

Lemonade Investor Update | January 2024

Hi All, we hit a topline \$107k MRR in January, so 52% growth over previous month. Having said that, we witnessed a dramatic spike in cancellations/fake orders directly originating from our facebook campaigns. Marketing spends could not be effectively harnessed, and net realised revenue dipped by 3.5% over previous month. Gross to Net is typically 60-65% in our industry, we've historically enjoyed an~85% realisation, but in January, we ended up with ~50%. Good news and bad news for this month:

What didn't work:

- Cancellation spike of 48% because of the high number of fake COD orders. This phenomenon is beyond our control and happened industry-wide, largely driven by Facebook algorithm change. Today, we've added a verification layer to mitigate this. We'll get through this obviously, but the bad news is that our steady-state campaigns on Facebook have unreliable metrics now, and attribution accuracy has been severely hit. Several campaigns have to be restarted from scratch.
- AOV decreased (lower priced SKU initiation, largely t-shirts) and CAC increase (womenswear marketing spend didn't deliver), resultantly increasing cost and decreasing effective ROAS. Because of this cost increase we didn't scale demand to 20% monthly growth as planned as it'd lead to additional burn. Reckon we'll have to wait 1 more month for "effective \$1m ARR" (although notionally we've hit it) and another month for EBITDA breakeven.
- Womenswear hasn't worked yet, despite aggressive marketing.
- Delay in delivery due to spike in order volume in end December caused customer angst, and we've played catchup all of Jan, so had a dip in M1 repeat.

What worked well:

- Invested in our own capacity now (for apparel) and our factory should be completely up & running by early next week. We have a twofold supply model now- partially factory owner partnerships, partially self-manufacturing, but both following a sell first buy-later model. This makes us a comprehensive C2M business model now, akin to Shein, but for luxury.
- SKU expansion: We're expanding into lower priced womenswear (tshirts) for first trial inductions rather to ease the consumer journey into relatively higher priced dresses
- Saudi Arabia kickoff next month onwards. Signing on a GTM partner. Marketplace first approach instead of webstore first approach which causes upfront burn

Dilemma: Besides capacity expansion, where we've already invested, we need to invest in the below areas of the business. While we still have a strong runway, and the monthly P&L is healthy (CM2 positive, sub \$10k monthly burn) we need to make the following one-time investments:

- Branded photoshoots for us to enable growth. Premiumness of AI led creatives is fading. We did ride the early wave but it's inevitable to have a larger share of creatives as selfshot, especially given we're in the luxury business.
- Creative Assets
- Customer Success
- Tech platform upgrade

These investments help solve the dilemma of profitability at low scale vs building the foundation for manifold growth. We're clearly choosing the latter :)