

1Q FY03/20
Financial Results Briefing Presentation

August 7, 2019



Security Code : 8715

1. Consolidated recurring revenue, recurring profit, adjusted profit

■ **Recurring revenue** : JPY9,989 mn (1Q FY03/19: JPY8,711 mn; +**14.7% YoY**)

(of which underwriting revenue : JPY9,511 mn, 1Q FY03/19: JPY8,375 mn; +13.6% YoY)

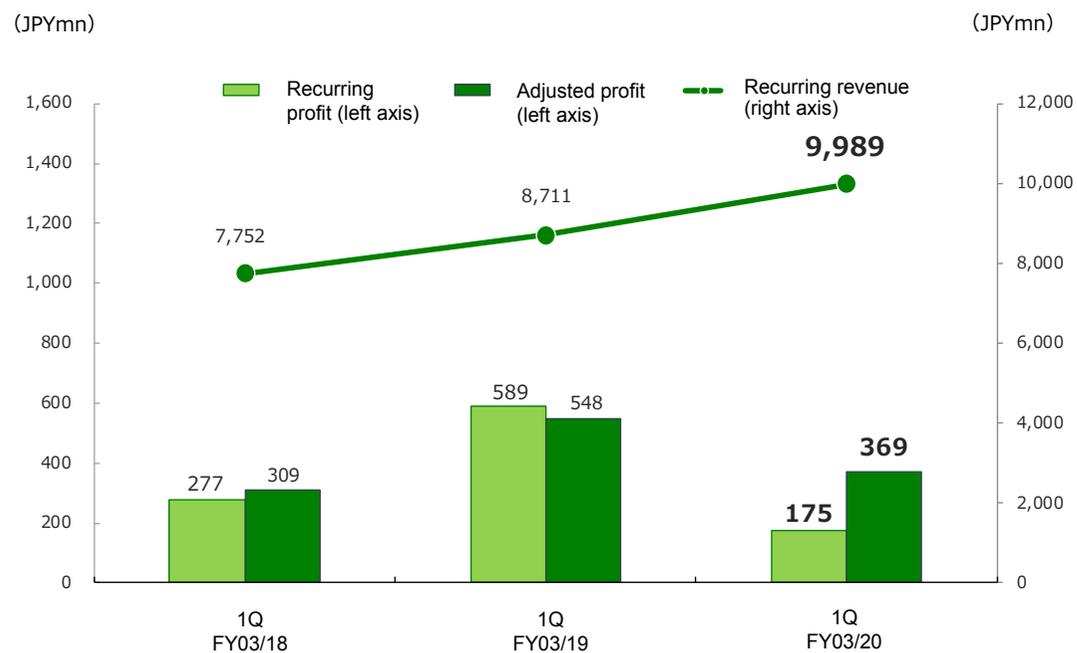
■ **Recurring profit** : JPY175 mn (1Q FY03/19: JPY589 mn; -**70.3% YoY**)

- **The number of policies and underwriting revenue in force expanded at a steady pace** (+7.4% and 13.6% YoY) on a strengthening of new initiatives, stable renewal rates, and product revisions.
- Although the adjusted profit (Note), which shows the effective profits/losses of the pet insurance business decreased YoY, it is expected to increase as planned in 2H.
- Other recurring revenue such as genetic testing and operation of animal hospitals also expanded at a steady pace. As a result, **the group's consolidated recurring revenue and recurring profit both ended up being solid.**

(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. FY03/20 consolidated earnings overview

(JPYmn)

	1Q FY03/19	1Q FY03/20	Change
Recurring revenue	8,711	9,989	14.7 %
Underwriting revenue	8,375	9,511	13.6 %
Investment revenue	82	80	-1.8 %
Other recurring revenue	254	397	56.3 %
Recurring expenses	8,122	9,814	20.8 %
Underwriting expenses	5,913	7,005	18.5 %
Net claims paid	(4,397)	(4,736)	7.7 %
Loss adjustment expenses	(258)	(263)	2.2 %
Net commission and collection expenses	(741)	(869)	17.2 %
Provision for reserve for outstanding losses and claims	(96)	(259)	168.5 %
Provision for underwriting reserves	(420)	(876)	108.7 %
Of which unearned premiums	(335)	(570)	70.0 %
Of which catastrophe reserve	84	(306)	262.1 %
Investment expenses	-	1	- %
Operating and general administrative expenses	2,153	2,647	22.9 %
Other recurring expenses	55	160	190.4 %
Recurring profit	589	175	-70.3 %
Net profit	428	104	-75.7 %

Earned premiums	8,039	8,940	11.2 %
Claims incurred (including loss adjustment expenses)	4,751	5,259	10.7 %
E/I loss ratio (1)	59.1 %	58.8 %	-0.3 pt
Expense ratio (based on earned premiums) (2)	34.1 %	37.0 %	2.9 pt
Combined ratio (based on earned premiums) (1)+(2)	93.2 %	95.8 %	2.6 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 7.4% YoY.
- Cumulative number of new policies increased 6.6% YoY.
- Growth in renewed policies, product (rate) revisions, and higher insurance premiums accompanying advancing age of animals also delivered contributions.

(2) Investment revenue

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

(3) Other recurring revenue

- Non-insurance recurring revenue, including genetic testing and operation of animal 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. 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 increased YoY for Anicom Insurance (non-consolidated), but it is expected to improve in 2H.

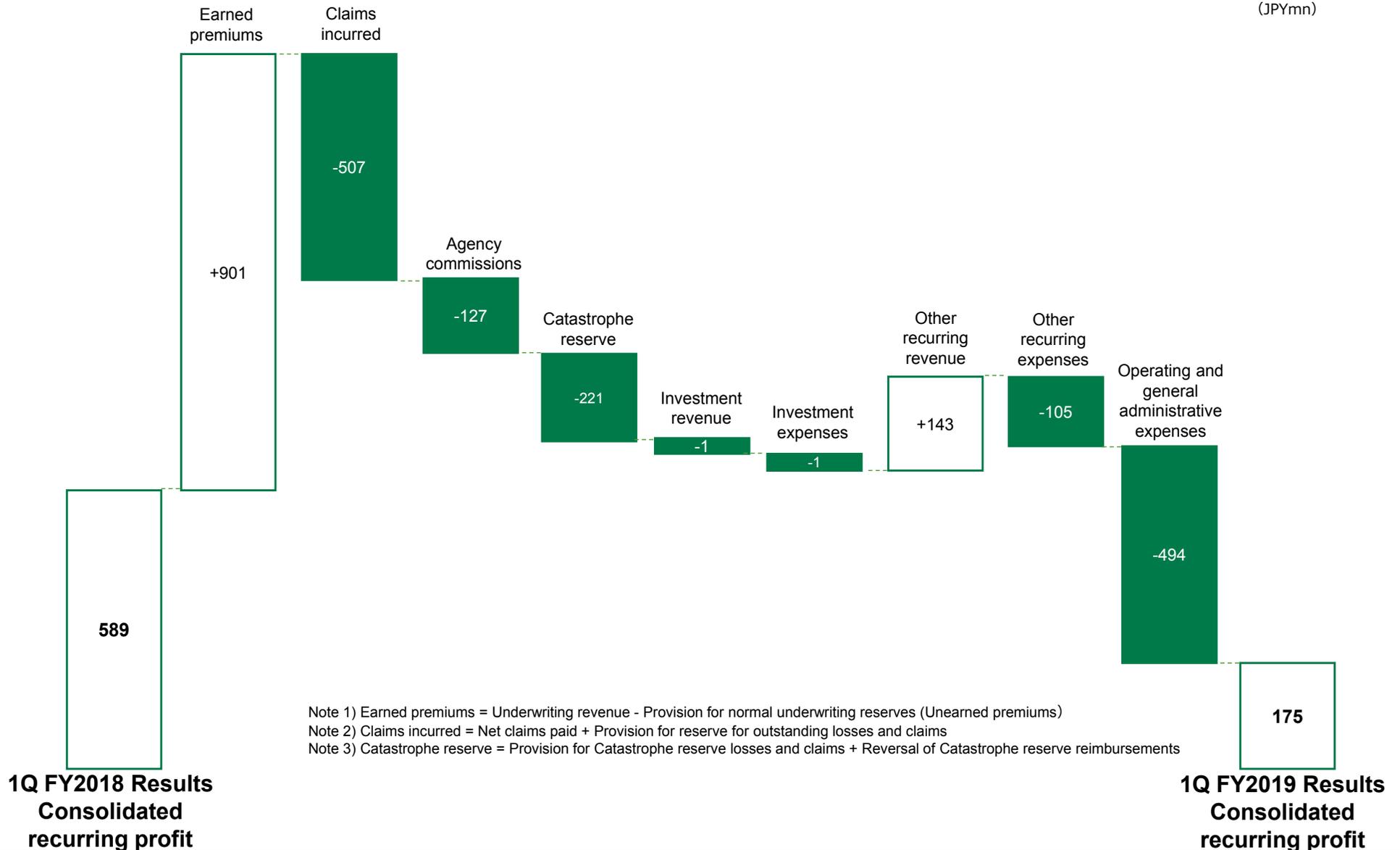
3. Factors related to changes in consolidated recurring profit (1Q FY2018 Results vs 1Q FY2019 Results)



Although there was a steady increase in the number of policies in force / underwriting revenue, consolidated recurring profit decreased due to increased costs, etc. for product revisions and expanding new businesses.

Profit is expected to increase due to factors such as improvements in the loss ratio and expense ratio in 2H.

(JPYmn)



4. Consolidated balance sheet summary

(JPYmn)

	FY03/19	1Q FY03/20	Change
Total assets	42,390	43,394	2.4 %
Cash and bank deposits	29,643	26,502	-10.6 %
Investment securities	4,660	8,520	82.8 %
Tangible fixed assets	1,367	1,491	9.1 %
Intangible fixed assets	1,506	1,618	7.4 %
Other assets	4,569	4,586	0.4 %
Deferred tax assets	718	752	4.7 %
Allowance for doubtful accounts	-76	-77	- %
Total liabilities	20,156	21,188	5.1 %
Reserve for insurance policy liabilities	16,041	17,177	7.1 %
Of which loss reserves	2,148	2,407	12.1 %
Of which underwriting reserves	13,893	14,769	6.3 %
Other liabilities	3,867	3,845	-0.6 %
Provision for bonus	191	107	-43.7 %
Reserve for price fluctuations	54	57	5.6 %
Total net assets	22,234	22,206	-0.1 %
Shareholders' equity	22,233	22,236	0.0 %
Of which capital	7,950	7,950	0.0 %
Of which capital surplus	7,840	7,840	0.0 %
Of which retained earnings	6,443	6,446	0.0 %
Of which treasury shares	-0	-0	0.0 %
Valuation and transaction adjustments	-150	-177	- %
Subscription rights to shares	151	146	-3.3 %
Total liabilities and net assets	42,390	43,394	2.4 %

Major accounting items and reasons for changes

(1) Investment securities

- Mainly investment in domestic securities investment and REITS.

(2) Reserve for outstanding losses and claims

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

(3) Underwriting reserves

- Recorded as the total for 1. normal underwriting reserves (JPY13,356mn; unearned premiums) and 2. catastrophe reserve (JPY1,413mn; 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. Consolidated cash flows summary

(JPYmn)

	1Q FY03/19	1Q FY03/20
Cash flow from operating activities	978	630
Cash flow from investing activities	-436	-3,667
Cash flow from financing activities	-57	-103
Change in cash and cash equivalents	484	-3,140
Year-start balance for cash and cash equivalents	17,128	27,693
Year-end balance for cash and cash equivalents	17,613	24,552

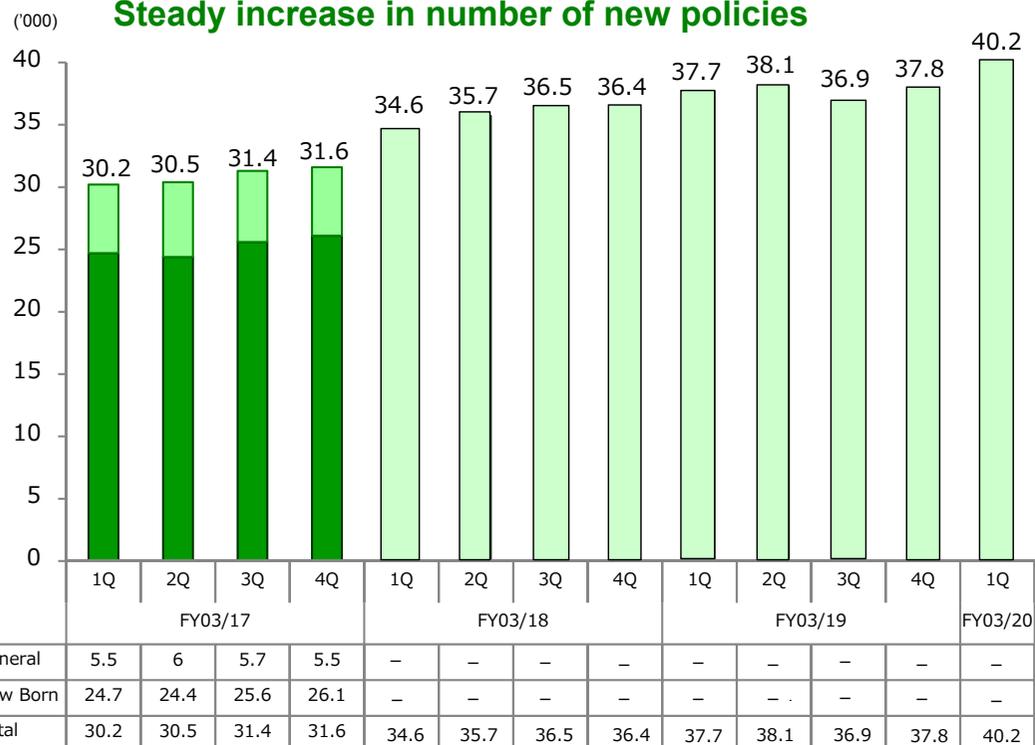
- Steady growth in the number of policies in force has led to stable cash flows from operating activities.
- Cash flows from investment activities reflect the acquisition of marketable securities.
- Cash flows from financing activities reflect expenditures in the form of dividends from surplus.

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

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

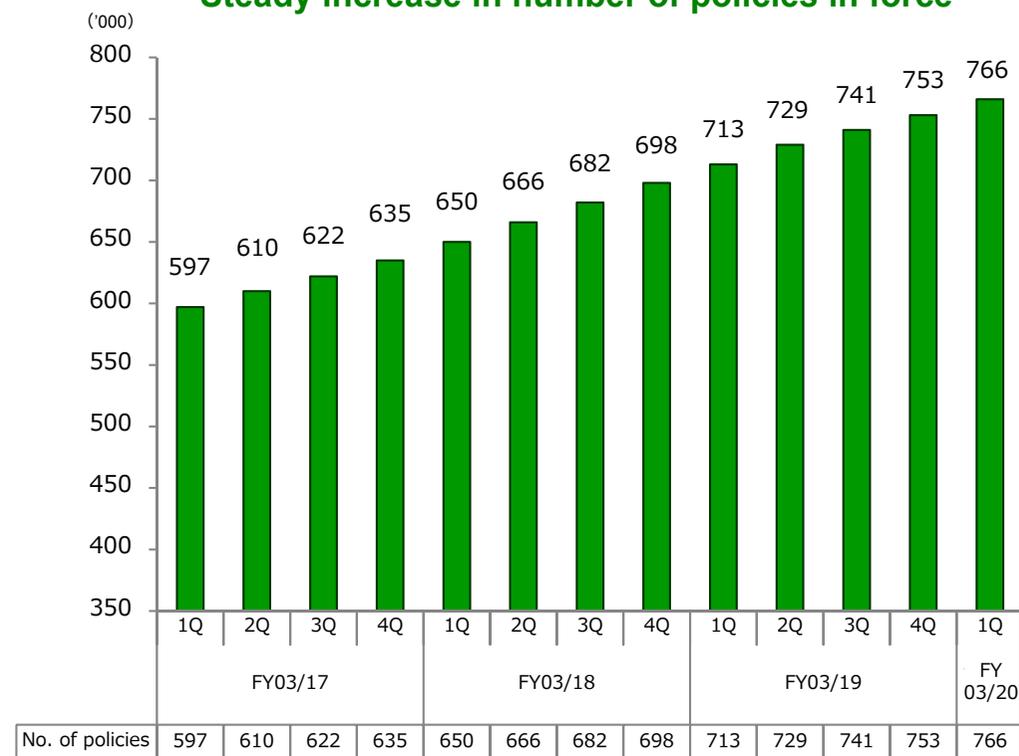
■ Quarterly trend in number of new policies

Steady increase in number of new policies



■ Quarterly trend in number of policies in force

Steady increase in number of policies in force

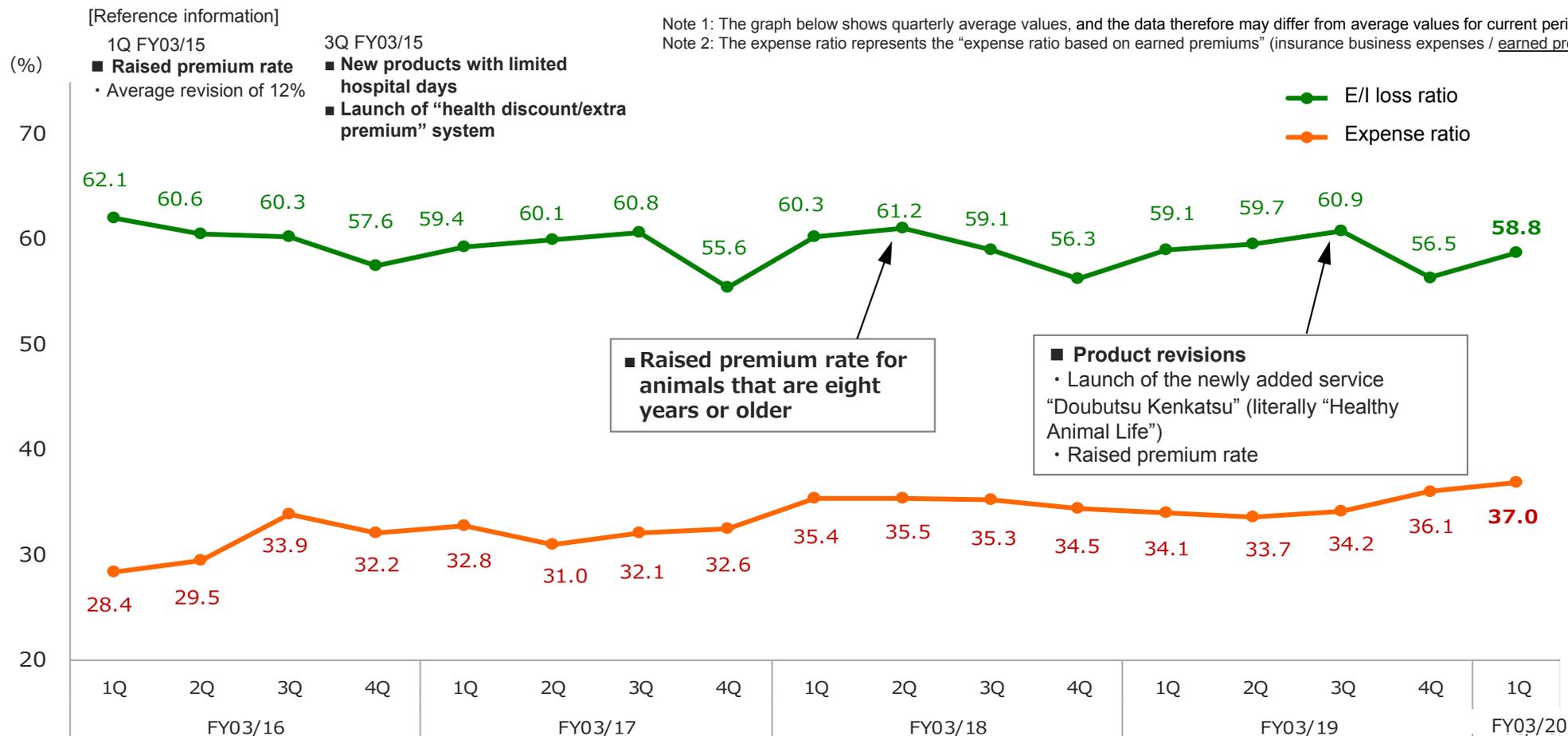


* New born: Pet shop channel

- **The number of new policies is steadily increasing.** Newborn and general channels both exhibited YoY growth.
- **The renewal rate of existing policies was stable at around 87%.**
- Under such circumstances, **the number of policies in force is steadily increasing.**
- The ratio of 50%-coverage plans to 70%-coverage plans is roughly 60:40 for total policies in force, with 50%-coverage plans accounting for a larger share. However, 70%-coverage plans account for over 50% of newly acquired policies.

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

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



- **The E/I loss ratio** is subject to seasonality in the form of an uptrend in 1–2Q, which coincides with the busiest period for animal hospitals, followed by an improvement in 3–4Q, when the frequency of hospital visits declines. In 1Q FY03/20, in addition to an increase in new policies supporting improvement in our product portfolio, as the raised premium rate due to the product revisions in December 2018 began having an effect, the E/I loss ratio **improved YoY**.
- **The expense ratio increased YoY** as the group continued to positively make investments to expand business scale.

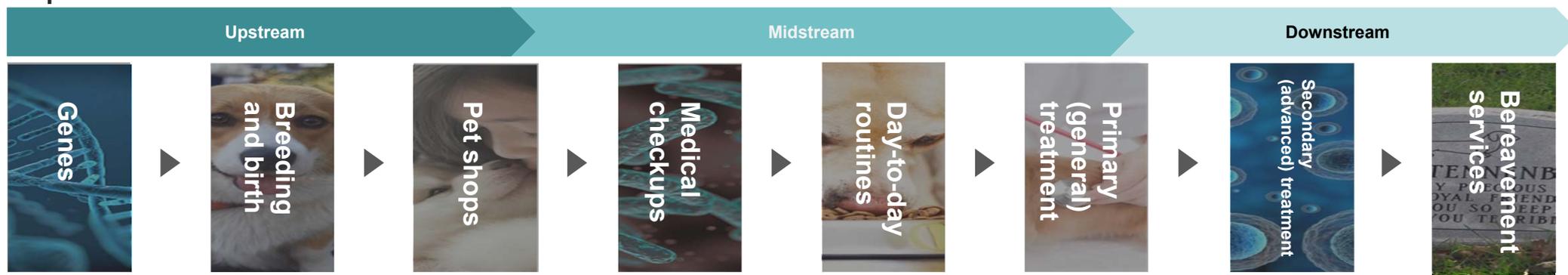
8. Mid-term management plan: progress of FY03/20 priority measures

■ Further expansion of profitability of the pet insurance business and pursuit of uniqueness (reducing insurance payouts and expenses)

Priority measures	Recent progress
(1) Strengthen newborn channel sales (strategies focused on genetic testing)	<ul style="list-style-type: none"> ■ Used “Doubutsu Kenkatsu”(Note) and genetic testing, our group’s unique services, as a key advantage to develop sales strategies for pet shops ⇒ Acquired new sales agents ■ Planned to increase the insured rate for breeders by starting to do business with breeder direct-sales sites. ■ Enhanced the online channel by marketing methods such as SEM and SEO and measures to improve customer satisfaction. ● The number of new policies exceeded 40,000 in the period from April to June, and the number of policies in force exceeded 760,000 (+7.4% YoY). ● Decline in claims incurred ⇒ Promoted a shift from policies without limited hospital days to policies with limited hospital days. ● The loss ratio was 58.8%, an improvement of 0.3 pt. YoY.
(2) Strengthen general channel sales (building new sales pillars)	
(3) Promote systemization (reinforcement of core systems and improved office work efficiency)	
(4) Improve customer satisfaction (expansion of services and better utilization of customer feedback)	
(5) Optimize insurance payout (develop prevention strategies focused on proper treatment and “Doubutsu Kenkatsu”)	
(6) Strengthen investment operations (building an optimal portfolio)	

■ Expansion of new businesses and acceleration of monetization

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



Priority measures	Recent progress
(1) Genetic testing business	<ul style="list-style-type: none"> ■ Expanded testing when animals are sold at pet shops, and conducted over 30,000 tests in the period from April to June. ■ Developed testing methods that make it possible to measure not only hereditary diseases, but also disposition, breed, hair color, temperament, parentage, level of inbreeding, etc.
(2) Breeding support business	<ul style="list-style-type: none"> ■ Continued research related to breeding and birth. (Research, etc. for improving the mating time judgment and sperm cryopreservation technology)
(3) Promotion of healthy lifestyles	<ul style="list-style-type: none"> ■ Increased the number of applications for “Doubutsu Kenkatsu”(Note) to over 6,000 applications per month, for an application rate that is generally in line with the plan. ■ Co-developed a pet supplement in collaboration with food manufacturers, etc.
(4) Business related to animal medical treatments (Prevention to general practice)	<ul style="list-style-type: none"> ■ Expanded operation of hospitals at a steady pace. Continued carrying out the prevention measures. ■ The number of examinations at the animal hospital in Shanghai grew steadily.
(5) Provision of advanced medical care	<ul style="list-style-type: none"> ■ Conducted practical treatment for two diseases (keratoconjunctivitis sicca and chronic enteropathy). ■ Preparing for establishing a system for sharing cells.
(6) Development of business that considers elderly people and pets	<ul style="list-style-type: none"> ■ Considered developing new services and products for elderly people and pets.

APPENDIX

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

1. Major management indicators

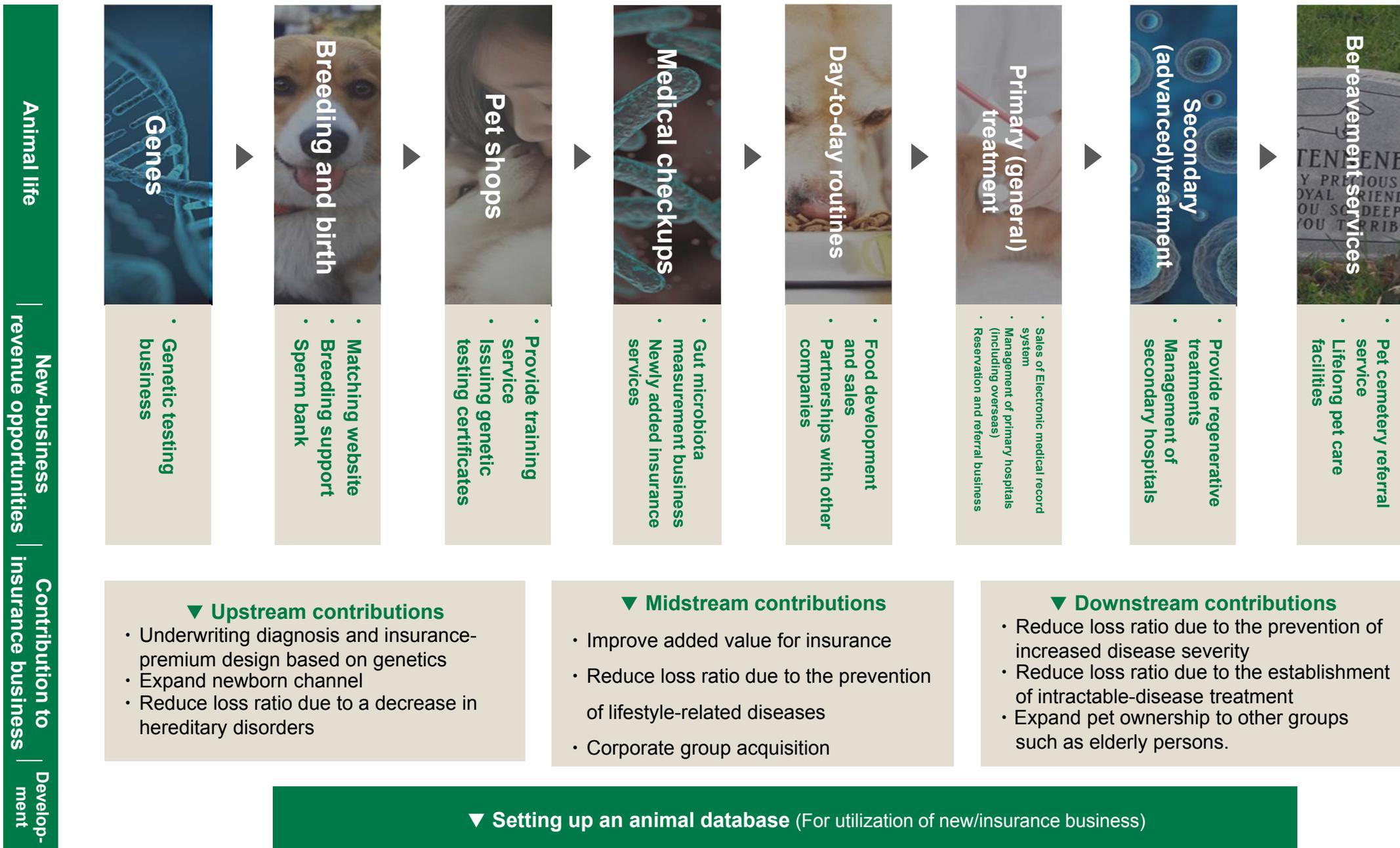
	① 1Q FY03/19	② End-FY03/19	③ 1Q FY03/20	③-① YoY		③-② Vs. previous year-end		End-FY03/20 (forecast as of May 9)
				Numbers	Rate	Numbers	Rate	
① Policies in force	713,896	753,332	766,774	52,878	7.4 %	13,442	1.8 %	813,000
② New policies	37,726	150,625	40,204	2,478	6.6 %	-	-	164,620
③ Renewal rate	88.2 %	87.7 %	87.0 %	-	-	-	-	87.0 %
④ Insurance payout cases	773 ,000	3,204 ,000	795 ,000	21 ,000	2.7 %	-	-	3,488 ,000
⑤ Animal hospitals accepting Anicom	6,304	6,417	6,448	144	2.3 %	31	0.5 %	6,400

	1 Q FY03/19	1 Q FY03/20	YoY Change	End-FY03/20 (forecast as of May 9)
⑥ E/I loss ratio	59.1 %	58.8 %	- 0.3 Pt	56.9 %
⑦ Expense ratio (based on earned premiums)	34.1 %	37.0 %	2.9 Pt	35.4 %
⑧ Combined ratio (based on earned premiums)	93.2 %	95.8 %	2.6 Pt	92.3 %

	End-FY03/19	1 Q FY03/20	YoY Change	End-FY03/20 (forecast as of May 9)
⑨ Solvency margin ratio (non-consolidated)	379.8 %	375.6 %	- 4.8 pt	Around 380.0 %

	1 Q FY03/19	1 Q FY03/20	YoY Change
⑩ No. of applicants of Doubutsu Kenkatsu (gut microbiota testing)	-	17,760	-
⑪ No. of samples for genetic testing	-	31,408	-

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

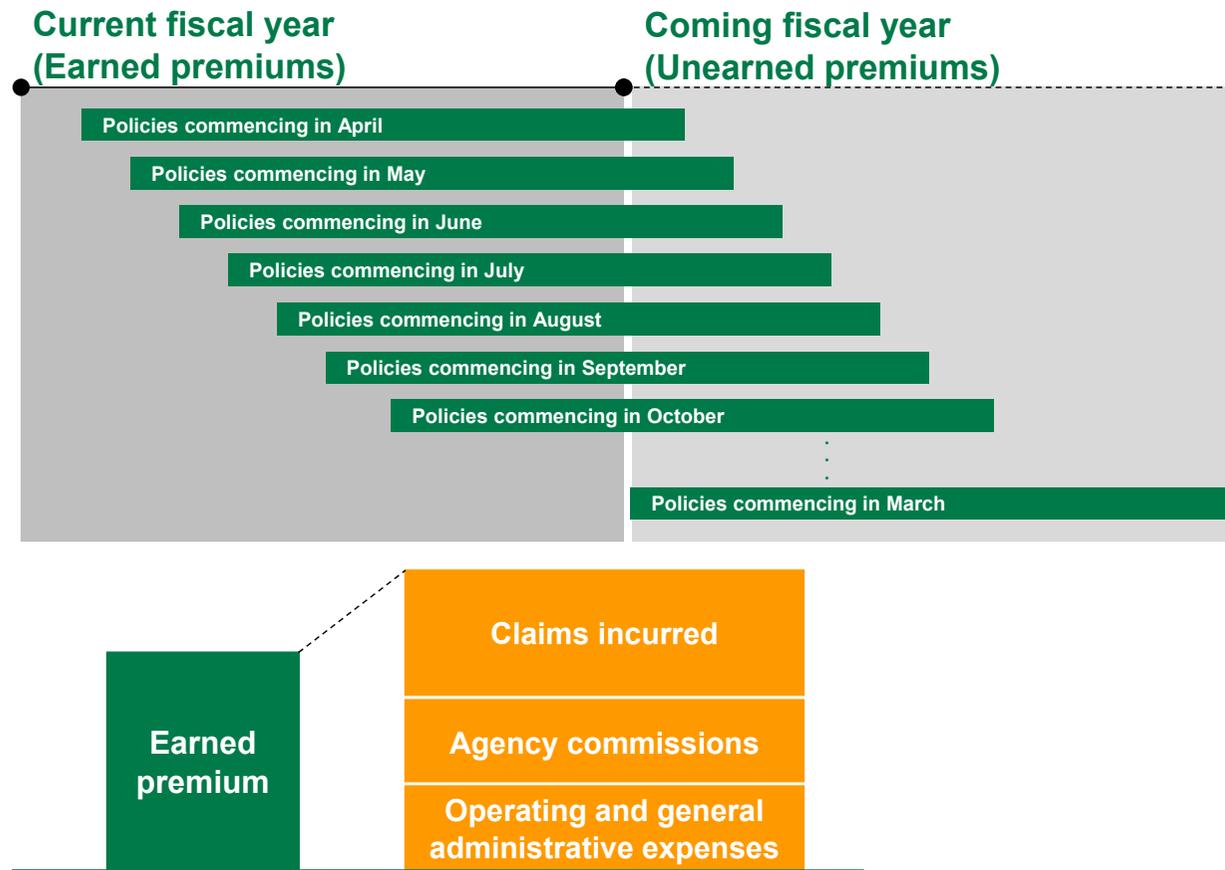


(Reference) Impact of insurance accounting on recurring profits/losses ①

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)

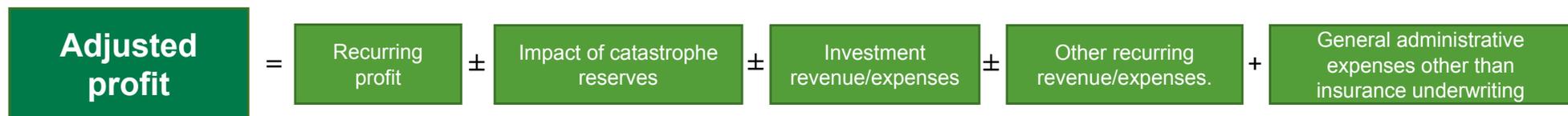
- Every non-life insurance company must accumulate catastrophe reserves each fiscal year in order to prepare for natural disasters.
- The reserve is liquidated (decreases expenses) when the net loss ratio* exceeds 50%.
*Net claims paid ÷ Net premiums written

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





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