

A close-up photograph of a beagle dog's head, looking upwards with its mouth slightly open. A brown and white butterfly is perched on its nose. The background is a soft, out-of-focus green field. The entire image is framed by a thick green border.

**2Q FY03/24**

# **Financial Report**

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**November 8, 2023**

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**Security Code: 8715**

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# Results Overview

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# 1. Overall summary (Recurring revenue and recurring profit)

Recurring revenue	<b>29,758</b>	<b>Million JPY</b>
	2Q FY03/23 JPY <b>27,974</b> mn <b>+6.4%</b> YoY    Planned JPY <b>29,000</b> mn <b>+2.6%</b> Of which, underwriting revenue: JPY 26,696 mn    2Q FY03/23 JPY 25,063 mn <b>+6.5%</b> YoY	

Recurring profit before amortization of goodwill	<b>2,703</b>	<b>Million JPY</b>
	2Q FY03/23 JPY <b>2,067</b> mn <b>+30.8%</b> YoY	

Recurring profit	<b>2,601</b>	<b>Million JPY</b>
	2Q FY03/23 JPY <b>1,955</b> mn <b>+33.0%</b> YoY    Planned JPY <b>2,200</b> mn <b>+18.2%</b>	

**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-Sept, the number of new policies was **110,000** and the number of policies in force totaled **1,154,000 (+7.6%)**, **showing continuous growth at a solid pace and achieving the plan.**
- Other recurring revenue grew favorably to JPY **2,701** million (+5.7%), due to solid performance of food sales, animal hospitals and the number of contracts concluded at the breeder matching site.
- Investment revenue was JPY **361** million (+1.3%), **progressing in line with the plan** through agile investment management under uncertain market conditions.

■ **Recurring profit (YoY)**

- Recurring profit was JPY **2,601** million (**+33.0%**), **showing a substantial increase and significantly exceeding 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)		
	2Q FY03/23	2Q FY03/24	Change
<b>Recurring revenue</b>	<b>27,974</b>	<b>29,758</b>	<b>6.4 %</b>
Underwriting revenue	25,063	26,696	6.5 %
Investment revenue	356	361	1.3 %
Other recurring revenue	2,554	2,701	5.7 %
<b>Recurring expenses</b>	<b>26,019</b>	<b>27,157</b>	<b>4.4 %</b>
Underwriting expenses	17,483	18,313	4.7 %
· Net claims paid	(13,718)	(15,079)	9.9 %
· Loss adjustment expenses	(557)	(556)	0.0 %
· Net commission and collection expenses	(2,533)	(2,564)	1.2 %
· Provision for reserve for outstanding losses and claims	(252)	(191)	-24.2 %
· Provision for underwriting reserves	(422)	(-78)	- %
Of which unearned premiums	(719)	(690)	-3.9 %
Of which catastrophe reserve	(-297)	(-769)	- %
Investment expenses	-	2	- %
Operating and general administrative expenses	7,661	7,863	2.6 %
Other recurring expenses	874	978	12.0 %
<b>Recurring profit before amortization of goodwill</b>	<b>2,067</b>	<b>2,703</b>	<b>30.8 %</b>
<b>Recurring profit</b>	<b>1,955</b>	<b>2,601</b>	<b>33.0 %</b>
<b>Net profit</b>	<b>1,316</b>	<b>1,756</b>	<b>33.5 %</b>

\* If provision for underwriting reserves becomes negative, it must be stated as reversal of policy reserve under consolidated recurring revenue in accordance with the financial statement format stipulated by the Regulation for Enforcement of the Insurance Business Act. However, provision for underwriting reserves is stated in the breakdown of underwriting expenses for ease of reference and comparison to the figure of the previous year in this Financial Report. Therefore, there is a difference of JPY 78 million from consolidated recurring revenue of JPY 29,837 million presented in the Consolidated Financial Results. This does not affect consolidated recurring profit.



## 2. Income statement summary

### ■ Reasons for changes in major accounting items

#### (1) Underwriting revenue

- The number of policies in force **increased by 81,296 (+7.6%)**

#### (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

	2Q FY03/23	2Q FY03/24	(JPYmn) Change
Earned premiums	24,433	26,108	6.9%
Claims incurred (including loss adjustment expenses)	14,527	15,827	8.9%
E/I loss ratio (1)	59.5%	60.6%	1.1pt
Expense ratio (based on earned premiums) (2)	35.3%	33.4%	-1.9pt
Combined ratio (based on earned premiums) (1)+(2)	94.8%	94.0%	-0.8pt





### 3. Factors related to changes in recurring profit

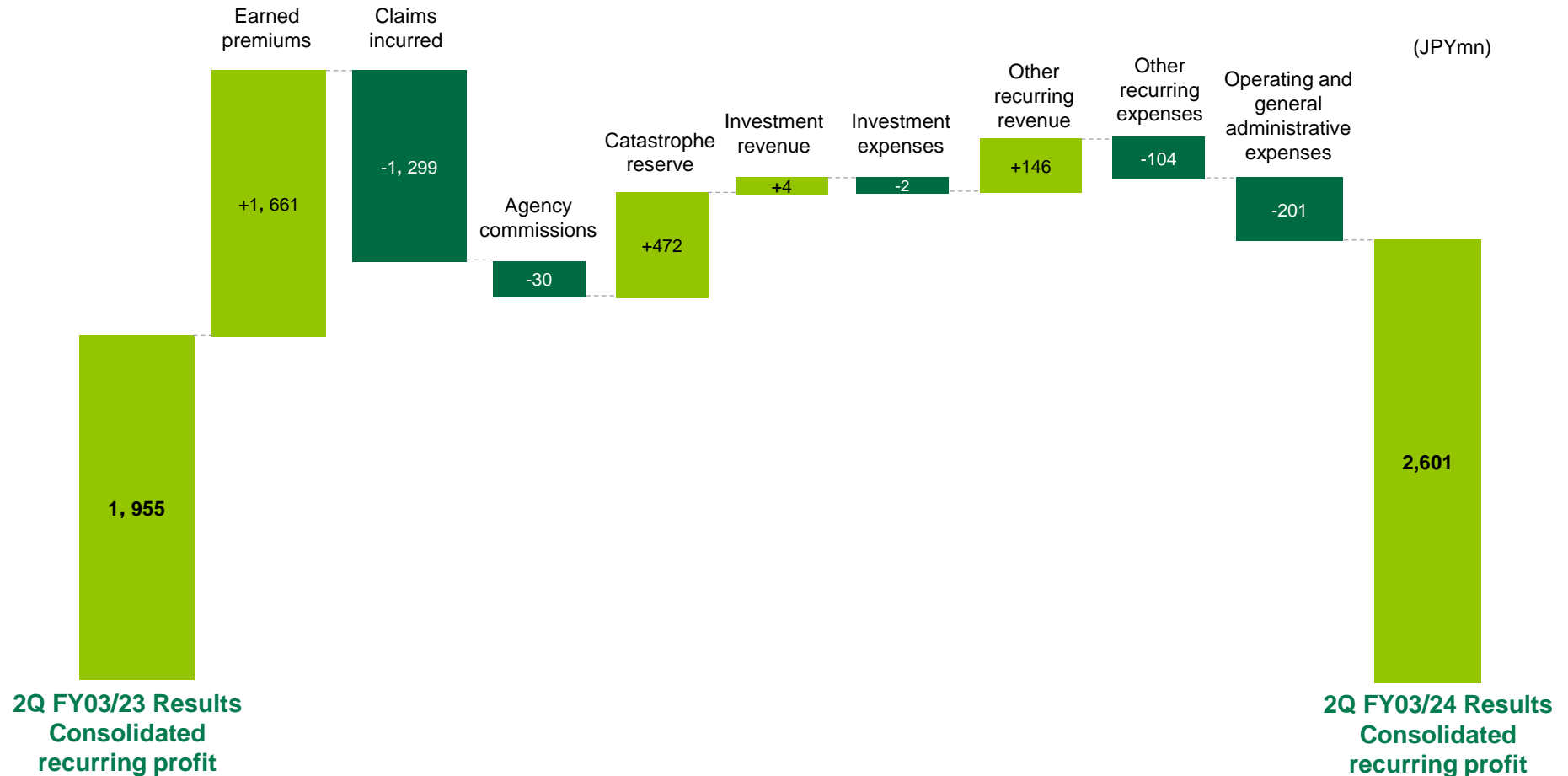
(Comparison analysis with 2Q FY03/23 results)

**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-2Q FY03/24	Change
<b>Total assets</b>	<b>61,407</b>	<b>62,044</b>	<b>1.0 %</b>
Cash and bank deposits	30,835	21,967	-28.8 %
Marketable securities	16,956	26,705	57.5 %
Tangible fixed assets	5,799	5,673	-2.2 %
Other assets	7,815	7,697	-1.5 %
<b>Total liabilities</b>	<b>33,223</b>	<b>33,743</b>	<b>1.6 %</b>
Reserve for insurance policy liabilities	22,853	22,966	0.5 %
Of which loss reserves	2,988	3,179	6.4 %
Of which underwriting reserves	19,865	19,787	-0.4 %
Corporate Bonds	5,000	5,000	— %
Other liabilities	5,369	5,776	7.6 %
<b>Total net assets</b>	<b>28,184</b>	<b>28,301</b>	<b>0.4 %</b>
Shareholders' equity	29,740	30,172	1.5 %
Of which treasury shares	-1	-1,001	— %
Valuation and transaction adjustments	-1,555	-1,870	— %

### ■ 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.

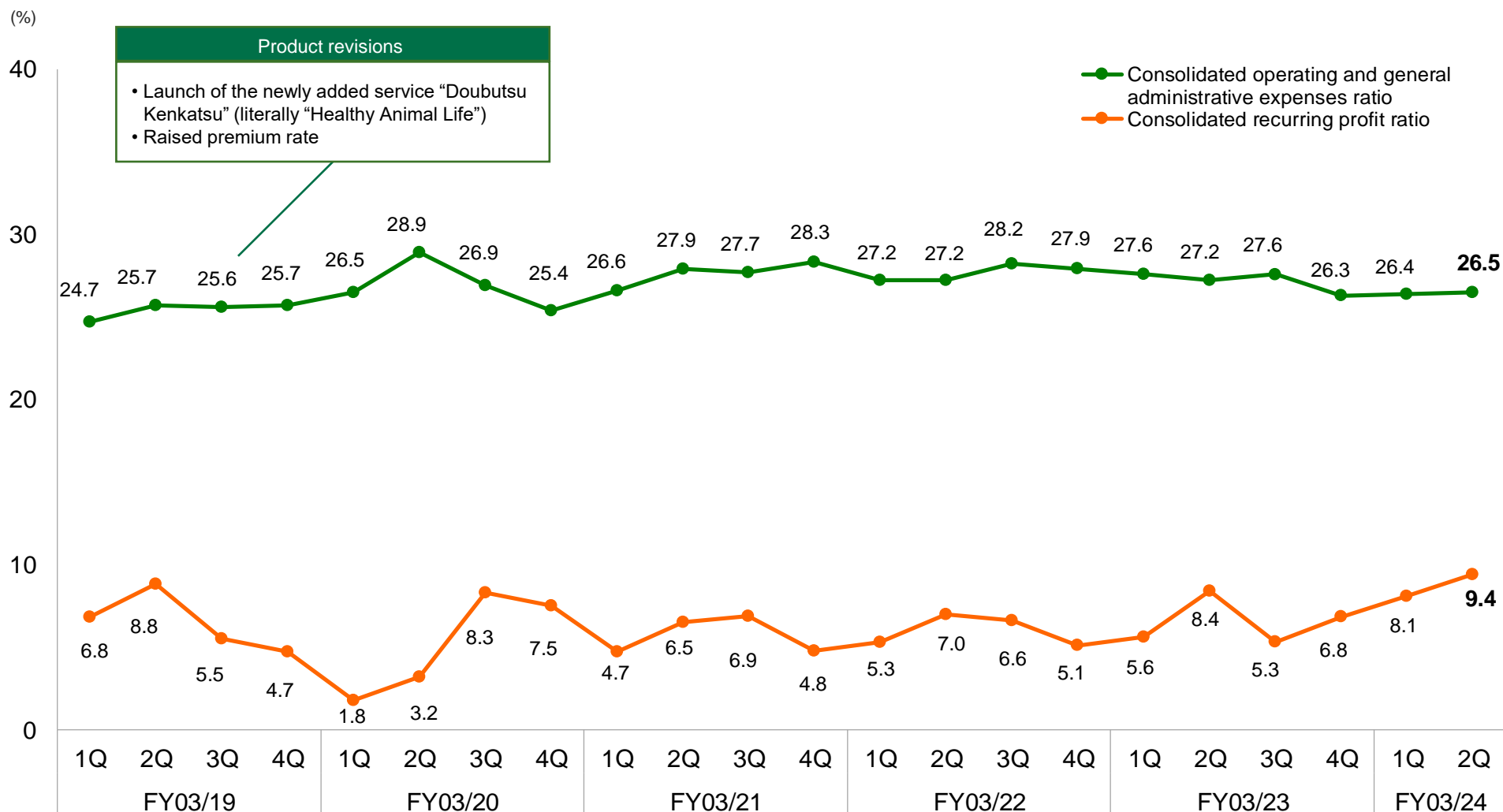


# 5. Recurring expenses and profit indicators



\*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)



# Progress of priority measures

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- 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 **110,000** for Apr-Sept, and the number of policies in force exceeded **1.15 million** as of September 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 **994** as of September 30, 2023, accompanied by a rise in insured rate (91 as of September 30, 2020)
- **Fukoku Mutual Life Insurance Company** started handling our pet insurance. (Started handling Anicom Insurance's "Animal Health Insurance" from December 1)



### Revision of Premiums

- The premiums for **Wide Type products (no limited days)** will be revised (raised) by an average of **7.8%**. The revision will be first applied to policies with a start date on **November 1**.

### Expanding products and services

- Owing to a steady increase in **Doubutsu Kenkatsu applications**, the renewal rate remained stable and high for Apr-Sept at **88.2%**.

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

- **Loss ratio (60.6% in 2Q)**  
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 (9.6% in 2Q)**  
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 2Q)**  
A 1.0 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 107 as of September 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	5	4	2	2	13

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

- **Ranked 1st in two pet insurance ranking categories in the 2023 Oricon Customer Satisfaction® Survey**
  - **Awarded the first place in the “insurance payouts/benefits” and “OTC (over-the-counter) insurance settlement” categories** of the pet insurance ranking in the 2023 Oricon Customer Satisfaction® Survey released by oricon ME Inc.
  - We believe that we won first place in these two categories as our **“Animal Health Insurance Card”** received praise, not only for its **convenience of OTC (over-the-counter) insurance settlement** at participating hospitals, but also because customers keep their insurance cards as **a record of their child’s growth** when their policies are renewed each year.



Veterinarians, veterinary nurses, pharmacists, 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, use of frozen sperms**, establishment and provision of technology, 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]), improvement of operational efficiency, 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 2Q FY03/24

■ Net sales: JPY1,033 million

■ Recurring profit: JPY40 million

■ Recurring profit ratio: 3.9%

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



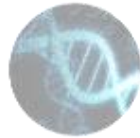
**Revenue and profit increased year on year**  
(Net sales JPY922 million and recurring profit JPY21 million for 2Q FY03/23)



# 2. Progress of priority measures (Businesses generating synergies)



## From day-to-day routines to curing the incurable



### Midstream



### Downstream



#### Commercializing health exams and food and products, etc.

- Over **108,000** applications were received for Doubutsu Kenkatsu service for Apr-Sept.
- 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
  - Education & training to upgrade treatment skills
  - Started orthopedic and neurosurgery treatment
  - Improved the cost rate
- **Regenerative medicine business**
  - Established treatment & preventive methods using regenerative medicine
  - As of September 30, 2023, 683 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)
- Carried out an animal relief fundraising project for the Morocco earthquake and Libya floods (October)



# 3. Topics: Completed share repurchase for the current fiscal year



(September 25, 2023)

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

- Allocation of approximately 4.0 billion yen in excess of the appropriate capital level due to the discovery of SMR calculation errors to share repurchases in stages
- The purchase of the current fiscal year's 1.0 billion yen portion completed in September (total number of purchased shares: 1,564,800 shares). The remaining 3.0 billion yen repurchase will be implemented at the beginning of the next fiscal year.
- Optimal capital allocation will be considered again after the new SMR is finalized in 2025.

**SMR (Solvency Margin Ratio)**  
**ROR (Return On Risk)**

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FY2022 result: SMR 373.1%

▼

FY2024 target:  
**SMR 300-320%**

▼

FY2030 vision:  
Planning to calculate using new SMR

**ROR focused management**



**ROE (Return On Equity)**

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FY2022 result: 8.2%

▼

FY2024 target:  
around **10%**

▼

FY2030 vision:  
**12-15%**

**ROE in excess of capital cost  
Predicated on equity spread**

**Shareholder returns (dividend payout ratio / DOE)**

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FY2022 result: Dividend payout ratio 14.2% > (after dividend increase)

FY2024 target: **Dividend payout ratio around 20%** >

FY2030 vision: Replace dividend payout ratio with disclosure of dividend on equity (DOE) ratio





### 3. Topics: Signed letter of intent with SK Telecom

(October 3, 2023)

#### Achieve AI transformation in the pet industry with South Korea's largest telecommunications carrier

##### ■ Background of the agreement

- The agreement was reached as the Anicom Group hoped to further improve veterinary environments and contribute to the realization of two-way communication between humans and pets by applying AI technology, which has made remarkable progress in recent years, to the pet industry, including veterinary medicine.
- We aim to realize AI transformation in the pet industry by combining the Anicom Group's data on diseases, genes, and gut microbiota of pets based on the payment records of pet insurance claims, with SKT's AI development technology and human resources.

##### ■ Specific considerations under the agreement

- (i) Distribution and sales of "X Caliber," an AI healthcare service for pets, in the Japanese market
- (ii) Realization of AI transformation in the pet industry (fusion of Anicom's pet-related data and SKT's AI resources)



Contribute to the realization of two-way communication between humans and pets by using AI technology



### 3. Topics: Response to reports on Anicom's major pet shop agency

#### A series of reports and Anicom's press releases (August to October)

- First published in a Shukan Shincho's online article on August 5, and a total of six additional articles were subsequently published by the end of October
  - Published in the paper version of the same weekly magazine on August 31, and subsequent second publication on October 12
- ⇒ The articles are about troubles with customers related to pet purchases at the agency, etc.

In response to the reports, we announced the establishment of an "information provision contact for troubles involving puppy and kitten sales" (October 2)

In addition, we announced that an external advisor will be appointed to conduct a multifaceted, professional, and objective investigation (October 26)

We will make every effort to resolve the concerns of all concerned parties by taking appropriate measures based on the results of the above investigation

#### ■ Impact on our business performance and Anicom's position

- There has been no major impact as demand for pet ownership remains strong, and the number of new policies acquired through the Company's newborn channel has been steady recently.
- From a governance perspective, we will further clarify and pursue our position of aiming to become a prevention-type insurance company and promoting initiatives to reduce insurance payouts.

The Anicom Group as a whole will lead the way in complying with various laws and regulations in the pet industry and building a sincere and customer-oriented business management system

# APPENDIX

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- 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

	2Q FY03/23	End-FY03/23	2Q FY03/24	Vs. previous year		Vs. previous year-end		End-FY03/24 (forecast as of May 10)
				Numbers	Rate	Numbers	Rate	
(1) Policies in force	1,073,026	1,113,144	1,154,322	81,296	7.6 %	41,178	3.7 %	1,200,000
(2) New policies	109,202	218,695	110,883	1,681	1.5 %	-	-	220,000
(3) Renewal rate	88.0 %	88.2 %	88.2 %	-	-	-	-	88.5 %
(4) Insurance payout cases	2,108 ,000	4,216 ,000	2,199 ,000	90 ,000	4.3 %	-	-	4,429 ,000

	2Q FY03/23	2Q FY03/24	YoY Change	End-FY03/24 (forecast as of May 10)
(5) E/I loss ratio	59.5 %	60.6 %	1.1 pt	59.8 %
(6) Expense ratio (based on earned premiums)	35.3 %	33.4 %	-1.9 pt	33.7 %
(7) Combined ratio (based on earned premiums)	94.8 %	94.0 %	-0.8 pt	93.5 %

	End-FY03/23	2Q FY03/24	YoY Change
(8) Solvency margin ratio (non-consolidated)	373.1 %	311.9 %	-61.2 pt

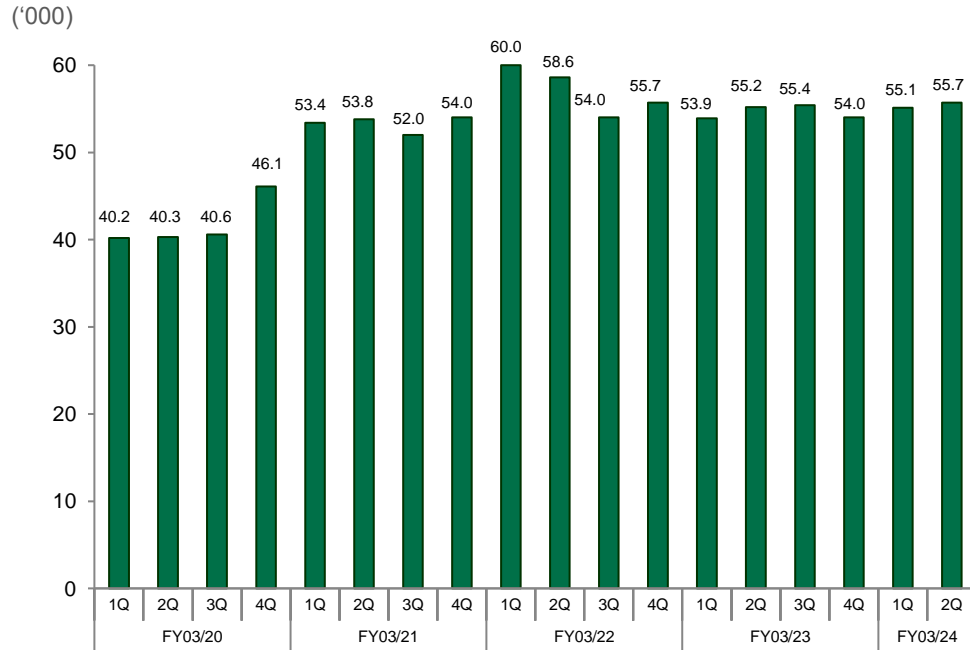
\* SMR for 2Q FY03/24 decreased by 61.2 points from the end of FY03/23. This is because the items in the total amount of solvency margin, "stated capital or funds, etc." and "other (tax-effect equivalent amount)," decreased as a result of the scheduled payment of interim dividend by Anicom Insurance to the parent company.

	2Q FY03/23	2Q FY03/24	YoY Change
(9) No. of applicants of Doubutsu Kenkatsu (gut microbiota testing)	104,098	108,207	3.9 %
(10) Animal hospitals accepting Anicom	6,744	6,850	1.6 %
(11) No. of samples for genetic testing	53,207	34,281	-35.6 %

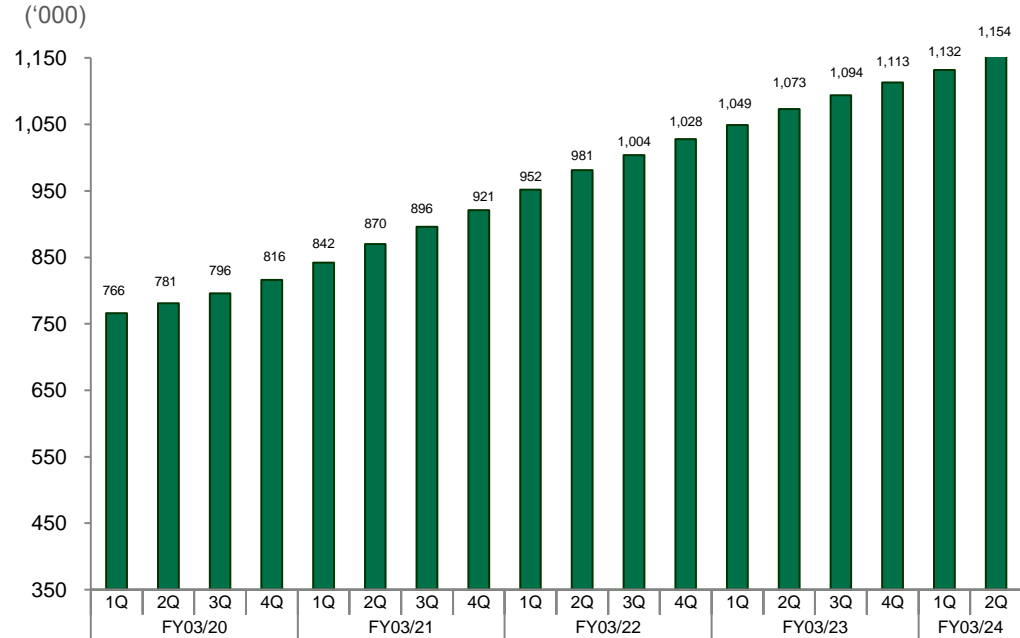
# 2. Anicom Insurance (non-consolidated): Recurring revenue indicators



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 110,000 (2Q), achieving steady growth. Achieving strong progress of 50.4% against the annual target of 220,000.

**Number of policies in force**

The number of policies in force totaled 1,154,000, 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

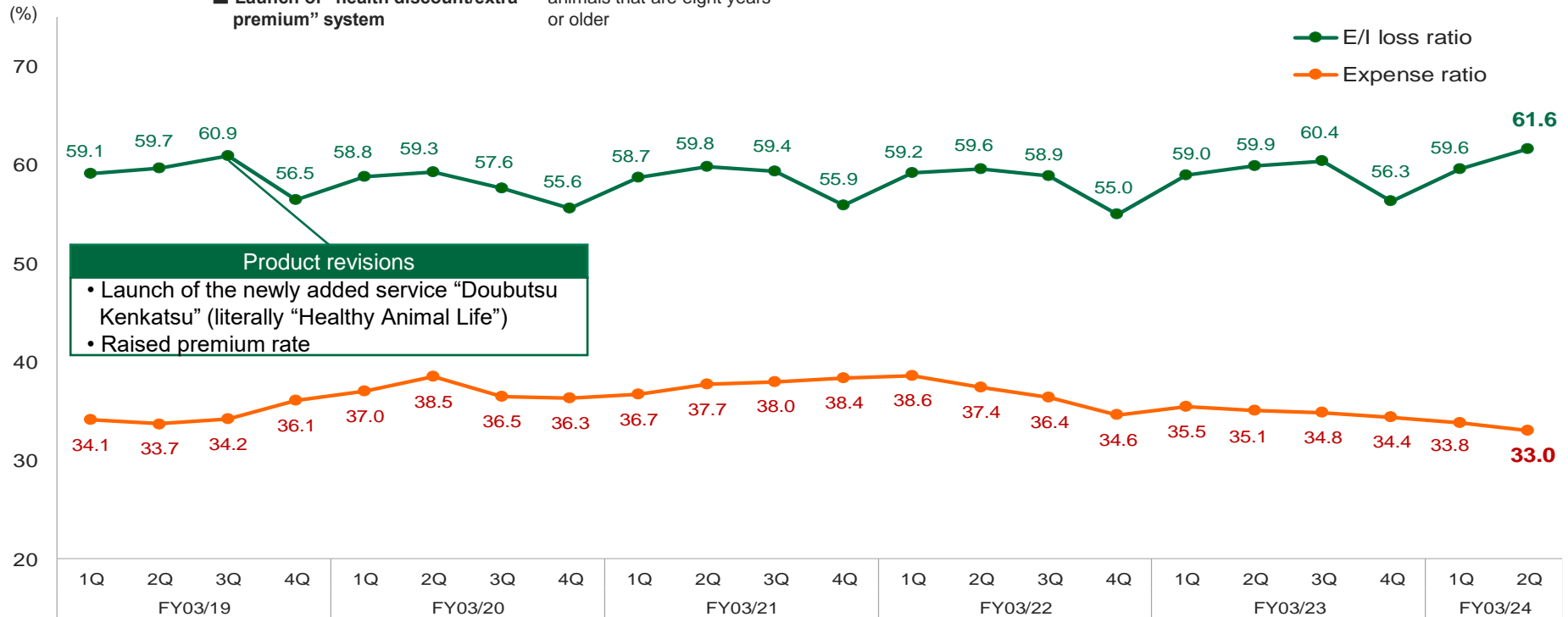
- New products with limited hospital days
- Launch of “health discount/extra premium” system

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).



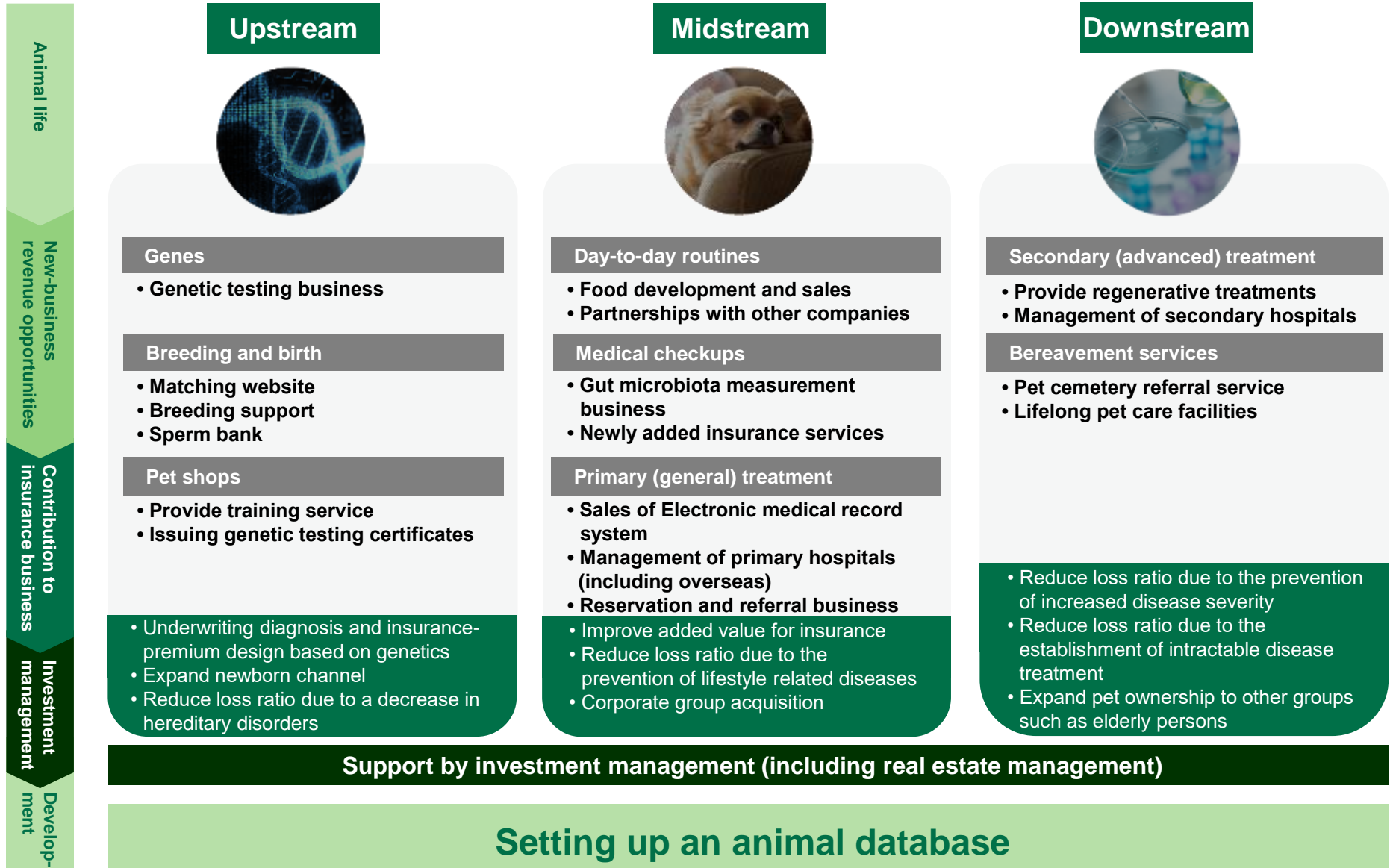
## E/I loss ratio

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



**Support by investment management (including real estate management)**

**Setting up an animal database**

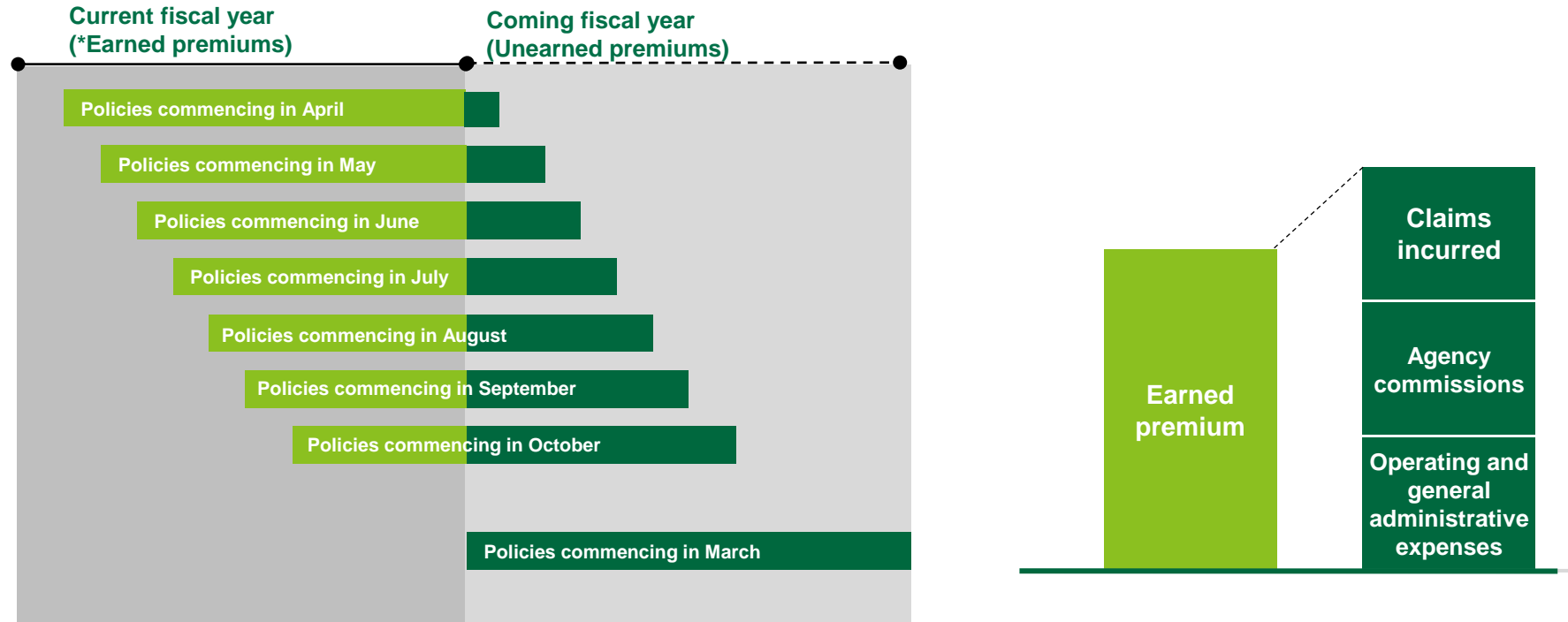


# (Reference) Impact of insurance accounting on recurring profits/losses



## 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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