

1 Q FY03/24

Financial Report

August 7 , 2023



Security Code : 8715

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Results Overview

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1. Overall summary (Recurring revenue and recurring profit)

Recurring revenue	<h2 style="margin: 0;">14,868</h2> <p style="margin: 0;">Million JPY</p> <p style="margin: 0;">1Q FY03/23 JPY 13,953 mn +6.6%</p> <p style="margin: 0;">Of which, underwriting revenue :JPY13,326mn 1Q 03/23 JPY12,506mn +6.6%</p>
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Recurring profit before amortization of goodwill	<h2 style="margin: 0;">1,252</h2> <p style="margin: 0;">Million JPY</p> <p style="margin: 0;">1Q 03/23 JPY 834 mn +50.1%</p>
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Recurring profit	<h2 style="margin: 0;">1,201</h2> <p style="margin: 0;">Million JPY</p> <p style="margin: 0;">1Q 03/23 JPY 778 mn +54.4%</p>
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Steadily turned robust demand for pet ownership into an increase in the number of new policies, while improving policy acquisition cost, to achieve both scale and profit.

■ **Recurring revenue (YoY)**

- For Apr-Jun, the number of new policies was **55,000** and the number of policies in force totaled **1,132,000 (+7.9%)**, **showing continuous growth at a solid pace.**
- Other recurring revenue grew favorably to JPY **1,414** million (+7.6%), due to solid performance of food sales, animal hospitals and the number of contracts concluded at the breeder matching site.
- Investment revenue was JPY **126** million (-5.1%), but **progressing in line with the plan** through flexible investment management under uncertain market conditions.

■ **Recurring profit (YoY)**

- Recurring profit was JPY **1,201** million (**+54.4%**), **a substantial increase, and progressing in line with the plan** due mainly to improved policy acquisition cost and agile investment management.
- We will continue to focus on achieving a more preferable loss ratio, improving the sales administrative expense ratio, and making businesses generating synergies profitable, while closely monitoring trends in insurance payouts.

2. Income statement summary



(JPYmn)

	1Q FY03/23	1Q FY03/24	Change
Recurring revenue	13,953	14,868	6.6 %
Underwriting revenue	12,506	13,326	6.6 %
Investment revenue	132	126	- 5.1 %
Other recurring revenue	1,314	1,414	7.6 %
Recurring expenses	13,175	13,666	3.7 %
Underwriting expenses	8,889	9,265	4.2 %
• Net claims paid	(6,691)	(7,346)	9.8 %
• Loss adjustment expenses	(278)	(268)	- 3.8 %
• Net commission and collection expenses	(1,277)	(1,291)	1.1 %
• Provision for reserve for outstanding losses and claims	(166)	(91)	- 45.2 %
• Provision for underwriting reserves	(474)	(268)	- 43.5 %
Of which unearned premiums	(455)	(448)	- 1.5 %
Of which catastrophe reserve	(18)	(-180)	- %
Investment expenses	-	-	- %
Operating and general administrative expenses	3,852	3,918	1.7 %
Other recurring expenses	432	482	11.4 %
Recurring profit before amortization of goodwill	834	1,252	50.1 %
Recurring profit	778	1,201	54.4 %
Net profit	497	811	63.2 %



2. Income statement summary

■ Reasons for changes in major accounting items

(1) Underwriting revenue

- The number of policies in force **increased by 83,169 (+7.9%)**

(2) Investment revenue

- Amid uncertain market conditions, we have been steadily accumulating income gains through flexible and opportunistic investment.

(3) Other recurring revenue

- Other recurring revenue from food, animal hospitals and the number of contracts concluded at the breeder matching site increased.

(4) Net claims paid

- Claims paid increased, primarily because the frequency of hospital visits remained high and the average payout per claim increased.

(5) Net commission and collection expenses

- The improvement trend continued thanks to diversification of sales channels and the efficient acquisition of policies.

(Reference) Anicom Insurance's key insurance indicators

(JPYmn)

	1Q FY03/23	1Q FY03/24	Change
Earned premiums	12,093	12,927	6.9%
Claims incurred (including loss adjustment expenses)	7,137	7,705	8.0%
E/I loss ratio (1)	59.0%	59.6%	0.6pt
Expense ratio (based on earned premiums) (2)	35.5%	33.8%	-1.7pt
Combined ratio (based on earned premiums) (1)+(2)	94.5%	93.4%	-1.1pt

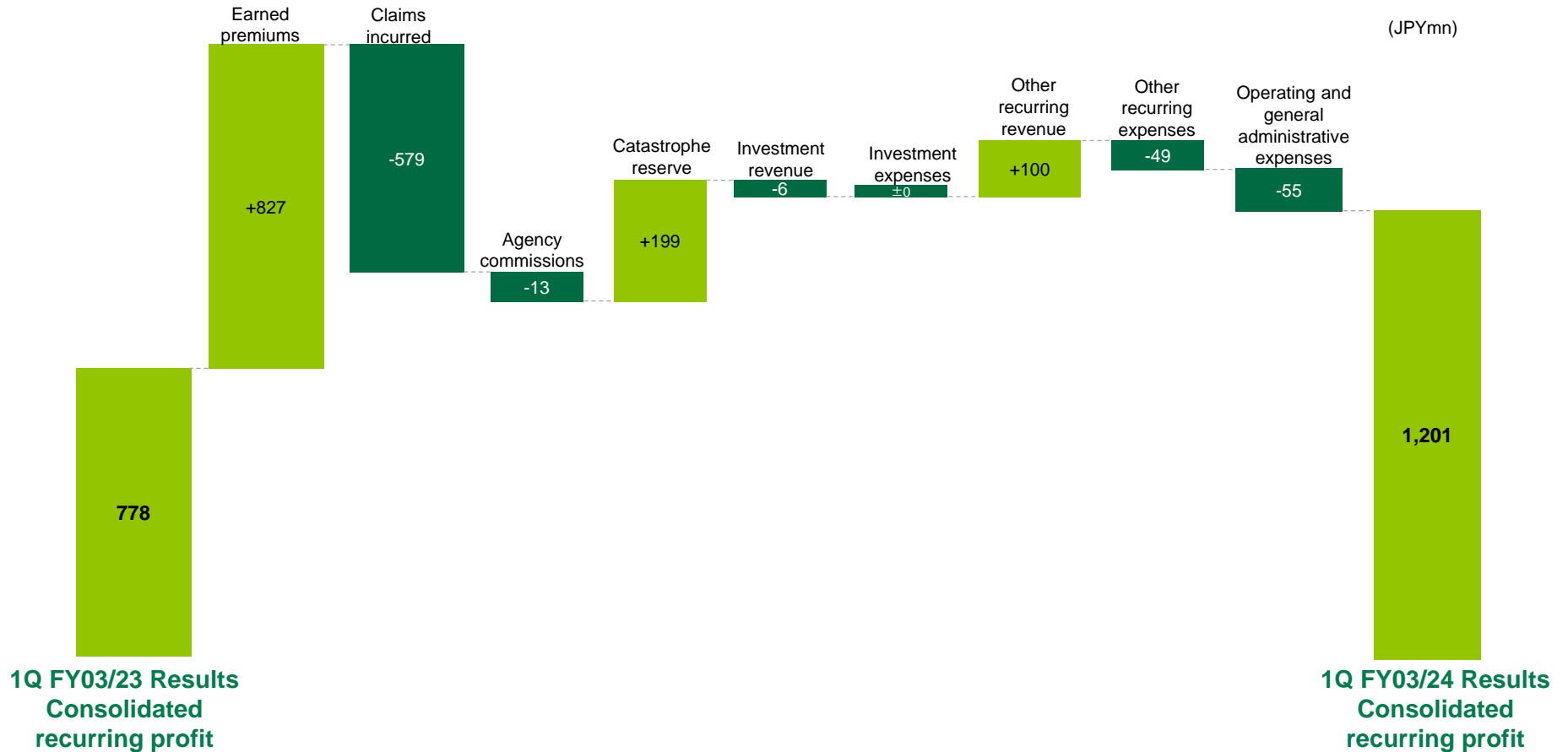
3. Factors related to changes in recurring profit

(Comparison analysis with FY03/23 results)



Recurring profit grew substantially due to a solid increase in underwriting revenue and contribution from the improvement of policy acquisition cost, etc.

Note 1) Earned premiums = Underwriting revenue - Provision for normal underwriting reserves (Unearned premiums)
 Note 2) Claims incurred = Net claims paid + Provision for reserve for outstanding losses and claims
 Note 3) Catastrophe reserve = Provision for Catastrophe reserve losses and claims + Reversal of Catastrophe reserve reimbursements





4. Balance sheet summary

(JPYmn)

	End-FY03/23	End-1Q FY03/24	Change
Total assets	61,407	62,065	1.1 %
Cash and bank deposits	30,835	27,846	- 9.7 %
Marketable securities	16,956	21,070	24.3 %
Tangible fixed assets	5,799	5,787	- 0.2 %
Other assets	7,815	7,361	- 5.8 %
Total liabilities	33,223	33,281	0.2 %
Reserve for insurance policy liabilities	22,853	23,213	1.6 %
Of which loss reserves	2,988	3,079	3.1 %
Of which underwriting reserves	19,865	20,133	1.4 %
Corporate Bonds	5,000	5,000	— %
Other liabilities	5,369	5,068	- 5.6 %
Total net assets	28,184	28,784	2.1 %
Shareholders' equity	29,740	30,227	1.6 %
Valuation and transaction adjustments	- 1,555	- 1,442	— %
Total liabilities and net assets	61,407	62,065	1.1 %

■ Reasons for changes in major accounting items

(1) Increase in assets

- Marketable securities increased as a result of phased build-up of investment in bonds and other instruments.

(2) Increase in liabilities

- Reserve for insurance policy liabilities increased due to an increase in the number of policies in force.

(3) Increase in net assets

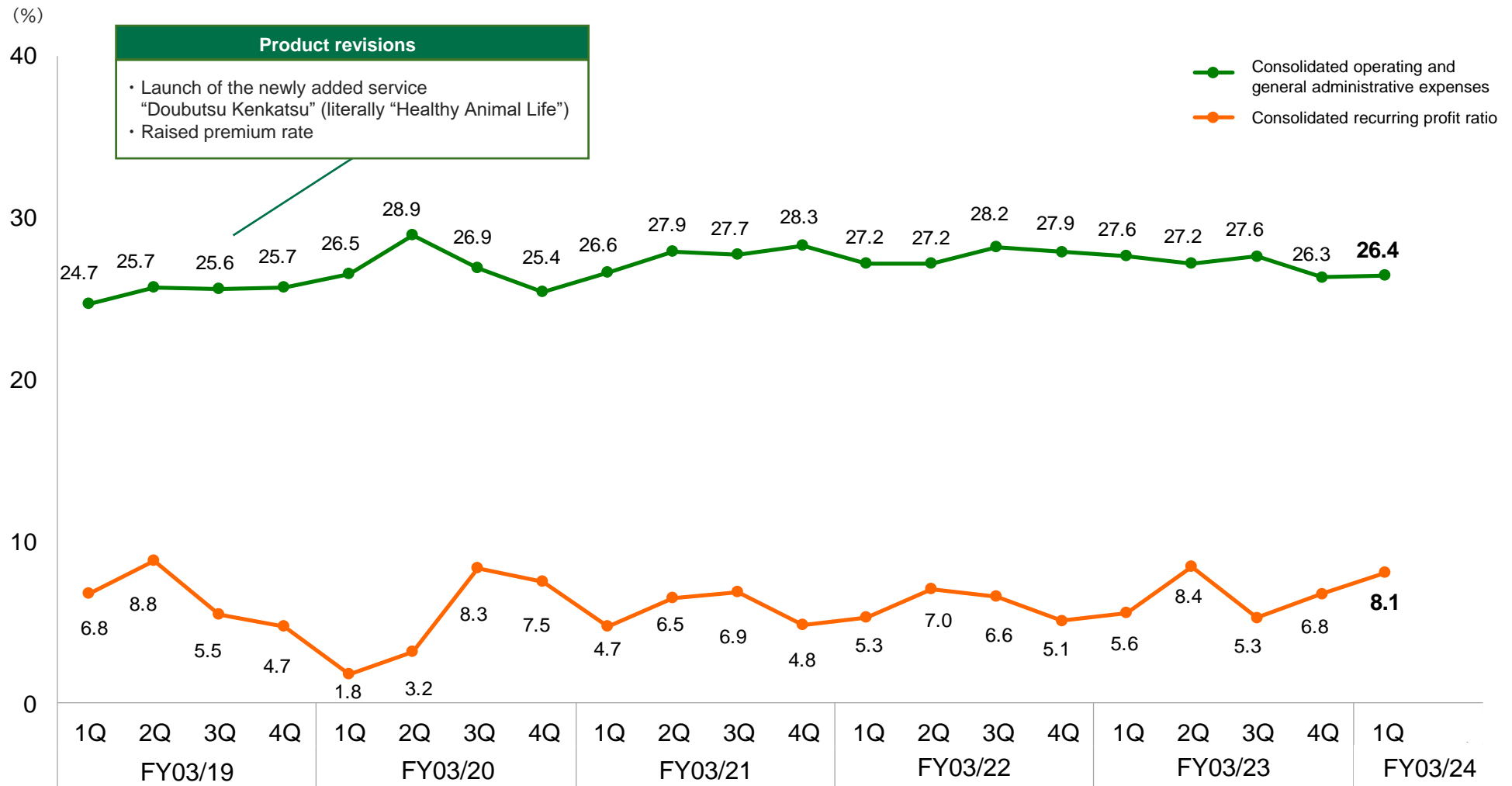
- Retained earnings increased.

5. Recurring expenses and profit indicators



*Operating and general administrative expenses ratio, recurring profit ratio (consolidated)

*Refer to the appendix for management indicators for Anicom Insurance on a non-consolidated basis (loss ratio, expense ratio, number of policies)



Product revisions

- Launch of the newly added service "Doubutsu Kenkatsu" (literally "Healthy Animal Life")
- Raised premium rate

Progress of priority measures

1. Progress of priority measures (Insurance business and investment)
2. Progress of priority measures (Businesses generating synergies)
3. Topics





1. Progress of priority measures (Insurance business and investment)

Insurance Business

Numbers of new policies and policies in force

- The number of new policies totaled over **55,000** for Apr-Jun, and the number of policies in force exceeded **1.13 million** as of June 30, 2023.

Expanding and strengthening sales channels

- With further acceleration of close collaboration with SIMNET, the number of new policies sold through the breeder channel has been increasing.
- ⇒ Number of breeder agencies: Increased to 930 as of June 30, 2023, accompanied by a rise in insured rate (91 as of September 30, 2020)
- An ongoing effort was made to expand sales channels further, centered on corporate agencies.
- Enhancing online ads made a greater contribution to the number of new policies.

Revision of Premiums

- The basic premiums for Wide Type products (no limited days) will be revised (raised) by an average of 7.8%.
- Effective for policies with a start date on or after November 1, 2023.

Expanding products and services

- Owing to a steady increase in Doubutsu Kenkatsu applications, the renewal rate remained stable and high for Apr-Jun at 88.1%.

Improving the loss ratio, policy acquisition efficiency, and sales administrative expense ratio

➤ Loss ratio (59.6% in 1Q)

While the frequency of hospital visits is stable, the average payout per claim is still on the rise.

- Ongoing measures to improve the loss ratio
 - Promote the use of recommended health insurance treatment flowcharts to encourage more appropriate medical care
 - Refer more pet owners to outstanding hospitals using appointment functions.

➤ Net commission and collection expense ratio (9.7% in 1Q)

A significant 0.5 point improvement was made year-on-year owing to improved policy acquisition cost through expansion and diversification of sales channels

➤ Sales administrative expense ratio (26.4% in 1Q)

A 1.2 point improvement was made year-on-year owing mainly to improved policy acquisition cost and streamlined operations

- Reduce both the number of direct claims and processing cost per claim in insurance payout operations.
- Save labor for handling various procedures and reduce paperwork costs.



1. Progress of priority measures (Insurance business and investment)

Investment

- **As a result of flexible and opportunistic investment, we achieved the plan.**
We have made progress in line with the plan while steadily accumulating income gains.
- **Opening of Shippo-no-sato [tail's home], a complex facility aimed at promoting animal welfare.**
(incorporating shelters, breeding spaces, and dog café)
The facility hosts activities to further promote animal welfare making use of Group companies' resources, and also serves as a venue for developing human resources for the future of pet industry and for school education, in cooperation with Kokusai Business Gakuin in Ishikawa prefecture.
- **Anicom announced the formation of a business partnership with Tokyu Land Corporation to help people have a better life with their pets.**



Other

- **Promotion of the “strategy of one patent per employee”**
Anicom has developed businesses that touch each employee's heart such as image recognition AI, food, gut microbiota measuring, and regenerative medicine. Consequently, **the number of inventors increased to 106 as of June 30, 2023**, from 13 as of December 31, 2020.

Numbers of patents applied for and granted by field of technology

	Image recognition AI	Genes, food, and gut microbiota	Regenerative medicine	Other	Total
Patents granted	4	3	2	2	11

Note: “Patents applied for” include priority claim applications and divided applications, but exclude applications filed overseas.

- **Development of AI and a database (basic animal resident register).**
 - Gather data to detect signs of labor or heat in animals.
 - Develop a detection AI model using collected images and build it into cameras.



Veterinarians, veterinary nurses, pharmacists, architects, etc. various human resources are named as inventors.



2. Progress of priority measures (Businesses generating synergies)

Before birth

Upstream



Strengthening breeding support

We have been actively advancing various initiatives, taking into account the amended Act on Welfare and Management of Animals and other developments.

- **Genetic testing** ⇒ Development of testing and matching services that help improve breeding efficiency (e.g., analyzing the genetic information of animals that produce many offspring)
- **Technological development** ⇒ **Development of methods to detect the optimal mating period, utilization of stem cells**, research aimed at improving technologies for the **use of frozen sperms**, etc.
- **Medical support** ⇒ Expanding house call service areas. Guiding breeding skills (e.g., smear test and artificial insemination)
- **Sales support** ⇒ **Expansion of the support center for direct sale from breeders (steady increase in the numbers of centers and animals handed over, coupled with a high ratio of contracts concluded)**
- **Business support** ⇒ Provision of breeding spaces utilizing investment in development and investment management (Shippo-no-sato [tail's home]), etc.
- **Support for adoption of retired breeding dogs and cats** ⇒ Construction & operation of shelters and establishment of scheme of adoption of dogs and cats (hugU, ani TERRACE, Shippo-no-sato, pet shops, adopt-at-hospital)

Strengthening and enhancing the matching service business (SIMNET)

■ Improved matching capabilities

⇒ **Increased website traffic** (Utilized social media, implemented mass advertising, upgraded SEO, etc.)

Increased inquiries (Utilized app for users, released pet insurances, etc.)

Increased ratio of contracts concluded (Promoted use of online services for breeders, provided sales know-how, etc.)

Results of matching service business (SIMNET) for 1Q FY03/24

- Net sales: JPY**509** million
- Recurring profit: JPY**31** million
- Recurring profit ratio: **6.1%**

Note: Recurring profit (ratio) above does not include amortization of goodwill.



Revenue and profit increased year on year
(Net sales JPY459 million and recurring profit JPY17 million for 1Q FY03/23)



2. Progress of priority measures (Businesses generating synergies)

From day-to-day routines to curing the incurable



Commercializing health exams and food and products, etc.

- Over 55,000 applications were received for Doubutsu Kenkatsu service for Apr–Jun.
- Boosted needs for functional food (Anicom food) through Doubutsu Kenkatsu service.
- The number of customers with subscription plan grew due to increased visibility (sales channels are expanding)
 - Breeder channel
 - Anicom Group’s customer channel
 - Pet shop channel



Business related to animal healthcare treatments (from prevention to general practice/regenerative medicine)

- **Animal hospital business**
Improved management structure by increasing sales and slashing costs
 - Upgraded treatment skills by providing enhanced education & training
 - Utilized clinical practice flowcharts
 - Improved the cost rate
- **Regenerative medicine business**
 - Established treatment & preventive methods using regenerative medicine
 - As of June 30, 2023, 661 hospitals joined the Research and Development Partnership for Animal Regenerative Medicine (PARM) launched mainly by the Anicom Group for the purpose of spreading regenerative medicine.



Addressing social issues (ESG activities)

- **Used “Ukraine Pet Rescue Fund” (May)**
 - The Group’s donation was provided via IFAW to fund Animal medical treatment of over 17,000 pets in Ukraine.
- Supported Ukrainian evacuees to Japan
In addition to sending donations to Ukraine, we provided support to people and pets evacuated the country to Japan.
- **Made donation to help pets affected by massive earthquake in Turkey/Syria. (June).**
- **Released Integrated Report (only in Japanese) (July). See P.17 for details.**



3. Topics: Launched Joint Research with Osaka University and Earth Corporation (June 19, 2023)



Preventing periodontal disease, improving oral environment and extending pets' healthy lifespan

■ Outline of the Joint Research

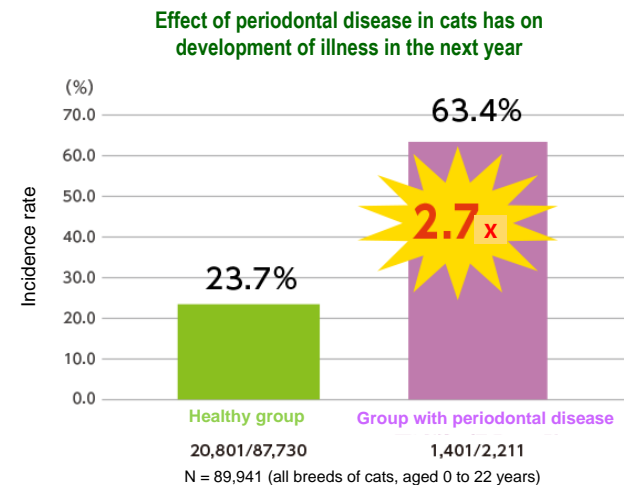
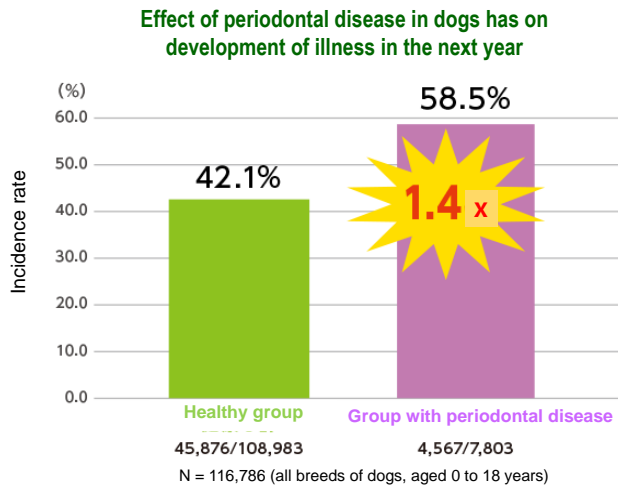
Collect data on oral microbiota in pets, clarify its relationship with periodontal disease, and develop preventive and treatment methods using MA-T™. Specifically, the research aims to:

- Verify differences in oral & gut microbiota in healthy pets and pets with periodontal or other oral diseases
- Study how the use of MA-T™ in pets with oral diseases affects the normalization of the oral microbiota
- Establish preventive and treatment methods for oral disease of pets

■ MA-T™ (Matching Transformation System®)

By generating the required amount of active species (aqueous radicals) from chlorite ions at the required time, MA-T™ enables inactivating viruses including epidemic viruses, and eliminating various germs (bacteria). The technology is anticipated to have a wide range of applications, not only in the area of infection control, but also in the areas of medicine and life sciences, agriculture and forestry, and energy.

As shown by statistical analysis, periodontal disease can lead to more serious diseases.

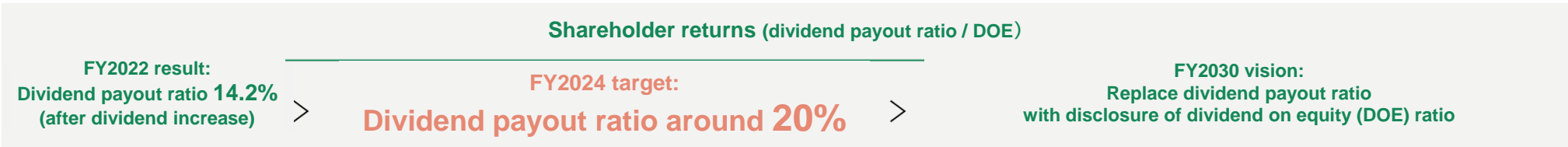


3. Topics: Released Shareholder Return Policy and Repurchase of the Company's Shares (May-June, 2023)



Achieve even higher corporate value in line with the management vision in the second founding period phase

- Allocation of approximately 4 billion yen in excess of the appropriate capital level due to the discovery of SMR calculation errors to share repurchases in stages
- Aim to gradually improve dividend payout ratio (FY2024 plan: dividend payout ratio at the level of 20%)
- Optimal capital allocation will be considered again after the new SMR is finalized in 2025.



3. Topics: Released Integrated Report (July 25, 2023)



We upgraded previous Disclosure Report and compiled Integrated Report

- In addition to financial information, the Report covers non-financial values including sustainability data.
- The Report communicates Anicom Group's mission and story of mid-to long-term value creation through fulfillment of the mission.

Main content

To view all pages (in Japanese language) : ▶ <https://www.anicom.co.jp/ir/library/disclosure/>

• Anicom Group's mission statement



• Three approaches to keeping pets healthy



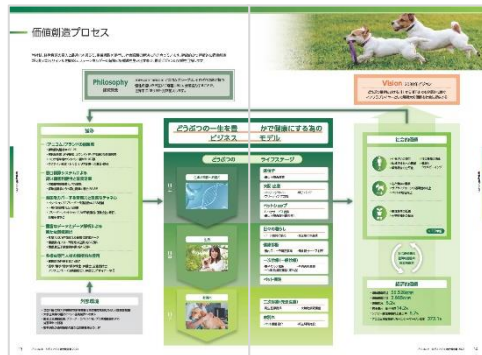
• Our commitment to sustainability management



• Top message by Representative Director Komori



• Social/economic value creation process



• Financial and non-financial highlights



APPENDIX

- 1. Major management indicators**
- 2. Anicom Insurance (non-consolidated): Recurring revenue indicators**
(Trend in new policies / number of pet insurance policies in force)
- 3. Anicom Insurance (non-consolidated): Recurring expenses indicators**
(Loss ratio (E/I), expense ratio based on earned premiums)
- 4. Peripheral new-business revenue opportunities and synergy with pet insurance**





1. Major management indicators

	1Q FY03/23	End-FY03/23	1Q FY03/24	Vs. previous year		Vs. previous year-end	
				Numbers	Rate	Numbers	Rate
(1) Policies in force	1,049,687	1,113,144	1,132,856	83,169	7.9 %	19,712	1.8 %
(2) New policies	53,958	218,695	55,161	1,203	2.2 %	-	-
(3) Renewal rate	87.8 %	88.2 %	88.1 %	-	-	-	-
(4) Insurance payout cases	1,026,000	4,216,000	1,072,000	46,000	4.5 %	-	-

End-FY03/24 (forecast as of May 10)
1,200,000
220,000
88.5 %
4,429,000

	1Q FY03/23	1Q FY03/24	YoY Change
(5) E/I loss ratio	59.0 %	59.6 %	0.6 pt
(6) Expense ratio (based on earned premiums)	35.5 %	33.8 %	-1.7 pt
(7) Combined ratio (based on earned premiums)	94.5 %	93.4 %	-1.1 pt

End-FY03/24 (forecast as of May 10)
59.8 %
33.7 %
93.5 %

	End-FY03/23	1Q FY03/24	YoY Change
(8) Solvency margin ratio (non-consolidated)	373.1 %	378.3 %	5.2 pt

*SMR in FY03/22 and FY03/23 jumped compared to the plan because a tax-effect equivalent amount was not included in the calculation.

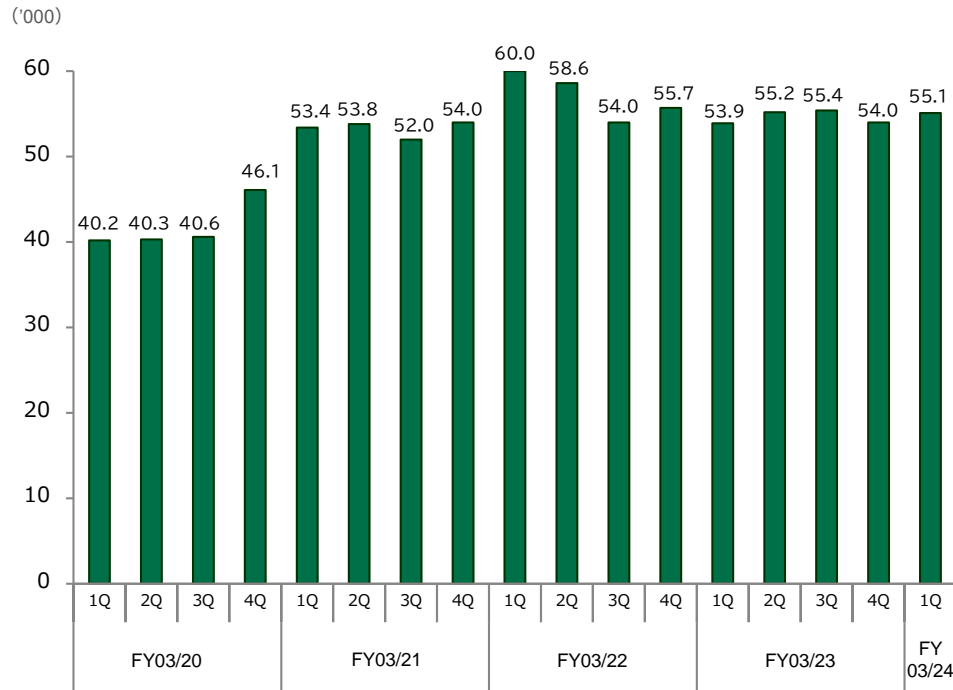
At present, discussions are underway on regulatory changes over the medium term with regard to the financial soundness of insurance companies (e.g., risk coefficient). We therefore currently examine our responses with an eye to the future regulatory changes.

	1Q FY03/23	1Q FY03/24	YoY Change
(9) No. of applicants of Doubutsu Kenkatsu (gut microbiota testing)	52,309	55,281	5.7 %
(10) Animal hospitals accepting Anicom	6,717	6,830	1.7 %
(11) No. of samples for genetic testing	25,662	16,798	-34.5 %

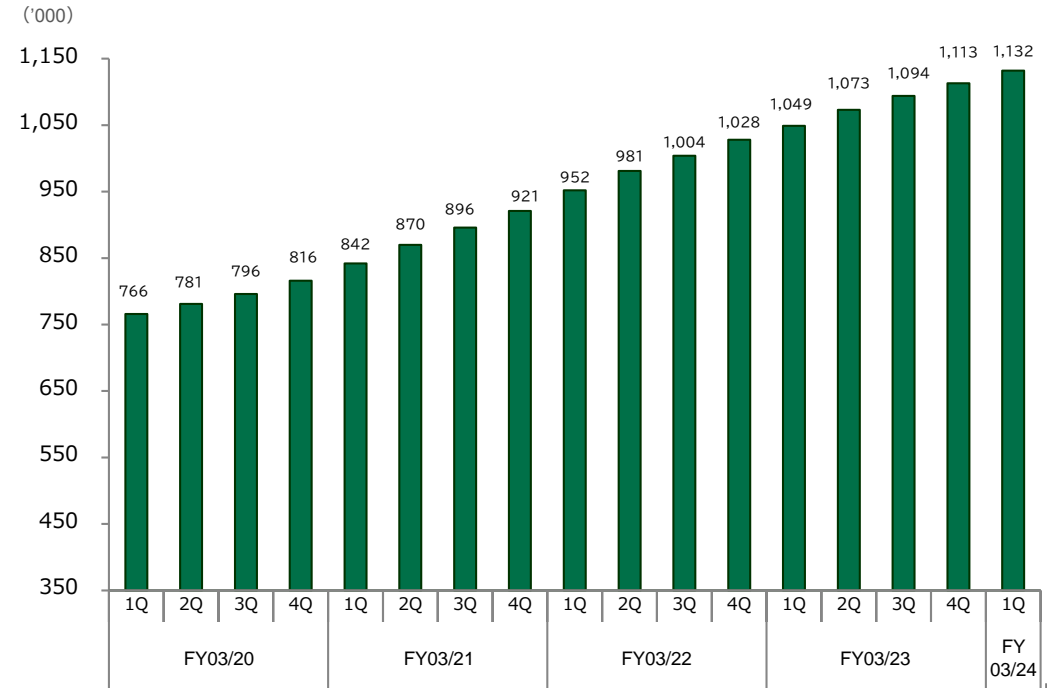
2. Anicom Insurance (non-consolidated): Recurring revenue indicators



Quarterly trend in number of new policies



Quarterly trend in number of policies in force



The number of new policies increased steadily

On a combined newborn/general channels basis, the number of new policies topped 55,000, achieving steady growth.

Achieving strong progress of 25.1% against the annual target of 220,000.

Number of policies in force

The number of policies in force totaled 113,200, steadily progressing toward the annual target of 1,200,000.

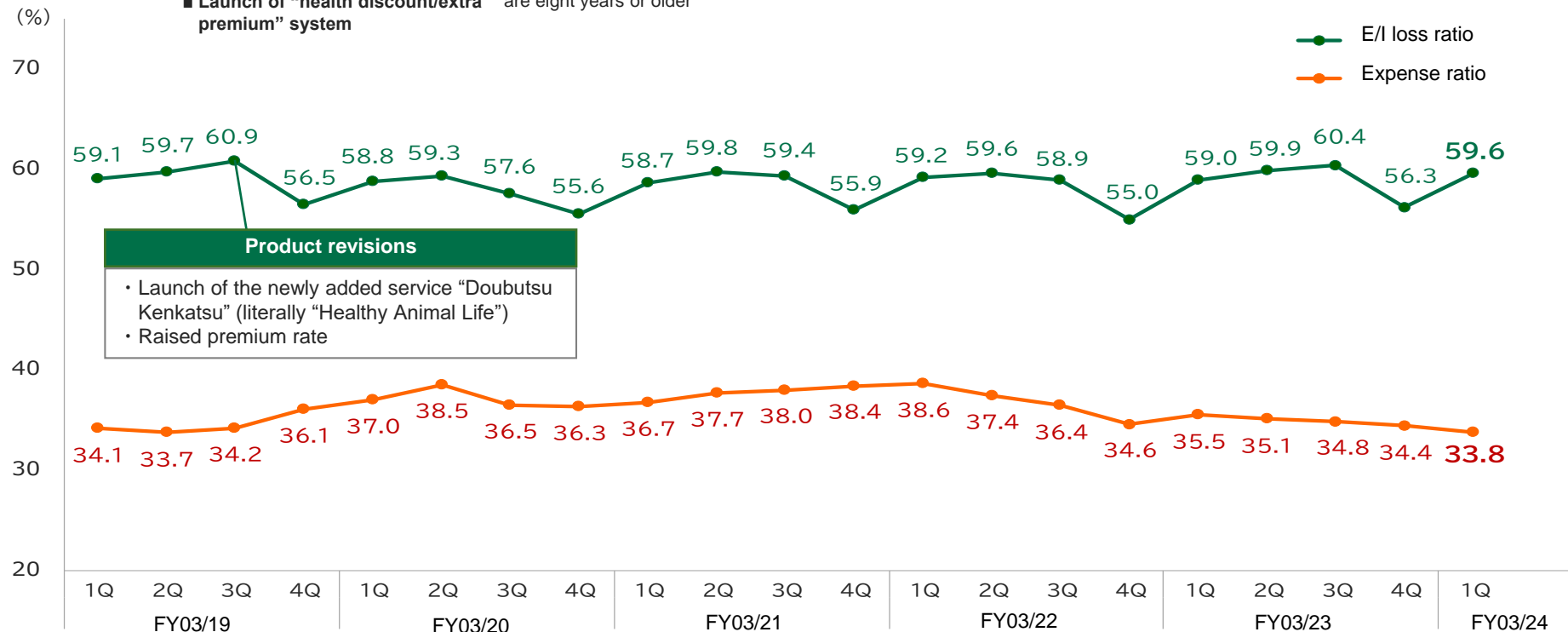
3. Anicom Insurance (non-consolidated): Recurring expenses indicators



[Reference information]

- 1Q FY03/15
 - Raised premium rate
 - Average revision of 12%
- 3Q FY03/15
 - New products with limited hospital days
 - Launch of “health discount/extra premium” system
- 2Q FY03/18
 - Raised premium rate
 - Raised premium rate for animals that are eight years or older

Note 1: The graph below shows quarterly average values, and the data therefore may differ from average values for current period.
 Note 2: The expense ratio represents the “expense ratio based on earned premiums” (insurance business expenses / earned premiums).



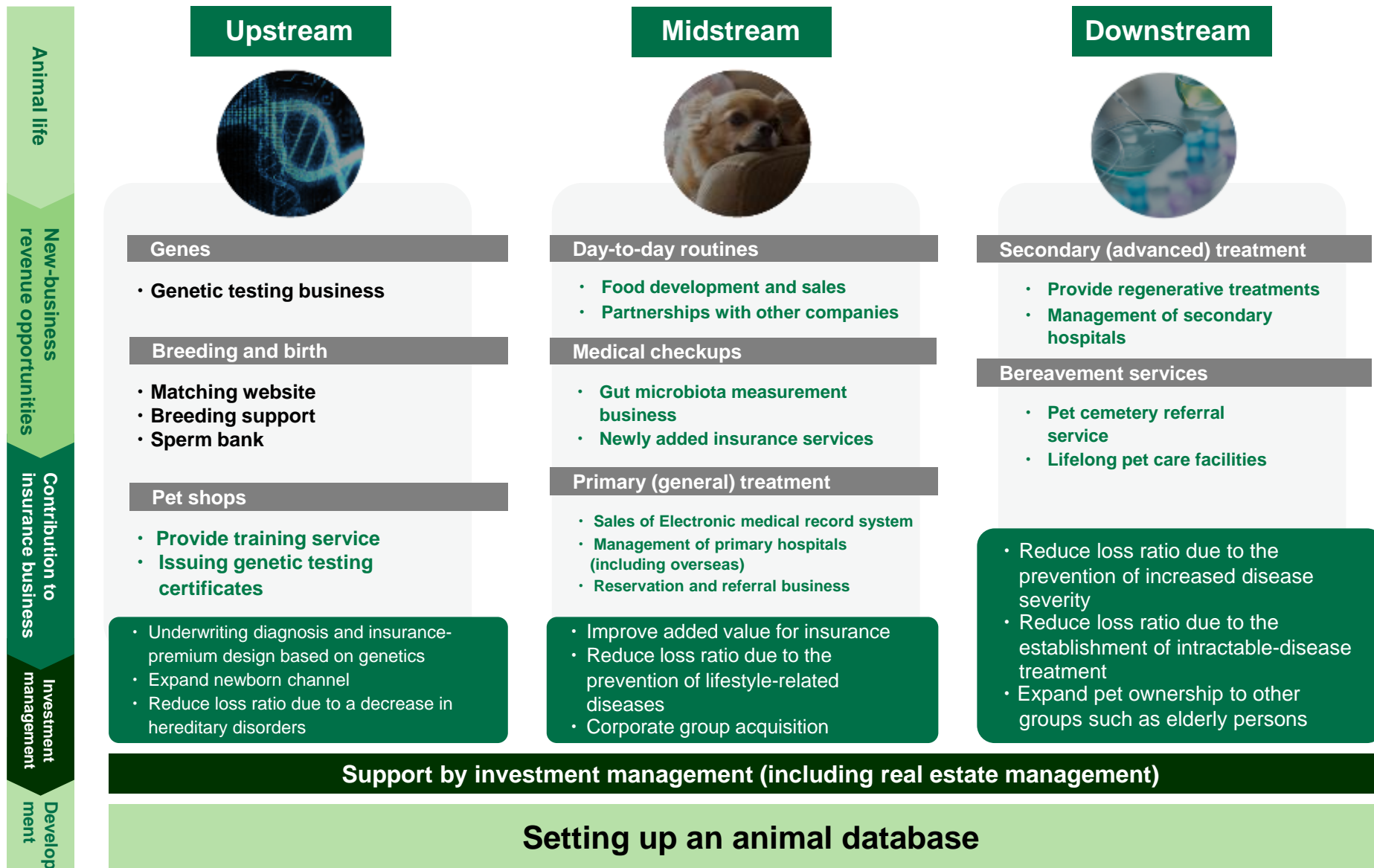
E/I loss ratio

The product portfolio continued to improve due to a significant increase in new policy acquisition since FY2020. Meanwhile, claims paid increased and remained at a high level due to the higher frequency of hospital visits caused by the impact of changes in behavior in the COVID-19 pandemic, as well as an increase in the average payout per claim. Recently, however, it is confirmed that such impact of the changes is showing a tendency toward gradually becoming stabilized.

Expense ratio

We continued with proactive investment aimed at the business expansion. The costs of the unique Doubutsu Kenkatsu service increased. The expense ratio had been trending upward due mainly to a rise in agency commissions owing to an increase in new policies and intensifying competition, while a reduction in agency commissions and the measures taken to improve efficiency and costs are beginning to show effect.

4. Peripheral new-business revenue opportunities and synergy with pet insurance

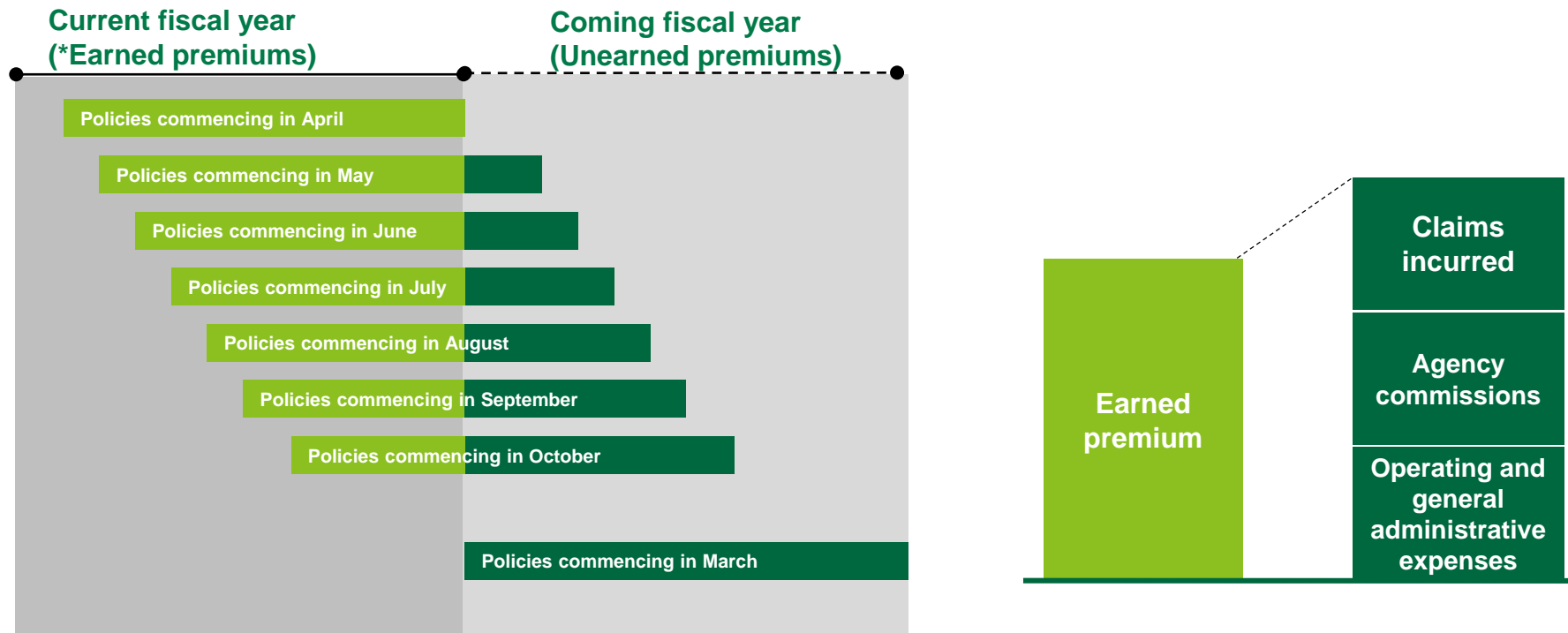




(Reference) Impact of insurance accounting on recurring profits/losses

1. Impact of growth in premium on recurring profits/losses (Based on Japanese non-life insurance accounting)

Generally, the growth in premium contributes to an increase in recurring revenue, but Japanese non-life insurance business laws require non-life insurance companies to carry any unearned premium portion over to the coming fiscal year as an underwriting reserve (unearned premium). Conversely, expenses such as claims incurred, agency commissions, operating and general administrative expenses are required to be accounted to that fiscal year. There is, therefore, a negative impact on recurring profits/losses when above expenses exceed earned premium in current fiscal year even if sales revenue rise due to growth in premium.



2. Impact of catastrophe reserves on recurring profits/losses (Based on Japanese non-life insurance accounting)

- Every non-life insurance company must accumulate catastrophe reserves each fiscal year in order to prepare for natural disasters.
- The reserve is liquidated (decreases expenses) when the net loss ratio* exceeds 50%. *Net claims paid ÷ Net premiums written



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