could cause the company's actual results to differ materially from these statements as well as our shareholder letter released last evening. A replay of this conference call will be available on our website under the Investor Relations section.

I would like to also remind you that during the call, we are discussing some non-GAAP measures in talking about Root's performance. You can find the reconciliation of those historic measures to the nearest comparable GAAP measures in our shareholder letter released last evening and our filings with the SEC, each of which will be posted on our website at ir.joinroot.com.

I will now turn the call over to Alex Timm, Root's Founder and CEO.

Alexander Edward Timm
Co-Founder, CEO & Director

Thanks, Christine. I'm going to get right to it. 2021 was a challenging year as inflation pushed losses to new levels and digital marketing spend became less efficient. However, because of our technology and data advantage, we were able to identify these trends early and take swift action.

Our ability to respond quickly is reflected in our fourth quarter results where our loss ratio has been stable since the initial impact of inflation hit earlier in the year, while industry trends continued to rise. We also reduced marketing spend another 65% in the fourth quarter, cutting our operating loss roughly in half since the second quarter.

During the quarter, we continued to make progress on strengthening our underwriting and building our embedded product. We've made substantial progress in our partnership with Carvana. Through open collaboration, the quality and effectiveness of what we've been able to build in less than 6 months has surpassed expectations on both sides.

After rolling out the first version of our product in 12 states, we've made improvements to the customer experience and are focused on driving adoption. We continue to add new states to the embedded footprint every week.

As initial results have been very promising, Carvana has increased our share of traffic months ahead of schedule. We have a strong road map to continue to drive increased bind rates. As we build the second version of our product, we will explore how telematics can be used to inform pricing, underwriting and the customer experience. We are also building a brokerage offering to serve customers in states where Root currently does not write business.

While it's still early, the metrics around attach rate, loss ratio and retention look extremely positive. We expect that Carvana customers will represent a material percentage of new writings in Q1 and continue to build throughout the year. On top of our successes with embedded insurance, we are tightening our underwriting standards and a state-by-state approach to further drive profitability.

This work is critical to the efficacy of the data science models and their ability to drive differentiation in Root's risk segmentation. In addition, we have continued to advance our machine learning-based loss in underwriting models. Having built our pricing and underwriting systems on the very best technology, Root's been able to respond to the environmental changes quickly.

During the fourth quarter, we implemented 8 rate increases and an additional 5 were implemented to date in the first quarter. We have improved pricing segmentation through enhancements to McModel, our countrywide pricing model. This model leverages Root's growing data set to expand modeled coverages, improve segmentation and better predict the lifetime value of a customer.

Our UBI 4.0 model is also now active in 24 states. Through detailed testing of this model, we have experienced a material improvement in frequency to premium ratios, while simultaneously offering better prices to good drivers. This further demonstrates how the predictive power of our technology translates into measurable results.

Taken together, we expect these actions to drive improvement in our 2022 loss ratio and bring our performance closer to our stated goal of 65%. We are driving this company to profitability. The actions we took over the last quarter will materially improve our underwriting results while building defensible growth.

We were able to act quickly because our engineering and data science driven infrastructure allows us to collect actionable real-time data, analyze it quickly and then implement change, and that was demonstrated by our Q4 performance.

Before I turn it over to Dan, I want to share 2 employee announcements. I'm excited to report that Matt Bonakdarpour has been promoted to Chief Technology Officer. Matt's contributions to Root over the past 4 years is incredibly significant. By more closely aligning our data science technology teams with Matt [Bonakdarpour], we can continue to unlock opportunities to build a world-class data science technology stack. We also announced that Hemal Shah has decided to leave Root. He will be taking some time for himself and his family.

I would like to thank Hemal for his contributions to building our product, our teams and our processes. I'm thankful for the dedication of our team members who are working every day to un-break insurance. I appreciate the trust of our customers and investors.

And with that, I'll turn the call over to Dan.

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

Thanks, Alex. Our results for the fourth quarter of 2021 reflected Root's ability to recognize environmental trends early and take quick action to address them. We have line of sight to profitable unit economics and this quarter reflects our strategic priorities in action. You will find our full GAAP financial results contained in the shareholder letter we published yesterday evening, but we wanted to give a few of the key highlights.

On the top line, we grew gross written premium 9% year-over-year to $158 million. Our gross earned premium increased 22% year-over-year to $189 million. The top line's outperformance was driven by relatively stable retention and less impact from rate increases and reduced marketing spend than anticipated.

Shifting to profitability. Gross accident period loss ratio was 91% for the fourth quarter, inclusive of 6 points of severity and 9 points of frequency compared to the fourth quarter of 2020. As Alex touched on, the relative stability in our loss ratio since inflation hit in the second quarter speaks to the power of our platform.

Leveraging our technology and data architecture, we have responded quickly getting rate and underwriting changes into market. The operating changes we have made on our path to profit were demonstrated in our bottom line. Operating loss was $92 million, a $35 million improvement when compared with the third quarter and $80 million reduction from the second quarter when we started taking action to reduce cash burn.

The primary driver of this reduction was a 50% reduction in sales and marketing spend in the second half of the year when compared with the first. Our commitment to expense management has not stopped with marketing spend. In January, we made the difficult decision to reduce our workforce by approximately 20%, resulting in run rate expense savings of approximately $30 million annually. This brings total run rate expense savings to date to roughly $48 million from our peak 2021 expense levels.

In coming quarters, continued expense management actions will be evident in our cash consumption and bottom-line results. These efforts, in combination with closing on a new term loan facility with BlackRock in the first quarter of 2022, give us line of sight to profitable unit economics and capital to execute on the strategic priorities to get us there.

Turning to our outlook. We remain on the path we set out on during the second quarter of 2021. With the amount of uncertainty surrounding the auto insurance environment and the ongoing impact of COVID, we are providing a 6-month view of our expectations. We continue to expect gross written premium to reflect significant year-over-year declines in the first half of 2022 as we continue to take underwriting and pricing actions. We continue to expect meaningful improvement in our operating losses in 2022.

With a further reduction in marketing costs and fixed expenses, we expect approximately 25% improvement in operating losses in the first half of 2022 compared with the first half of 2021, excluding restructuring charges of $6 million to $9 million.

We are planning to host an Investor Day in New York City in September, where we will give a greater level of detail on future expectations for the business. I would like to echo Alex's statement that we are on our path towards driving this company to profitability.

The actions that we have taken demonstrate our thoughtfulness around deploying capital and are improving our bottom line. But we are not finished. Our near-term goals are very clear: continuing to capitalize on our technology advantage, strengthen our underwriting foundation and building out our embedded product with Carvana. We are excited about the opportunities before us and appreciate your continued support.
With that, Alex, Frank, Matt and I look forward to your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, in the letter last night, you guys did mention that there was, I think, some frequency benefit to end the year. I was just hoping you could give us more color on that. And then did you see a frequency benefit continue into the start of 2022, just given the Omicron variant in January?

Frank Phillip Palmer
Chief Insurance Officer

Hello. This is Frank. I'll add a couple of comments on that. As we talk about the frequency improvements from the UBI 4, we did see some driving reductions in -- due to the Omicron. But those were -- when we talk about that from our UBI 4 modeling, it wasn't just the Omicron because we saw some of those decreases even before earlier in the summer as we rolled out our new model.

That model is -- it's not just frequency. It's a frequency to earned premium metric, which shows that the new models are driving more profitable business, not just lower claims counts.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my -- oh, sorry, go ahead.

Matt Bonakdarpour
Chief Technology Officer

This is Matt Bonakdarpour. I just wanted to chime in and mention that we typically see every year around this time going into the end of December and into the winter months, a seasonal trend in frequency, and that's what we were alluding to in the shareholder letter.

A decrease in miles driven, which was confirmed in our telematics data implied a decrease in frequency.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question was on the Carvana relationship. You guys -- in your prepared remarks, Alex, you mentioned that you thought there would be a material percentage of new writings from that relationship in the Q1.

Any more detail you can just give in terms of premium expected there and just how we should think about the growth from that relationship throughout 2022 and even beyond?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. Thank you for that question. It's -- we're still in the early days on Carvana. We're seeing really exciting growth through that channel. And we are seeing a material portion today of our new writings coming through that channel.

And we have lots of plans to continue to scale both the state footprint as well as continue to drive up the attach rate with customers through our -- the version 2 of our product that will be more embedded into the Carvana flow than what currently stands. So Dan, do you want to comment on expectations?

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

I think, Elyse, I think the only thing I'd add to what Alex said is a lot of people talk about partnerships. It can be an overused word. I think one of the things we're most excited about in the 6 months since we agreed to our partnership with Carvana and their investment in Root is how quickly the teams have come together.

This is really a very special and unique partnership. We've seen like-minded cultures. We've seen laser focus on the customer that we both share, really, really open collaboration between the companies. And simply put, that's driving faster development of the embedded product. Stay tuned for what's to come, but we're very excited about it.

Operator

Our next question comes from Josh Siegler of Cantor Fitzgerald.

Joshua Michael Siegler
Cantor Fitzgerald & Co., Research Division

I wanted to dive into your Policies-in-Force, which grew year-over-year despite you had a tendered option in 4Q. What helped you still gain users this quarter?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes, I think that's a good question for Dan on Policies-in-Force and growth.

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

Yes. I think -- look, we were pleased with the performance in the fourth quarter, particularly seeing retention at better levels than we anticipated as well as some of the hangover of the marketing that we had invested in earlier in the year.

That said, we do -- we are continuing to guide with the language that we used in the last quarter about significant year-over-year declines in growth as we go forward for the first half of the year. You know the first half of 2021 was a really significant growth period for us. And as we lap that, we want to remain really laser-focused in this environment on our pricing and underwriting, really focused on the foundation of the business, what we've talked about.

And it's reflected in our results from the fourth quarter that we're having success, the actions that we took in the middle of 2021, leveraging the technology that we have in place to drive a really granular focus on pricing and underwriting and frankly, to move faster. And you're going to start to see that show up in the results as you did in the fourth quarter on the bottom line.

At the same time, we're focused on differentiated, more efficient customer acquisition channels. And for us, that starts with Carvana. So it's less about growth this month -- a month, and it's more, as Alex said earlier, about building towards that -- on that path to profitability. And that's what we're excited. That's the journey we're on.

Joshua Michael Siegler
Cantor Fitzgerald & Co., Research Division

Great. That's helpful. And following along that line of thought, with Carvana becoming a material part of new writing starting in 1Q, '22, do you also expect it to start having a positive impact on your loss ratio for 2022 for the full year?

Alexander Edward Timm
Co-Founder, CEO & Director

I think Matt Bonakdarpour can talk about what we're seeing through that channel to date. It's still very early days, but we are seeing positive signs. Matt, do you want to give some detail?

Matt Bonakdarpour
Chief Technology Officer

Yes. I do want to underscore the fact that it's very early days and the losses are still developing, but we are seeing encouraging signs, not just from the customer mix characteristics and the retention data that we're seeing, but also early indicators of frequency and loss ratio.

It's important to note that any time you start a new channel, you will feel a new business impact from that channel. But when we compare and control for that fact, the early signs are very encouraging.

Operator

Our next question comes from Matt Carletti of JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Taking your kind of comments on pricing actions, what you've seen with frequency and then also the commentary in the letter about being able to kind of see loss trends more quickly to your technology and react to them, do you think it's safe to say you're knowing what you know today that we've seen the worst of the loss ratio?

I mean I heard your comments about improvement in the loss ratio in '22. But given the stability Q4 versus Q3, do you think we peaked out or are there reasons to believe that we could take higher before seeing that improvement over the course of the year?

Alexander Edward Timm
Co-Founder, CEO & Director

I think we've done a lot of work and the teams have done really an amazing job at getting both the underwriting -- our underwriting function improved pretty drastically as well as pushing out a ton of pricing improvements throughout all of our markets.

And so we've done really a historic amount of work over the last 6 months to really control for that. And we're really proud of the team and the hard work they've put in there. I'm going to pass it over to Frank who could talk a little bit more about how we see the future.

Frank Phillip Palmer
Chief Insurance Officer

Yes. It's always fun to talk about the future. I want to break your question up into kind of there's loss trend and then there's loss ratio trend. We do think that loss trends are still high. As we look at the macroeconomic factors, inflation is still up, used car prices are still up.

And we expect that a lot of those macroeconomic impacts to still remain high and to have relatively high loss trends throughout the rest of this -- at least throughout the rest of this year. Now then there's loss ratio trend. Now we think that we manage to take actions very early on as we started to see these loss trends come up.

And so our rate actions, our underwriting actions should help bring that loss ratio down or at least keep pace with that trend. And so while we might not have seen the peak in loss trends, or industry-wide macroeconomic loss trends, we do think that we've probably seen a peak in the loss ratio trend.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. That's very helpful. And then one other, if I could, kind of a high-level question, but I think one that people might find pertinent, given kind of some of the changes taking place. What does Root look like 2 to 3 years from now?

And specifically, I'm kind of asking around kind of distribution makeup of the company and path to profitability.

Alexander Edward Timm
Co-Founder, CEO & Director

This is Alex. Thanks for that question. What we see right now and where we're still laser focused is that we have not lost belief at all in really the core underlying opportunity here. And we still think that when you look at the 260 -- over $260 billion auto insurance market that we have developed, really differentiated technology both in our ability to move quickly and develop things like Carvana and even a broader embedded platform where, because of our technology, we can deliver one click -- we can deliver one-click experiences, and at the same time, we can leverage our data to actually materially improve the underlying unit economics.

And so I think in the future, you're going to see, we do believe embedded is a gigantic opportunity. We think that there is going to be a very large shift. We think it builds better consumer experiences. And we think that we're at the tip of that spear. And we're going to continue to expand that product and distribution line.

We also still believe in our direct channel. We think that we can build better consumer experiences through our technology, and that's what we're going to continue to do. And then with that, you should expect material improvements to profitability, which is the company's track record. We have consistently improved loss ratio over the years. And we saw some inflation last year, but we believe we've now really acted quickly, decisively and aggressively to get that back under control.

Operator

Our next question comes from Michael Phillips from Morgan Stanley.

Ismael Dabo
Morgan Stanley, Research Division

You actually have Ismael Dabo on for Mike. Just have one quick question, somewhat touched on the last point that you guys made. So as you think about your various distribution channels, how do you rank/prioritize the IA channel?

And I think you touched on D2C. You still have a focus on D2C, but I'm just trying to figure out how do you balance the various distribution channels, including partnership? And you guys have alluded to somewhat breaking into the IA channel as well?

Alexander Edward Timm
Co-Founder, CEO & Director

We do have investments throughout multiple distribution channels, including our independent agency channel, which is still live, and we are getting policies through that channel today. However, what we have seen and what we have observed over the last 6 months with really the -- with the Carvana partnership and the success of the embedded product has really surpassed any of our expectations.

And so what we, in the immediate future, are really focused on is we think it's very prudent to focus our resources there to continue to drive that growth channel. And we also believe that, that growth channel actually can create a moat around our business. Because there is -- it is differentiated access to customers where we can uniquely service those customers in the moment that they actually have the need. And so we think because of that, that's really where we're focused right now.

Of course, as we progress, we believe that there's lots of other ways to talk to customers too. And so we will be, over time -- over a longer period of time, continuing to incubate other distribution channels. But right now, the focus is Carvana.

Ismael Dabo
Morgan Stanley, Research Division

Okay. And just a quick question on your rate increases. So you've been taking significant rate increases, I think you guys alluded to in your shareholder letter, 14% since the beginning of 2021, which somewhat seems above the industry average. Obviously, people have been taking rates for the inflationary pressures. But I'm just trying to figure out what is that a function of? Is that from -- I know when you guys enter new states, you weren't allowed to use your telematics pricing.

So you had to rely on other previously filed data from other insurers. Or -- and is it just like a function of your telematics pricing and you're adjusting for it there? Or is it a difference in the inflationary environment as well?

I'm just trying to parse out what is the difference that -- what it seems above-industry average rate taken throughout the past like a few months?

Frank Phillip Palmer
Chief Insurance Officer

Sure. This is Frank. I can take that. Great question. I think that a lot of that rate increase action over industry average is in the inflationary pressure, right? So quarter 1, the industry -- or quarter 1 of last year, the industry had a very good loss results, but then quarter 2, it started to accelerate away, and we saw some of the loss cost increases, some of the greatest loss cost increases in the last 20 years, maybe in quarter 2, quarter 3 and quarter 4.

Now we believe that Root was able to identify that earlier, both with our -- using our technology, the granular level at which we -- segmented level that we look at our loss cost data as well as our UBI giving us more driving information around customer driving patterns and how those are increasing, both on a frequency and severity basis.

And so we think we were able to recognize that industry loss cost trend earlier and start getting those rate increases and underwriting actions in the market faster than those other competitors. So if you go back to quarter 2, quarter 3, I think we would have expected that we were -- we would have higher than industry average rate increases mostly because we recognized the loss increases that are impacting us and the industry, but just could act sooner than many of our competitors.

Operator

Our next question comes from Yaron Kinar of Jefferies.

Unknown Analyst

This is [Andrew] on for Yaron. So it sounds like retention rates were a bit stronger this quarter, but at the same time, still filing for rate increases. I was hoping you could help us think about the impact on retained PIF and on new PIF growth from here, just given the rating actions.

Matt Bonakdarpour
Chief Technology Officer

Yes, sure. This is Matt Bonakdarpour. Like you said, going into Q4, retention was a bit better than we expected. We've incorporated that into our forward-looking forecasts. We have gone out of our way as we've improved our underwriting and pricing capabilities to pay close attention to the customer experience.

And that means preserving the rate they get a new business as they renew into their future terms. So rate disruption is top of mind and mitigating it for the benefit of the customer is a priority for us.

So while we do expect the rate increases going forward in the quarters to come, to impact retention, we think it won't impact it the same way it has in the past. And that's incorporated into our shareholder letter and our forward-looking forecasts.

Unknown Analyst

Great. And then -- so it sounds like loss trend is still expected to be high throughout the rest of the year, but loss ratio trend has peaked. Just given the current inflationary environment, does Root still need another level or another round of rate increases?

Frank Phillip Palmer
Chief Insurance Officer

Yes. This is Frank. I'd say that we're still in the middle of that first round of rate increases. And then we are certainly monitoring, and we'll see kind of how those loss trends increase. So you don't have to take all of the rate in 1 month, January and February. And so we're continuing to take rate and expect to continue to do that for the next couple of months.

And then we'll see, and we're paused -- we're positioned to be able to take further rate the rest of this year if we need to.

Operator

Our next question comes from Mark Hughes from Truist.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Your level of sales and marketing spend, where should it go from the level you had in Q4?

Daniel Harris Rosenthal

CFO, Chief Revenue & Operating Officer and Director

Mark, this is Dan. We are on a trajectory of sales and marketing that we've really talked about back on the Q2 call last summer, where we did a reset around our direct marketing strategy, obviously focused on building out the differentiated embedded insurance products, starting with Carvana. And that's continued.

We continue to cut back sales and marketing through the third and fourth quarters last year and are continuing to do so as we look at the first half of this year.

Now we are continuing to test, as Matt talked about earlier, we leverage the data that we have, the customer segmentation information that we have. We have a very strong new Chief Marketing Officer, B.C. Silver, who is bringing some differentiated strategies to our direct marketing. We were thrilled to hire him from Green Dot and a lot of other prior experience at Procter & Gamble and Clorox brands and otherwise.

He's been a great addition as a leader to the team. And again, we look forward to seeing what he develops strategically. That said, in the pricing and underwriting environment that Frank and Matt described, where we are continuing to take rate and deal with the worst auto insurance inflation in 4 decades, that's going to necessarily result in lower marketing.

We think that is the prudent strategy and the smart thing to do right now. And then as the strategies that we have put in place that Frank and Matt articulated and that we talked about in our shareholder letter dating back over the last several quarters that have shown up in our results. As those strategies are in place, then we can return to a greater focus on direct marketing.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

Understood. This kind of $25 million level, is that maybe a reasonable run rate when we think about the first 6 months of 2022?

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

If you're saying $25 million for the first half of the year, I actually think that's high. Again, in this environment, where we are able to reduce down our direct marketing spend and focus it on the states and customer segments that matter.

And until we get the rate increases in place, I think $25 million over a 6-month period is higher than we will end up.

Mark Douglas Hughes
Truist Securities, Inc., Research Division

And then I think you gave a lot of details on this, but could you talk generally about your -- the resources, the cash on hand, kind of the cash burn, just a general sense of your current position?

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

Yes. Thanks again, Mark. I'll take that one. I think we are a fundamentally stronger company with a sound strategy and a stronger balance sheet today than we have been in the past. And that's reflected in the actions that we've taken around sales and marketing that I just described, the actions from a fixed expense standpoint and really from a focus and prioritization within the business, we are just running really strongly at the key priorities Alex articulated around our pricing and underwriting focus what we call one play this play because it is really the critical play and the foundation and then building out the differentiated customer acquisition strategy. So that sets us up to have line of sight to profitable unit economics as we move forward and then capital to execute on the strategic priorities to get us there.

I think the other thing that I would add is the support from BlackRock that occurred back in January where we closed the facility, really sends a very powerful message to have BlackRock support us with a 5-year $300 million debt facility, really, really exciting for us.

So the -- where we sat at year-end from a holdco cash position, which we felt good about as well as the cash and investments position has only been strengthened by the $300 million facility closed with BlackRock in January.

Operator

Our next question comes from David Motemaden of Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I just had a question just on the outlook. So if I just think that you think there's going to be a 25% improvement in the operating loss in the first half that implies about $100 million of losses -- operating losses a quarter, you guys just did $92 million this quarter.

You have some expenses that are coming from some of the actions you took earlier this year. And Dan, in response to a question earlier, you just said marketing spend might even come down further. So you guys did $92 million of operating losses this quarter. Why do you expect that to deteriorate a bit to around $100 million a quarter in the first half of the year?

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

I think I would caution you, David, I'd caution you from looking at the run rate of the fourth quarter losses given the seasonality in the business as well as the continued inflationary impact that Frank described earlier. So there's a host of factors to just look at one quarter and then extrapolate that into performance for the following year.

I think if you look at our sales and marketing levels in the fourth quarter, they were quite low. That is seasonally -- typically would be our lowest direct marketing quarter of the year to begin with, and it was low consistent with that. So we expect that to continue. I think for us, we -- as I mentioned earlier, we are running more efficiently today than we have in the past. We are focused on our core strategic priorities. That's going to result in about a 25% operating loss improvement and we're trying to smooth out the seasonality that you might see in one quarter or another. And frankly, just focus on executing on our plan.

I think what you're seeing from us in the results that we announced in the fourth quarter and the plan and focus that we have going forward, is it's less about 1 quarter or what have you. It's really about the strategy that we fundamentally believe in. We think, as Matt said, we are moving faster than others in the marketplace. You're seeing the impact of our technology and our granular focus showing up in the results. And that's our focus. And we're going to continue to do that as a team and look forward to continuing to talk to all of you on that journey.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay. So I guess your seasonality must be a little bit different. I guess some of your peers are -- have a little bit favorable seasonality in 1Q versus 4Q, but that's fair. And then if I -- you just mentioned in the letter, Alex, just around the Carvana relationship.

You talked about some of the metrics around loss ratio, attach rate, retention looking positive on some of that business through Carvana. Could you just share what those metrics are? And I'm specifically focused on what the conversion ratio is for the Carvana relationship. And how that's looking just to get a sense for as you guys expand how to think about that.

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

Yes, this is Dan. You're right. We've talked about it. We're really excited about where Carvana is going. Again, I think it's all developing faster than we anticipated and better than we anticipated, but it's still early days. And Matt talked about it earlier.

We're working really, really well as partners and learning from the early signs that we see in the data, and we'll look forward to sharing more in the quarters ahead. The leading indicators that we do see -- support better unit economics coming from the channel and a better customer experience. And now it's about continuing to develop the product, add more states, learn from the testing, refine and grow the channel.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith

UBS Investment Bank, Research Division

A couple of them here. First, just curious, Dan, I think you mentioned that the loss ratio had 6% severity in it. I was a little surprised of that number given that most of your competition and most of the other personal auto carriers had double-digit severity in the quarter. Is there something unique about Root that makes you have lower severity than the competition?

And is that what you're assuming from a pricing perspective, 6% right now? And then that was, I guess, assumed built into your reserving for the quarter as well.

Frank Phillip Palmer
Chief Insurance Officer

This is Frank. I'd say that when you think about the pricing, right to your pricing question, we look at frequency and severity and overall loss trends, not just the severity. So I do think that on an annual basis, year-over-year or quarter-over-quarter, you might see higher than 6% overall. We're expecting probably higher than 6% overall loss trends.

Alexander Edward Timm
Co-Founder, CEO & Director

And I will say, too, with our claims functionality, particularly all of our claims systems are in-house. And so when we see things like used car prices increase, we can very easily and quickly actually mitigate a lot of that by making sure that we're totaling in fewer vehicles and beginning to actually move more into repairs.

And so we were able to make that shift actually real-time because we have a data science model that effectively assigns a threshold that allows us to basically decide whether or not we repair a vehicle or total a vehicle, and we can do that, honestly, on a day-by-day basis. And so as we've seen severity increase, we've been able to actually change the logic on our claims handling, which is, we believe, very unique in the industry.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then second question, just quickly back on cash burn. Just curious, as I look at kind of near-term cash burn, given the big drop you're going to see in written premium in the first half of the year, does that at all kind of maybe increase cash burn a little bit in the near term, ultimately obviously, to improve as the book improves?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. We don't anticipate that drop off in new business to materially increase cash burn. In fact, we think the opposite will occur because new business typically with a higher first-term loss ratio causes a bit of a strain on cash burn. And so we've cut our operating loss roughly in half in the last 6 months or so. And we think that, that's going to continue.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And if I could just one quick last one. The Carvana relationship. I'm just curious, is that a telematics product?

Alexander Edward Timm
Co-Founder, CEO & Director

So what we've done in the first version of Carvana is, we've really prioritized getting a product out into the market, into consumers' hands and moving quickly. And that's the way we like to develop products at Root, is we really leverage our engineering abilities to ship product very quickly very, very frequently. And so every week, we are making improvements to that -- to that product flow.

Currently, we are not using telematics in the Carvana flow. However, we do have plans to. And we think that there's a lot of really interesting opportunities here, particularly given that they have the vehicle really in their possession, which allows us to get closer to vehicle technology as well while they're in the reconditioning centers.

And so that is certainly on our product road map, and we will be iterating quickly and inform you guys as we roll those new products out.

Operator

Our next question comes from Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I'm trying to rectify your rate increase action in the fourth quarter and your average premium. So I see your premiums per policy only increased 2% in the fourth quarter versus the third quarter. So should I expect it's just a time lapsing? It will take more time to recognize some of the pricing actions you've taken in your average premium?

Frank Phillip Palmer
Chief Insurance Officer

Yes, this is Frank. Good question.

Alexander Edward Timm
Co-Founder, CEO & Director

Go ahead, Frank.

Frank Phillip Palmer
Chief Insurance Officer

Yes, I was going to say that one, yes, certainly earned premium will take longer to earn in. But I'd also say that with some of our marketing actions and the slowing down, we also had mix shifts from new to renewal and others. So just looking at the average premium, I think, is hard to reconcile between filed rate increase and average earned premium just because that there are mix shifts. So you could get a mix shift towards a lower earned premium but a better loss ratio if you're going from new to renewal also.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And then just staying on rate actions. I was actually struck by a 56.4% rate request in Nevada, where you're proposing a historic adjustment and to better reflect loss trend and you're also trying to fix an expense load.

How do you think Nevada will respond to that? And should we expect any other historic adjustments in other state filings?

Alexander Edward Timm
Co-Founder, CEO & Director

This is Alex, and that's a good question. We have -- one, we always are working with regulators, and we are continuing to work with regulators through our state filing process. I think it's important to note that now that the industry has sort of come along and realized that this loss trend is real, is that we are not really alone in requesting large rate increases. And so I think that, that has helped us considerably.

And we have been able to, and I think the track record shows now, actually receive approval of our rate increases. We've gotten many very large rate increases and changes in market over the last 6 months, and we think that, that's going to continue. The other thing that's really important for us and why we're able to do this is because we have automated almost all of the actuarial impact analyses that we need to show and the data that we need to support those rate filing increases.

And so as long as we can show that these are actuarially justified rates, which they are, we have all of the belief in the world that we'll be able to get the rate increases as we've shown in the past.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And if I could just sneak something else in. You mentioned 9 points of frequency and 6 points of severity in the fourth quarter. If I compare that to last quarter, you also said 9 points of frequency and 8 points of severity.

So it seems like frequency is flat, not better. So when you talk about frequency being better, is that a seasonality perspective?

And it also seems like severity is getting better. What is really driving that? And given your other comments that inflation should still impact results?

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

Yes. The nod to frequency in the shareholder letter was really talking about the very end of Q4 going into the seasonal decline in mileage at the end of December, more specifically and into the winter months. That's what drove the decrease in frequency in the quarter overall.

Severity trends have more or less stayed flat to basically natural variation quarter-over-quarter. We haven't seen the inflationary pressures stack on top of each other quarter-over-quarter, and that allows us to be confident in the rate filings that we're going forward to date.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. So that comment was more at the end of the quarter, but it was still flat 9 points versus 9 points for frequency and more of just variability quarter-by-quarter in the 6 points of severity versus 8 points last quarter. Is that right?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. We -- I think that's correct. You're going to see some variability when we look at year-over-year trends in severity and frequency, particularly on severity, it can be noisy. So yes, I would say that, that's correct. And then we are seeing seasonal benefits to frequency.

Operator

Our next question comes from Ryan Tunis of Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

As best you guys can tell, what do you think your cash position will be at the end of 2022?

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

Thanks, Ryan. I appreciate the question. I'm not going to get into specifics on that. You see, especially given the environment that we're in. What we're excited about is a couple of things. We're excited about the fact that over the last couple of quarters, we have hit our stride from a strategic standpoint as well as an operating standpoint, Alex talked about the significant reductions in sales and marketing expense, the fixed expenses, et cetera. And we're forecasting a 25% operating loss improvement year-over-year for the first half of the year.

And as I said earlier, we're really pleased that we see line of sight to profitable unit economics that will help protect the cash position that we're in. And we have capital to execute on the strategic priorities that we've laid out. Part of being more focused from a prioritization perspective, it certainly allows us to benefit from the capital position that we're in and extend out to cover the priorities that we're focused on.

On top of that, I mentioned earlier, the BlackRock facility, which is a 5-year $300 million facility that closed in January is really, really important and gives us the foundation and the support to continue to execute on our strategy for years to come.

Ryan James Tunis
Autonomous Research LLP

Got it. And then a follow-up for Alex. I mean a lot of point guards have actually won the MVP and you guys have actually shown you have a lot of marketing acumen; you've sold a ton of policies over your lifetime. You have a decent tech stack as well. And seemingly, if you were to run more of a tech-light model, you could do it with a lot less G&A.

Is there any thinking -- have you guys thought at all about perhaps pivoting your model and trying to monetize it in a different way? Or is that something you would consider over the next 6 months or so if the insurance environment is still complicated?

Alexander Edward Timm
Co-Founder, CEO & Director

We think that our technology, as we said before, is extremely differentiated, and we've seen that. When it comes to Carvana, for example, we've said there are several states that we know we don't support right now.

And what we've seen is that that's an attractive business and that there are definitely other partners, potential balance sheet partners that are interested and are leaning in to potentially partner with us. Now what I will say is that when we're looking at those partners and when we're considering this is it's very important to us that they can maintain the customer experience that we're building. And so making sure that they can leverage our technology and sufficiently provide that level of customer adoption and experience is going to be really important.

We have had an enterprise program in place, too, for a couple of years now. And so those business model changes and the different various business models to capitalize on the core technology asset that we have built here is definitely something that we're exploring and obviously have explored, and we have real progress to show to date. We already have, for instance, 2 major insurance carriers that we partner with in order to broker business. So we certainly look at that.

Daniel Harris Rosenthal
CFO, Chief Revenue & Operating Officer and Director

And I think, Ryan -- this is Dan. The only thing I would add is that the industry has taken note of the -- our ability to leverage our technology during this very unique environment. And you can imagine that we have gotten significant communication on that because the results speak for themselves and that's only reinforced by the results we posted for the fourth quarter.

We're always going to look at opportunities and some of the strategic choices that we have in front of us. And again, we're excited about being at this point in the journey and some of the things that are going to develop in the quarters ahead.

Operator
I'm showing no further questions at this time. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may all disconnect. Have a great day.