

FY03/19
Financial Results Briefing Presentation

May 9, 2019



Security Code : 8715

1. Consolidated recurring revenue, recurring profit, adjusted profit

■ **Recurring revenue** : JPY35,829mn (FY03/18: JPY32,339mn; **+10.8% YoY**)
 (of which underwriting revenue : JPY34,535mn, FY03/18: JPY31,290mn; +10.4 % YoY)

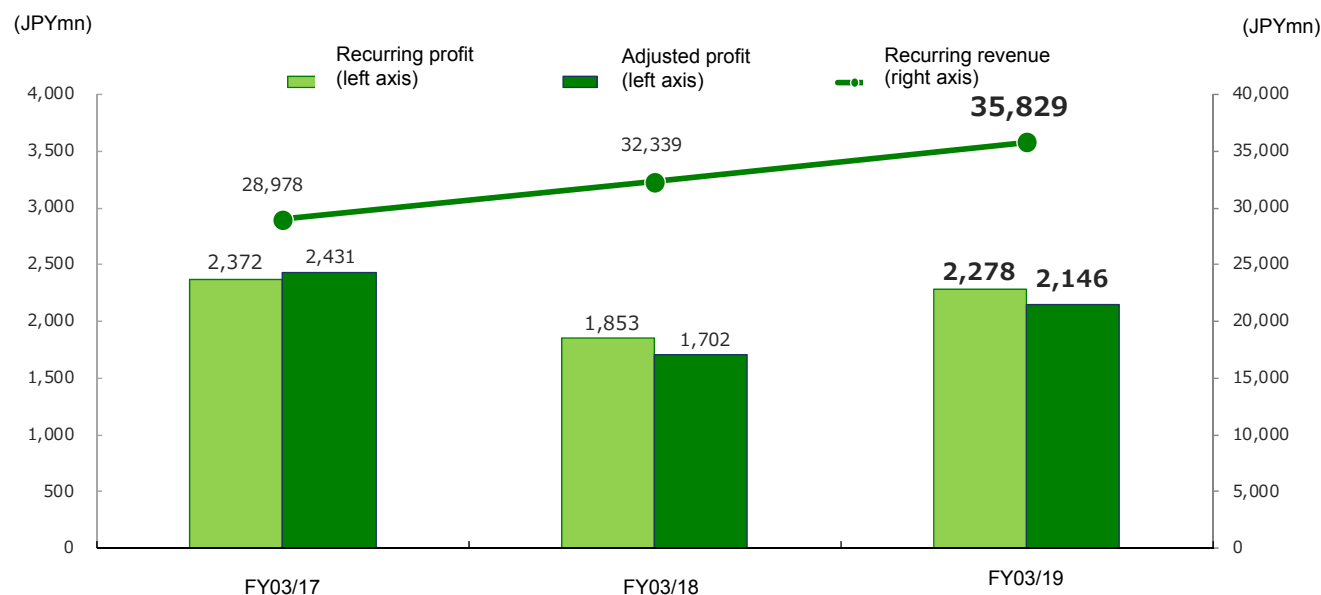
■ **Recurring profit** : JPY2,278mn (FY03/18: JPY1,853 mn; **+23.0% YoY**)

- **The number of policies in force and underwriting revenue expanded at a steady pace** (+7.8% and 10.4% YoY) on the strengthening of new initiatives, stable renewal rates, and product revisions.
- Due to improvements in the loss ratio and expense ratio, **the adjusted profit (Note), which shows effective profits/losses from the pet insurance business, increased considerably.**
- Other recurring revenue, including operation of hospitals, also expanded at a steady pace. As a result, **the group's consolidated recurring revenue and recurring profit both increased significantly.**

(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. FY03/19 consolidated earnings overview

(JPYmn)

	FY03/18	FY03/19	Change
Recurring revenue	32,339	35,829	10.8 %
Underwriting revenue	31,290	34,535	10.4 %
Investment revenue	420	383	- 8.8 %
Other recurring revenue	628	910	44.8 %
Recurring expenses	30,486	33,550	10.1 %
Underwriting expenses	21,771	24,071	10.6 %
Net claims paid	(16,591)	(18,456)	11.2 %
Loss adjustment expenses	(1,004)	(1,003)	- 0.0 %
Net commission and collection expenses	(2,660)	(3,077)	15.7 %
Provision for reserve for outstanding losses and claims	(212)	(196)	- 7.4 %
Provision for underwriting reserves	(1,302)	(1,336)	2.6 %
Of which unearned premiums	(1,199)	(1,231)	2.7 %
Of which catastrophe reserve	(103)	(104)	1.4 %
Investment expenses	8	10	18.5 %
Operating and general administrative expenses	8,479	9,112	7.5 %
Other recurring expenses	227	356	56.9 %
Recurring profit	1,853	2,278	23.0 %
Net profit	1,320	1,610	22.0 %

Earned premiums	30,090	33,303	10.7 %
Claims incurred (including loss adjustment expenses)	17,808	19,657	10.4 %
E/I loss ratio (1)	59.2 %	59.0 %	-0.2 pt
Expense ratio (based on earned premiums) (2)	35.2 %	34.5 %	-0.7 pt
Combined ratio (based on earned premiums) (1)+(2)	94.4 %	93.5 %	-0.9 pt

Major accounting items and reasons for changes

(1) Underwriting revenue (For details, refer to "6. Anicom Insurance (non-consolidated): Recurring revenue indicators (P. 7))

- Number of policies in force increased 7.8% YoY.
- Cumulative number of new policies increased 5.1% YoY.
- Growth in renewed policies, product (rate) revisions, and higher insurance premiums accompanying advancing age of animals also delivered contributions.

(2) Investment revenue

- Secured investment revenue mainly from domestic securities investment and REITs. Decreased YoY due to the market environment.

(3) Other recurring revenue

- Other non-insurance recurring revenue, including operation of hospitals, also expanded at a steady pace.

(4) Net claims paid

- Increased due to an increase in the number of policies in force, but the YoY growth rate has been declining.

(5) Net commissions and collection expenses

- Mainly commissions paid to sales agents; increased in proportion to the growth in underwriting revenue, but the YoY growth rate has been declining.

(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.
- 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 (≒ accrued premiums)

(8) Catastrophe reserve

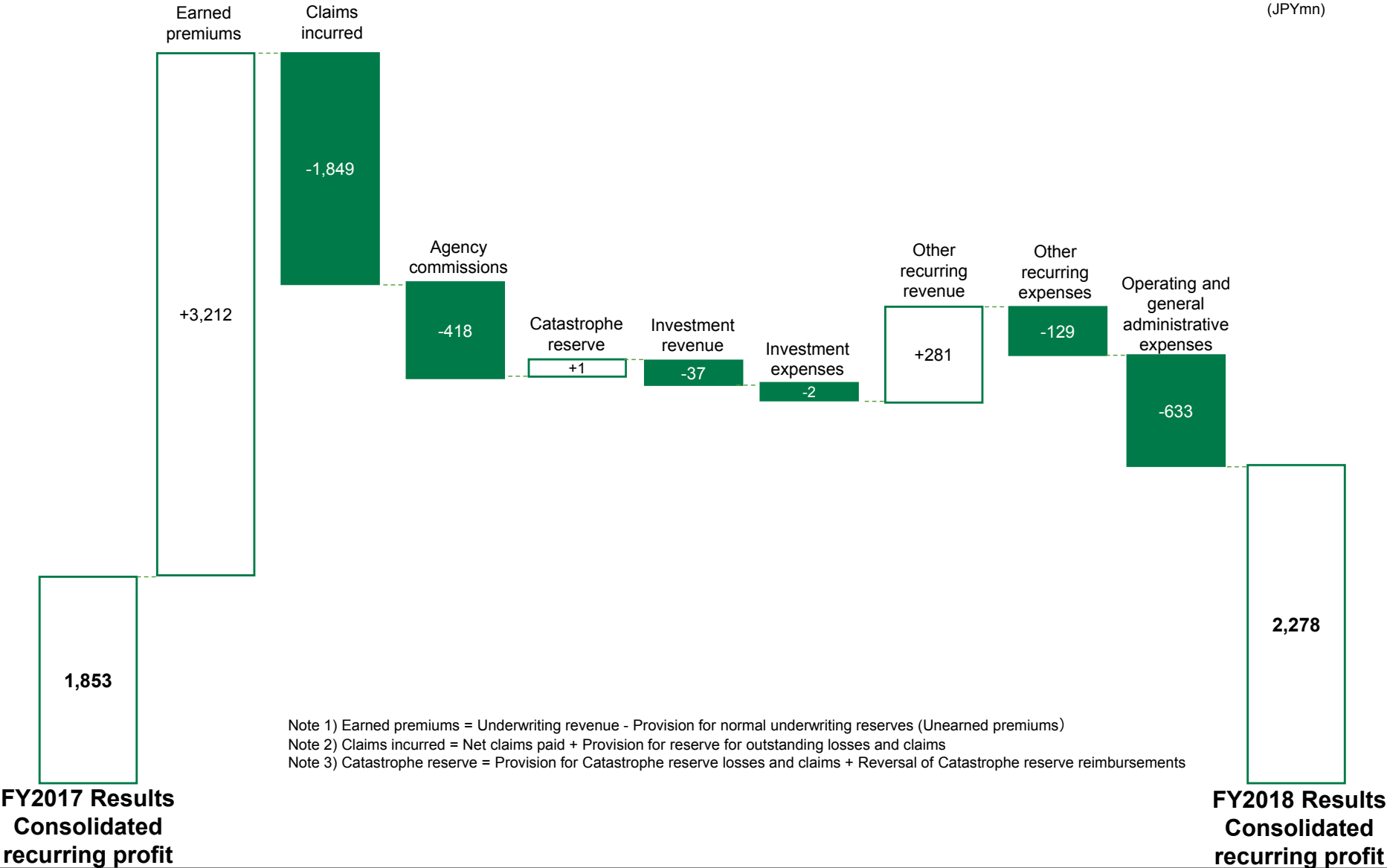
- Reserve to which 3.2% of annual premium revenue is systematically allocated each fiscal year.
- At the same time, the reserve may be drawn down until the net loss ratio reaches 50% with the year-start balance serving as the limit. The provision is recorded as a net amount.
- Over the full year, an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

(9) Combined ratio (earned premiums basis)

- The combined ratio was down YoY for Anicom Insurance(non-consolidated). It tends to be improving as we planned.



Significant increase in profit due to a steady increase in number of policies in force, underwriting revenue, and improvements in the loss ratio and expense ratio



4. Consolidated balance sheet summary

(JPYmn)

	FY03/18	FY03/19	Change
Total assets	31,164	42,390	36.0 %
Cash and bank deposits	19,078	29,643	55.4 %
Marketable securities	4,625	4,660	0.8 %
Tangible fixed assets	1,359	1,367	0.6 %
Intangible fixed assets	1,462	1,506	3.1 %
Other assets	4,104	4,569	11.3 %
Deferred tax assets	623	718	15.3 %
Allowance for doubtful accounts	-88	-76	- %
Total liabilities	17,576	20,156	14.7 %
Reserve for insurance policy liabilities	14,508	16,041	10.6 %
Of which loss reserves	1,952	2,148	10.1 %
Of which underwriting reserves	12,556	13,893	10.6 %
Other liabilities	2,845	3,867	35.9 %
Provision for bonus	173	191	10.5 %
Reserve for price fluctuations	48	54	13.4 %
Total net assets	13,587	22,234	63.6 %
Shareholders' equity	13,546	22,233	64.1 %
Of which capital	4,443	7,950	78.9 %
Of which capital surplus	4,333	7,840	80.9 %
Of which retained earnings	4,770	6,443	35.1 %
Of which treasury shares	0	0	- %
Valuation and transaction adjustments	-128	-150	- %
Subscription rights to shares	169	151	-10.8 %
Total liabilities and net assets	31,164	42,390	36.0 %

Major accounting items and reasons for changes

(1) Cash and deposits

- Increased due to the increased annual premium revenue and issuance of shares (financing), etc. resulting from the exercising of subscription rights to shares.

(2) Marketable securities

- Mainly investment in domestic securities investment and REITS.

(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 (JPY12,786mn; unearned premiums) and 2. catastrophe reserve (JPY1,106mn; 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) Capital, capital surplus

- Increased due to the issuance of shares (financing), etc. resulting from the exercising of subscription rights to shares.

5. Consolidated cash flows summary

(JPYmn)

	FY03/18	FY03/19
Cash flow from operating activities	3,393	4,359
Cash flow from investing activities	253	- 487
Cash flow from financing activities	- 10	6,693
Change in cash and cash equivalents	3,635	10,564
Year-start balance for cash and cash equivalents	13,492	17,128
Year-end balance for cash and cash equivalents	17,128	27,693

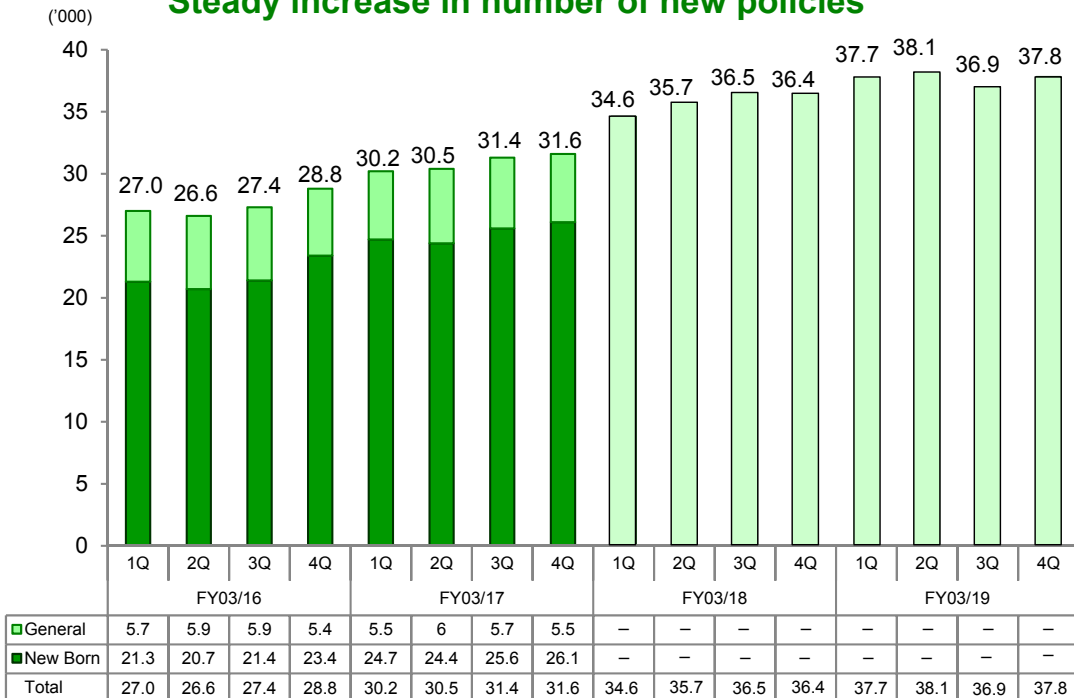
- Steady growth in the number of policies in force has led to stable cash flows from operating activities.
- Cash flows from investment activities are being controlled via ongoing investment in assets and recovery through asset sales.
- Cash flows from financing activities is due to the issuance of shares, etc. (financing) resulting from the exercising of subscription rights to shares.

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

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

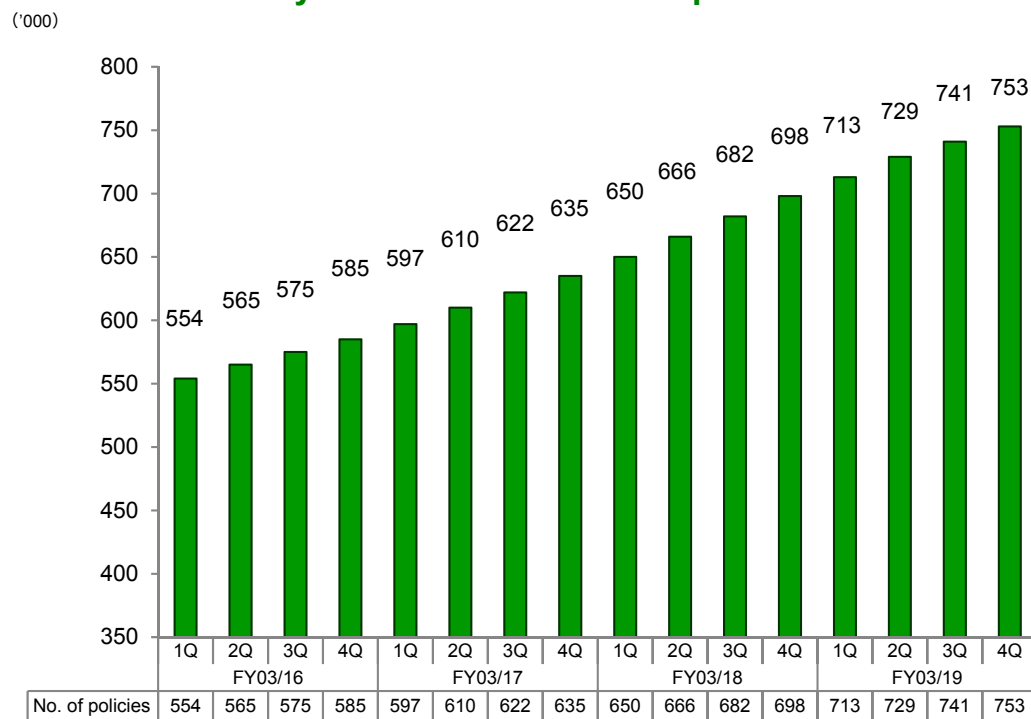
■ Quarterly trend in number of new policies

Steady increase in number of new policies



■ Quarterly trend in number of policies in force

Steady increase in number of policies in force



* Newborn: Pet shop channel

• **The annual target for the number of new policies was not reached, but it recovered by the end of the period.**

Since the newborn channel temporarily decreased, due to a decrease in pet sales in Nov.-Dec., the number of new policies did not reach the forecast, but it recovered toward the end of the period. The general channel also steadily expanded through use of Web advertisements, etc.

• **Renewal rate of existing policies was around 88%** (After Dec., it temporarily decreased due to product revisions / premium revisions in Dec.).

• Despite such circumstances, **the number of policies in force is steadily increasing.**

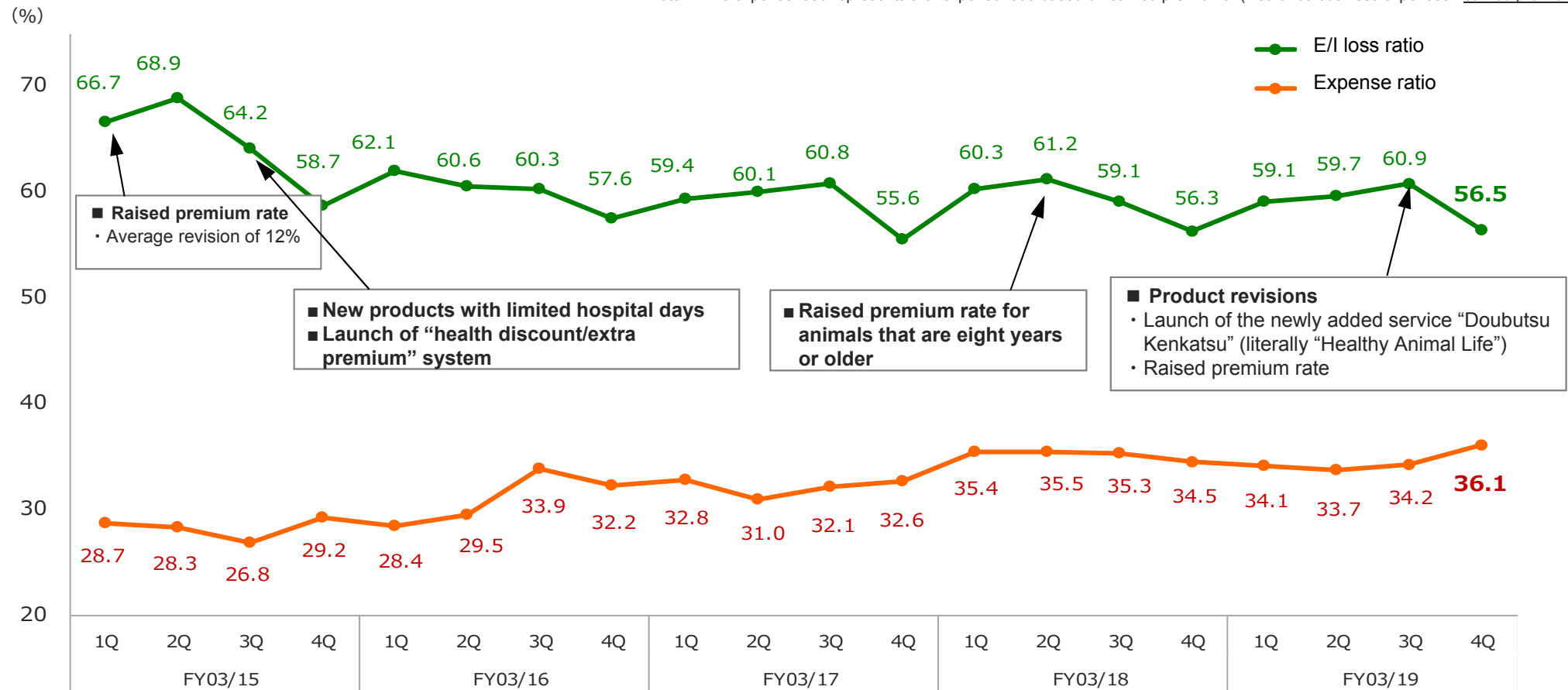
• The ratio of 50%-coverage products to 70%-coverage products is roughly 60:40 for total policies in force, with 50%-coverage products accounting for a larger share. However, 70%-coverage products account for over 50% of newly acquired policies.

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

(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 FY03/19.

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. However, in 3Q of the fiscal year under review, it increased YoY due to the weather effect and other factors. Due to steady improvements with the product portfolio throughout the year, **the loss ratio was at the same level in 4Q YoY (according to the fiscal plan for all of FY2018).**

- Because of continual investment aimed at expansion of business volume, **the expense ratio increased YoY.**

8. Mid-term management plan: progress of FY03/19 priority measures

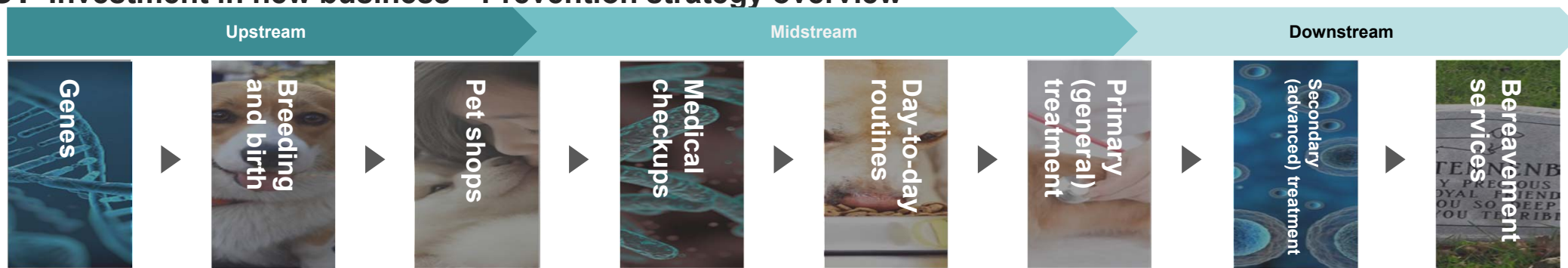
1. Expand sales (Insurance business)

2. Reduce expenses (Insurance business)

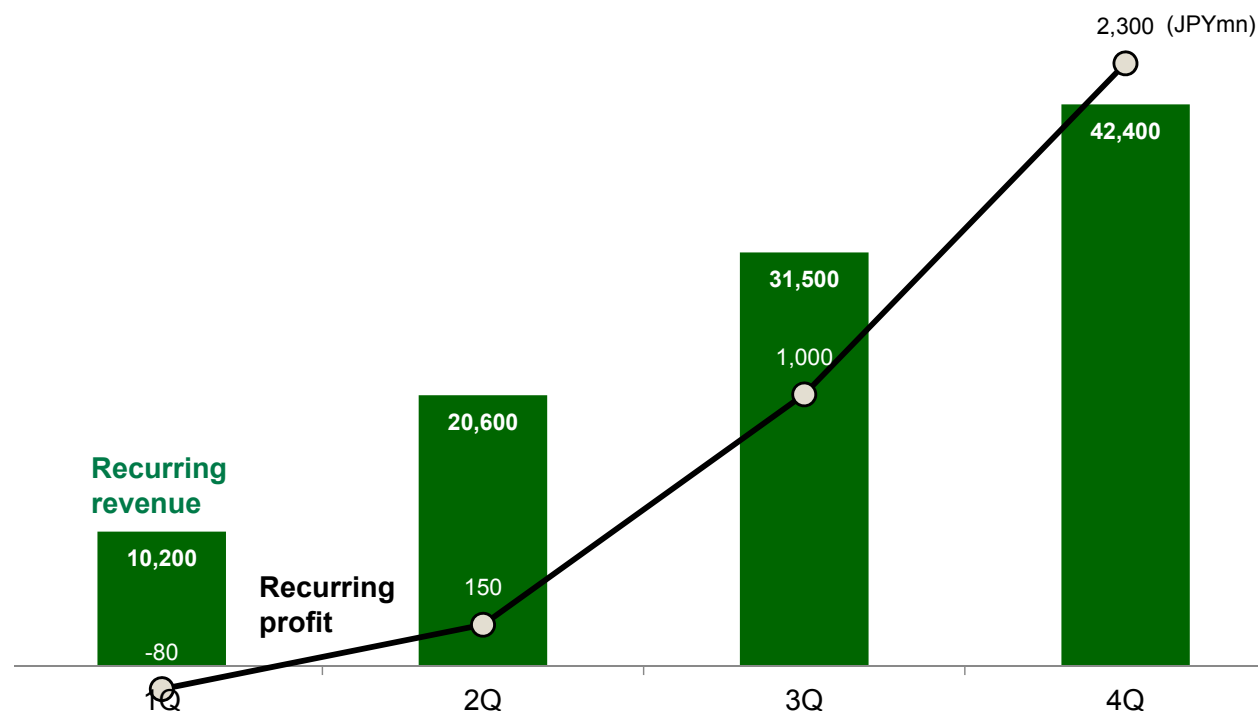
Priority measures	Recent progress
(1) Acquire large volume of policies via general channel (efficient online strategy)	<ul style="list-style-type: none"> ■ Made it possible to buy insurance through LINE. This is the first service of its kind in the industry. ■ Started selling pet insurance with Sumitomo Mitsui Banking Corporation. ■ Agreed to a business partnership with Seibu Pet Care Co., Ltd. ■ Announced a new product including medical-checkup-service aimed at prevention-oriented insurance. ■ Stable renewal rate trend. ■ Added target animals to “Dobutsu Kenpo Happy” (Chinchillas and snakes) ⇒ The number of policies in force exceeded 750,000, but the annual plan (target) was not reached.
(2) Further expand pet shop channel	
(3) Pioneer new channels (breeders, adoption sessions, etc.)	
(4) Increase renewal rate of no claim policies and second-year contracts of newborn policies	
(5) Develop new products	

Priority measures	Recent progress
(1) Normalize insurance payouts (rigorous prevention of erroneous and false claims)	<ul style="list-style-type: none"> ■ Ongoing implementation of various preventive measures (otitis externa, fracture prevention, etc.). ■ Started up doubutsushinryouhi.com (literally “animal medical expenses.com”). <p>⇒ The loss ratio improved YoY to 59%. This result was in accordance with the fiscal plan.</p>
(2) Expand lifestyle-related disease prevention programs for pets	

3. Investment in new business · Prevention strategy overview



Priority measures		Recent progress
(1)	Enhance genetic testing business (support business)	<ul style="list-style-type: none"> ■ Promoting genetic testing business, and is being expanded to when sales are made at pet shops. ■ Launched the next-generation sequencer Ion GeneStudio™ S5 Prime System. ■ Conference presentation: “the degree of inbreeding and genetic structure of dogs and cats based on collective genome analysis”. ■ Continued research related to breeding and birth. Currently implementing treatment support for breeders.
(2)	Expand sales of services such as gut microbiota testing	<ul style="list-style-type: none"> ■ Started (Dec, 2018) providing insurance incorporating gut microbiota measurement and a medical-examination recommendation service ■ Developed a quantifiable stool collection kit and have applied for a patent.
(3)	Promote preventative veterinary care	<ul style="list-style-type: none"> ■ Continued operating hospitals specializing in illness prevention and implementing preventive measures.
(4)	Grow and add new features to medical records management system	<ul style="list-style-type: none"> ■ Stared collaborating with EPARK business. Started co-handling reservations through a website at which you can search for animal hospitals accepting Anicom.
(5)	Practical application and expansion of cell therapy and regenerative medicine	<ul style="list-style-type: none"> ■ Started providing cell treatment targeting intractable diseases (keratoconjunctivitis sicca, chronic enteropathy).
(6)	Begin overseas expansion of animal hospital business	<ul style="list-style-type: none"> ■ Opened an animal hospital in Shanghai.
(7)	Other	<ul style="list-style-type: none"> ■ Started providing a pet-product evaluation service “Jui no Ichioishi” (literally “veterinarian recommendations”). ■ Supervised the renovation of condominiums to make them suitable for living with cats. ■ Issued “White Paper on Household Animals 2018”.



Growth from Pet Insurance + New Business

| Numerical plan for FY2019 (cumulative from the beginning of the fiscal year)

- Growth in all pet-related business:
in both pet insurance and in new business
- Pet insurance profits tend to increase
toward the end of the FY.

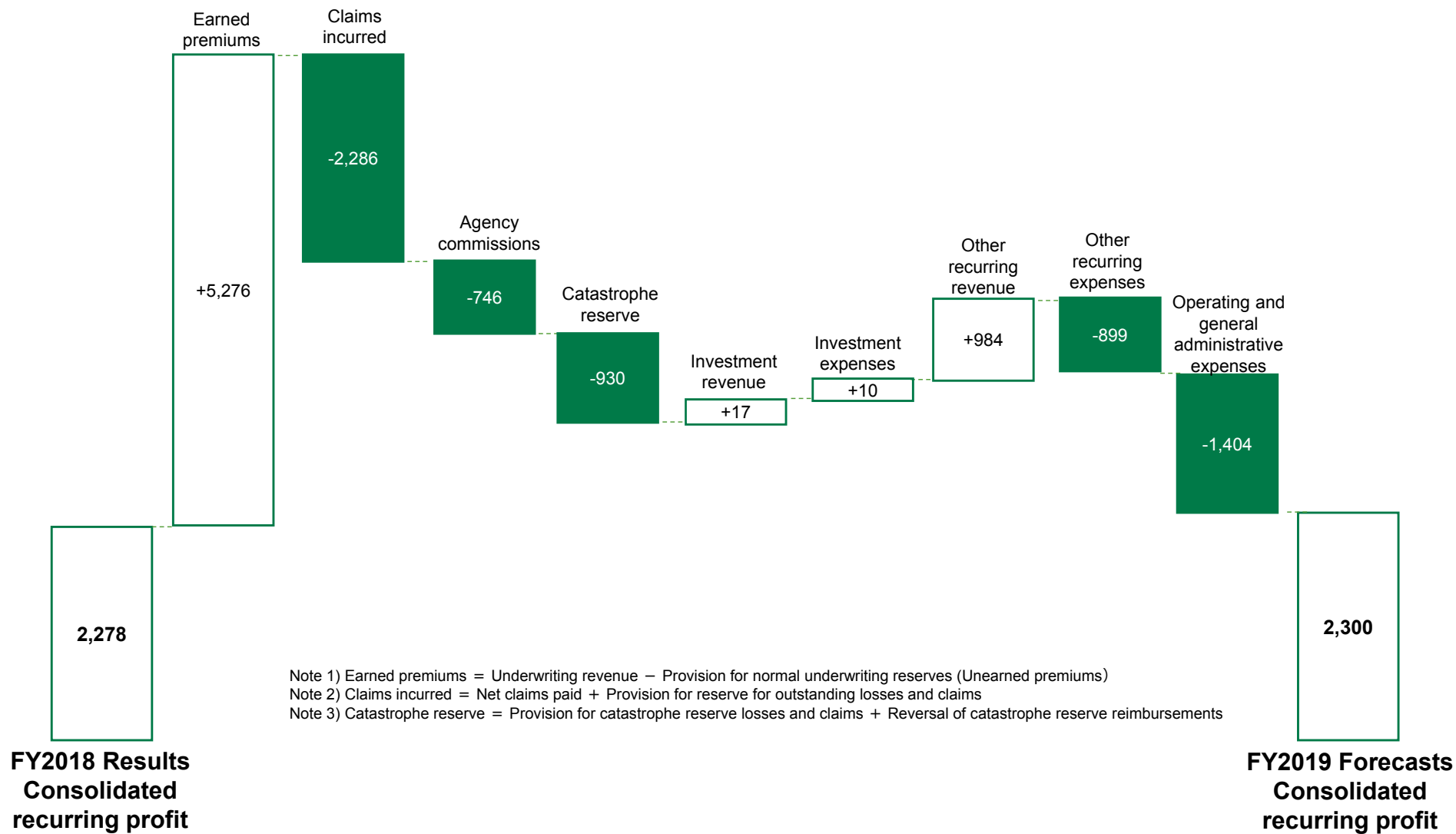
[Supplemental Information]

There will be a deficit of 80 million yen with recurring profit in 1Q, but this is mainly due to the increased premium related to the premium revisions made last December. Generally, an increase in premiums contributes to an increase in recurring revenue, but according to Japanese laws and regulations / insurance accounting, unearned premium portions are carried over as underwriting reserve (unearned premiums), so when the premium for the relevant unearned premium portion increases, it becomes a profit-lowering factor.

10. Factors related to changes in consolidated recurring profit (FY2018 Results vs FY2019 Forecasts)

Profit continued to increase though the affect of consumption tax increase, catastrophe reserve, and expenses for new business expansion increased

(JPYmn)



APPENDIX

- 1 . Major management indicators
- 2 . Peripheral new-business revenue opportunities and synergy with pet insurance

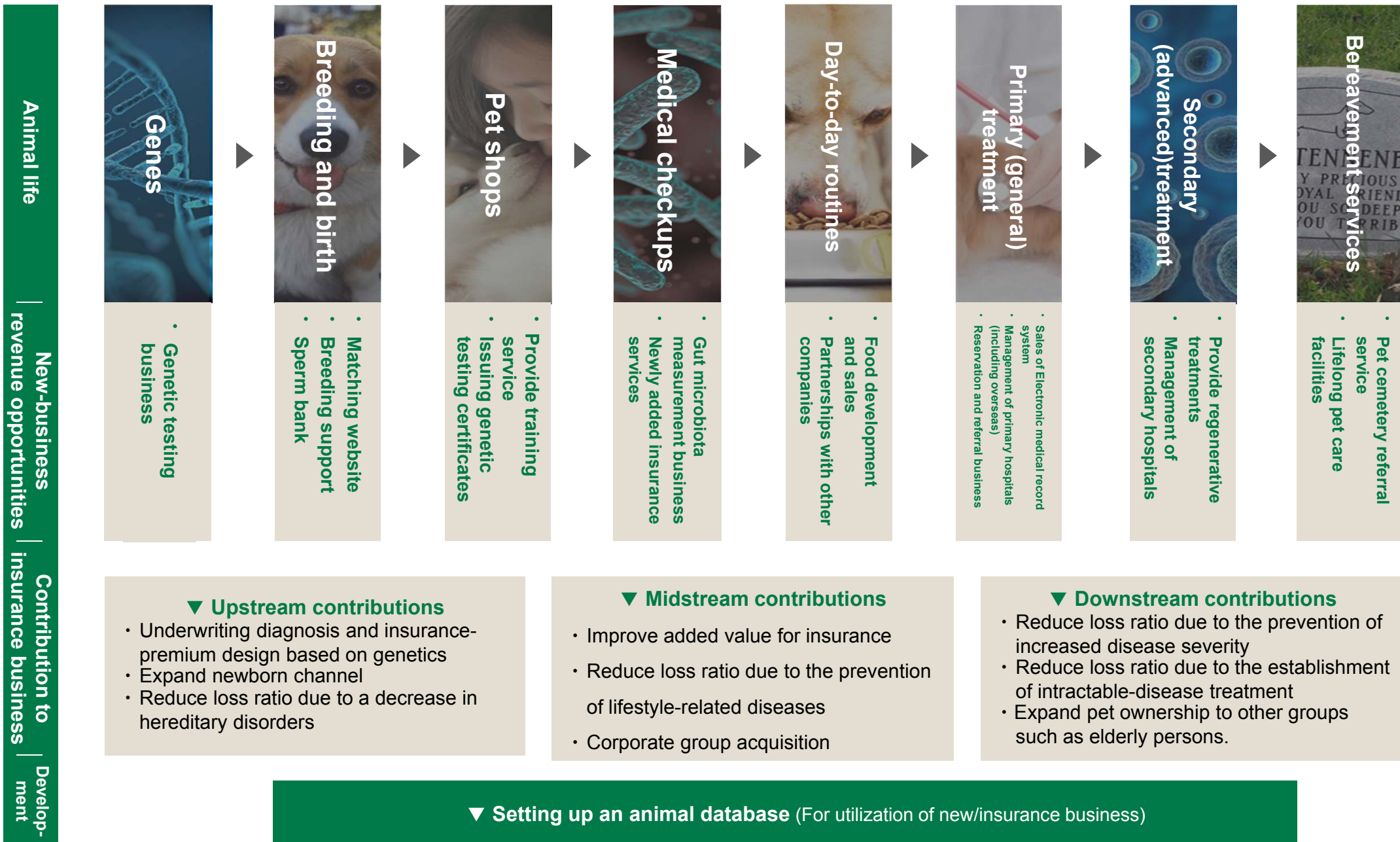
1. Major management indicators

	End-FY03/18	End-FY03/19	Vs. previous year-end		End-FY03/20 (forecast as of May 9)
			Numbers	Rate	
① Policies in force	698,566	753,332	54,766	7.8 %	813,000
② New policies	143,365	150,625	7,260	5.1 %	164,620
③ Renewal rate	88.2 %	87.7 %	-	-	87.0 %
④ Insurance payout cases	3,006 ,000	3,204 ,000	197 ,000	6.6 %	3,488 ,000
⑤ Animal hospitals accepting Anicom	6,265	6,417	152	2.4 %	6,400

	End-FY03/18	End-FY03/19	YoY change	FY03/20 (forecast as of May 9)
⑥ E/I loss ratio	59.2 %	59.0 %	Up 0.2 Pt	56.9 %
⑦ Expense ratio (based on earned premiums)	35.2 %	34.5 %	Up 0.7 Pt	35.4 %
⑧ Combined ratio (based on earned premiums)	94.4 %	93.5 %	Up 0.9 Pt	92.3 %

	End-FY03/18	End-FY03/19	YoY change	FY03/20 (forecast as of May 9)
⑨ Solvency margin ratio (non-consolidated)	305.6 %	379.8 %	74.2 Pt	Around 380.0 %

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

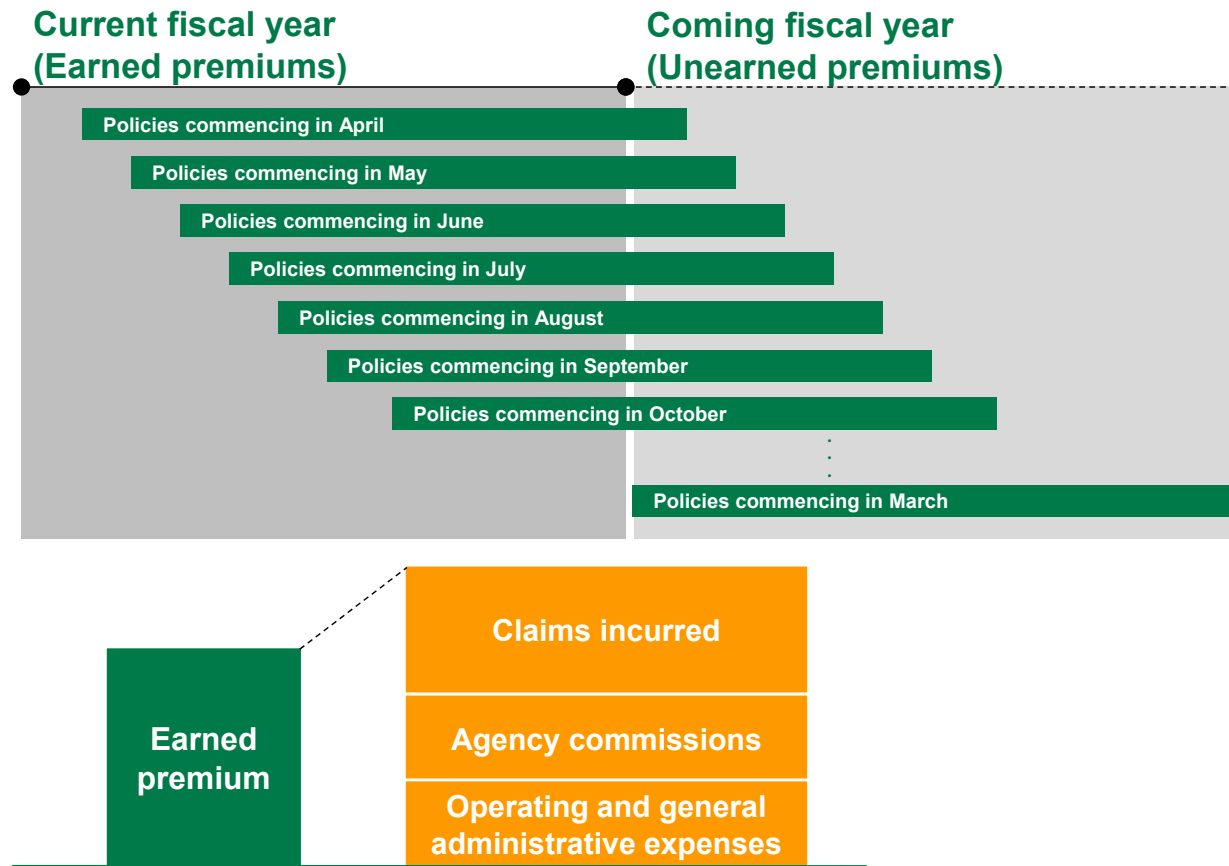


(Reference) Impact of insurance accounting on recurring profits/losses ①

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)

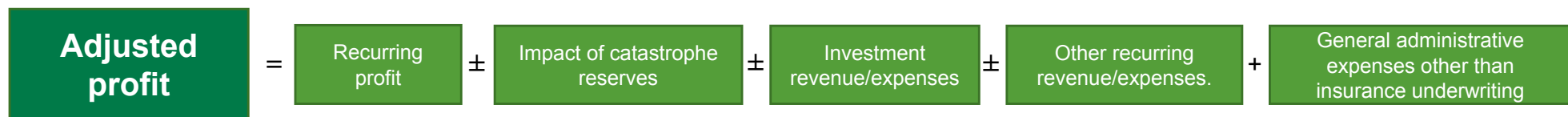
- Every non-life insurance company must accumulate catastrophe reserves each fiscal year in order to prepare for natural disasters.
- The reserve is liquidated (decreases expenses) when the net loss ratio* exceeds 50%.
*Net claims paid ÷ Net premiums written

3. Adjusted profit

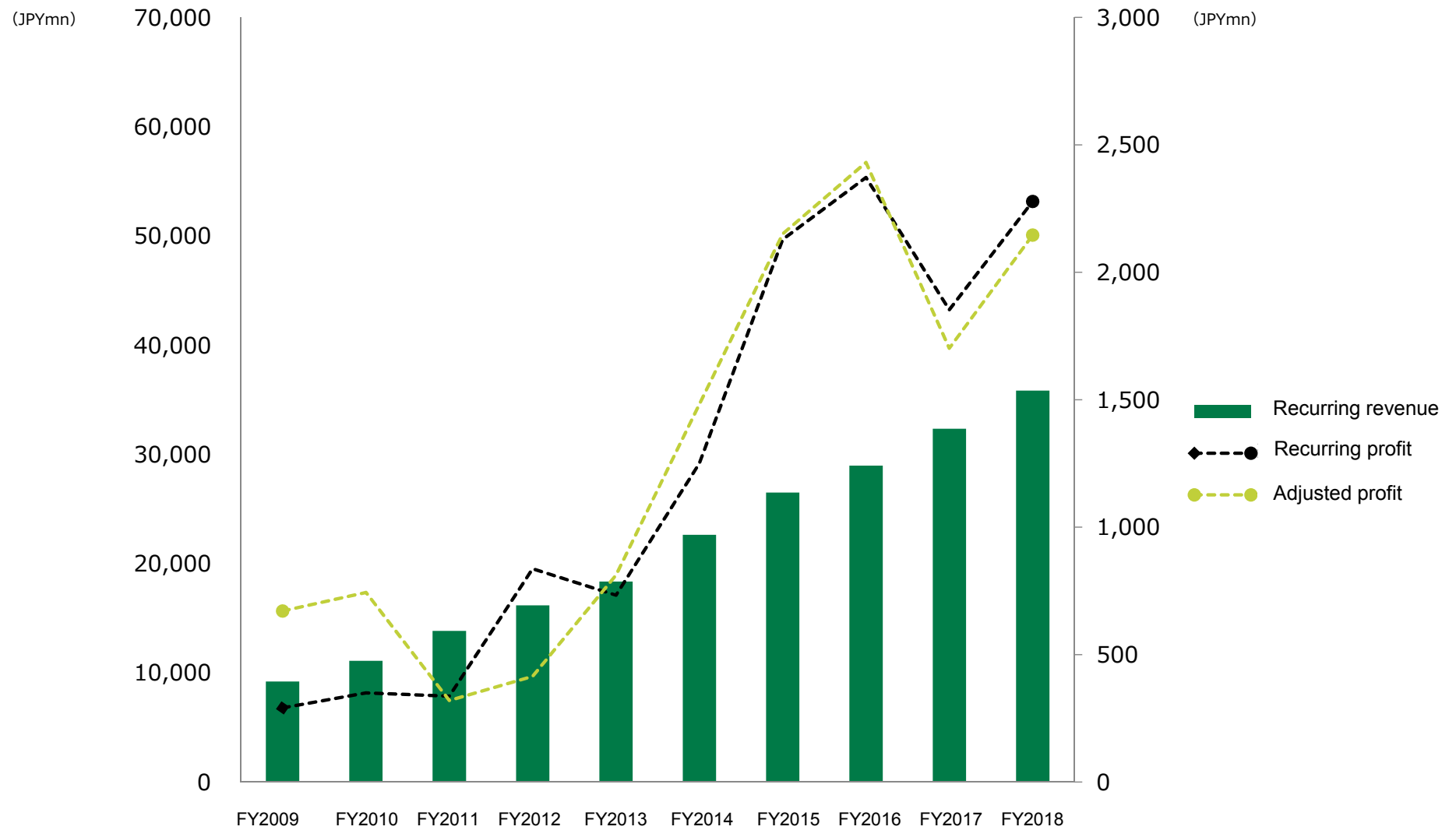
- Anicom's in house indicator, which reflects effective profits/losses from pet insurance business, adjusts for impact of: catastrophe reserves (exclusive to Japanese non-life insurance business), investment revenue/expenses and other recurring revenue/expenses. The calculation formula is below.
- The 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



(Reference) Transition of recurring revenue, recurring profit and adjusted profit





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