



FY03/18

Financial Results Briefing Presentation

May 9, 2018
Anicom Holdings, Inc.
Security Code: 8715

Company	Anicom Holdings, Inc.
Business description	Nonlife insurance operations (pet insurance), animal hospital support operations, etc.
Location	Sumitomo Fudosan Shinjuku Grand Tower 39F, 8-17-1 Nishi-Shinjuku, Shinjuku-ku, Tokyo
Date of establishment	July 5, 2000
Representative	Nobuaki Komori, President
Capital	JPY4.44bn (As of March 31, 2018)
Number of employees (consolidated basis)	726 (of which 101 veterinarians; all data as of March 31, 2018; includes contract employees)
Group companies	Anicom Insurance, Inc., Anicom Pafe, Inc., Anicom Frontier, Inc., Anicom Specialty Medical Institute, Inc., Anicom Capital, Inc.

1 . FY03/18 results highlights

Consolidated group earnings

- Recurring revenue: JPY32,339mn (FY03/17: JPY28,978mn; **+11.6% YoY**)

(of which underwriting revenue: JPY31,290mn, FY03/17: JPY28,068mn; +11.5 % YoY)

- Recurring profit: JPY1,853mn (FY03/17: JPY2,372mn; **-21.9% YoY**)

- **The number of policies in force expanded at a steady pace** (+9.9% YoY) on a strengthening of new initiatives and stable renewal rates.

Underwriting revenue saw **a double-digit YoY growth at a faster pace than previous year** (+10.6% YoY in FY03/17 and +11.5% in FY03/18).

The number of policies acquired from general channels also rose, reflecting stronger online advertising and other factors.

- Anicom insurance non-consolidated loss ratio and expense ratio were up YoY, but **consolidated recurring profit came in slightly ahead of plan**, because recurring revenue surpassed plan.

Anicom Insurance non-consolidated loss ratio (E/I)

- FY03/18: **59.2 %** (FY03/17: 58.9 %; **+0.3pt YoY**)

- 4Q: **56.3 %** (FY03/17: 55.6 %; **+0.7pt YoY**)

- While an expansion in new policies supported an improvement in our product portfolio, and premium rate revisions for older animals are beginning to have a gradual effect, **the loss ratio was up slightly YoY.**

Anicom Insurance non-consolidated expense ratio (based on earned premiums)

- FY03/18: **35.2 %** (FY03/17: 32.1 %; **+3.1pt YoY**)

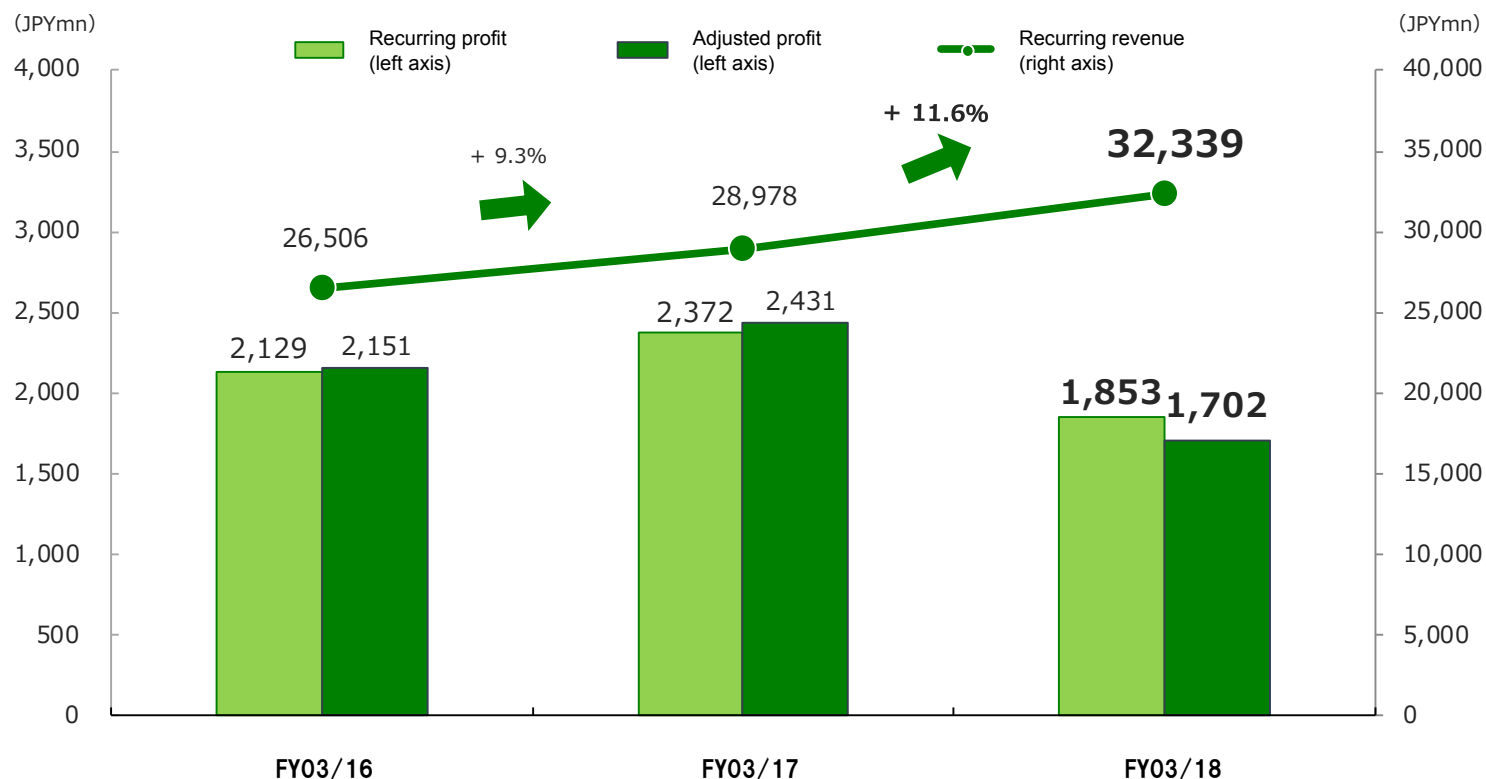
- 4Q: **34.5 %** (FY03/17: 32.6 %; **+1.9pt YoY**)

- **The expense ratio rose YoY**, reflecting strict cost control and system-centric improvements in operations, as well as higher sales agent commissions due to a strengthening of newborn channel sales, and investments geared toward expansion in pet insurance operations (stronger online advertising, etc.).

2. Consolidated recurring revenue, recurring profit, adjusted profit

(Note) Adjusted profit:

In-house indicator used at Anicom Group to reflect effective profits/losses generated by the pet insurance business. It is calculated as follows: Recurring profit ± Impact from catastrophe reserves ± Operating and general administrative expenses other than insurance underwriting ± investment revenue/expenses ± Other revenue/expenses.



- Underwriting revenue remained on a steady uptrend thanks to a 15.8% YoY increase in the number of new policies (for details, refer to “APPENDIX 2. Anicom Insurance business”), a rise in the number of renewed policies reflecting stable renewal rates, and a rise in insurance premiums accompanying advancing age of pets.
- Adjusted profit, which reflects effective profit generated by the pet insurance business, contracted YoY due to an increase in business expenses accompanying stronger sales initiatives, but this is trending in line with our plans.

3. FY03/18 consolidated earnings overview

(JPYmn)

	FY03/17	FY03/18	Change
Recurring revenue	28,978	32,339	11.6 %
Underwriting revenue	28,068	31,290	11.5 %
Investment revenue	504	420	-16.8 %
Other recurring revenue	405	628	55.2 %
Recurring expenses	26,606	30,486	14.6 %
Underwriting expenses	18,967	21,771	14.8 %
Net claims paid	(14,901)	(16,591)	11.3 %
Loss adjustment expenses	(965)	(1,004)	4.0 %
Net commission and collection expenses	(1,995)	(2,660)	33.3 %
Provision for reserve for outstanding losses and claims	(181)	(212)	17.0 %
Provision for underwriting reserves	(923)	(1,302)	41.1 %
Of which unearned premiums	(837)	(1,199)	43.3 %
Of which catastrophe reserve	86	(103)	19.3 %
Investment expenses	0	8	2742.4 %
Operating and general administrative expenses	7,273	8,479	16.6 %
Other recurring expenses	364	227	-37.8 %
Recurring profit	2,372	1,853	-21.9 %
Net profit	1,558	1,320	-15.3 %

Earned premiums	27,230	30,090	10.5 %
Claims incurred (including loss adjustment expenses)	16,048	17,808	11.0 %
E/I loss ratio (1)	58.9 %	59.2 %	0.3 pt
Expense ratio (based on earned premiums) (2)	32.1 %	35.2 %	3.1 pt
Combined ratio (based on earned premiums) (1)+(2)	91.0 %	94.4 %	3.4 pt

Major accounting items and reasons for changes

(1) Underwriting revenue (for details, refer to “4. Recurring revenue indicators”)

- Number of policies in force increased 9.9% YoY.
- Cumulative number of new policies increased 15.8% YoY.
- Growth in renewed policies and higher insurance premiums (including raised premium rate) accompanying advancing age of animals also delivered some contributions.

(2) Investment revenue

- Secured stable investment revenue mainly from domestic securities and REITs.

(3) Net claims paid

- Insurance payouts increased in tandem with growth in the number of policies in force.

(4) Net commissions and collection expenses

- Mainly commissions paid to sales agents. Increased in proportion to the growth in underwriting revenue.

(5) Provision for reserve for outstanding losses and claims

- Provision to prepare for future insurance payouts.
- Calculated as reserve for outstanding losses and claims (B/S) year-end balance minus year-start balance.
- Adding this to “(3) Net claims paid” results in claims incurred.

(6) Provision for unearned premiums

- Among annual premium revenue, deferred premiums corresponding to the next fiscal year and beyond.
- Provision is calculated as year-end balance minus year-start balance. In addition, the year-end balance is equivalent to 35–40% of “Underwriting revenue.”
- Subtracting the provision for unearned premiums from “Underwriting revenue” results in earned premiums ($\hat{=}$ accrued premiums)

(7) Catastrophe reserve

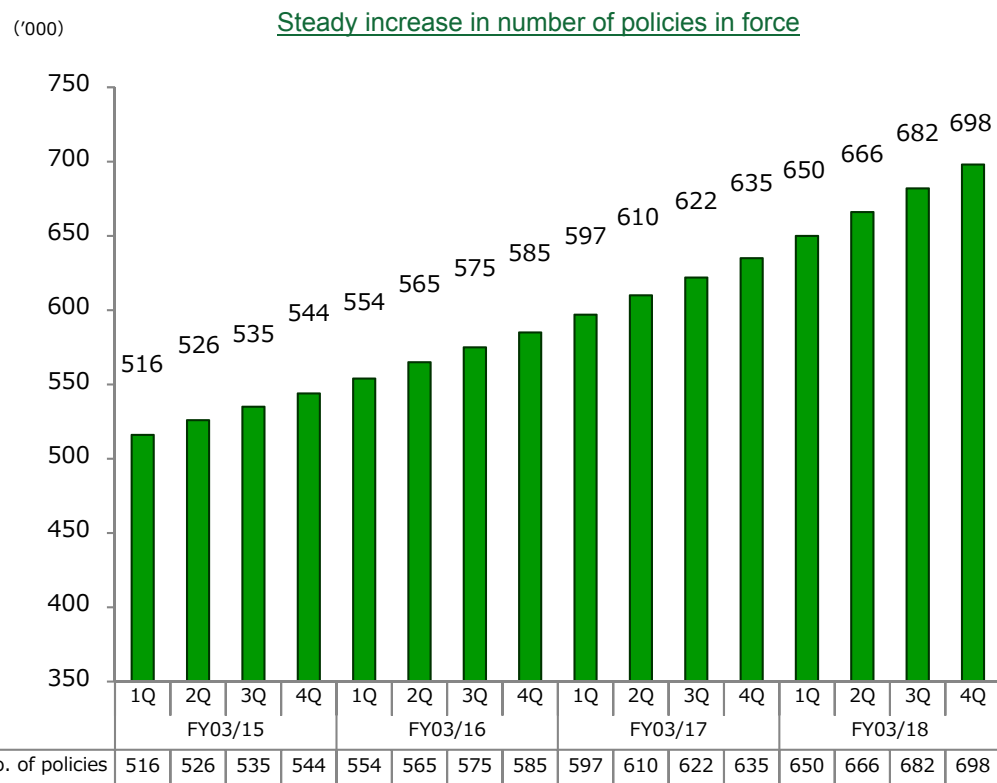
- Reserve to which 3.2% of annual premium revenue is systematically allocated each fiscal year.
- At the same time, the reserve may be drawn down until the net loss ratio reaches 50% with the year-start balance serving as the limit. The provision is recorded as a net amount.
- Over the full year, an amount roughly equivalent to “the sales increase portion x 3.2%” is recorded as a provision.

(8) Combined ratio (earned premiums basis)

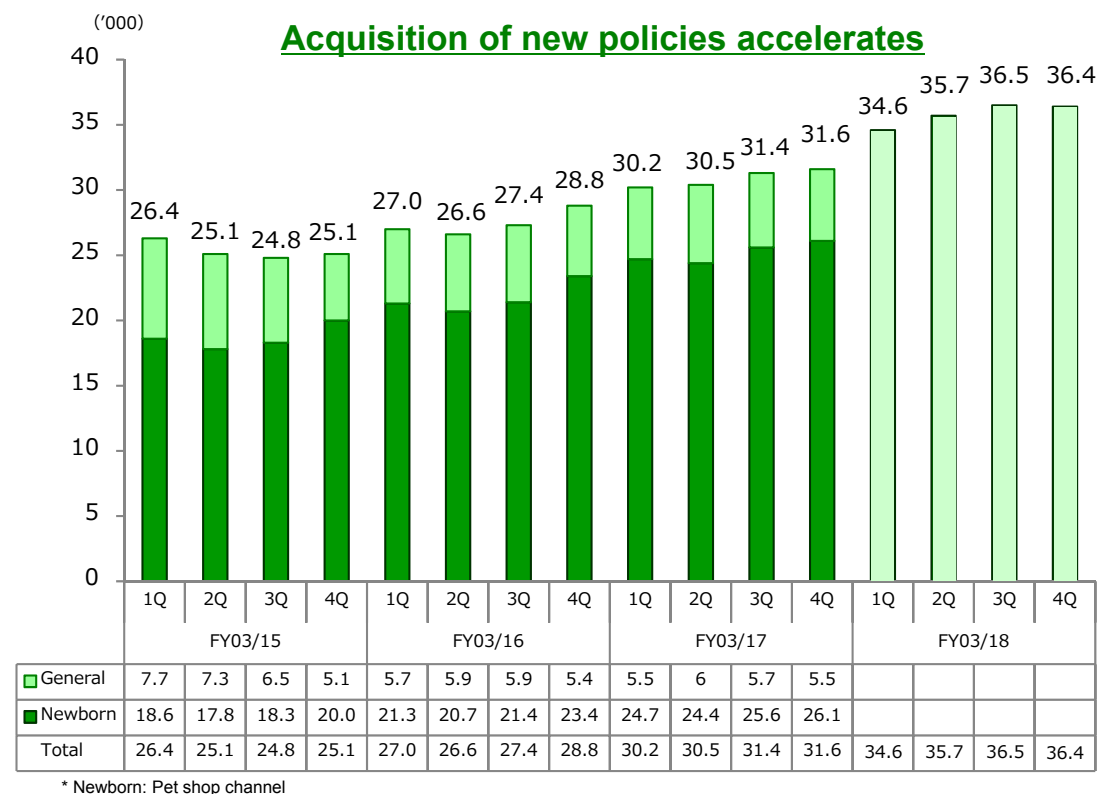
- The combined ratio was up YoY for Anicom Insurance (non-consolidated), but FY03/18 positioned as investment phase to acquire new policies.

4. Recurring revenue indicators (Anicom Insurance (non-consolidated): trend in number of pet insurance policies in force / new policies)

■ Quarterly trend in number of policies in force



■ Quarterly trend in number of new policies

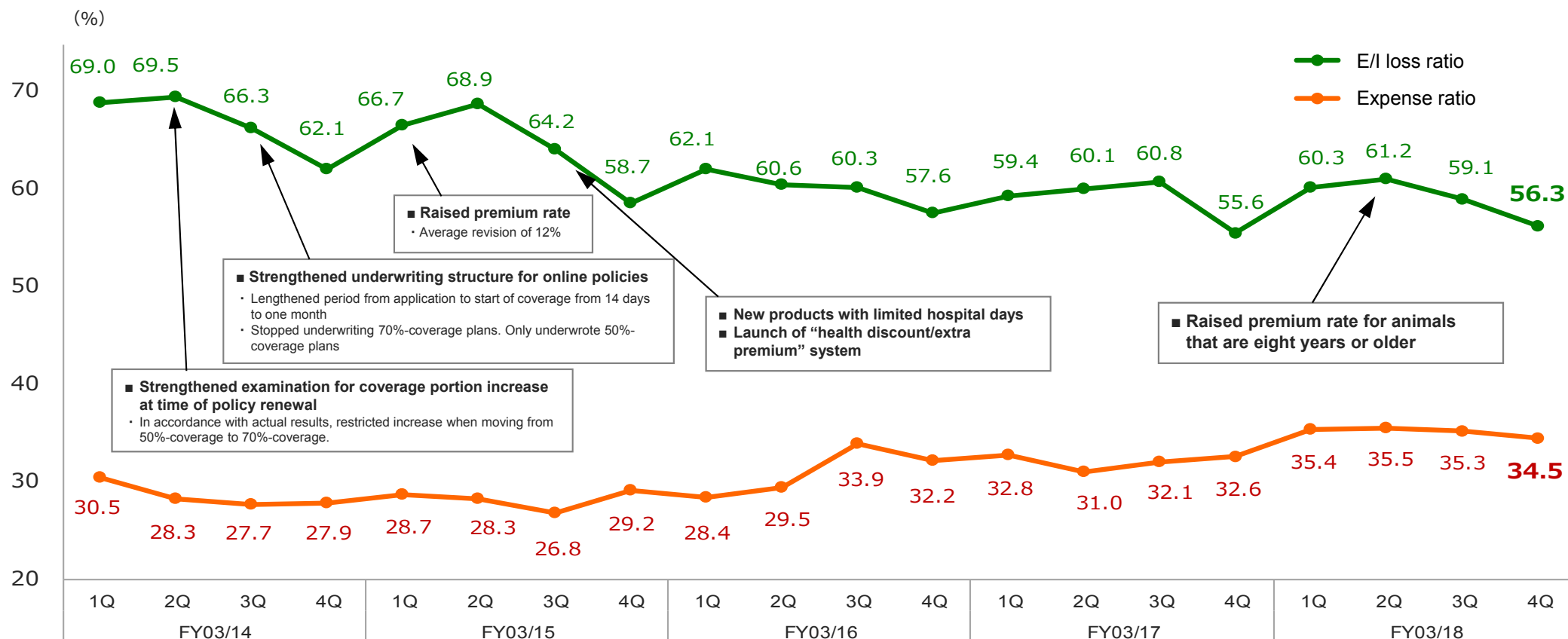


- **Steady acquisition of new policies continues.** Newborn and general channels both exhibiting YoY growth. Initiatives to strengthen online advertising are being continued with effects being periodically verified.
- **Renewal rate of existing policies solid at around 88%.**
- Based on the above, **the number of policies in force is steadily increasing.**
- The ratio of 50%-coverage plans to 70%-coverage plans is roughly 60:40 for total policies in force, with 50%-coverage plans accounting for a larger share. However, 70%-coverage plans account for over 50% of newly acquired policies.

5. Recurring expenses indicators (Anicom Insurance (non-consolidated): Loss ratio (E/I), expense ratio based on earned premiums)

Note 1: The graph below shows quarterly average values, and the data therefore may differ from average values for FY03/18.

Note 2: The expense ratio represents the "expense ratio based on earned premiums" (insurance business expenses / earned premiums).



- **The E/I loss ratio** is subject to seasonality in the form of an uptrend in 1–2Q, which coincides with the busiest period for animal hospitals, followed by an improvement in 3–4Q, when the frequency of hospital visits declines. In FY03/18, our product portfolio steadily improved thanks to an increase in new policies, and premium rate revisions for older animals began to have a gradual effect. As a result, **the E/I loss ratio was largely in line with plan (up slightly YoY).**
- **The expense ratio rose YoY** (and was above plan for Anicom Insurance on a non-consolidated basis) despite great business volume, strict cost controls, and system-centric improvements in operations, higher sales agent commissions due to a strengthening of newborn channel sales, and higher SG&A expenses attributable to stronger online advertising.
- Aiming for a balance between booking stable profits and making new investments, our **policy is to keep the combined ratio (loss ratio + expense ratio) at around 90% over the medium term (outcome is higher in FY03/18, which coincides with a phase of investment).**

6. Consolidated balance sheet summary

(JPYmn)

	FY03/17	FY03/18	Change
Total assets	28,123	31,164	10.8 %
Cash and deposits	15,242	19,078	25.2 %
Marketable securities	5,914	4,625	-21.8 %
Tangible fixed assets	1,432	1,359	-5.1 %
Intangible fixed assets	904	1,462	61.6 %
Other assets	4,171	4,104	-1.6 %
Deferred tax assets	597	623	4.3 %
Allowance for doubtful accounts	-140	-88	- %
Total liabilities	15,842	17,576	10.9 %
Reserve for insurance policy liabilities	12,993	14,508	11.7 %
Of which payment reserves	1,739	1,952	12.2 %
Of which underwriting reserves	11,253	12,556	11.6 %
Other liabilities	2,635	2,845	8.0 %
Provision for bonus	172	173	0.7 %
Reserve for price fluctuations	41	48	16.7 %
Total net assets	12,281	13,587	10.6 %
Shareholders' equity	12,233	13,546	10.7 %
Of which capital	4,402	4,443	0.9 %
Of which capital surplus	4,292	4,333	1.0 %
Of which retained earnings	3,539	4,770	34.8 %
Of which treasury shares	0	0	- %
Valuation difference on available-for-sale securities	-100	-128	- %
Subscription rights to shares	148	169	14.3 %
Total liabilities and net assets	28,123	31,164	10.8 %

Major accounting items and reasons for changes

(1) Marketable securities

- Mainly investment in domestic securities and REITS.

(2) Reserve for outstanding losses and claims

- Amounts payable recorded to prepare for future insurance payouts. Reflects the total for 1. normal reserve for outstanding losses and claims (claims already received) and 2. incurred but not reported (IBNR) reserves (accidents subject to insurance but for which claims have yet to be received).
- Insurance payouts tend to increase basically in tandem with growth in the number of policies in force.

(3) Underwriting reserves

- Recorded as the total for 1. normal underwriting reserves (JPY11,554mn; unearned premiums) and 2. catastrophe reserve (JPY1,002mn; reserve for catastrophic events).
- Normal underwriting reserves tend to increase in tandem with growth in the number of policies in force, and are recorded as a balance equivalent to roughly 35–40% of net premiums written.

7. Consolidated cash flows summary

(JPYmn)

	FY03/17	FY03/18
Cash flow from operating activities	3,231	3,393
Cash flow from investing activities	4,233	253
Cash flow from financing activities	-79	-10
Change in cash and cash equivalents	7,385	3,635
Year-start balance for cash and cash equivalents	6,106	13,492
Year-end balance for cash and cash equivalents	13,492	17,128

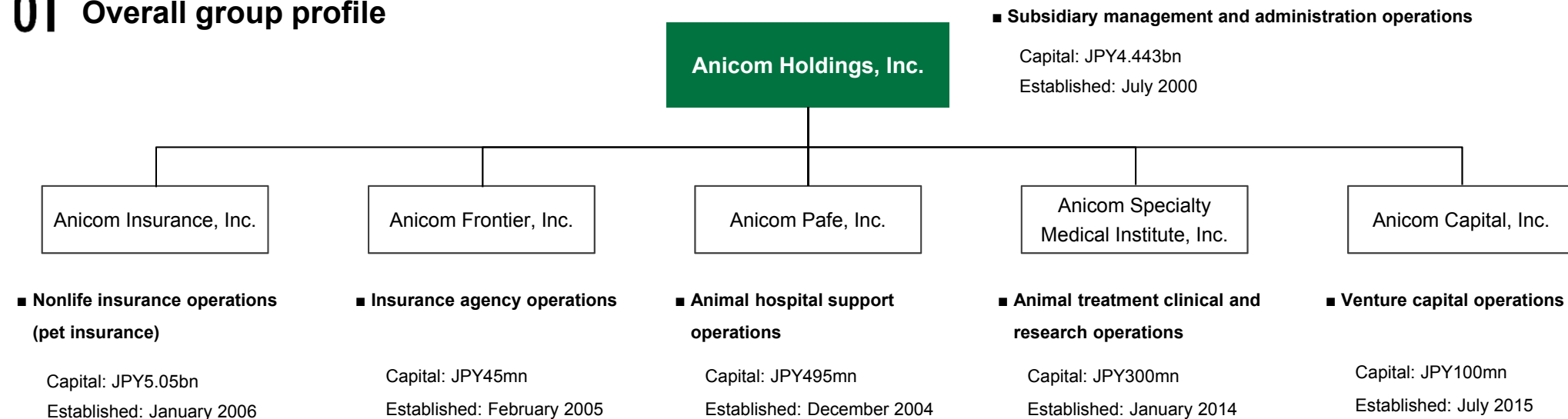
- Steady growth in the number of policies in force has led to stable cash flows from operating activities.
- Cash flows from investment activities are being controlled via ongoing investment in assets and recovery through asset sales.
- Cash flows from financing activities reflect expenditures in the form of dividends from surplus.

APPENDIX

- 1 . Group profile
- 2 . Anicom Insurance business

1. Consolidated cash flows summary

01 Overall group profile



02 Group history

Apr 2000	Established anicom as voluntary association (mutual aid association for pets)	Jan 2008	Start of sales of pet insurance by Anicom Insurance, Inc.
Jul 2000	Based on anicom, established BSP Inc. as an animal insurance business entrustment company. (Changed trade name to Anicom International, Inc. in January 2005, and to Anicom Holdings, Inc. in June 2008)	Apr 2008	Start of pet insurance coverage by Anicom Insurance, Inc.
		Jan 2009	Published "White Paper on Household Animals" (published annually thereafter)
		Mar 2010	Anicom Holdings, Inc. listed on the Tokyo Stock Exchange Mothers market; (securities code: 8715)
Dec 2004	Established Anicom Pafe, Inc.	Jan 2014	Established the Japan Animal Specialty Medical Institute, Inc. (currently, Anicom Specialty Medical Institute, Inc.)
Feb 2005	Established Anicom Frontier, Inc.	Jun 2014	Anicom Holdings, Inc. shares moved to First Section of Tokyo Stock Exchange
Jan 2006	Established Anicom Insurance Planning, Inc. to prepare for the establishment of an insurance company (changed trade name to Anicom Insurance, Inc. in December 2007)	Jul 2015	Established Anicom Capital, Inc.
Dec 2007	Anicom Insurance, Inc. acquired a nonlife insurance business license	Apr 2016	Established Celltrust Animal Therapeutics Co., Ltd. as a joint venture between Anicom Holdings, Inc. (49% stake) and Fujifilm Corporation (51%)
	Anicom International, Inc. acquired certification as an insurance holding company		

2. Anicom insurance business

01 Major management indicators

	①	②	② - ①	
	End-FY03/17	End-FY03/18	YoY	
			Numbers	Rate
① Policies in force	635,670	698,566	62,896	9.9 %
② New policies	123,849	143,365	19,516	15.8 %
③ Renewal rate	88.2 %	88.2 %	-	-
④ Insurance payout cases	2,823 ,000	3,006 ,000	182 ,000	6.5 %
⑤ Animal hospitals accepting Anicom	6,083	6,265	182	3.0 %

	③	③ - ②	
	End-FY03/19 (Forecast as of May 9)	YoY	
		Numbers	Rate
	776,080	77,514	11.1 %
	166,000	-	-
	88.2 %	-	-
	3,218 ,000	211 ,000	7.0 %
	6,400	135	2.2 %

	End-FY03/17	End-FY03/18	YoY
① E/I loss ratio	58.9 %	59.2 %	Up 0.3 Pt
② Expense ratio (based on earned premiums)	32.1 %	35.2 %	Up 3.1 Pt
③ Combined ratio (based on earned premiums)	91.0 %	94.4 %	Up 3.4 Pt
④ Solvency margin ratio (non-consolidated)	295.6 %	305.6 %	10.0 pt

End-FY03/19 (Forecast as of May 9)
59.0 %
34.5 %
93.5 %
Around 315.0 %

2. Anicom insurance business

02 Topics

(1) Launched new product Petit (Oct 2, 2017)



On October 2, 2017, we launched Dobutsu Kempo Petit, a policy specializing in hospitalization and surgery cover with premiums levels around one-third of existing products. This product responds to customer demand for low-premium insurance that covers emergency surgery and hospitalization.

(2) Further utilization of SNS services (LINE, Instagram, etc.)



We started an insurance claim service using LINE in 1H FY0/18, and launched an animal hotline on June 13, 2018 that offers direct consultations with Anicom veterinarians. Anicom now also has an Instagram account, with weekly features such as pet tricks and Christmas special.

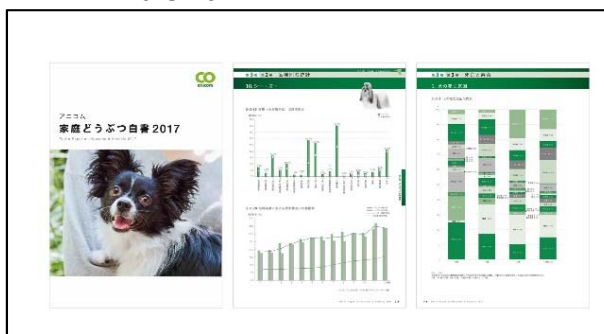
(3) Investment in genetic testing startup VEQTA



We have taken a stake in VEQTA Co., Ltd., a startup originating in Ehime University that performs genetic testing with the goal of reducing genetic conditions in dogs and cats. The business has a strong affinity with Anicom Specialty Medical Institute and will play a part in accelerating our research operations.

NEW!

(4) Published White Paper on Household Animals 2017



We published our annual "White Paper on Household Animals 2017" on December 15, 2017. We have published the White Paper since 2009. It is a compilation of animal disease statistics based on insurance data that is featured in the media every year as one of Japan's largest statistical reports on pets.

NEW!

(5) Announced plan to support animal welfare



We announced "Shippo Support Plan" in collaboration with Marubeni Power Retail Corporation. This new electricity plan looks to provide support to animals in Japan and overseas by donating part of customers' power bill to initiatives such as zero euthanasia of homeless animals and wildlife conservation, and is part of our CSR program.

NEW!

(6) Collaboration agreement with E Pet Life Inc.



E Pet Life Inc. operates EPARK Pet Life, an portal site that provides information about pet services such as animal hospitals and grooming salons. Aiming at business development in various areas, we reached a collaboration agreement with the company, which includes linking up with Anicom Receptor, Anicom Pafe Inc.'s animal hospital patient record system.



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