

**3Q FY03/20**  
**Financial Results Briefing Presentation**

**February 7, 2020**



**Security Code : 8715**

# 1. Consolidated recurring revenue, recurring profit, adjusted profit

■ **Recurring revenue: JPY30,585 mn** (3Q FY03/19: JPY26,261 mn ; **+16.5% YoY** Planned: JPY31,500 mn ; **-2.9%**)

(of which underwriting revenue : JPY28,879 mn, 3Q FY03/19 : JPY25,321 mn; +14.1 %)

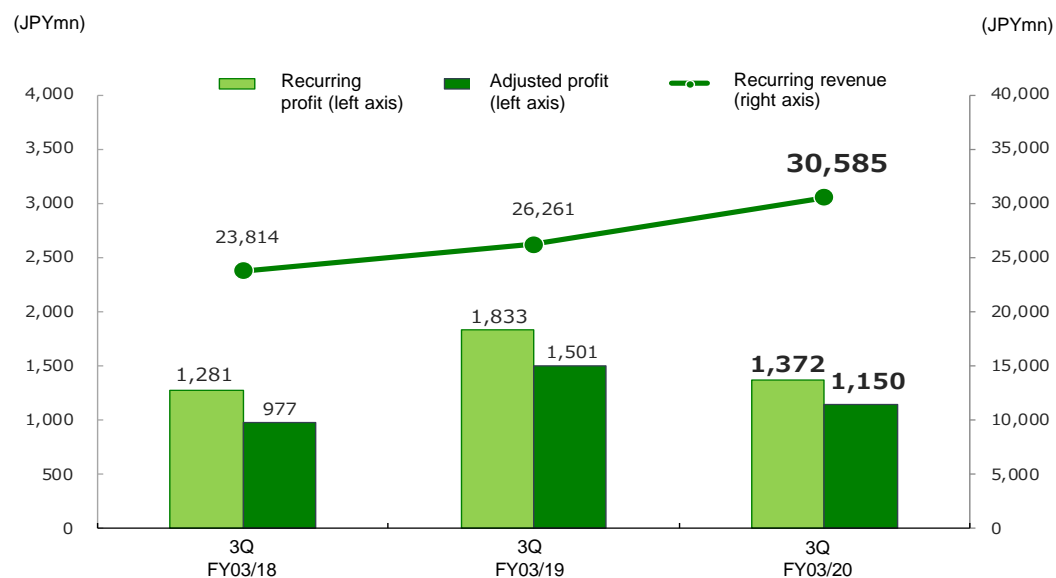
■ **Recurring profit : JPY1,372 mn** (3Q FY03/19: JPY1,833 mn ; **-25.1% YoY** Planned: JPY1,000 mn ; **+37.3%**)

- **Compared to the previous fiscal year, the number of policies in force (+7.4% YoY) and underwriting revenue (+14.1% YoY) both saw steady growth** due to the strengthening of new initiatives, product revisions, etc.
- **Compared to the previous fiscal year**, other recurring revenue, such as genetic testing and operation of animal hospitals, expanded at a steady pace, **and the group's consolidated recurring revenue and recurring profit both ended up being solid.**
- **Compared to the plan, recurring profit ended up better than expected** mainly due to the impact of a decrease in catastrophe reserves resulting from lower underwriting revenue and the investment revenue being better than expected.
- Although the adjusted profit (Note), which shows the effective profits/losses from the pet insurance business, decreased YoY, it is expected to increase as planned in 2H.

(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. 3Q FY03/20 consolidated earnings overview

(JPYmn)

	3 Q FY03/19	3 Q FY03/20	Change
<b>Recurring revenue</b>	<b>26,261</b>	<b>30,585</b>	<b>16.5</b> %
Underwriting revenue	25,321	28,879	14.1
Investment revenue	271	374	38.3
Other recurring revenue	669	1,331	99.0
<b>Recurring expenses</b>	<b>24,428</b>	<b>29,212</b>	<b>19.6</b> %
Underwriting expenses	17,496	20,251	15.7
Net claims paid	13,789	(15,160)	9.9
Loss adjustment expenses	761	(813)	6.8
Net commission and collection expenses	2,254	(2,672)	18.6
Provision for reserve for outstanding losses and claims	231	(328)	42.1
Provision for underwriting reserves	459	(1,276)	177.6
Of which unearned premiums	650	(1,033)	59.0
Of which catastrophe reserve	(-190)	(242)	-
Investment expenses	3	6	105.1
Operating and general administrative expenses	6,654	8,392	26.1
Other recurring expenses	273	561	105.3
<b>Recurring profit</b>	<b>1,833</b>	<b>1,372</b>	<b>-25.1</b> %
<b>Net profit</b>	<b>1,291</b>	<b>976</b>	<b>-24.4</b> %
<b>Earned premiums</b>	<b>24,671</b>	<b>27,845</b>	<b>12.9</b> %
<b>Claims incurred (including loss adjustment expenses)</b>	<b>14,782</b>	<b>16,302</b>	<b>10.3</b> %
<b>E/I loss ratio (1)</b>	<b>59.9</b> %	<b>58.5</b> %	<b>-1.4</b> pt
<b>Expense ratio (based on earned premiums) (2)</b>	<b>34.0</b> %	<b>37.3</b> %	<b>3.3</b> pt
<b>Combined ratio (based on earned premiums) (1)+(2)</b>	<b>93.9</b> %	<b>95.8</b> %	<b>1.9</b> 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 7.5% 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.

(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

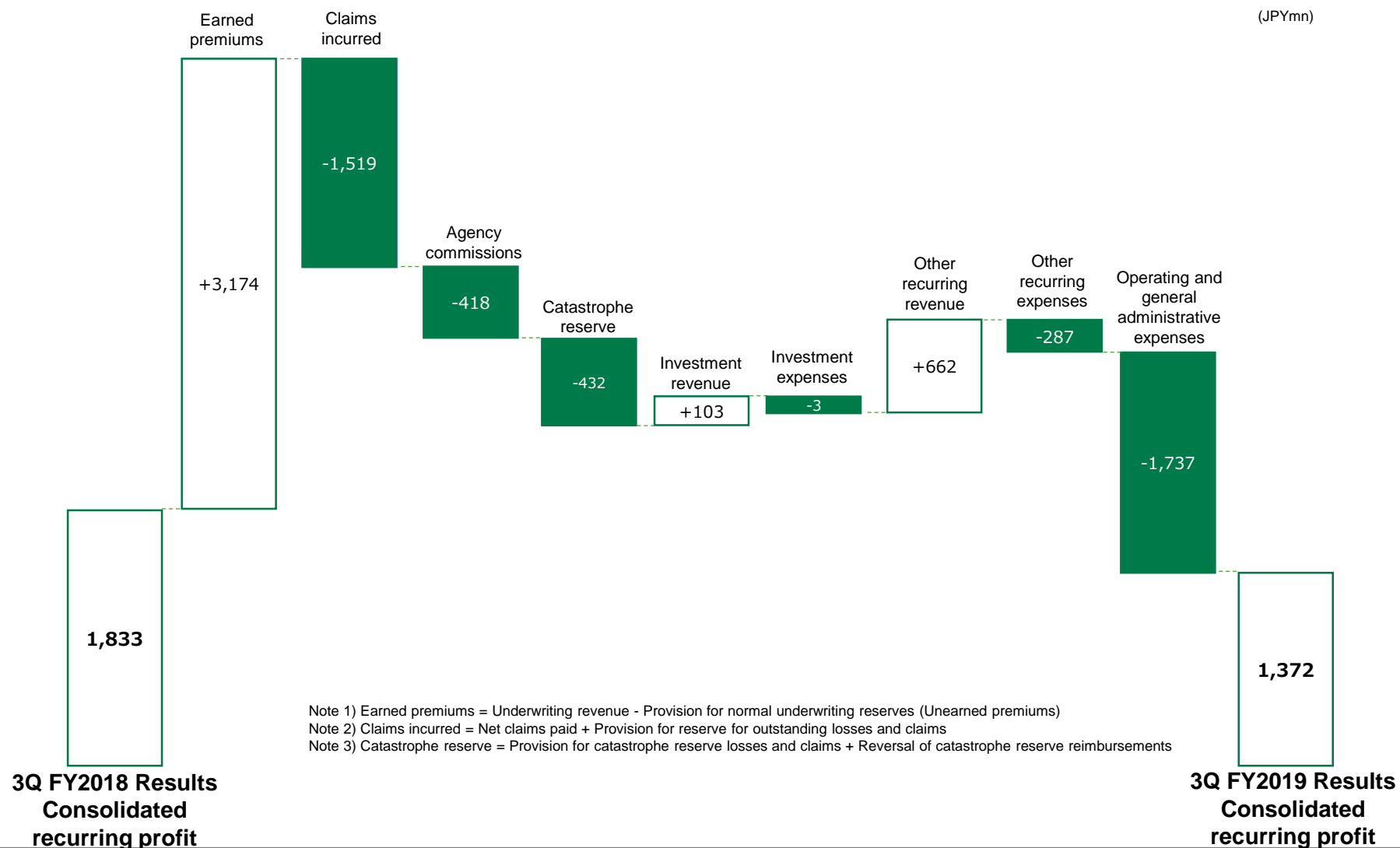
- Reserve to which 3.2% of annual premium revenue is systematically allocated each fiscal year.
- At the same time, the reserve may be drawn down until the net loss ratio reaches 50% with the year-start balance serving as the limit. The provision is recorded as a net amount.
- Over the full year, an 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 (3Q FY2018 Results vs 3Q FY2019 Results)

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



## 4. Consolidated balance sheet summary

(JPYmn)

	FY03/19	3Q FY03/20	Change
<b>Total assets</b>	<b>42,390</b>	<b>44,632</b>	<b>5.3 %</b>
Cash and bank deposits	29,643	26,206	-11.6 %
Investment securities	4,660	9,949	113.5 %
Tangible fixed assets	1,367	1,537	12.4 %
Intangible fixed assets	1,506	2,010	33.4 %
Other assets	4,569	4,234	-7.3 %
Deferred tax assets	718	769	7.1 %
Allowance for doubtful accounts	-76	-75	— %
<b>Total liabilities</b>	<b>20,156</b>	<b>21,348</b>	<b>5.9 %</b>
Reserve for insurance policy liabilities	16,041	17,646	10.0 %
Of which loss reserves	2,148	2,477	15.3 %
Of which underwriting reserves	13,893	15,169	9.2 %
Other liabilities	3,867	3,529	-8.7 %
Provision for bonus	191	109	-43.1 %
Reserve for price fluctuations	54	62	14.9 %
<b>Total net assets</b>	<b>22,234</b>	<b>23,284</b>	<b>4.7 %</b>
Shareholders' equity	22,233	23,169	4.2 %
Of which capital	7,950	7,980	0.4 %
Of which capital surplus	7,840	7,870	0.4 %
Of which retained earnings	6,443	7,319	13.6 %
Of which treasury shares	- 0	- 0	— %
Valuation and transaction adjustments	-150	-24	— %
Subscription rights to shares	151	139	-7.9 %
<b>Total liabilities and net assets</b>	<b>42,390</b>	<b>44,632</b>	<b>5.3 %</b>

## 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 (JPY13,819 mn; unearned premiums) and 2. catastrophe reserve (JPY1,349 mn; 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)

	3Q FY03/19	3Q FY03/20
Cash flow from <b>operating activities</b>	3,038	<b>2,716</b>
Cash flow from <b>investing activities</b>	-666	<b>-6,056</b>
Cash flow from <b>financing activities</b>	5,861	<b>-97</b>
<b>Change</b> in cash and cash equivalents	8,232	<b>-3,436</b>
<b>Year-start balance</b> for cash and cash equivalents	17,128	<b>27,693</b>
<b>Year-end balance</b> for cash and cash equivalents	25,360	<b>24,256</b>

- 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.

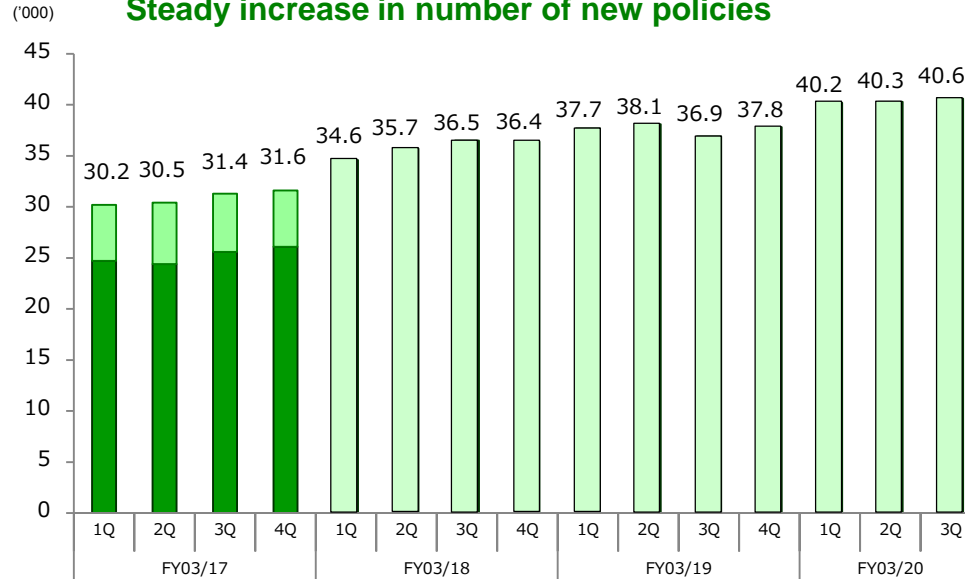
# 6. Anicom Insurance (non-consolidated): Recurring revenue indicators

(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

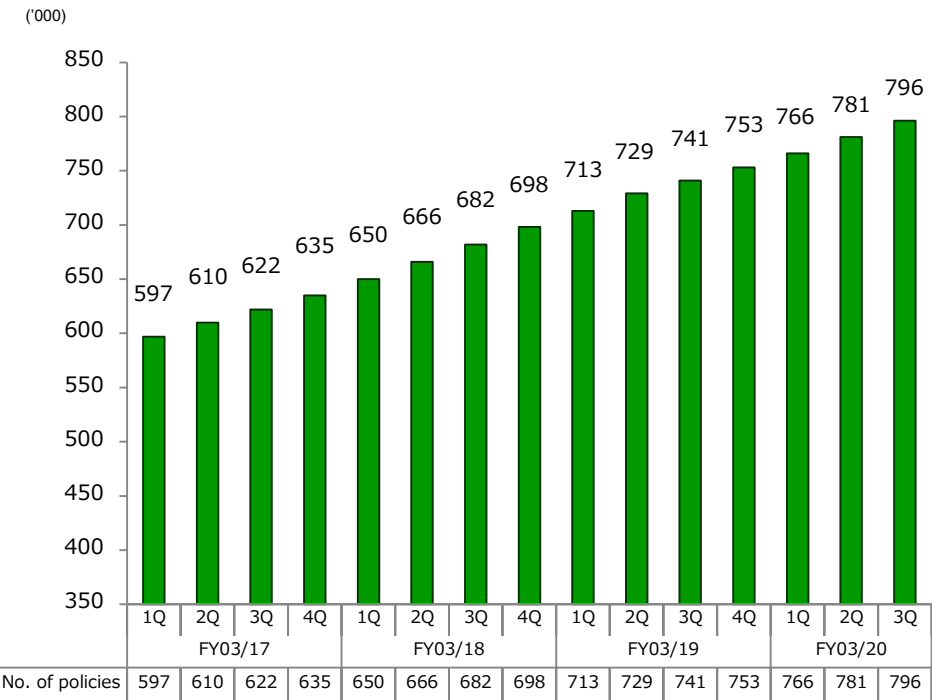


	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
General	5.5	6	5.7	5.5	-	-	-	-	-	-	-	-	-	-	-
NB	24.7	24.4	25.6	26.1	-	-	-	-	-	-	-	-	-	-	-
Newborn	30.2	30.5	31.4	31.6	34.6	35.7	36.5	36.4	37.7	38.1	36.9	37.8	40.2	40.3	40.6

\* Newborn: Pet shop channel

## ■ Quarterly trend in number of policies in force

### Steady increase in number of policies in force

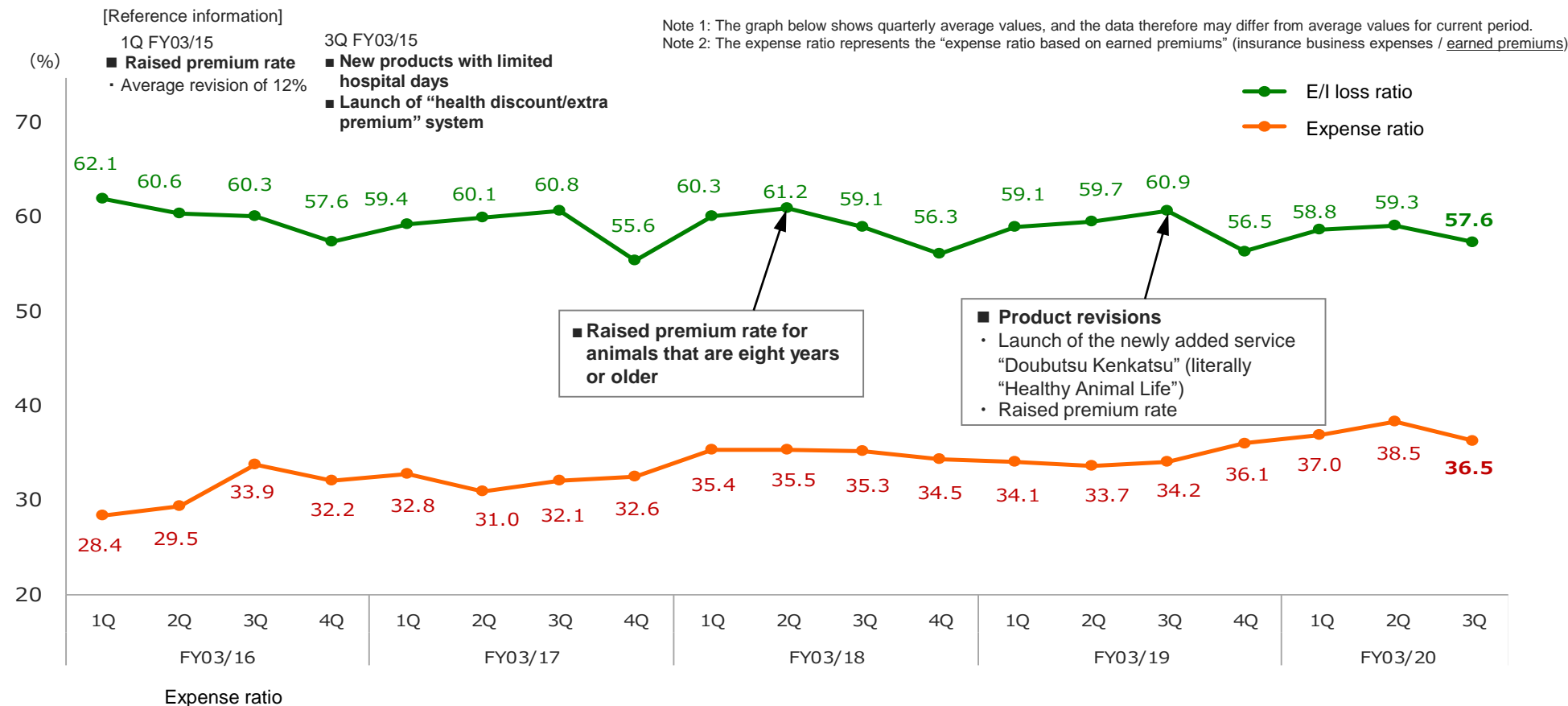


	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
No. of policies	597	610	622	635	650	666	682	698	713	729	741	753	766	781	796

- **The number of new policies increased steadily.** The total number of new policies in 1Q-3Q for the newborn and general channels **exceeded 120,000, which is 74% of the planned annual 165,000 new policies** and roughly in line with the plan.
- **The renewal rate of existing policies was stable at around 87%.**
- Under such circumstances, **the number of policies in force exceeded 790,000 policies** in 1Q-3Q, a **favorable progress toward the annual plan of 813,000 policies.**
- 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 3Q FY03/20, in addition to an increase in new policies supporting improvement in our product portfolio, as the effect of the raised premium rate due to the product revisions in December 2018 came full circle, the E/I loss ratio **considerably improved YoY**.
- **The expense ratio increased YoY** as the group continued to positively make investments to expand business scale. This was **due to increased costs for the non-consolidated insurance “Doubutsu Kenkatsu” and, as for the operating and general administrative expenses on a consolidated basis, was in line with the plan.**



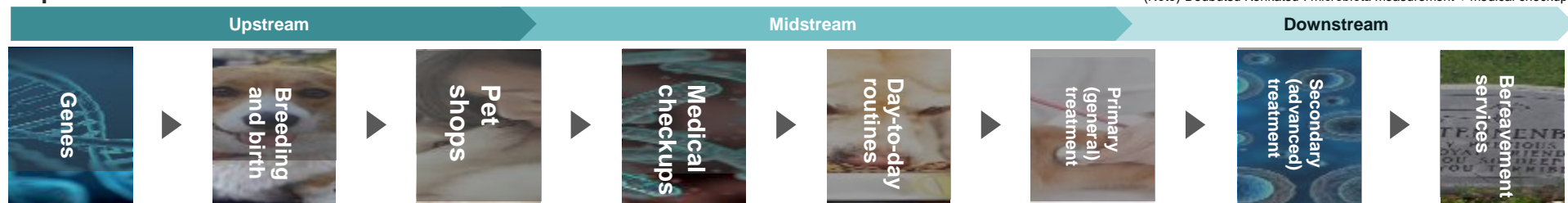
# 8. Mid-term management plan: progress of FY03/20 priority measures

## ■ 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"> <li>■ Used “Doubutsu Kenkatsu”(Note) and genetic testing, our group’s unique services, as a key advantage to develop sales strategies for pet shops</li> <li>■ Planned to increase the insured rate for breeders by starting to do business with breeder direct-sales sites.</li> <li>■ Enhanced the online channel by marketing methods such as SEM and SEO and measures to improve customer satisfaction.</li> <li>■ Currently increasing sales of the new product “Animal Insurance Senior.”</li> <li>■ Acquired shares of SIMNET Co., Ltd., which runs Japan’s largest breeder direct-sales site (conversion into a subsidiary).</li> <li>● The number of new policies exceeded 120,000 in the period from April to December, and the number of policies in force exceeded 790,000 (+7.4% YoY).</li> <li>● The loss ratio was 58.5%, an improvement of 1.4 pt. YoY.</li> <li>● Secured strong investment revenue.</li> </ul>
(2) Strengthen general channel sales (building new sales pillars)	
(3) Promote systemization (reinforcement of core systems and improving 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	Upstream <ul style="list-style-type: none"> <li>■ Increased number of tests ordered from pet shops and breeders, conducting over 115,000 tests in the period from April to December.</li> <li>■ Successfully developed a customized panel that can check disposition (behavior), breed, fur color, temperament, parentage, etc. in a single test.</li> </ul>
(2)	Breeding support business	Upstream <ul style="list-style-type: none"> <li>■ Continuing research related to breeding and birth. (Research, etc. for improving the mating time judgment and sperm cryopreservation technology)</li> </ul>
(3)	Promotion of healthy lifestyles	Midstream <ul style="list-style-type: none"> <li>■ The number of “Doubutsu Kenkatsu” applications steadily increased, reaching over 8,000 per month.</li> <li>■ Started collaborative research on the relationship between cat behavior and injury/illness (RABO, Inc. and Anicom Specialty Medical Institute Inc.).</li> <li>■ Co-developed a pet supplement in collaboration with food manufacturers, etc.</li> </ul>
(4)	Business related to animal medical treatments (Prevention to general practice)	Midstream <ul style="list-style-type: none"> <li>■ Expanded operation of hospitals to 57 hospitals, and added regional core hospitals to the group. Continued carrying out the prevention measures.</li> <li>■ The number of examinations at the animal hospital in Shanghai grew steadily.</li> </ul>
(5)	Provision of advanced medical care	Downstream <ul style="list-style-type: none"> <li>■ Conducted paid clinical research for 14 diseases.</li> <li>■ Established the “Research and Development Partnership for Animal Regenerative Medicine” (Celltrust Animal Therapeutics Co., Ltd.)</li> </ul>
(6)	Development of business that considers elderly people and pets	Downstream <ul style="list-style-type: none"> <li>■ Considering developing new services and products for elderly people and pets.</li> </ul>
(7)	Other (related to investment management, etc.)	— <ul style="list-style-type: none"> <li>■ Entered a business partnership with ADVANCE NET Co. (Promotes pet-friendly homes, etc.)</li> <li>■ Entered a business partnership with Forest Hills, Inc. (Mutual cooperation and strengthening various businesses in the pet field)</li> </ul>

# 9. Topic (1) (M&A, etc. aimed at improving corporate value)

## ■ Acquisition of shares of SIMNET Co., Ltd.

(Conversion into a subsidiary starting on February 1, 2020)

### Expected effects of acquiring the shares

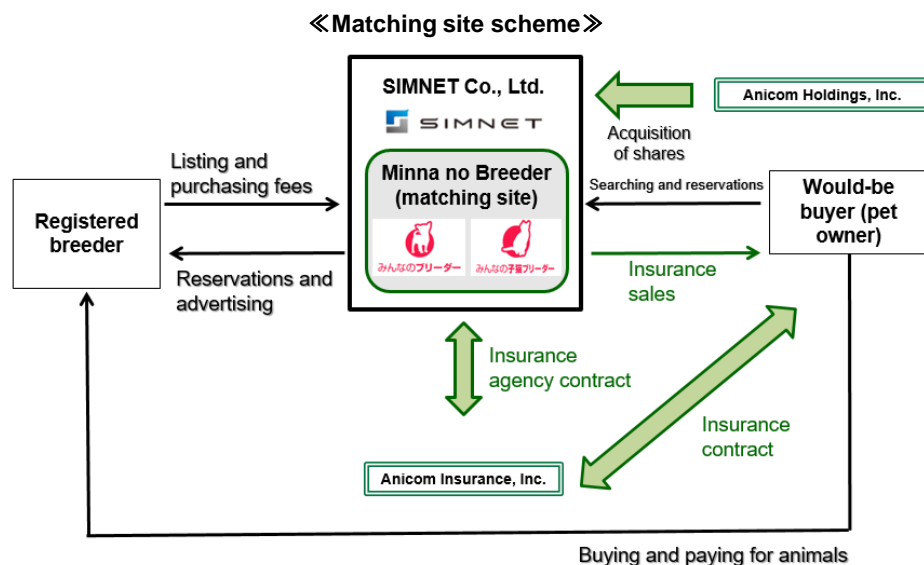
The company's platform as Japan's largest breeder direct-sales site will be used to:

- Improve the insurance penetration rate
- Reduce the costs of agency commissions, etc.
- Develop plans related to efficient insurance sales
- Contribute to expanded breeding support business



### Effects on results

- No effects in FY2019
- Starting in FY2020, the effects will be incorporated during business-plan formulation.



## ■ Establishment of the Research and Development Partnership for Animal Regenerative Medicine (Celltrust Animal Therapeutics Co., Ltd.)

The Research and Development Partnership for Animal Regenerative Medicine is a non-profit mutual benefit corporation that was established with the approval of both the Minister of Agriculture, Forestry and Fisheries and the Minister of Economy, Trade and Industry. Its purpose is to take advantage of industry-government-academia collaboration in order to standardize each process of cell therapy services for domestic animals (dogs and cats)—which remains unestablished—and achieve the practical application of a system that makes it possible for veterinarians at all kinds of medical facilities to provide safe and effective cell therapy services.

### Activities of this research and development partnership

The partnership's activities include collaboration between veterinarians and other partnership members to conduct test research on processes related to cell therapy services—such as cultures, transportation, administration, and follow-up observation—and the establishment of independent standards in relation to the above in order to contribute to the expansion of a suitable cell therapy market in the domestic-animal field.

## ■ Start of collaborative research with RABO, Inc. - Relationship between cat behavior and injury/illness (Anicom Specialty Medical Institute) -

### Aims of the collaborative research

The purpose of this project is to conduct collaborative research on the relationship between injury/illness and behavior by combining the Anicom Group's data on injury/illness, genetic testing, and gut microbiota measurement with data on cat behavior collected by using "Catlog," a system provided by RABO, Inc.

The aim of these efforts is to connect the development of technology for predicting injuries and illnesses based on cat behavior with the prevention of injuries and illnesses based on daily life.

**共同研究を開始**

**Mission**  
世界中の猫と飼い主が1秒でも長く一緒にいられるように、猫の生活をテクノロジーで支える

**Theme Sample**  
【 猫とCatlogユーザーの行動量比較  
【 屋内フローラと行動量の関係性  
【 異常検知

### What is Catlog?

Catlog is a next-generation collar that watches over cats in place of their owners. Data on the activities of cats wearing this collar is recorded 24 hours a day. Biologging analysis technology and machine learning are then used to categorize the data as "walking," "running," and other movements as well as "sleeping," "resting," "eating," and other behaviors. A special app can also be used to check each cat's behavior anytime and anywhere with a smartphone.



## APPENDIX

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

# 1. Major management indicators

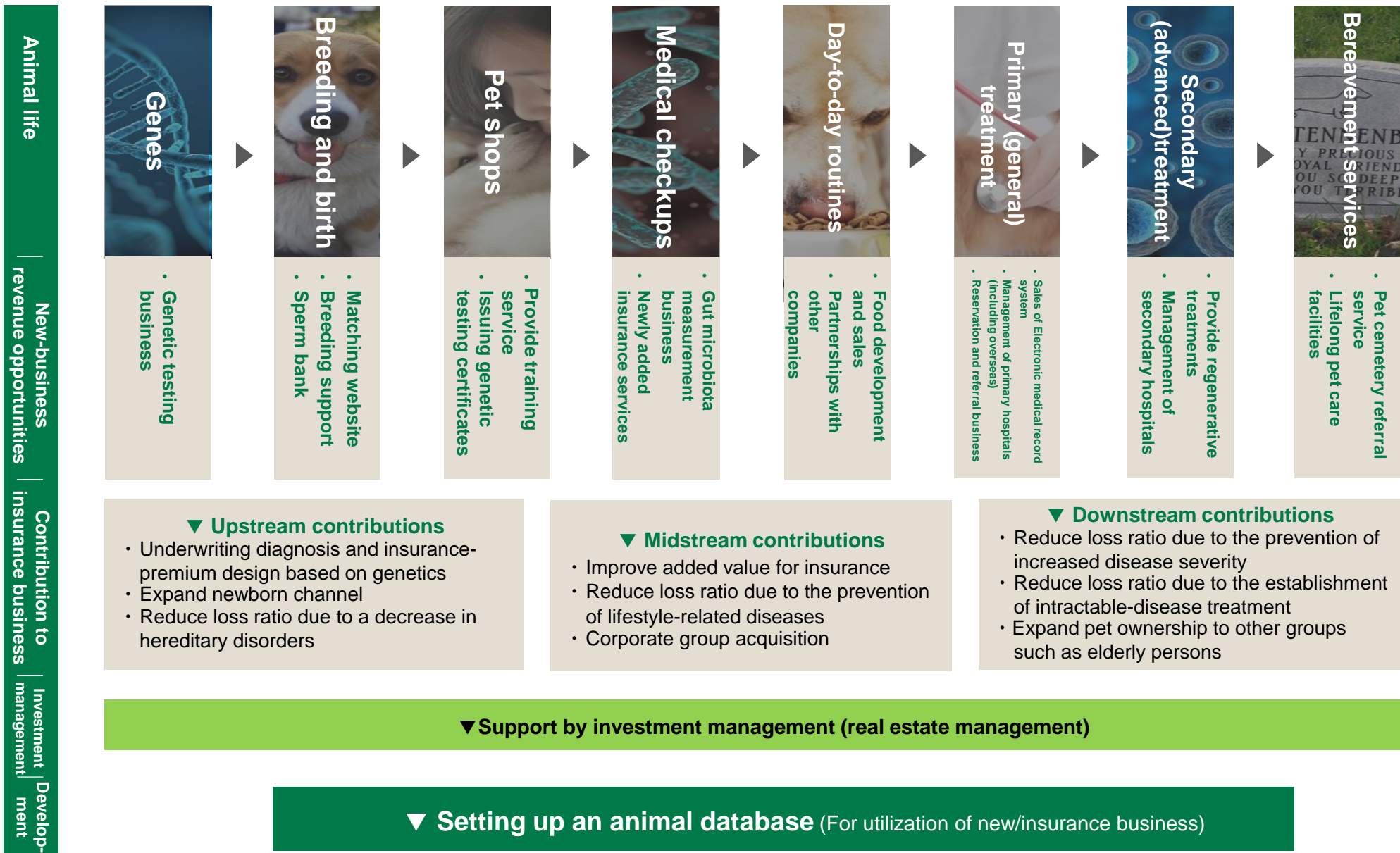
	① 3Q FY03/19	② End-FY03/19	③ 3Q FY03/20	③-① YoY		③-② Vs. previous year-end		End-FY03/20 (forecast as of May 9)
				Numbers	Rate	Numbers	Rate	
① Policies in force	741,641	753,332	796,167	54,526	7.4 %	42,835	5.7 %	813,000
② New policies	112,753	150,625	121,183	8,430	7.5 %	-	-	164,620
③ Renewal rate	87.9 %	87.7 %	87.1 %	-	-	-	-	87.0 %
④ Insurance payout cases	2,423 ,000	3,204 ,000	2,558 ,000	135 ,000	5.6 %	-	-	3,488 ,000
⑤ Animal hospitals accepting Anicom	6,378	6,417	6,482	104	1.6 %	65	1.0 %	6,400

	3Q FY03/19	3Q FY03/20	YoY Change	End-FY03/20 (forecast as of May 9)
⑥ E/I loss ratio	59.9 %	58.5 %	- 1.4 Pt	56.9 %
⑦ Expense ratio (based on earned premiums)	34.0 %	37.3 %	3.3 Pt	35.4 %
⑧ Combined ratio (based on earned premiums)	93.9 %	95.8 %	1.9 Pt	92.3 %

	End-FY03/19	3Q FY03/20	YoY Change	End-FY03/20 (forecast as of May 9)
⑨ Solvency margin ratio (non-consolidated)	370.3 %	371.2 %	0.9 pt	Around 380.0 %

	3Q FY03/19	3Q FY03/20	YoY Change
⑩ No. of applicants of Doubutsu Kenkatsu (gut microbiota testing)	-	65,843	-
⑪ No. of samples for genetic testing	-	115,003	-

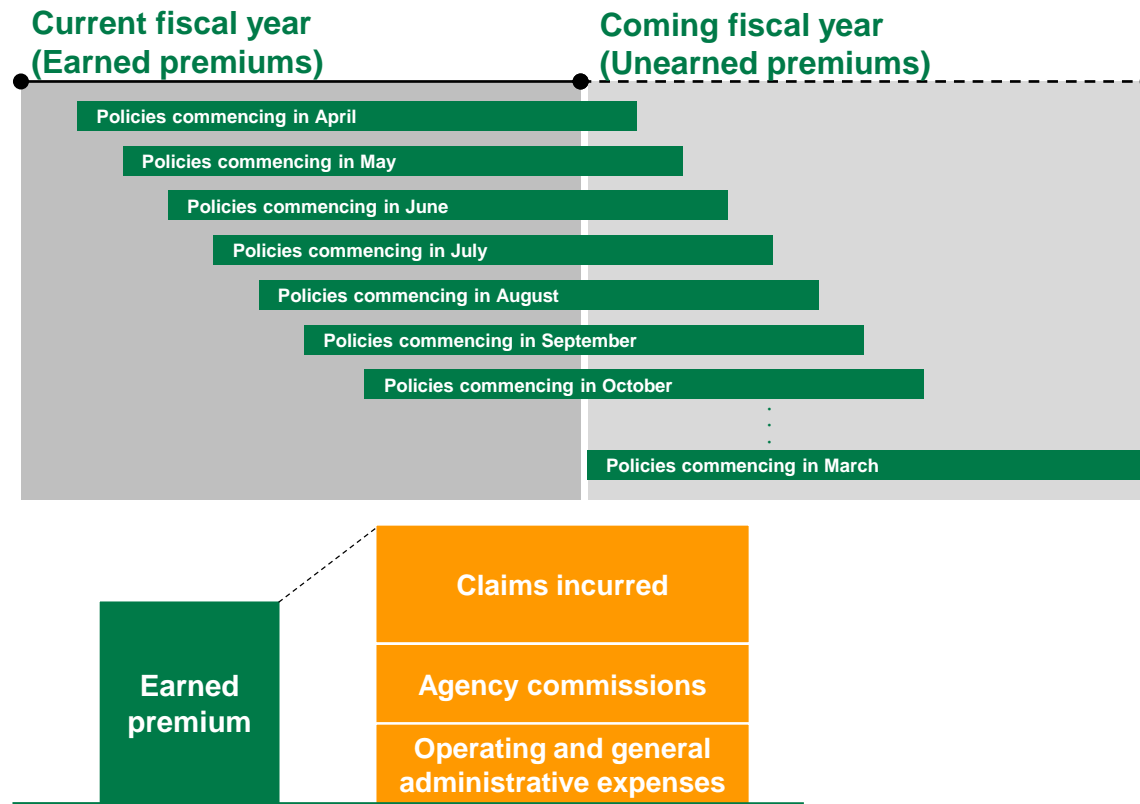
## 2. Peripheral new-business revenue opportunities and synergy with pet insurance



# (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)

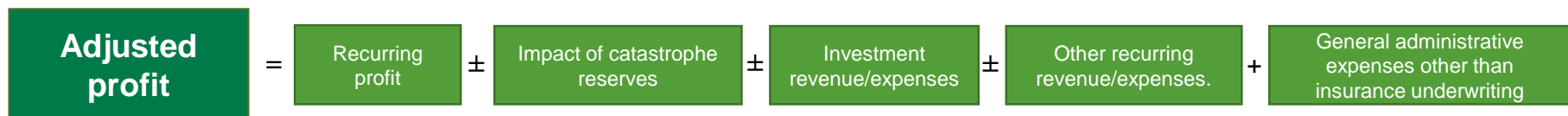
- Every non-life insurance company must accumulate catastrophe reserves each fiscal year in order to prepare for natural disasters.
- The reserve is liquidated (decreases expenses) when the net loss ratio\* exceeds 50%.  
\*Net claims paid ÷ Net premiums written

## 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.<sup>(\*)</sup>, 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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