

3Q FY03/21
Financial Results Briefing Presentation

February 5, 2021



Security Code : 8715

In Japan, economic activities resumed in stages while taking measures to prevent the spread of COVID-19, but there is still uncertainty over the economic outlook.

Against the backdrop, pet ownership demand remained firm in 3Q FY03/21 (Oct-Dec). Accordingly, the number of new policies and policies in force have increased steadily, with the prospect of a net increase in the number of households with pets.

- The accumulated total of new policies from April to December **surpassed 159,000 (progress rate of 87% to the target)**
- The number of policies in force as of December 31 **surpassed 890,000, achieving 12.6% YoY increase**
- **Recurring revenue and recurring profit both achieved the initial targets** as the increase in the number of new policies and strong performance of SIMNET Co., Ltd. offset the increase in the loss ratio caused by increased hospital visits and increased costs of the “Doubutsu Kenkatsu” services.

(Note)“Doubutsu Kenkatsu”: microbiota measurement + medical checkups

The Anicom Group, which is aiming to be a major infrastructure player in the pet industry, is carrying on the initiative to contribute to society, most notably through the #StayAnicom Project (A total of 84 pets have been taken in: as of Jan 31, 2021).

We continue to increase revenue and profit, while achieving the two goals of expanding business and contributing to the pet industry under the COVID-19 crisis.

3Q FY03/21 results overview

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10. Steps toward the second founding period (3) (New patent for a disease prediction system based on face photos of pets)

1. Consolidated recurring revenue, recurring profit, adjusted profit

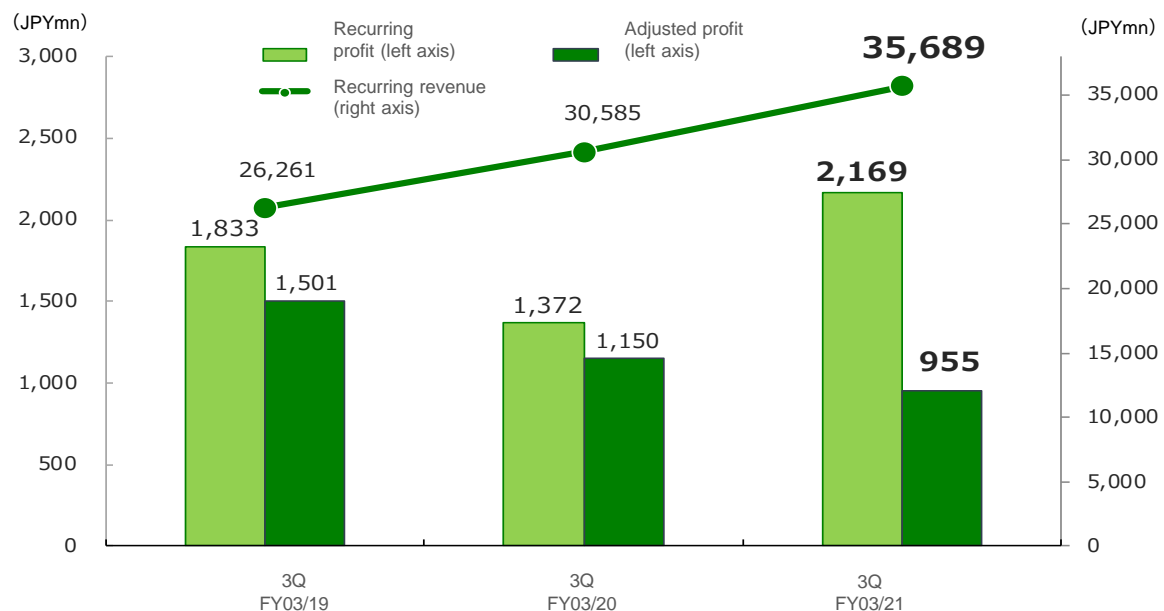
■ **Recurring revenue: JPY35,689 mn** (3Q FY03/20 JPY30,585 mn **+16.7% YoY** Planned: JPY33,800 mn **+5.6% YoY**)
 (of which underwriting revenue : JPY32,058 mn, (3Q FY03/20 JPY28,879 mn +11.0% YoY)

■ **Recurring profit : JPY2,169 mn** (3Q FY03/20 JPY1,372 mn **+58.0% YoY** Planned: JPY1,700 mn **+27.6% YoY**)

- **On a year-on-year basis, the number of policies in force and underwriting revenue both increased steadily** (+12.6% and +11.0%, respectively) as a result of strengthening “new initiatives to pursue uniqueness” by utilizing group company services as well, etc.

Other recurring revenue and recurring profit both grew steadily mainly as a result of making SIMNET Co., Ltd. a subsidiary, operation of hospitals, and genetic testing.

- **Recurring profit surpassed the planned figure** as a result of SIMNET’s higher-than-expected results and effects of reversal of catastrophe reserve reimbursements.



(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 ± Investment revenue/expenses ± Other recurring revenue/expenses, etc.

2. Consolidated income statement summary

(JPYmn)

	3Q FY03/20	3Q FY03/21	Change
Recurring revenue	30,585	35,689	16.7 %
Underwriting revenue	28,879	32,058	11.0 %
Investment revenue	374	365	-2.6 %
Other recurring revenue	1,331	3,265	145.3 %
Recurring expenses	29,212	33,519	14.7 %
Underwriting expenses	20,251	22,670	11.9 %
(Net claims paid)	(15,160)	(17,344)	14.4 %
(Loss adjustment expenses)	(813)	(832)	2.4 %
(Net commissions and collection expenses)	(2,672)	(3,308)	23.8 %
(Provision for reserve for outstanding losses and claims)	(328)	(260)	-20.8 %
(Provision for underwriting reserves)	(1,276)	(924)	-27.5 %
(Of which unearned premiums)	(1,033)	(1,102)	6.7 %
(Of which catastrophe reserve)	(242)	(-178)	-
Investment expenses	6	41	523.4 %
Operating and general administrative expenses	8,392	9,787	16.6 %
Other recurring expenses	561	1,019	81.6 %
Recurring profit	1,372	2,169	58.0 %
Extraordinary profit or losses	-19	-249	1,197.6 %
Net profit	976	1,300	33.1 %

Indicators for the performance of Anicom Insurance on an unconsolidated basis

E/I loss ratio (1)	58.5 %	59.3 %	0.8 pt
Expense ratio (based on earned premiums) (2)	37.3 %	37.5 %	0.2 pt
Combined ratio (based on earned premiums) (1)+(2)	95.8 %	96.8 %	1.0 pt

Major accounting items and reasons for changes

(1) Underwriting revenue (For details, refer to "Anicom Insurance (non-consolidated): Recurring revenue indicators" (P. 17))

- Number of policies in force increased 12.6% YoY.
- Cumulative number of new policies increased 31.5% YoY.
- Growth in renewed policies, product (rate) revisions, and higher insurance premiums accompanying advancing age of animals also delivered contributions.

(2) Investment revenue

- Secured solid investment revenue mainly through bonds, stock investment trusts and REITs.

(3) Other recurring revenue

- Other recurring revenue from non-insurance business, including operation of hospitals, breeder matching, and genetic testing business also expanded at a steady pace.

(4) Net claims paid

- Insurance payouts were trending higher due to an increase in the number of policies in force.

(5) Net commissions and collection expenses

- Mainly commissions paid to sales agents; trending higher in proportion to the growth in underwriting revenue.

(6) 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 "(4) Net claims paid" results in claims incurred.

(7) Provision for unearned premiums

- Among annual premium revenue, deferred premiums corresponding to the next fiscal year and beyond. Adding this to "(4) Net claims paid" results in claims incurred.
- Provision is calculated as year-end balance minus year-start balance. 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 (≒ accrued premiums)

(8) 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.

(9) Operating and general administrative expenses

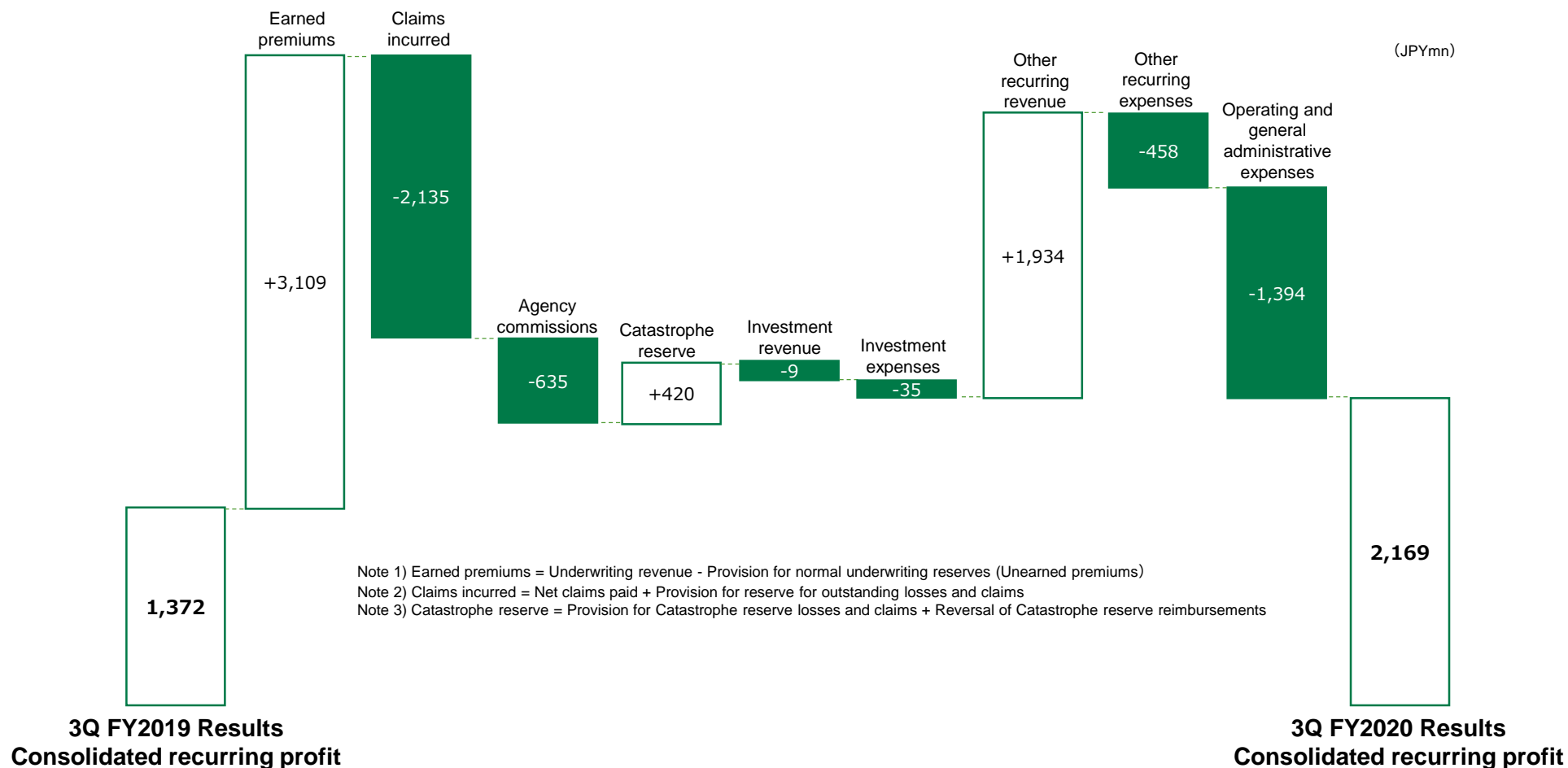
- Include goodwill amortization due to making SIMNET Co., Ltd. a subsidiary and hospital succession.

(10) Extraordinary profit or losses

- Include Anicom Insurance's software impairment loss of JPY278 mn.

3. Factors related to changes in consolidated recurring profit (3Q FY2019 Results vs 3Q FY2020 Results)

In addition to an increase in both the number of policies in force and underwriting revenue, factors such as the robust performance of SIMNET Co., Ltd. contributed to the profit growth.



4. Consolidated balance sheet summary

(JPYmn)

	FY03/20	3Q FY03/21	Change
Total assets	45,598	54,265	19.0 %
Cash and bank deposits	24,427	29,890	22.4 %
Marketable securities	9,999	12,562	25.6 %
Tangible fixed assets	1,858	2,281	22.7 %
Intangible fixed assets	3,956	3,523	-10.9 %
Other assets	4,390	5,231	19.2 %
Deferred tax assets	1,041	853	-18.1 %
Allowance for doubtful accounts	-75	-77	- %
Total liabilities	22,273	28,977	30.1 %
Reserve for insurance policy liabilities	17,977	19,162	6.6 %
Of which loss reserves	2,328	2,588	11.2 %
Of which underwriting reserves	15,649	16,574	5.9 %
Corporate bonds	-	5,000	- %
Other liabilities	4,018	4,607	14.7 %
Provision for bonus	209	129	-38.3 %
Reserve for price fluctuations	68	78	15.0 %
Total net assets	23,325	25,287	8.4 %
Shareholders' equity	23,719	25,305	6.7 %
Of which capital	7,981	8,174	2.4 %
Of which capital surplus	7,871	8,064	2.5 %
Of which retained earnings	7,868	9,067	15.2 %
Of which treasury shares	- 0	-1	- %
Valuation and transaction adjustments	-530	-18	- %
Subscription rights to shares	135	-	- %
Total liabilities and net assets	45,598	54,265	19.0 %

Major accounting items and reasons for changes

(1) Investment securities

- Mainly investment bonds, stock investment trusts and REITs.

(2) Intangible fixed assets

- Include goodwill due to making SIMNET Co., Ltd. a subsidiary and hospital succession.

(3) 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.

(4) Underwriting reserves

- Recorded as the total for 1. normal underwriting reserves (JPY15,294mn; unearned premiums) and 2. catastrophe reserve (JPY1,280mn; 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.

(5) Corporate bonds

- Funds raised through the issuance of the first series unsecured bonds (with pari passu conditions among specified bonds) in September 2020.

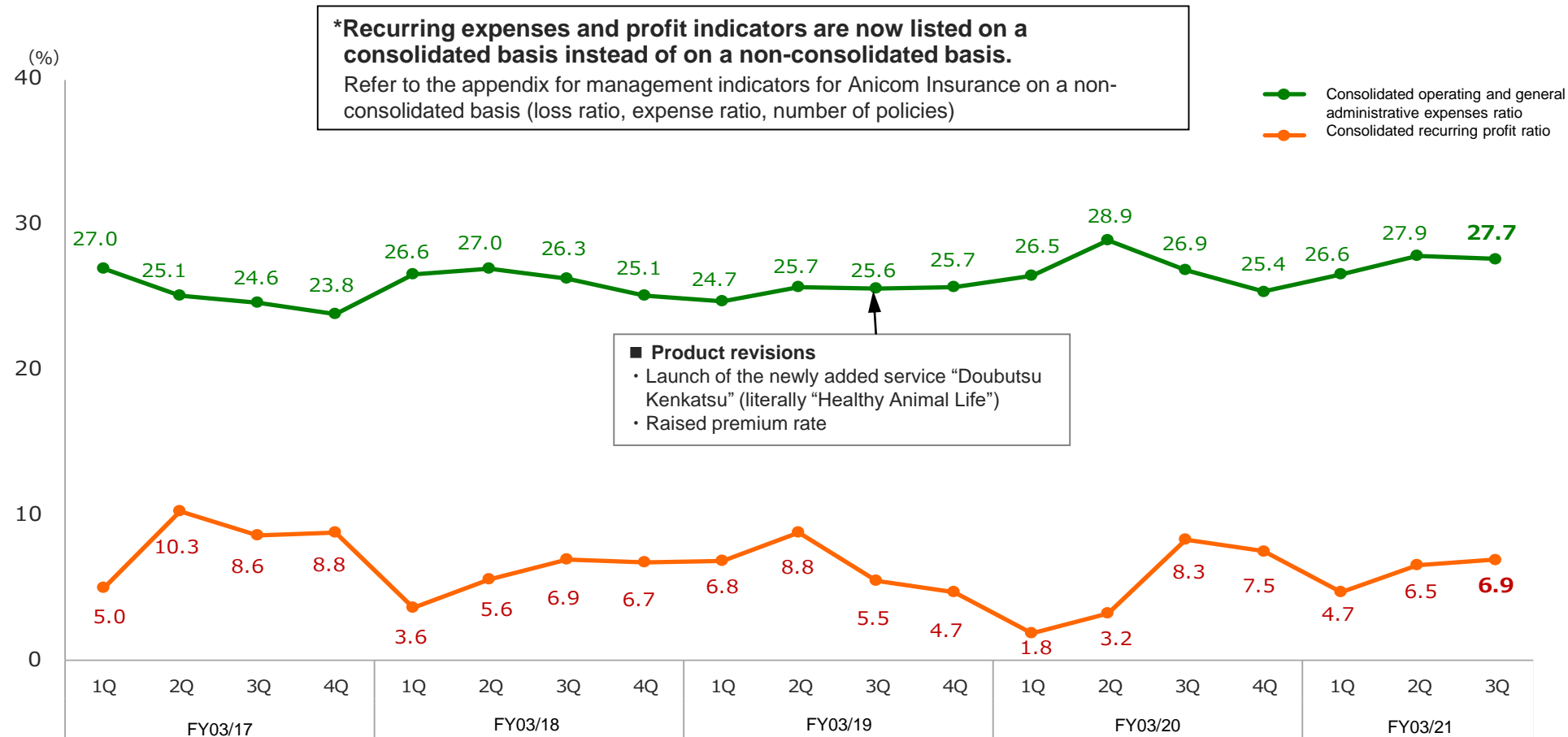
5. Consolidated cash flows summary

(JPYmn)

	3Q FY03/20	3Q FY03/21
Cash flow from operating activities	2,716	2,544
Cash flow from investing activities	- 6,056	- 2,238
Cash flow from financing activities	- 97	5,157
Change in cash and cash equivalents	- 3,436	5,463
Year-start balance for cash and cash equivalents	27,693	21,577
Year-end balance for cash and cash equivalents	24,256	27,040

- Cash flow from operating activities remained stable as the number of policies in force increased steadily.
- Net cash flow from investing activities was negative due to the acquisition of marketable securities.
- Cash flow from financing activities turned positive with funds raised through the issuance of corporate bonds.

6. Consolidated Recurring revenue indicators (*Consolidated operating and general administrative expenses ratio, consolidated recurring profit ratio)



- The **consolidated operating and general administrative expenses ratio** remained flat despite robust acquisition of new policies and increased applications for Doubutsu Kenkatsu.
- With regard to the **consolidated recurring profit ratio**, insurance payouts in the insurance business normally increase in 1Q and 2Q because this is the busy period for veterinary hospitals, due to rabies inoculations and other factors, and then the ratio improves in 3Q and 4Q as hospital visits decline.

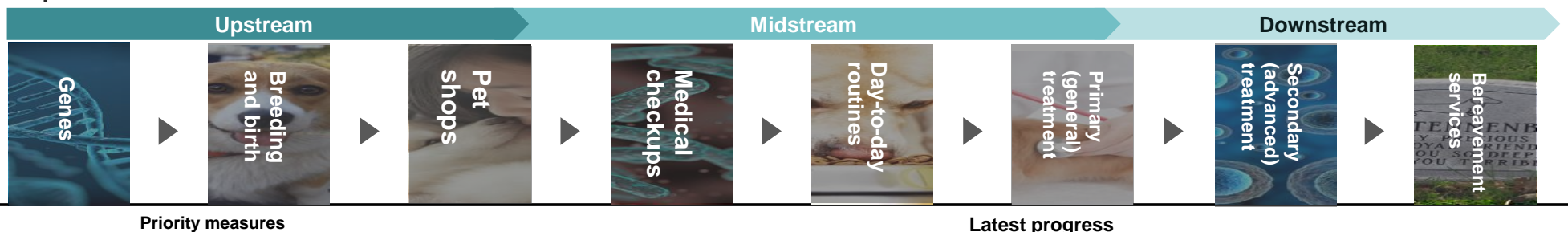
7. Mid-term management plan: progress of FY2020 priority measures

Further increase profitability and pursue uniqueness of the pet insurance business (reduction in insurance payouts and expenses)

Priority measures	Latest progress
(1) Expand and strengthen sales channels (breeders, adoption, veterinary hospitals, etc.)	<ul style="list-style-type: none"> ■ Promoted efforts to expand sales channels such as online, matching sites, breeders, adoption, and veterinary hospitals ■ Promoted efforts in collaboration with SIMNET to increase the insured rate and merge the real and digital worlds in view of the planned revision of Act on Welfare and Management of Animals <ul style="list-style-type: none"> ⇒ The insured rate continued to rise as more registered breeders began acting as agencies, selling insurance policies face to face ● The number of new policies in Apr-Dec surpassed 159,000 (over 52,000 in Oct-Dec) ● The number of policies in force surpassed 896,000 (+12.6% YoY) ● Increased applications for Doubutsu Kenkatsu contributed to the recovery of the renewal rate (over 88% in Oct-Dec) ● Investment revenue steadily increased from the planned figure
(2) Expand products and services (enhance unique services including “Doubutsu Kenkatsu”)	
(3) Enhance preventive initiatives for each disease and optimize insurance payouts	
(4) Upgrade and solidify core systems for the future	
(5) Expand group synergies with SIMNET (promote “real” and “digital” fusion)	
(6) Reinforce investment (flexible and dynamic investment, acquisition and development of real estate contributing to group businesses)	

Expansion of new business and acceleration of monetization

(Note)“Doubutsu Kenkatsu”: microbiota measurement + medical checkups



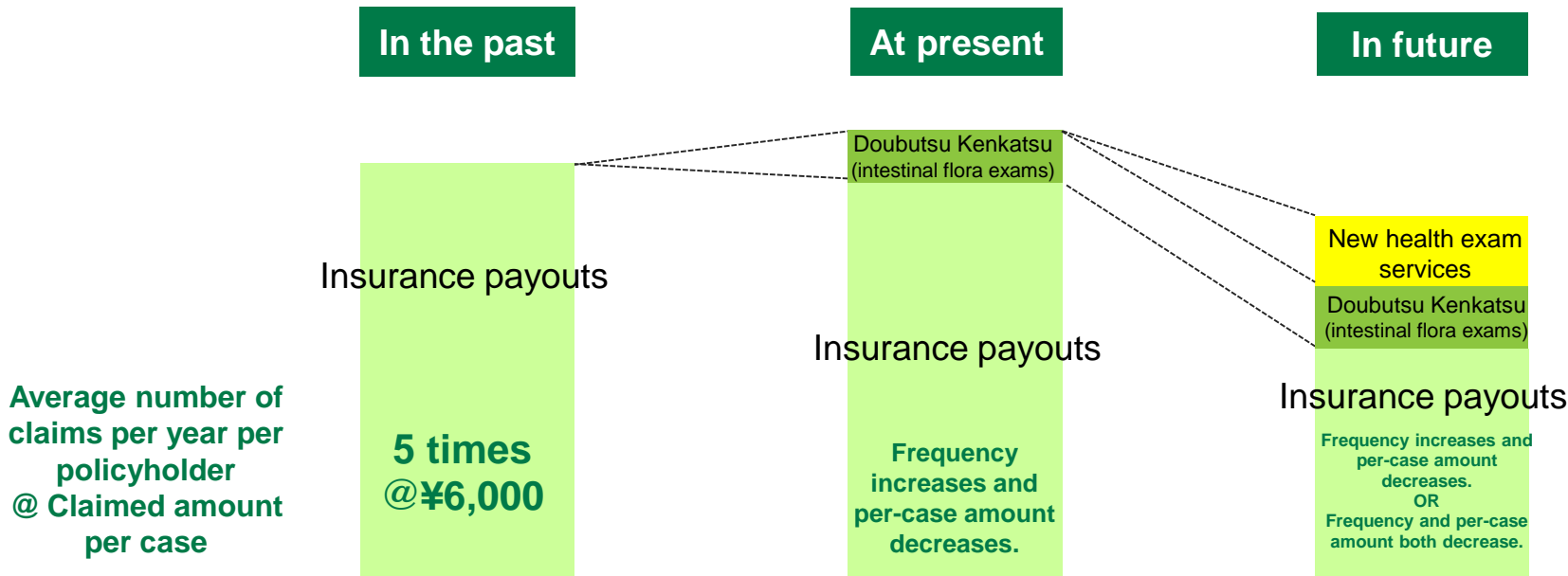
Priority measures	Latest progress
(1) Enhance the genetic testing business	<ul style="list-style-type: none"> ■ Introduction of robots to enhance genetic testing capabilities ■ Have become able to check disposition (behavior), breed, fur color, temperament, parentage, etc. in a single test and are preparing for implementation
(2) Commercialize breeding support	<ul style="list-style-type: none"> ■ Various support services (veterinary services, sales, retired animals, etc.) under study in preparation for the implementation of the revised Act on Welfare and Management of Animals ■ Continued research on breeding and birth (diagnosis of optimal timing for breeding, research aimed at improving technology for storing frozen sperm, etc.)
(3) Promote commercialization of health exams and food and products, etc.	<ul style="list-style-type: none"> ■ The applications for the Doubutsu Kenkatsu services increased steadily, with the accumulated total for this fiscal year already exceeding 100,000 ■ Jointly developed supplements for pets in collaboration with food manufacturers, etc. and started sales
(4) Promote veterinary hospital succession	<ul style="list-style-type: none"> ■ Further expanded hospital management and added core regional hospitals to the group. Continuing implementation of preventive measures as well
(5) Expand and promote practical application of cell therapy and regenerative medicine	<ul style="list-style-type: none"> ■ The Research and Development Partnership for Animal Regenerative Medicine (PARM) established mainly by Anicom Group company with other partners began delivery of mesenchymal stem cells to veterinary hospitals nationwide, promoting cell therapy services for chronic enteropathy as well as 14 diseases of dogs and 12 diseases of cats
(6) Development of business that considers elderly people and elderly pets	<ul style="list-style-type: none"> ■ Examination of development of new services and new products for elderly people and elderly pets
(7) Others (overseas projects, etc.)	<ul style="list-style-type: none"> ■ New patent for a disease prediction system based on face photos of pets ■ Conclusion of a basic agreement for a business alliance with Ping An Property & Casualty Insurance

Expanding!

Promoting!

Advancing!

8. Steps toward the second founding period (1) (Effect of preventive insurance, for illustration purposes)



Note) The chart is for illustrative purposes.

Point of the preventive insurance to become healthy by getting insured!

- Early detection of diseases (ex. kidney disease in cats, etc.) with Doubutsu Kenkatsu (intestinal flora exams), together with
- Addition of new health exam services for various diseases providing services that make policyholders happy for having Anicom's insurance, which is not a non-refundable insurance.

- (1) Adding values also contributes to new policies and increased renewal rate
 - (2) Establishing new treatments, etc. to help reduce the amount of claims paid
- +

To cure "incurable diseases"

- (3) Promote regenerative medicine more aggressively and help reduce insurance payouts by establishing new treatments for intractable diseases

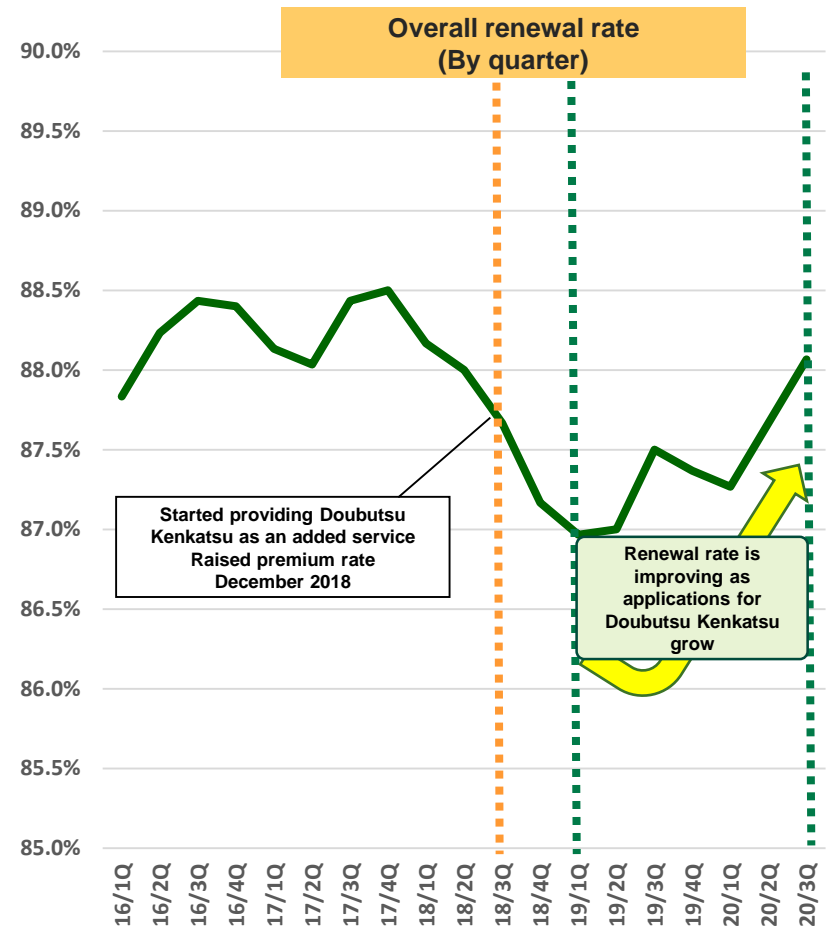
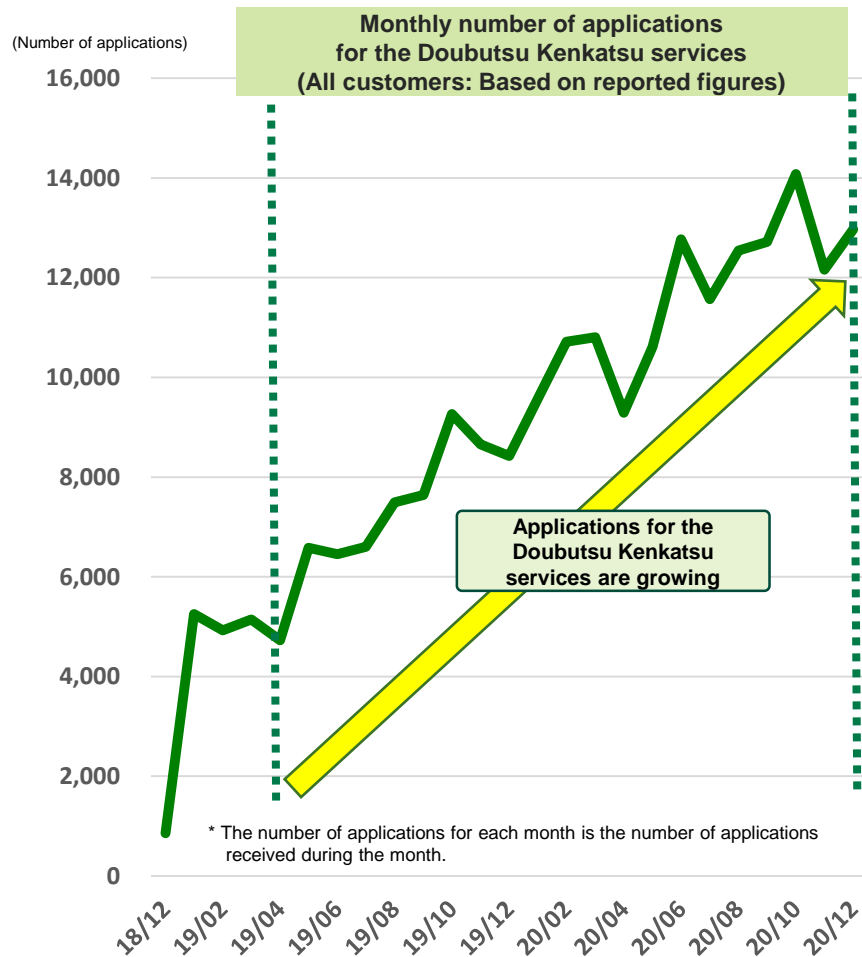
Promote cell therapy services for chronic enteropathy as well as 14 diseases of dogs and 12 diseases of cats through the PARM

- (1) Even though the frequency of hospital visits increases, per-visit amount will decrease. (Decrease in insurance payouts)
- (2) Promote home care (diet therapy, etc.) with no visits to the hospital (Decrease in insurance payouts)

Decrease in the total amount of insurance payouts and incidental service expenses (Decrease in the combined ratio)

9. Steps toward the second founding period (2) (Effect of preventive insurance: Higher renewal rate)

- The monthly number of applications for the Doubutsu Kenkatsu (medical checkups) services keeps above 10,000 since FY2020
- The increased renewal rate for customers using the Doubutsu Kenkatsu services boosted the overall renewal rate by about 1% from the previous fiscal year



10. Steps toward the second founding period (3) (New patent for a disease prediction system based on face photos of pets)

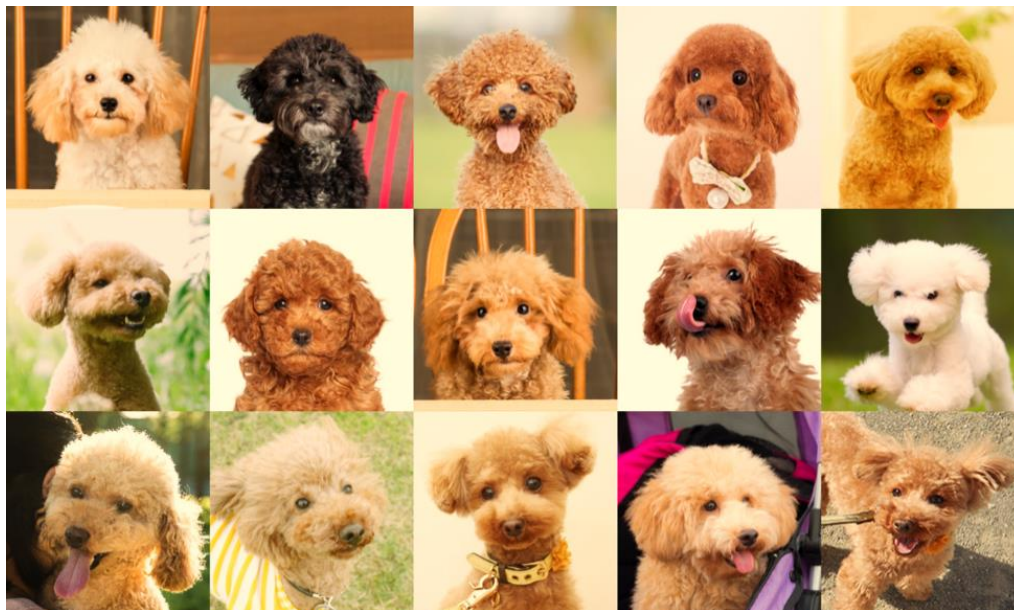
Granted a patent for the world's first system* for disease prediction using face photos of pets (Patent No. 6734457)

* The world's first (based on our research) system and method to predict diseases based on face photos of animals using a learned model trained with face photos of animals and whether they did or did not develop diseases within a certain period of time from the day the photos were taken.

Our new patented disease prediction system is a step toward “autonomous health management”!

In addition to the traditional “prevention” through knowledge dissemination and awareness raising using insurance payout data (e.g., breed, age, claim detail) , **the patent enables a certain level of prediction of disease risks based solely on face photos using Artificial Intelligence (AI)**

[The prediction accuracy of ophthalmic diseases of toy poodle within a year was about 70%]



Going forward, we aim to further sophisticate the evaluation of disease risks by focusing on conditions of individual animals, not just on general information such as breed and age. Our goal is to realize one-to-one “prevention” by providing new services using the patent.

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

	(1) 3Q FY03/20	(2) End-FY03/20	(3) 3Q FY03/21	(3)-(1) YoY		(3)-(2) Vs. previous year-end		End-FY03/21 (forecast as of May 12)
				Numbers	Rate	Numbers	Rate	
(1) Policies in force	796,167	816,254	896,247	100,080	12.6 %	79,993	9.8 %	885,000
(2) New policies	121,183	167,318	159,368	38,185	31.5 %	-	-	183,600
(3) Renewal rate	87.1 %	87.2 %	87.7 %	-	-	-	-	87.0 %
(4) Insurance payout cases	2,558 ,000	3,407 ,000	2,829 ,000	270 ,000	10.6 %	-	-	3,586 ,000
(5) Veterinary hospitals accepting Anicom	6,482	6,466	6,505	23	0.4 %	39	0.6 %	6,650

	3Q FY03/20	3Q FY03/21	YoY Change	End-FY03/21 (forecast as of May 12)
(6) E/I loss ratio	58.5 %	59.3 %	0.8 Pt	57.6 %
(7) Expense ratio (based on earned premiums)	37.3 %	37.5 %	0.2 Pt	37.2 %
(8) Combined ratio (based on earned premiums)	95.8 %	96.8 %	1.0 Pt	94.8 %

	End-FY03/20	3Q FY03/21	Vs. previous year-end	End-FY03/21 (forecast as of May 12)
(9) Solvency margin ratio (non-consolidated)	357.0 %	353.9 %	-3.1 pt	Around 370.0 %

	3Q FY03/20	3Q FY03/21	YoY Change
(10) No. of applicants of Doubutsu Kenkatsu (gut microbiota testing)	65,843	108,721	42,878
(11) No. of samples for genetic testing	115,003	77,714	-37,289

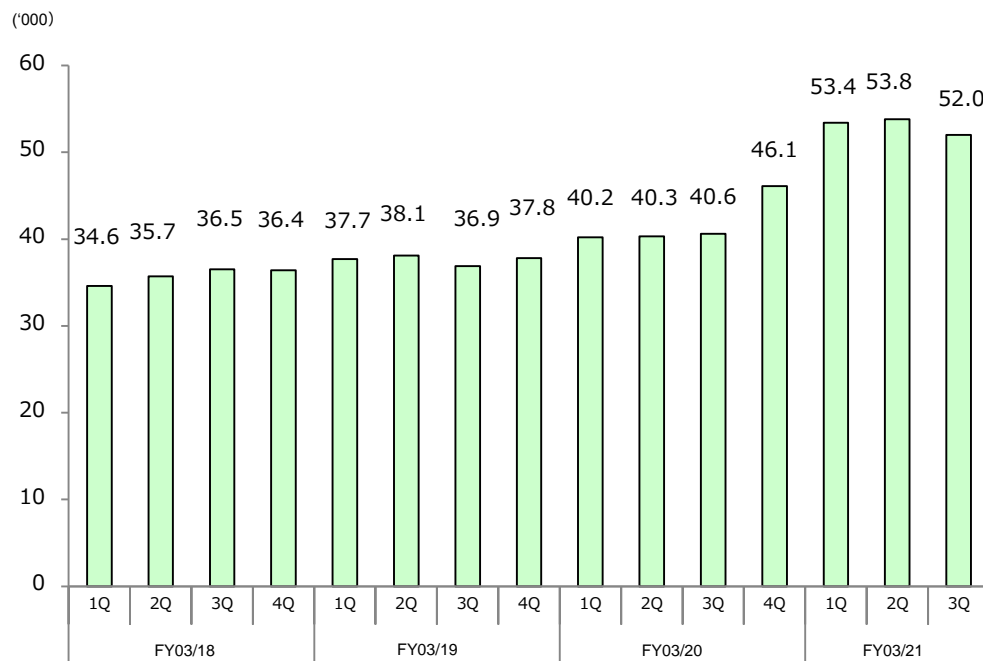
2. Anicom Insurance (non-consolidated): Recurring revenue indicators

(trend in new policies / number of pet insurance policies in force)



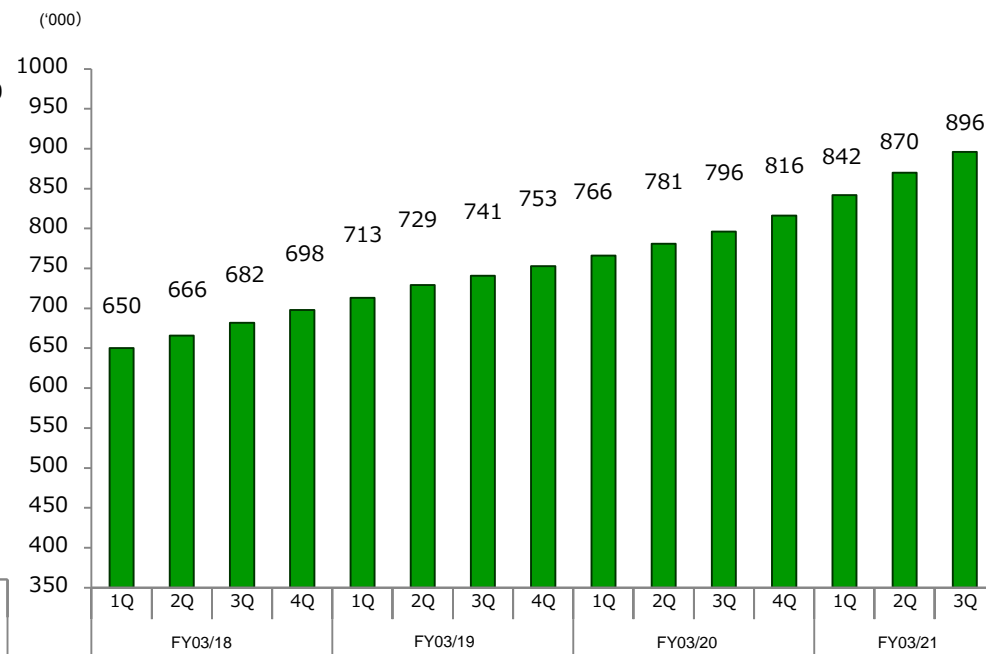
■ Quarterly trend in number of new policies

Steady increase in number of new policies



■ Quarterly trend in number of policies in force

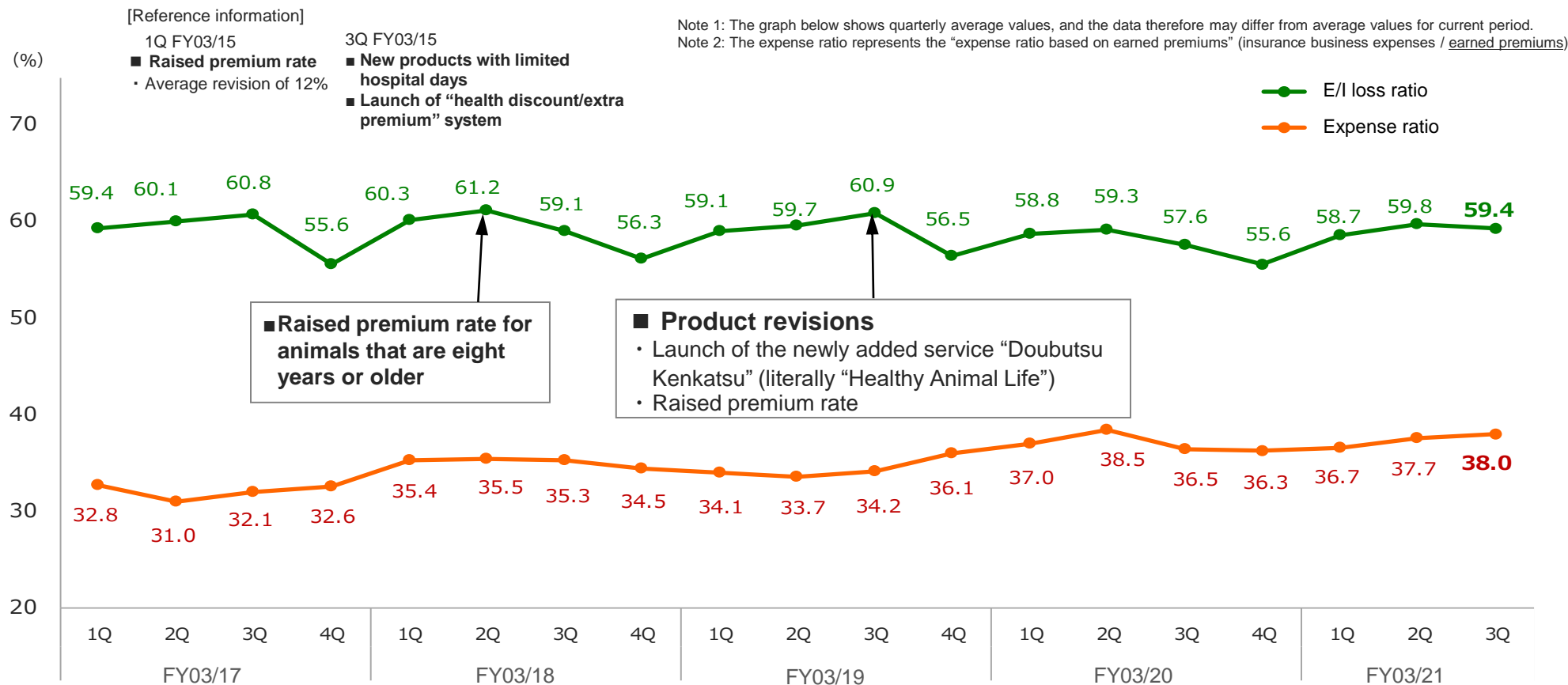
Steady increase in number of policies in force



- **The number of new policies increased steadily.** On a combined newborn/general channels basis, **amounted to 159,000, going above the target line with a progress rate of 87% to the annual target of 183,000.**
- **The renewal rate of existing policies was stable at middle of 87% (over 88% in Oct-Dec).**
- **The number of policies in force increased steadily YoY (+12.6%)** as a result of continuous efforts to strengthen new initiatives, the continuing impact of COVID-19 since 1Q, increased renewal rate, etc.
- 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.

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

(Loss ratio (E/I), expense ratio based on earned premiums)

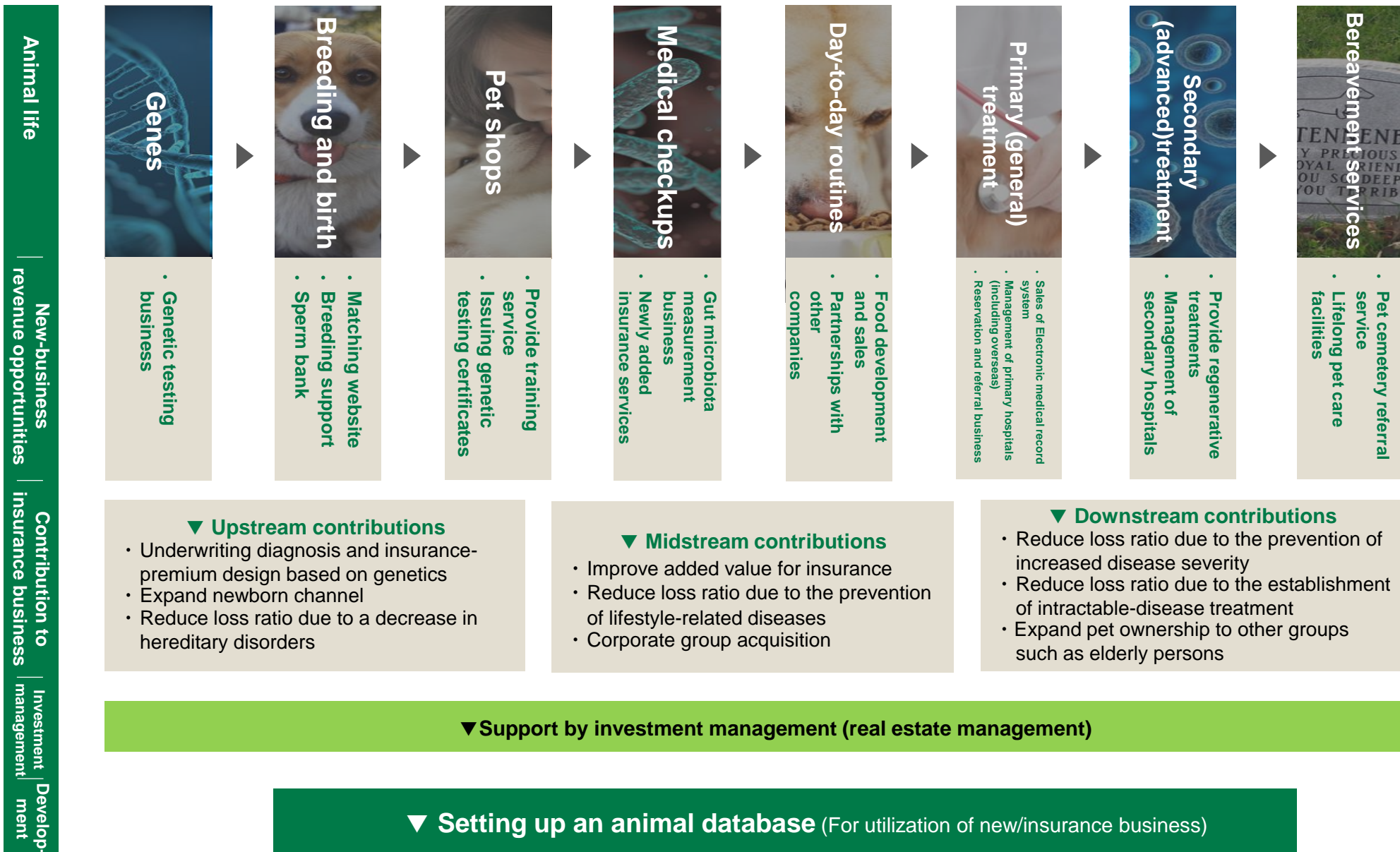


- **The E/I loss ratio** normally increases in 1Q and 2Q, which are the busy season for veterinary hospitals due to rabies inoculations and other factors, and then improves in 3Q and 4Q as hospital visits decline. The ratio for the reporting quarter **increased YoY** as the number of hospital visits increased primarily as a result of people spending more time at home under the influence of COVID-19.

- **The expense ratio improved YoY** even with continued active investment in business expansion.

The net improvement was achieved thanks to **efficient expense management even though the number of applications for the proprietary Doubutsu Kenkatsu services continued to increase.**

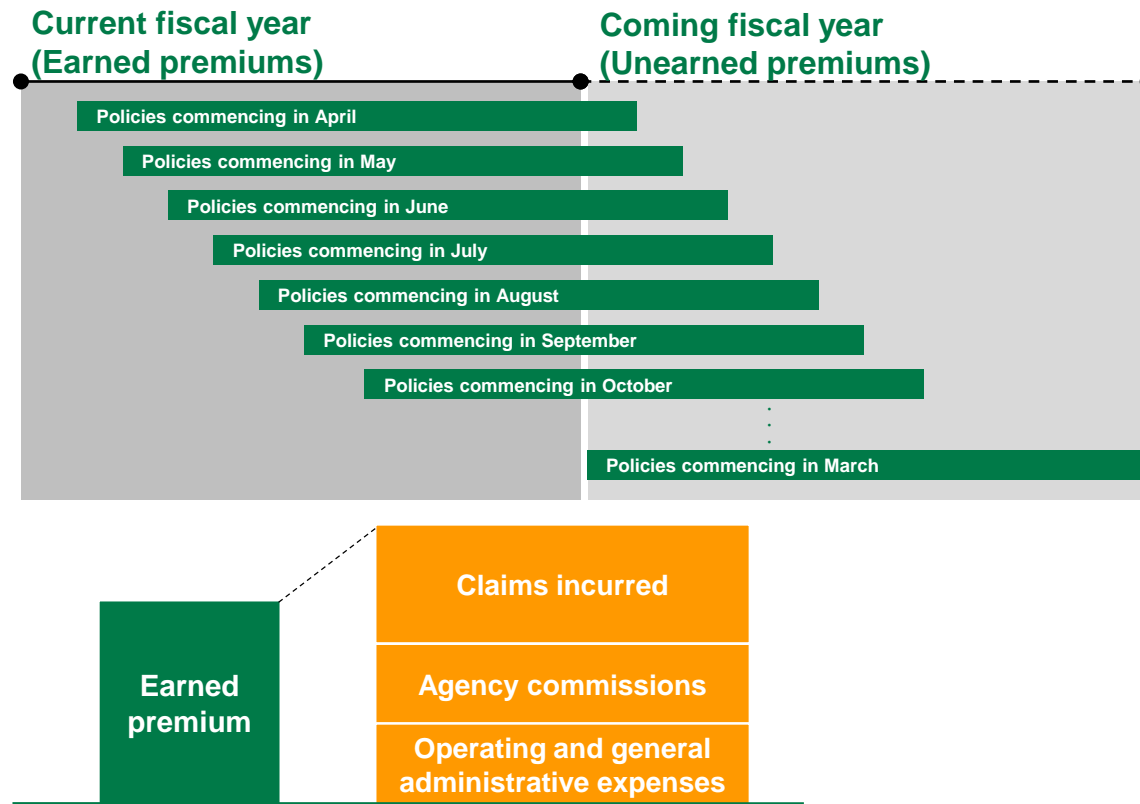
4. Peripheral new-business revenue opportunities and synergy with pet insurance



(Reference) Impact of insurance accounting on recurring profits/losses ①

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)

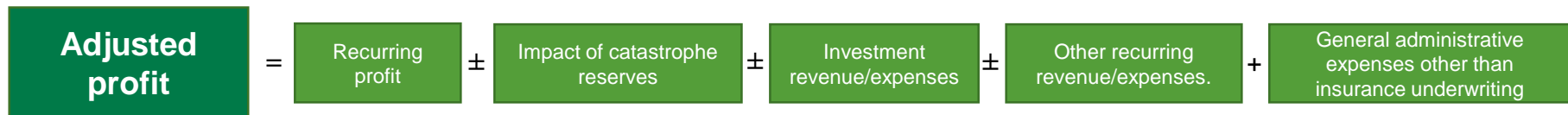
- Every non-life insurance company must accumulate catastrophe reserves each fiscal year in order to prepare for natural disasters.
- The reserve is liquidated (decreases expenses) when the net loss ratio* exceeds 50%.
*Net claims paid ÷ Net premiums written

3. Adjusted profit

- Anicom's in house indicator, which reflects effective profits/losses from pet insurance business, adjusts for impact of: catastrophe reserves (exclusive to Japanese non-life insurance business), investment revenue/expenses and other recurring revenue/expenses. The calculation formula is below.
- The adjusted profit, which is not impacted by the above catastrophe reserves, etc.^(*), is considered an important indicator for showing the effective profits/losses from pet insurance business. If factors such as catastrophe reserves are excluded, the adjusted profit might increase even if the recurring profit has decreased.

*Does not include the impact of unearned premium shown in 1.

Method to calculate the Anicom's adjusted profit





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