

**Anicom Group**

# **Anicom's Business Model**

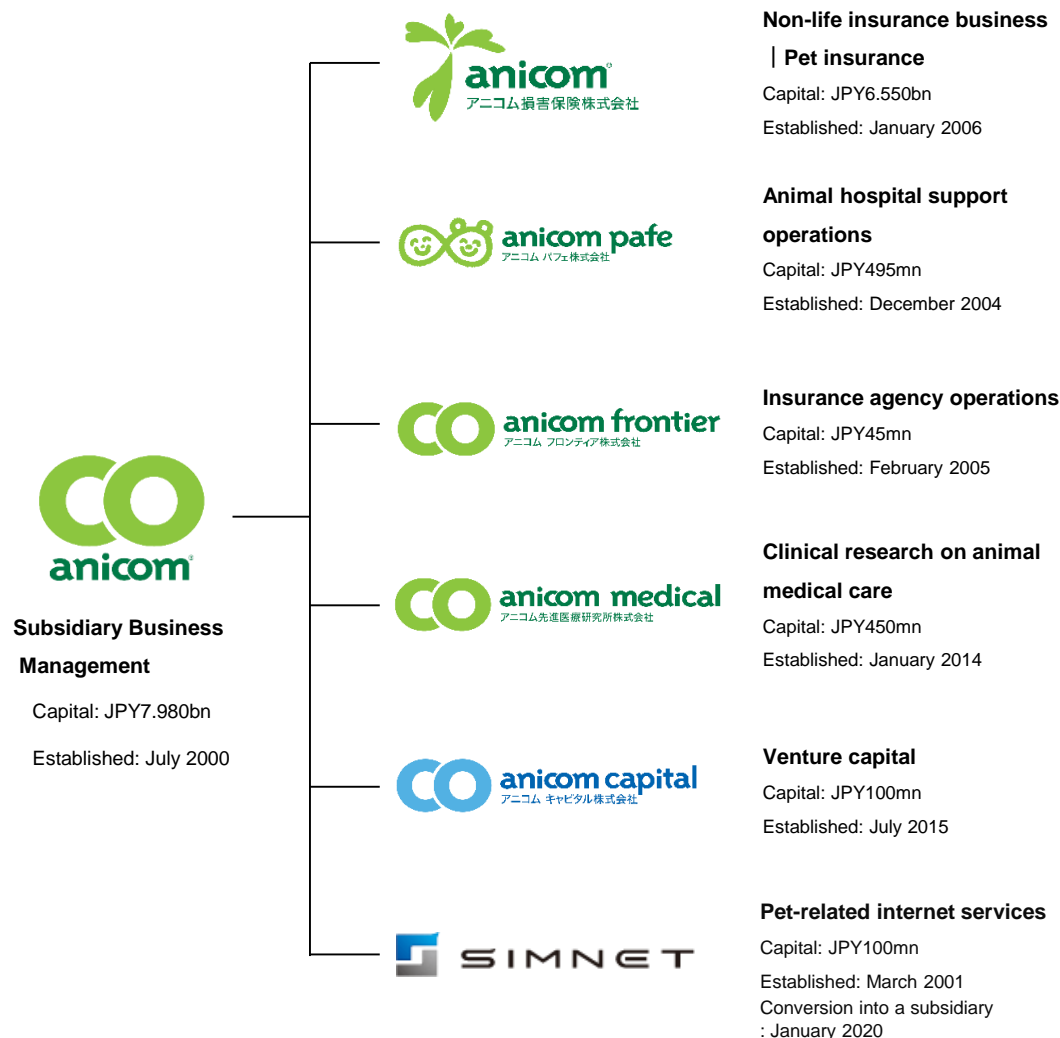


Securities Code: 8715

# 1. Company Profile

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# ( 1 ) Overall group profile and group history



Apr. 2000	Established anicom as voluntary association (mutual aid association for pets)
Jul. 2000	Based on anicom, established BSP Inc. as an animal insurance business entrustment company. (Changed trade name to Anicom International, Inc. in January 2005, and to Anicom Holdings, Inc. in June 2008)
Dec. 2004	Established Anicom Pafe, Inc.
Feb. 2005	Established Anicom Frontier, Inc.
Jan. 2006	Established Anicom Insurance Planning, Inc. to prepare for the establishment of an insurance company (changed trade name to Anicom Insurance, Inc. in December 2007)
Dec. 2007	Anicom Insurance, Inc. acquired a nonlife insurance business license Anicom International, Inc. acquired certification as an insurance holding company
Jan. 2008	Start of sales of pet insurance by Anicom Insurance, Inc.
Apr. 2008	Start of pet insurance coverage by Anicom Insurance, Inc.
Nov. 2009	Published "White Paper on Household Animals" (published annually thereafter)
Mar. 2010	Anicom Holdings, Inc. listed on the Tokyo Stock Exchange Mothers market; (securities code: 8715)
Jan. 2014	Established the Japan Animal Specialty Medical Institute, Inc. (currently, Anicom Specialty Medical Institute, Inc.)
Jun. 2014	Anicom Holdings, Inc. shares moved to First Section of Tokyo Stock Exchange
Jul. 2015	Established Anicom Capital, Inc.
Apr. 2016	Established Celltrust Animal Therapeutics Co., Ltd. as a joint venture between Anicom Holdings, Inc. (49% stake) and Fujifilm Corporation (51%)
Mar. 2017	Established Hong Kong Anicom Company Limited as a joint business related to animal medical care in China with 49% of funding by our company
Jan. 2020	Acquired all shares of SIMNET Co.,Ltd. making it a wholly-owned subsidiary



The Anicom Group pursues management that values and emphasizes **diversity**.

We believe monolithic, uniform organizations or communities lack the flexible mindset necessary to generate new value. Accordingly, we aspire to grow through cooperation with a **diverse range of human resources**. Anicom group is comprised of approximately 100 veterinarians, physicians, MDs, experts in agricultural science, science, the law, CPAs, actuaries and graphic designers. This range gives us flexibility and the best division of labor.

By **valuing the diversity of all living organisms** ranging from animals to bacteria, we intend to continue providing new value to society.

## ■ Long-term management vision

We aim to do all we can in contributing to a healthy lifespan for people and their pets by the emotional energy produced by pets and people living life together.

## ■ Mid-term management vision

As a player in pet sector infrastructure, we acknowledge the diversity of all living organisms, and will provide new and enhanced value by **extending the healthy lifespan of pets through disease and accident prevention.**

## ■ FY2019 management vision

Bringing together the resources of our group, we will accelerate establishment of business to **build infrastructure** that connects services **from upstream to downstream** in a way that contributes to pet industry development.

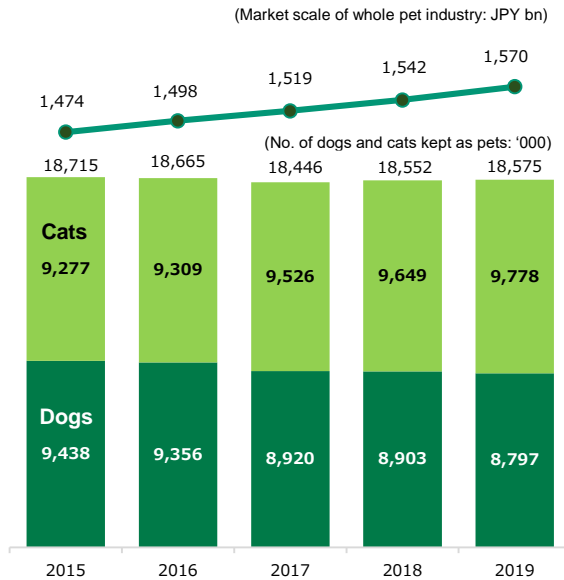


## 2. Pet insurance business

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# (1) Pet market environment

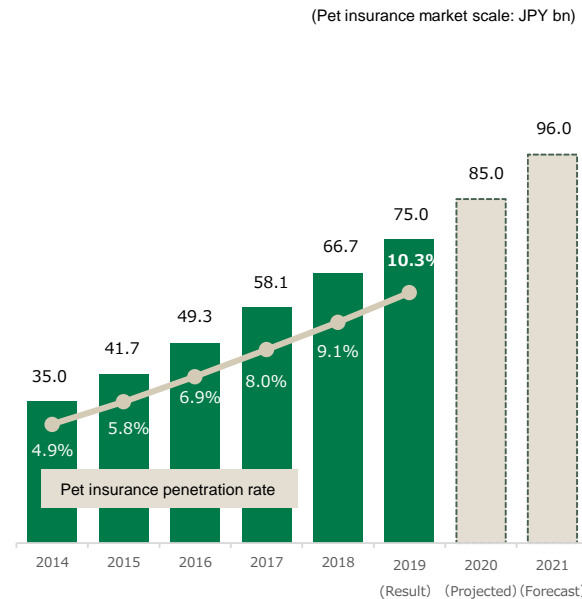
## Market size and number of pets



Source: Japan Pet Food Association  
Source: Yano Keizai Co, Ltd.: Pet Business Marketing Overview 2020 Edition

Market grows despite slow decline in dog population

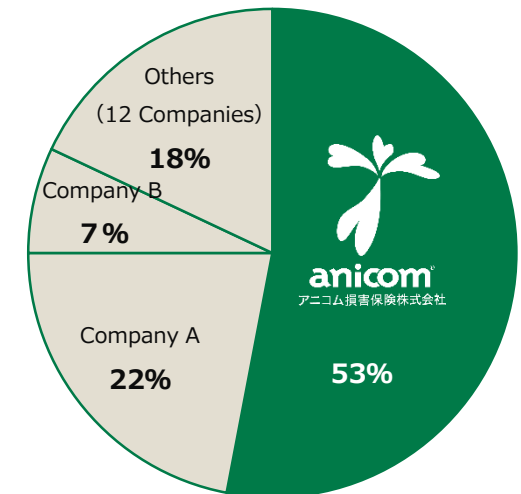
## Pet insurance market size



Source: Fuji Keizai Co., Ltd.: Overview of Pet-related Sector Marketing in 2020

Penetration rate remains 10%,  
market is still growing

## Company share of pet insurance market (Premium basis (Approximate))



Assumed by our company based on each company's disclosure materials and published financial statements

No. 1 share 11 years in a row

► Despite the declining dog population, the pet insurance market is growing at a double-digit rate every year

## (2) Pet insurance products

### 01 Pet health insurance



Two coverage plans: 70% and 50%

#### Product development meeting various demands

Our main product, Animal Health Insurance Family, covers veterinary fees incurred for hospital visits, hospitalization, and surgery. It can be utilized for medical treatment at any animal hospitals. Premiums vary depending on the coverage plan (70% plan or 50% plan). Animal Health Insurance Petit specializes in hospitalization and surgery, with premiums at around a third of previous products.

From October 2019, we launched a new product named Animal Health Insurance Senior. It targets dogs and cats over 8 years old, and specializes in hospitalization and surgery.

(Note) Neither product offers death cover.

#### Newly added service “Doubutsu Kenkatsu”

In December 2018, we started providing insurance incorporating gut microbiota measurements and a medical-examination recommendation service. It is the first service of its kind in the insurance industry. Utilizing the service, we aim to become a prevention-oriented insurance company which makes policyholders healthier.

### 02 Premiums and product features

	ふあみりい70%プラン 支払割合 70% 支払限度額と限度日数(回数)	ふあみりい50%プラン 支払割合 50% 支払限度額と限度日数(回数)
通院	1日あたり最高14,000円まで ※1年間にご利用できる日数は各20日までです。	1日あたり最高10,000円まで ※1年間にご利用できる日数は各20日までです。
入院	1日あたり最高140,000円まで ※1年間にご利用できる回数は2回までです。	1日あたり最高100,000円まで ※1年間にご利用できる回数は2回までです。
手術	1回あたり最高140,000円まで ※1年間にご利用できる回数は2回までです。	1回あたり最高100,000円まで ※1年間にご利用できる回数は2回までです。

Maximum payout and hospitalization stays covered by full coverage products

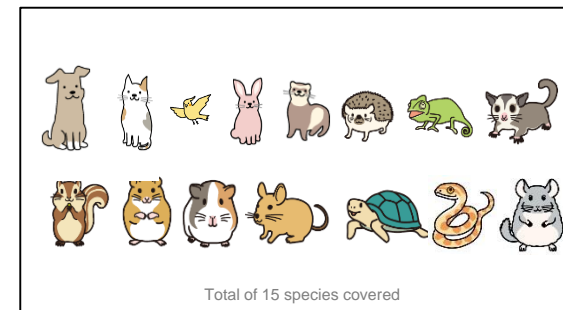
#### Premiums determined by breed and age

The annual premium is around JPY34,000 for a one-year-old chihuahua and JPY71,000 for a five-year-old golden retriever on the 70% plan, full coverage product. Our premiums increase more gradually with age compared to our competitors.

#### Controlling loss ratio by policy limits (payouts and hospitalization days)

Each insurance product sets limits on the payout amount and hospitalization days covered to keep the loss ratio under control. That being said, coverage is made generous so that policyholders will be satisfied with their payout.

### 03 Coverage for wide range of animals



#### 15 species of animals eligible for coverage

In addition to dogs and cats, insurance can be issued for other popular pets such as birds, rabbits and ferrets. Moreover, coverage eligibility was expanded from 2016 to include a diverse range of animals such as Japanese flying squirrels, squirrels, hamsters, mice, guinea pigs, hedgehogs, turtles and lizards.


In addition, we started providing insurance for chinchillas and snakes. As a result, the number of covered animals became one of the largest in the industry.

#### Lifelong renewals

We accept new policies for dogs and cats of all ages. Although the policies are non-life insurance products that must be renewed annually, they can in principle be renewed throughout a pet's lifetime.



**We provide free gut microbiota measurement services for policy holders.**



### Intestinal health age

By comparing test results with the same species' average microbiota balance, we measure the animals' intestinal health age.

We offer the test once a year, so that policyholders can utilize the results for health care.



### likelihood of illness

We measure the likelihood of getting sick by using the tens of thousands of microbiota research data and statistical data based on insurance payouts.

(Note) Microbiota measurement is not a diagnosis.



### Checkup recommendation

Depending on the test results, we recommend a free medical checkup (blood test) at animal hospitals of our designation. We aim to prevent and detect illness in early stages through this service.

## (2) Pet insurance products

Specializing in hospitalization and surgery for old and healthy animals

**We offer a product specializing in hospitalization and surgery  
for old and healthy animals.**



**Dedicated for  
older-aged animals**

In order to increase the penetration rate for the 18.5 million pets, we launched a new product dedicated for older-aged animals; the first in Japan. It targets animals over 8 years old, and has no maximum age limit for coverage.



**Specializing in  
hospitalization and surgery**

We set affordable insurance premiums for older-aged animals, by specializing in hospitalization and surgery and excluding hospital visits. It protects our policy holders for emergency hospitalization and surgery, which tend to be expensive.

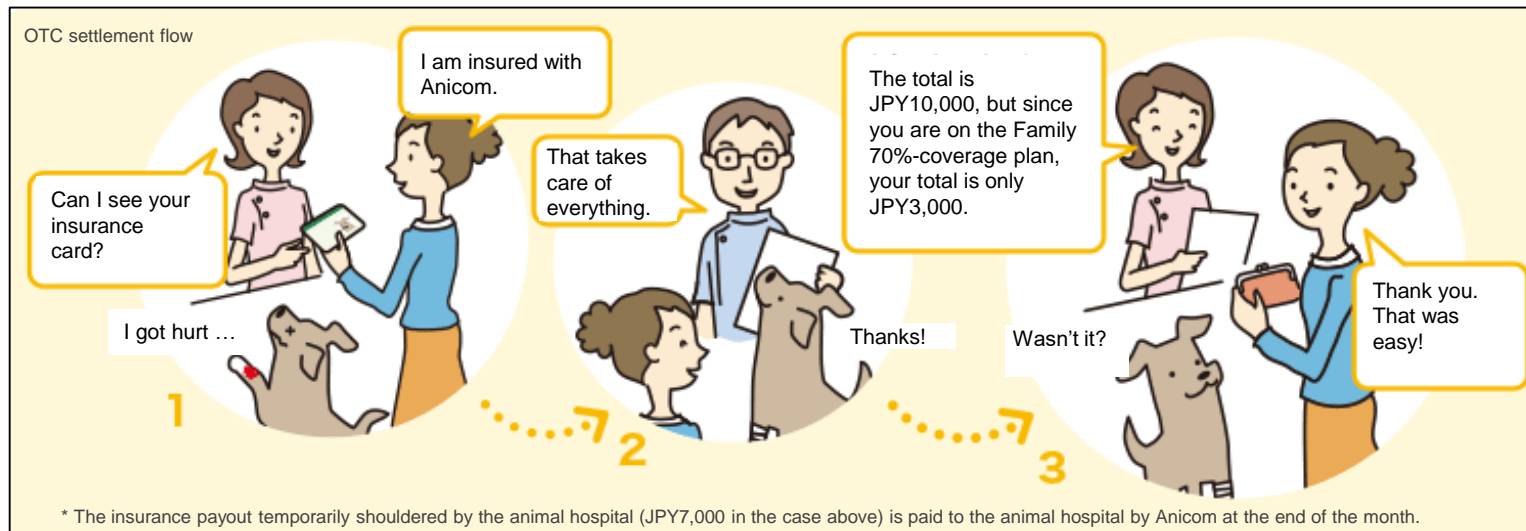


**Can be changed to cover  
hospital visits**

When results of gut microbiota measurement are well at renewal, policies can be changed to Animal Health Insurance Family which covers hospital visits.

<Anicom Insurance's strongest point>

### Establishment of OTC insurance settlement system



Our OTC settlement system, which facilitates a smooth link between policyholders, animal hospitals and Anicom, is available across nearly the entire country. The high barriers to entry in this segment of the market give us a substantial competitive advantage.

## 01 Great customer convenience

We were the first company to establish an over-the-counter (OTC) settlement system for animals in Japan, allowing policyholders to pay only uncovered amounts out of pocket simply by presenting their insurance card at the hospital (similar to the National Health Insurance system). This business model is centered on increasing the ease of use of insurance. This is important as medical treatment for pets is characterized by low cost but high frequency. "Ease of use", therefore is Anicom Insurance's greatest strength.

## 02 Partnership with hospitals

We have always worked to expand the network of hospitals accepting Anicom insurance. Consequently our network has grown to 6,400 hospitals (more than 50% of all animal hospitals in Japan), far exceeding our competitors. In addition, Anicom is highly competitive because veterinarians who establish a new hospital are more likely to partner with an insurance company that has a broad presence in the market as their first choice.

## 03 Low administrative costs

In the traditional pet insurance model, the policyholder mails a claim form to the insurance company. Every claim incurs administrative costs such as bank transfer charges, postage, and assessment costs. Our business model has reduced this cost significantly.

Of the annual 3 million claims we receive, roughly 85% are settled over the counter, resulting in high business efficiency.

## 01 Newborn channel

(FLOW)

Our largest channel targeting newborn animals has mainly been sold through pet shops. This channel is distinguished by a high contract ratio and a low loss ratio due to the young age of the animals.



### Insurance sales where owners meet their pets for the first time

This channel targets pets about to join new families. We have concluded agency agreements with around 2,000 major pet shops nationwide to sell pet insurance with the pets. In addition, we are pioneering cat adoption sessions and breeder sales channels to sell insurance at various occasions where owners meet their pets.

### Product design that facilitates signup

Because newly sold animals may experience discomfort due to sudden changes in environment, our newborn-oriented products offer 100% coverage for medical treatment expenses in the first month of the policy, thus encouraging customers to sign up.

Compared to the general channel, the young age of the animals results in a low loss ratio over the mid-term, and therefore contributes to an improvement in management efficiency.

## 02 General channel

(STOCK)

This channel is via OTC sales or online sales (direct sales by Anicom or sales by an agent). It targets pets already owned by households, and is therefore massive market.



### Massive market

This channel targets dogs and cats already owned by households (approximately 18.5mn nationwide) and other pet species. In addition to online sales via our website, our policies are sold by online agents and over the counter by financial institutions. \*Principal agents: Sony Assurance., Asahi Mutual Life Insurance, Benesse Corporation, regional co-operatives, Yanase, regional banks, and shinkin banks.

### Targeting scale expansion by strategic marketing

Dogs and cats under eight years old are eligible for coverage. Although the market is huge, the animals insured are older than those in the newborn channel. We therefore aim to expand business by strategic marketing while considering the loss ratio impact. We also exercise control over fraud by requiring a strict preliminary screening and waiting period.





### 01 Harnessing vets' expertise in insurance

Accurate assessment of an insurance claim requires the ability to understand the story of a patient's medical history from a medical treatment report. We assess claims quickly and accurately by harnessing vets' knowledge and clinical experience. Many vets also play a role in preliminary screening, assessing animals' health and medical history so that we can provide a fair underwriting service.

### 02 Support for pet shops

Our vets provide an animal management support and hygiene guidance service to pet shops, which are our main insurance sales channel. Buying a healthy animal with insurance from a pet shop not only ensures a lower loss ratio, but provides assurance to owners that their pet has been properly checked by a veterinarian. This also reduces claims against pet shops after the sale.

### 03 One-of-a-kind service

In addition to our established telephone animal health consultation service, we have started Dobutsu Hotline, which allows policyholders to consult vets about illness, health, and training using LINE. We can help pet owners with a broad range of problems, because we have a team of vets with diverse professional experience and areas of expertise.

### 01 anicom you

An online magazine that shares information about preventive practices and fun facts related to pets, as well as information about rare animals and species threatened with extinction.



### 02 White Paper on Household Animals

Annually release a report on Japanese household animals such as Insurance payout data and Anicom survey.



### 03 STOP heatstroke

A project that raises awareness of preventive practices with the aim of reducing cases of heatstroke among dogs. We also operate a project to stop accidental ingestion cases.



### 04 Disaster assistance

Disaster assistance in the affected areas, such as dispatching veterinarians and assist the search of lost pets.



### 05 Animal Health Encyclopedia

Shows the illness statistics derived from insurance payout data. It is reviewed by veterinarians.



### 06 Cat Encyclopedia

A webpage aimed at cat owners. All articles are reviewed by veterinarians.



## 3. Mid-term Management Plan

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# ( 1 ) Commitment to prevention



In July of 2000, I got the idea to establish a "prevention-oriented insurance company" and established Anicom. My concept of a "prevention-oriented insurance company" is a "company that reduces tears and creates smiles". This is Anicom's corporate vision. This vision embodies the idea that we should provide information that helps prevent injuries and illnesses. Utilizing the large amount of case data owned by insurance companies can accomplish this, and make animals and their owners smile.

It is believed that all injuries/illnesses are caused by a combination of two factors; "Genetic factors" and "Environmental factors" (fig.1). In particular, animal injuries/illnesses are believed to be caused by genetic factors to a greater degree than with humans. It is, therefore, reasonable to say that Anicom Insurance Inc. pays a large amount of claims annually due to these genetic factors (fig.2). There is hope. It is possible to prevent hereditary diseases (genetic diseases) using science and technologies such as genetic testing. Anicom Group has started a genetic screening business to eradicate hereditary.

This is just one example of the efforts being made by our company. We always promote efforts for such prevention with the aim of being a "prevention-oriented insurance company" so that we can create new social value and sustainable growth.

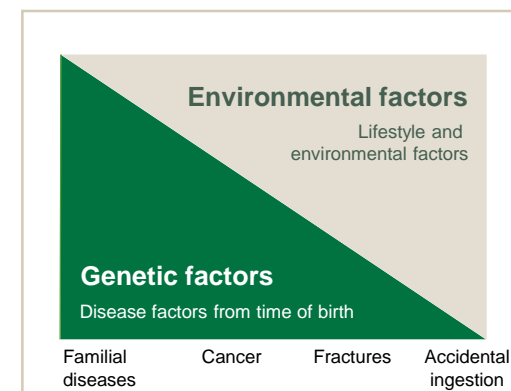


fig.1 Sample factors causing injury and illness

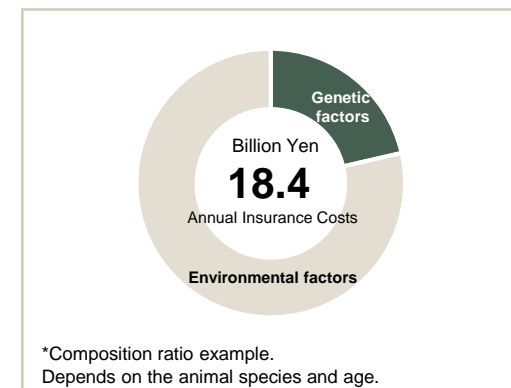


fig.2 Breakdown of annual insurance (FY2018 results)

May 9, 2019

小森 伸昭



### Anicom's History (18 years from establishment to solid foundation)



#### **Insurance Company Group that Wipes Away Tears**

We have been providing services for  
medical treatments and insurance for  
illnesses/injuries for 18 years.

### Anicom's Future (Positioning for the second founding period)



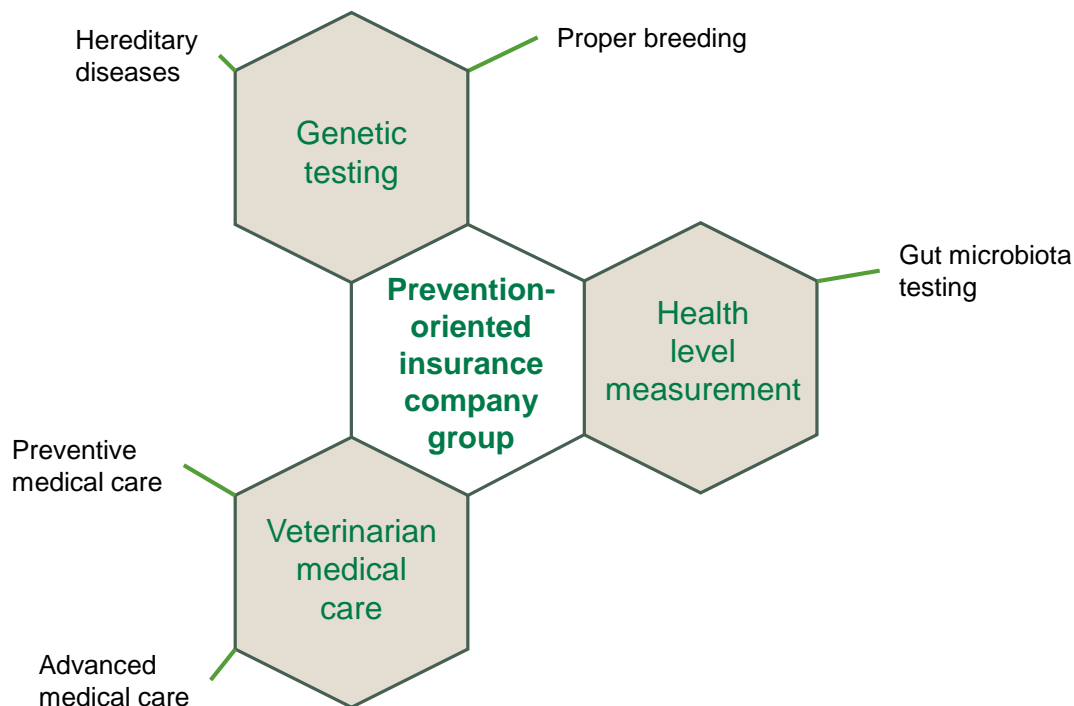
#### **Insurance Company Group that Creates Smiles**

Becoming a prevention-oriented insurance  
company group that analyzes diseases and  
injuries based on various data to understand the  
“health level”.



### Insurance Company Group that Creates Smiles

Becoming a prevention-oriented insurance company group that analyzes diseases and injuries based on various data to understand the “health level”.



#### 1. Eradication of hereditary diseases and breeding support

Avoiding preventable genetic diseases by spreading genetic testing. By providing proper breeding support (inbreeding management, etc.) based on the results, new genetic diseases can also be prevented.

#### 2. Health level measurement using gut microbiota testing

Using health diagnosis through gut microbiota testing to support daily health and compensate for diseases related to environmental factors and hereditary diseases.

#### 3. Providing preventive medical care and advanced medical care

Preventive medicine, early detection, and disease prevention is done at medical sites. Epidemic diseases are diagnosed at group hospitals including advanced medicine.

## ( 4 ) Mid-term management roadmap



While continuing to accelerate pet insurance profitability, there will be a focus on lowering expenses. This will include reducing insurance payouts. At the same time, we will accelerate monetization of new business and steady expansion.

Fully utilize big data to promote the uniqueness of our pet insurance offering and to promote a new prevention cycle (genetics, environment, and medical care). While maintaining the growth potential of the whole Group, the ratio for other recurring revenue will exceed 10%.

Develop the prevention cycle as a comprehensive service overseas. Knowledge, knowhow, and cycles in animal industry can also be applied to personal insurance.

### Specific measures

- ▶ Further expansion of the insurance business and pursuit of uniqueness
- ▶ Improved ability to manage assets
- ▶ Establish and expand upstream/downstream business fields
- ▶ Reformation of the corporate brand

### Specific measures

- ▶ Establish uniqueness of pet insurance
- ▶ Monetization of upstream/downstream fields
- ▶ Utilization of big data
- ▶ Improve/organize cohabitation with animals

### Specific measures

- ▶ Establish a prevention-oriented insurance company
- ▶ Expand earnings in each upstream to downstream phase and basic support fields
- ▶ Overseas development / development to personal insurance

# (5) Priority measures for pet insurance business

## FY2021 Key figures for pet insurance

- **Topline:** 3-year CAGR of approx. 10% from  
Underwriting revenue + Investment revenue
- **Loss Ratio:** 57-59%
- **Expense Ratio:** 34-37%
- **Solvency Margin Ratio:** About 380% (About 400% in long term)

## 6 Priority Measures

### Reinforcement of core systems and improved office work efficiency

Ensure system infrastructure for maintaining big data, and restructure core systems to support corporate growth by efficient resource distribution.

### Promote Systemization

### Expansion of services and better utilization of customer feedback

Establish a system for properly evaluating and implementing feedback from customers, and improve services for customers. (More added services, improvements to My Page and the Call Center, and establish business operations to satisfy customers)

### Improve Customer Satisfaction

### Strengthen General Channel Sales

### Building new sales pillars

Develop it as main sales pillars equal to or higher than the newborn channel to make it a source for future earnings.  
(e.g. strengthening marketing/PR, utilization of the Web and animal hospitals, and new product development)

### Strengthen Newborn Channel Sales

### Strategies focused on genetic testing

Ensure earnings based on sales strategies that focus on genetic testing.  
(Such as pet shops, breeders, transfer groups, and matching websites)

### Strengthen Investment Operations

### Building an optimal portfolio (Including real-estate)

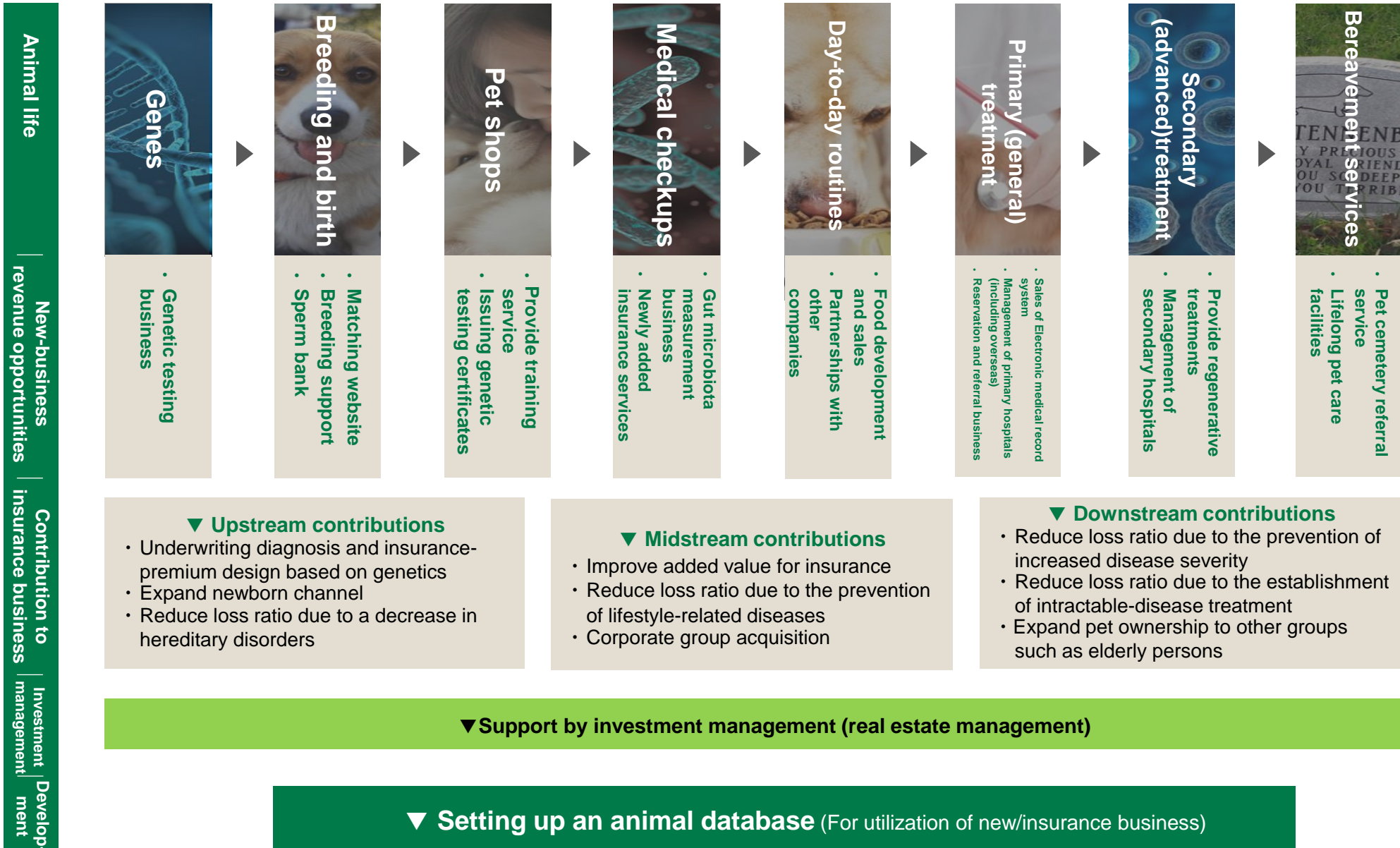
Make investments in real-estate based on animal themes, and utilize this in various measures. Improve the earning power of the securities portfolio.

### Optimize Insurance Payout

### Develop prevention strategies focused on proper treatment and “Doubutsu Kenkatsu”

Develop prevention and proper treatment based on the results of our company's unique data analysis focusing on “Doubutsu Kenkatsu” (literally “Healthy Animal Life.”) (Prevention of injury/illness, early detection of disease, proper treatment, and proper payment)

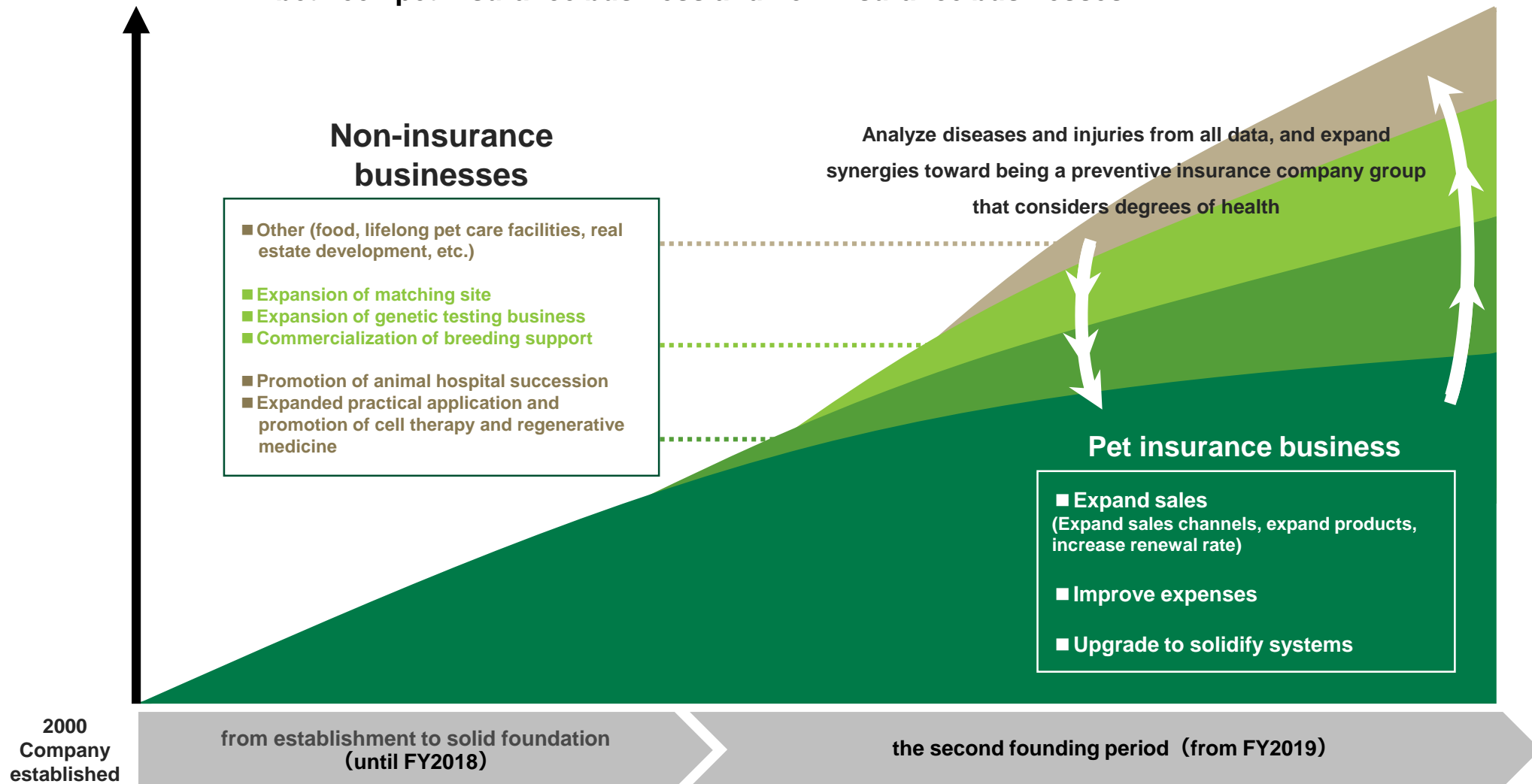
## (6) Peripheral new-business revenue opportunities and synergy with pet insurance



## (7) Drivers of corporate value creation in the second founding period

Corporate value creation  
(recurring revenue)

**Create new corporate value and continue high growth through synergies  
between pet insurance business and non-insurance businesses**



## (8) Mid-term management plan

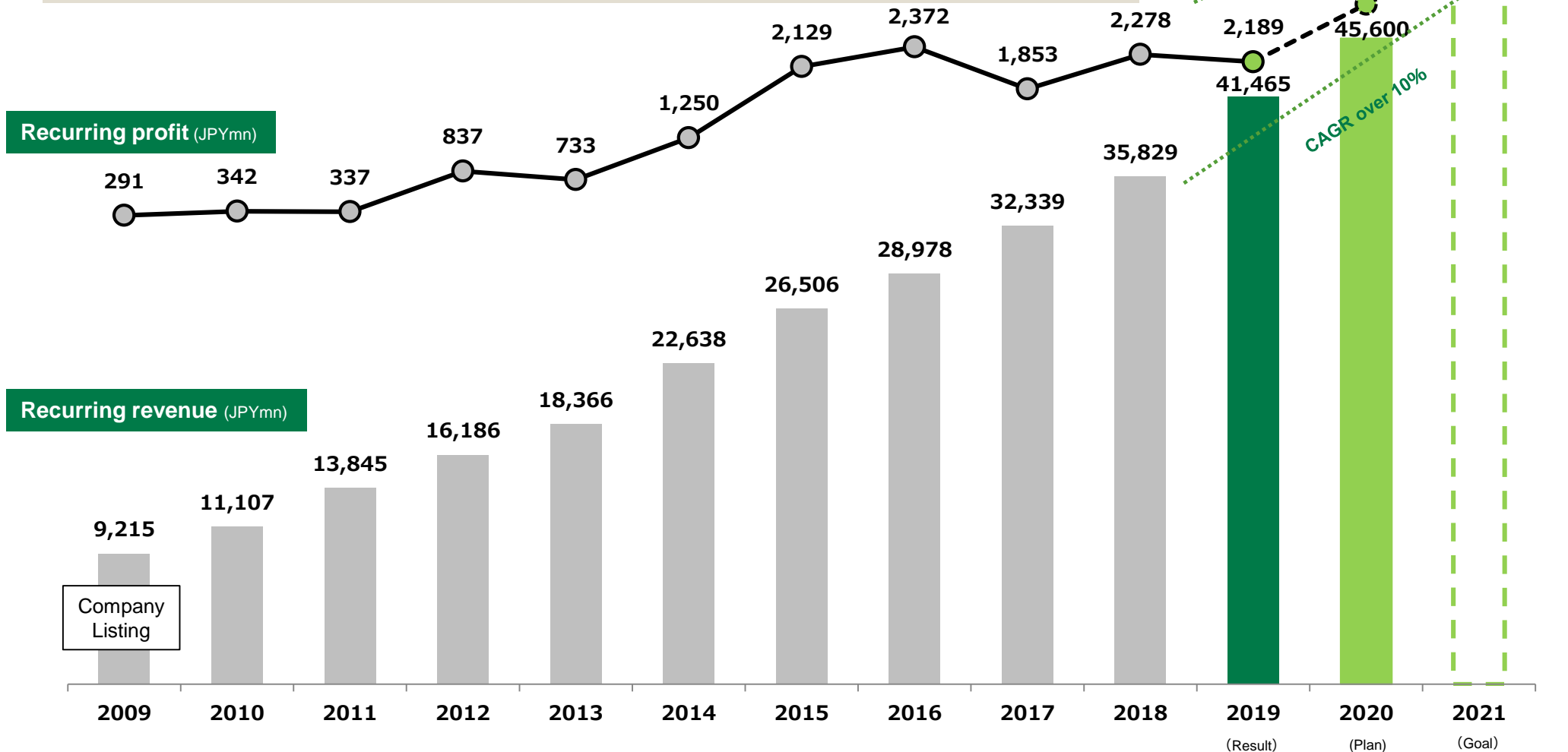
### Consolidated management numerical targets

Recurring revenue has continued to grow since listing.

Aim for a **3-year CAGR of at least 10% over 3 years.**

For recurring profit, aim for a **3-year CAGR of at least 20% over 3 years** while positively making investments to expand business.

\*CAGR (Compound Average Growth Rate)



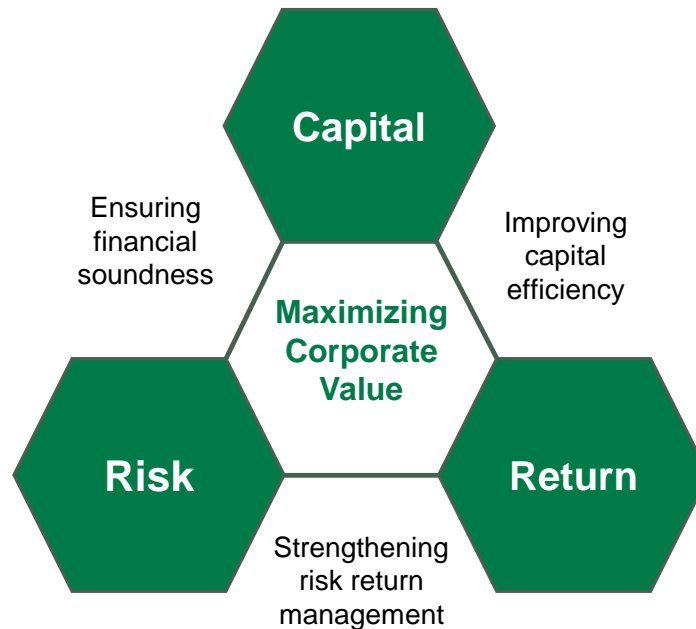
### Concepts of capital, risk, and return to improve corporate value

Manage the balance of capital, risk and return, and balancing financial soundness with capital efficiency.

Implement continuous and stable shareholder returns from a mid- to long-term perspective.

#### Non-life insurance SMR around 380%

In the long term, the solvency margin ratio (SMR) will be around 400%.



#### Toward ROE around 10-12%

With a capital cost of 6.7% as a prerequisite, toward an equity spread of +5%.

\* Equity Spread = ROE — Capital Cost

#### Shareholder return policy

Based on the concepts of financial soundness and capital efficiency, our basic policy is to distribute profits continuously and steadily from a mid- to long-term perspective.





## Environment

### **We aim to be “doctors of the earth.”**

Based on the corporate philosophy that all “life” including human beings and animals should understand and cooperate with each other, we conduct research and make every reasonable effort to contribute to the protection and preservation of bacteria, microbes, and plants.

Ex.: Support for World Wildlife Fund Japan

### **We act with consideration for the environment.**

We are reducing the distribution and use of paper. We do this by promoting digitalization of contracts, pamphlets, and forms including applications, invoices, and notifications to customers.

We work with related organizations for garbage collection activities with owners and their pets working together. We are also helping to tackle issues related to pet stool clean up.



## Social

### **We preserve the dignity of animals.**

As a company involved with animals, we have committed to the “Declaration for animal dignity”. A copy of the Declaration hangs in our lobby. We will act to achieve zero euthanasia, zero abuse of animals, and better conditions for pets and breeding.

Ex.: Building and managing shelters for older dogs and lifelong animal care facilities, and the new power plan (Shippo-oen Plan) developed in collaboration with Marubeni Power Retail Corporation.

### **We promote the success of women and consider diverse types of families.**

Many women are working throughout the group. Women currently account for around 60% of our work force and 30% of managers. Three of our directors are women (as of March, 2019).

In addition, we revised our pet insurance contracts, changing the designation of the “Insured person” to include same-sex partners as a “Spouse.”

### **We promote effort for the enlightenment of human rights.**

In order to respect everyone’s fundamental human rights, we will formulate a basic policy for human right and support activities for the prevention of harassment.



## Governance

### **We will maintain our existing strong governance system.**

We clearly separate management supervision and execution by increasing the number of outside directors (three directors) and by establishing an executive officer system.

At meetings of the “Nomination, Compensation, and Governance Committee,” whose members are mainly outside Directors, we discuss the nomination of representative directors, compensation, and the overall effectiveness of governance, including internal control structure.

### **We promote discussions at the Board of Directors / Management Meetings to achieve more effective governance.**

Thorough explanations are made in advance to outside directors to have more meaningful discussions at meetings.

## ■ Insurance terminology

- **Premium** . . . . . Moneys paid by policyholder to insurance company as payment for risk to policyholder that is covered by the insurance company
- **Insurance payout** . . . . . Moneys paid by insurance company to policyholder in the event of losses incurred in insured event
- **Business expense** . . . . . Insurance company's business expenses as a total of operating and general administrative expenses, net commissions, and collection expenses
- **Loss ratio** . . . . . Ratio of insurance payout to premiums. In this presentation, it is the ratio of incurred loss to earned premiums (including loss adjustment expenses).
- **Expense ratio** . . . . . Business expenses as share of premiums. In this presentation, it is the ratio of insurance business expenses to earned premiums.
- **Combined ratio** . . . . . Total of loss ratio and expense ratio. A value under 100% means an insurance company's revenue exceeds expenditure.
- **Solvency margin ratio** . . . . . Share of margin of solvency such as capital and reserves versus risks that exceed a company's normal estimates
- **Catastrophe reserve** . . . . . Reserves that insurance companies set aside as a percentage of premiums to prepare for a catastrophic disaster
- **Renewal rate** . . . . . Number of renewed policies versus the total number of policies in the previous year
- **Underwriting** . . . . . Assessing risk, conditions, premium rates, etc., when providing insurance cover

## ■ Pet insurance terminology

- **Newborn channel** . . . . . Anicom's main sales channel targeting newborn animals sold in pet shops
- **General channel** . . . . . Online and over-the-counter sales channel (financial institutions and others) for pets who already have owners
- **Hospitals accepting Anicom** . . . . . Animal hospitals that have contracts with Anicom Insurance and have adopted our OTC settlement system
- **OTC settlement system** . . . . . A system where insurance payouts are settled over the counter when the policyholder pays the uncovered amount at the animal hospital
- **Insured rate** . . . . . An indicator mainly used in pet shops. The percentage of animals sold whose owners buy pet insurance
- **Diffusion rate** . . . . . Percentage of pet dogs and cats in Japan whose owners have taken out pet insurance



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