

3Q FY03/23

Financial Report

February 7, 2023



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1. Overall summary (Recurring revenue and recurring profit)

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Recurring revenue	42,046 Million JPY	3Q FY03/22 JPY 39,616 mn +6.1% YoY Planned JPY 42,500mn - 1.1% Of which, underwriting revenue: JPY 37,782mn 3Q FY03/22 35,133mn +7.5%
Recurring profit before amortization of goodwill	2,863 Million JPY	3Q FY03/22 JPY 2,652mn +8.0% YoY
Recurring profit	2,699 Million JPY	3Q FY03/22 JPY 2,488 mn +8.5% YoY Planned 2,750mn - 1.8%

Steadily turned robust demand for pet ownership into an increase in the number of new policies, while reducing agency commissions to achieve both scale and profit.

■ Recurring revenue (YoY)

- For Apr-Dec, the number of new policies was 164,000 and the number of policies in force totaled 1,094,000 (+9.0%), **showing continuous growth at a solid pace.**
- Other recurring revenue was JPY 3,794 million (-3.3%), mainly because a slowdown of demand for pet ownership led to declines in the number of contracts concluded at SIMNET's breeder matching site and that of generic testing conducted.
- Investment revenue was JPY 469 million (-15.9%), but nevertheless **progressing in line with the plan** through agile investment management under uncertain market conditions.

■ Recurring profit (YoY) *"Recurring profit before amortization of goodwill" is added for disclosure from FY1H 03/23.

- Recurring profit fell slightly short of target, by 1.8%, due to an increase in insurance payouts and a decline in other recurring revenue, although there was an increase in underwriting revenue and a cut in agency commissions.
- Moving forward, we will continue focusing on achieving a more preferable loss ratio, agency commissions, and sales administrative expense ratio while closely monitoring trends in demand for pet ownership and insurance payouts.

2. Income statement summary

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(JPYmn)

	3Q FY03/22	3Q FY03/23	Change
Recurring revenue	39,616	42,046	6.1 %
Underwriting revenue	35,133	37,782	7.5 %
Investment revenue	558	469	- 15.9 %
Other recurring revenue	3,923	3,794	- 3.3 %
Recurring expenses	37,127	39,347	6.0 %
Underwriting expenses	24,940	26,501	6.3 %
• Net claims paid	(19,186)	(20,930)	9.1 %
• Loss adjustment expenses	(832)	(840)	1.0 %
• Net commission and collection expenses	(3,894)	(3,781)	- 2.9 %
• Provision for reserve for outstanding losses and claims	(247)	(356)	44.1 %
• Provision for underwriting reserves	(779)	(593)	- 23.9 %
Of which unearned premiums	(1,056)	(899)	- 14.9 %
Of which catastrophe reserve	(-277)	(-306)	- 10.6 %
Investment expenses	61	0	- 99.9 %
Operating and general administrative expenses	10,915	11,538	5.7 %
Other recurring expenses	1,209	1,307	8.1 %
Recurring profit before amortization of goodwill	2,652	2,863	8.0 %
Recurring profit	2,488	2,699	8.5 %
Net profit	1,909	1,673	- 12.3 %

2. Income statement summary

■ Reasons for changes in major accounting items

(1) Underwriting revenue

➤ The number of policies in force **increased by 89,950 (+9.0%)** while the number of new policies declined by **8,714 (-5.0%)**, year-on-year.

(2) Investment revenue

➤ Amid uncertain market conditions, we partially realized unrealized stock gains in 2Q and have since been steadily accumulating income gains.

(3) Other recurring revenue

➤ Other recurring revenue fell year on year due to declines in the number of contracts concluded at SIMNET's breeder matching site, that of generic testing conducted, and so forth.

(4) Net claims paid

➤ Claims paid increased, primarily because the frequency of hospital visits remained high despite the waning impact of COVID-19.

(5) Net commission and collection expenses

➤ Agency commissions improved thanks to the diversification of sales channels and the efficient acquisition of policies.

(Reference) Anicom Insurance's key insurance indicators

(JPYmn)

	3Q FY03/22	3Q FY03/23	Change
Earned premiums	34,207	37,019	8.2%
Claims incurred (including loss adjustment expenses)	20,266	22,127	9.2%
E/I loss ratio (1)	59.2%	59.8%	0.6pt
Expense ratio (based on earned premiums) (2)	37.5%	35.1%	-2.4pt
Combined ratio (based on earned premiums) (1)+(2)	96.7%	94.9%	-1.8pt

3. Factors related to changes in recurring profit

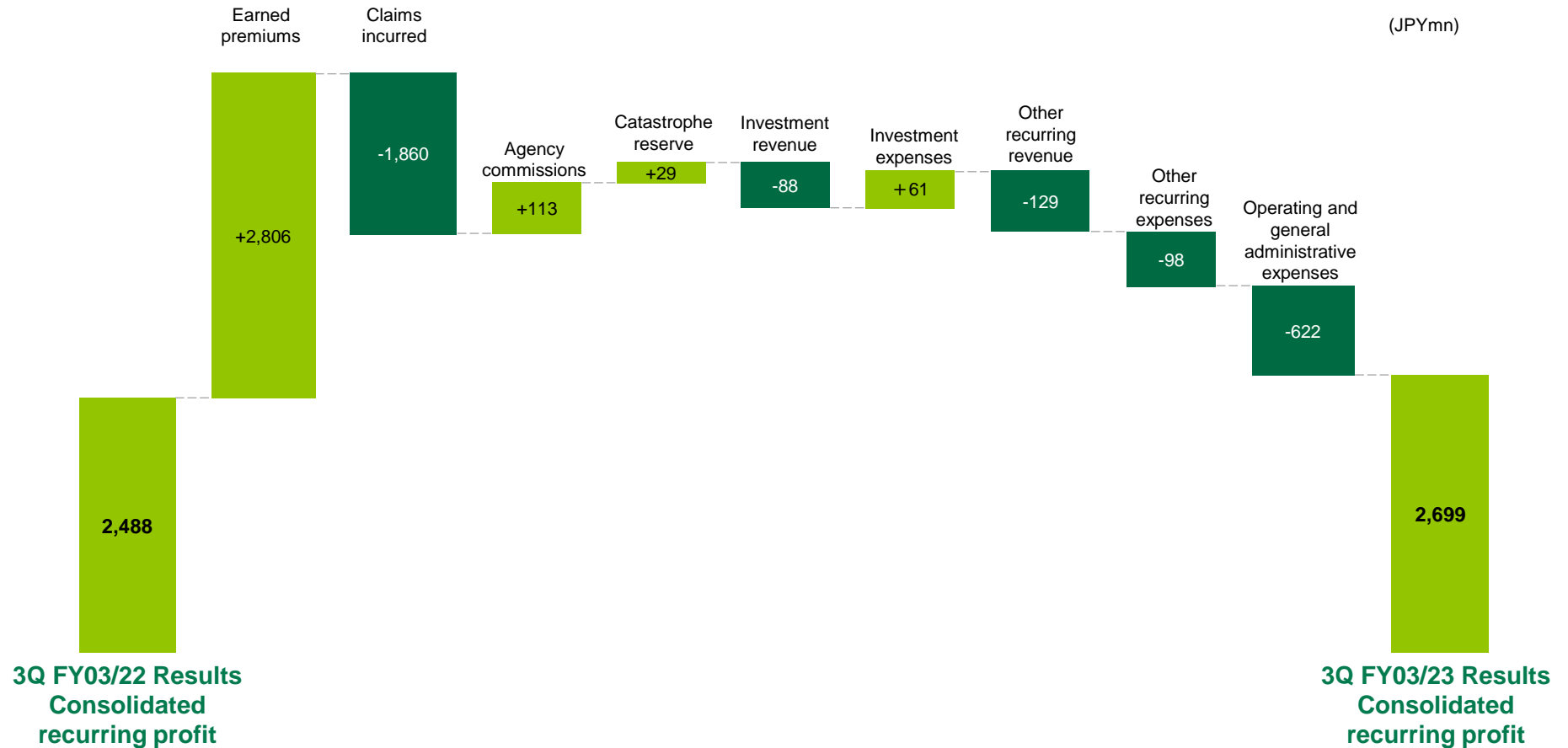
(Comparison analysis with 3Q FY03/22 results)

Recurring profit increased due to an underwriting revenue increase, in addition to contribution from the improvement of agency commissions rate, etc.

Note 1) Earned premiums = Underwriting revenue - Provision for normal underwriting reserves (Unearned premiums)

Note 2) Claims incurred = Net claims paid + Provision for reserve for outstanding losses and claims

Note 3) Catastrophe reserve = Provision for Catastrophe reserve losses and claims + Reversal of Catastrophe reserve reimbursements



4. Balance sheet summary

(JPYmn)

	End-FY03/22	End-3Q FY03/23	Change
Total assets	58,635	59,834	2.0 %
Cash and bank deposits	29,641	27,592	- 6.9 %
Marketable securities	16,570	18,884	14.0 %
Tangible fixed assets	6,020	5,876	- 2.4 %
Other assets	6,402	7,479	16.8 %
Total liabilities	31,319	32,235	2.9 %
Reserve for insurance policy liabilities	21,297	22,247	4.5 %
Of which loss reserves	2,705	3,061	13.2 %
Of which underwriting reserves	18,592	19,185	3.2 %
Corporate Bonds	5,000	5,000	- %
Other liabilities	5,021	4,988	-0.7 %
Total net assets	27,316	27,598	1.0 %
Shareholders' equity	27,658	29,129	5.3 %
Valuation and transaction adjustments	- 342	- 1,530	- %
Total liabilities and net assets	58,635	59,834	2.0 %

■ Reasons for changes in major accounting items

(1) Marketable securities

- Sold shares and carefully invested in bonds and other instruments

(2) Corporate bonds

- Funds raised through the issuance of first series unsecured bonds in September 2020

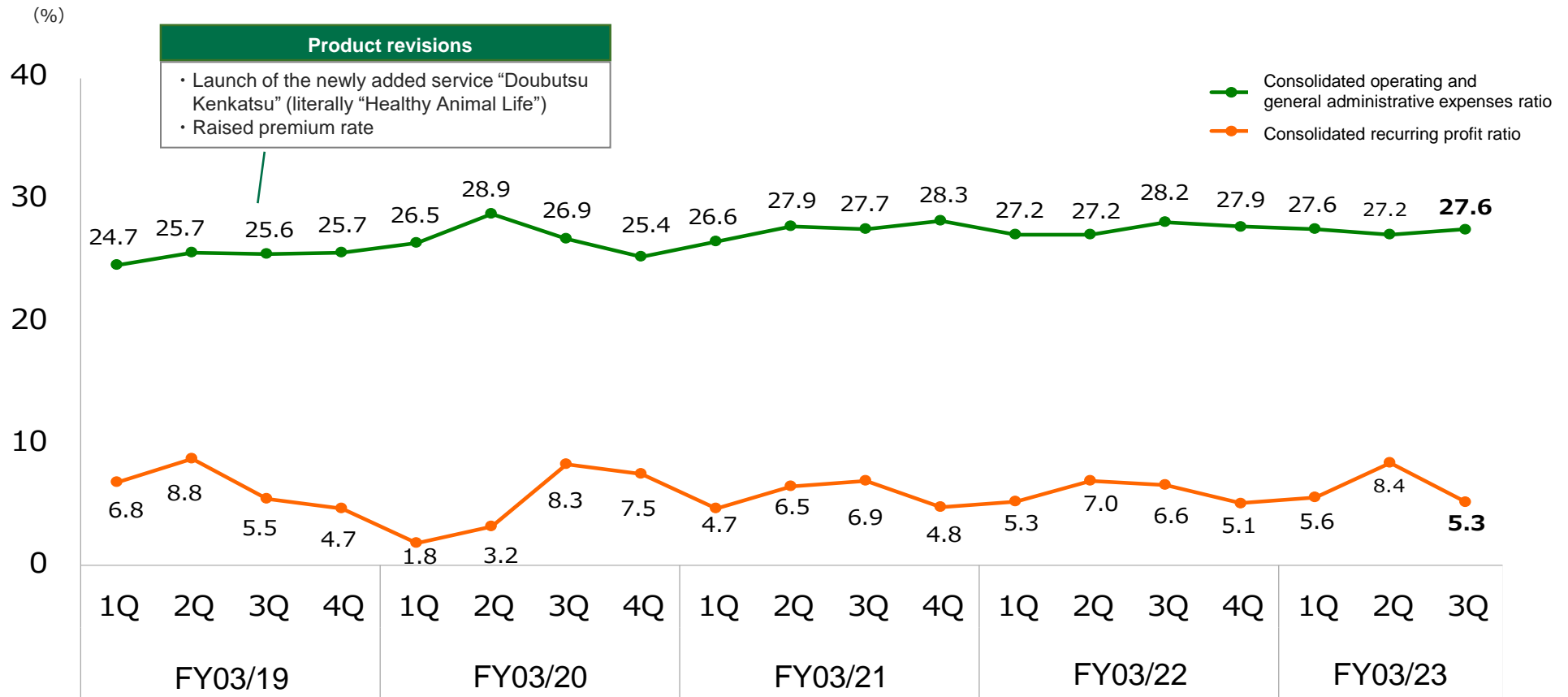
(3) Valuation and transaction adjustments

- Decrease in valuation difference on available-for-sale securities

5. Recurring expenses and profit indicators

*Operating and general administrative expenses ratio, recurring profit ratio (consolidated)

*Refer to the appendix for management indicators for Anicom Insurance on a non-consolidated basis (loss ratio, expense ratio, number of policies)



Progress of priority measures

1. Progress of priority measures (Insurance business and investment)
2. Progress of priority measures (Businesses generating synergies)
3. Topics



Insurance Business

Numbers of new policies and policies in force

- The number of new policies totaled over **164,000** for Apr–Dec, and the number of policies in force exceeded **1.09 million** as of December 31, 2022.

Expanding and strengthening sales channels

- Closer collaboration with SIMNET led to a steady increase in the number of new policies sold through the breeder channel.
 - ⇒ Number of breeder agencies:
Increased to 792 as of December 31, 2022, accompanied by a rise in insured rate
(91 as of September 30, 2020)
- An ongoing effort was made to expand sales channels further, centered on corporate agencies.
- Enhancing online ads made a greater contribution to the number of new policies.

Building on the expansion and strengthening of sales channels, Anicom promoted the improvement in efficiency and costs in the insurance business

⇒ Acquired policies efficiently while strongly pushing the fusion of the real and digital worlds

Expanding products and services

- Owing to a steady increase in Doubutsu Kenkatsu applications, the renewal rate remained high for Apr–Dec at 88.1%.

Improving the loss ratio, agency commissions, and sales administrative expense ratio

- **Loss ratio (59.8% in 3Q) improvement**
The impact of COVID-19 started to wane; still, insurance payouts require close monitoring in 3Q and beyond.
Ongoing measures to improve the loss ratio
 - Promote the use of recommended health insurance treatment flowcharts to encourage more appropriate medical care
 - Refer more pet owners to outstanding hospitals using appointment functions.
- **Agency commissions (10.0% in 3Q)**
A significant 1% improvement was made year-on-year owing mainly to revision of agency commissions and expansion and diversification of sales channels.
- **Sales administrative expense ratio (27.4% in 3Q) improvement**
 - Reduce both the number of direct claims and processing cost per claim in insurance payout operations.
 - Save labor for handling various procedures and reduce paperwork costs.

Investment

➤ As a result of flexible and opportunistic investment, we are making progress as planned

We partially realized unrealized stock gains in 2Q in light of uncertain market conditions and have steadily accumulated income gains in 3Q.

➤ Opening of Shippo-no-sato [tail's home], a complex facility aimed at promoting animal welfare

(incorporating shelters, breeding spaces, and dog café)

The facility hosts activities to further promote animal welfare making use of Group companies' resources, and also serves as a venue for developing human resources for the future of pet industry and for school education, in cooperation with Kokusai Business Gakuin in Ishikawa prefecture.



➤ Our popular pet-friendly housing (anico flora Higashi-Nakano) remained full.

Other

➤ As of December 31, 2022, we have filed a total of 41 patent applications (an increase of 18 applications year-on-year).

Numbers of patents applied for and granted by field of technology

	Image recognition AI	Genes, food, and gut microbiota	Regenerative medicine	Other	Total
Patents applied for	17	14	3	7	41
Patents granted	3	2	2	1	8



Note: "Patents applied for" include priority claim applications and divided applications, but exclude applications filed overseas.

➤ Promotion of the "strategy of one patent per employee"

Anicom has developed businesses that touch each employee's heart such as image recognition AI, food, gut microbiota measuring, and regenerative medicine. Consequently, **the number of inventors increased to 94 as of December 31, 2022, from 13 as of December 31, 2020.**

➤ Development of AI and a database (basic animal resident register)

- Gather data to detect signs of labor or heat in animals.
- Develop a detection AI model using collected images and build it into cameras.



Before birth

Upstream



Enhancing the genetic testing business

- The number of samples for genetic testing exceeded **74,000** for Apr–Dec.
- Genetic testing for gastrointestinal polyposis in Jack Russell terriers was launched in July.
- We started to implement panel testing that makes it possible to check disposition (behavior), breed, fur color, temperament, parentage, etc. in a single test.

SIMNET results for Apr–Dec 2022

- Net sales: JPY**1,406** million
- Recurring profit: JPY**33** million
- Recurring profit ratio: **2.2%**



Note: Recurring profit above does not include amortization of goodwill.

Anicom has been expanding breeding support through the dog and cat breeders registered with its Minna no Breeder and Minna no Koneko Breeder websites

Strengthening breeding support

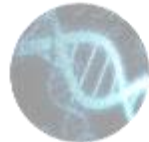
We have been actively advancing various initiatives, taking into account the amended Act on Welfare and Management of Animals and other developments.

- **Genetic testing** ⇒ Development of testing and matching services that help improve breeding efficiency (e.g., **analyzing the genetic information of animals that produce many offspring**)
- **Technological development** ⇒ Development of methods to detect the optimal mating period, **utilization of stem cells**, research aimed at improving technologies for the use of frozen sperms, etc.
- **Medical support** ⇒ **Expanding house call service areas**. Guiding breeding skills (e.g., smear test and artificial insemination)
- **Sales support** ⇒ **Expansion of the support center for direct sale from breeders (steady increase in the number of animals handed over, coupled with a high ratio of contracts concluded)**
- **Business support** ⇒ **An increase in the number of breeders** recommending the Group's food; development and trial start of a reproductive management system; provision [leasing] of breeding spaces, etc.
- **Support for adoption of retired breeding dogs and cats** ⇒ The ani TERRACE shelter began to rescue, care for, and facilitate the adoption of, dogs and cats (some adoptions already made) while also working to attract visitors utilizing its dog park and pet hotel

From day-to-day routines to curing the incurable

Midstream

Downstream



Commercializing health exams and food and products, etc.

- Over 156,000 applications were received for Doubutsu Kenkatsu service for Apr–Dec.
- “Kimi no Gohan (Food for You)” series (DNA food and food for gut microbiota) Expanding sales mainly to policyholders Exploring collaboration with pet shops
- “Minna no Gohan” Recommended by breeders →Induce to subscription plans Sales channels are expanding



Business related to animal healthcare treatments (from prevention to general practice/regenerative medicine)

- Directly-operated animal hospitals totaled 53 (14 capable of performing surgery), growing at a solid pace.
- As of December 31, 2022, 576 animal hospitals joined the Research and Development Partnership for Animal Regenerative Medicine (PARM) launched mainly by the Anicom Group for the purpose of spreading regenerative medicine. PARM aims to administer more than 300 doses of cells in FY2022 (compared with approx. 200 doses administered in FY2021).



Addressing social issues (ESG activities)

- The ani TERRACE shelter for rescue animals opened in April (within the VISON commercial facility in Mie Prefecture).
- A website specializing in information on disaster risk reduction for pets Launched “Dobutsu Bosai Zukan [Illustrated Guide to Animal Disaster Preparedness]” (December)
- Launched sustainability webpages (December) As a provider of infrastructure for pet industry, we aim to make contribution in the three areas of people, animals, and the environment.
- Concluded an agreement with Kanagawa Prefecture on the initiatives to promote animal welfare, etc. (January)



- [Initiatives for which cooperation and collaboration are under way]
- (1) Prevention of animal hoarding
 - (2) Further promotion of adoption
 - (3) Disaster preparedness for pets
 - (4) Classes for children



Toy poodle	Chihuahua	Miniature dachshund	Shiba Inu
Watch out for ... Eye and Stomach diseases	Watch out for ... Bone and Neural diseases	Watch out for ... Immune system and Bone diseases	Watch out for ... Eye and Immune system diseases
Bilberry extract Maintains eye function by facilitating the important effect of rhodospin to maintain visual function.	Glucosamine HCL An ingredient of collagen that indirectly helps form new cartilage.	Glucosylceramide A constituent involved in the synthesis of collagen and hyaluronic acid. Helps maintain the function of the joints.	Astaxanthin Known to help eyes focus and refocus, thereby contributing to maintaining eye health.
Nigero-oligosaccharide Solves the problem of "spore for /spore bacteria" in the intestine.	Amibsenon Promotes the synthesis of myelin sheath factor, which is important for maintaining nerve cell function.	Plant-origin Nano-sized lactic acid bacterium SAK Attaches acid bacteria that is efficiently absorbed by the body and is very effective for the maintenance of health and the function of immune system.	Ergothioneine Has antioxidant properties and regulates the function of cellular oxygen.

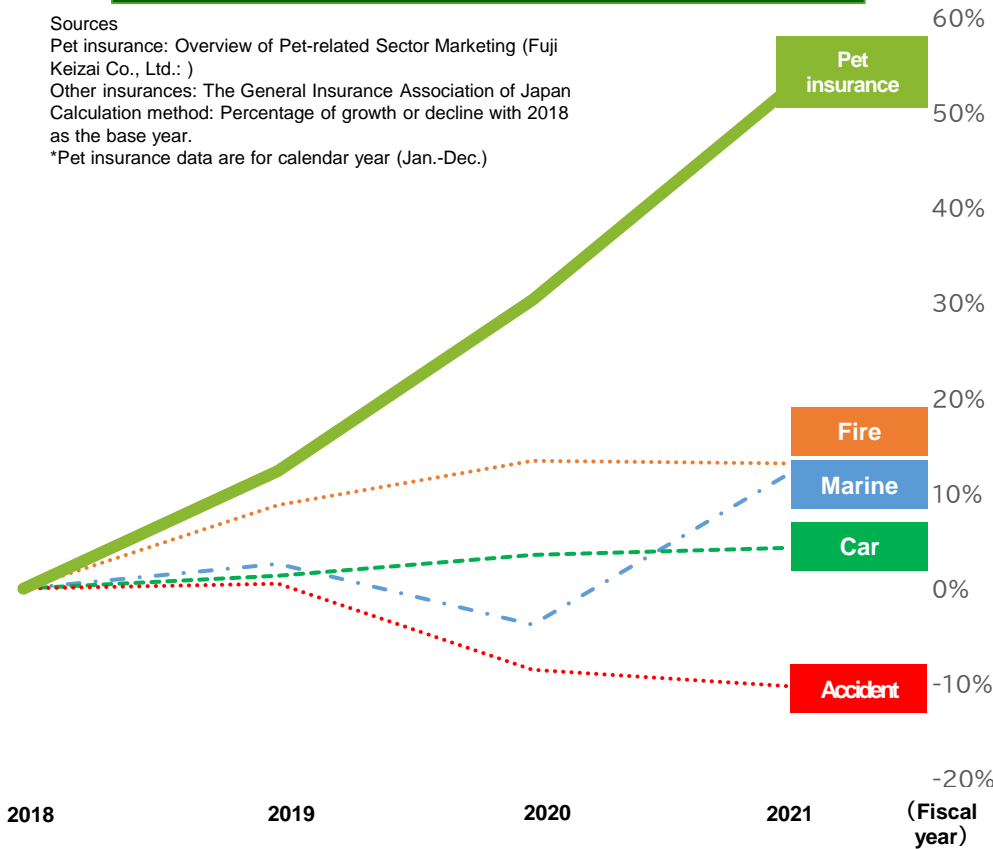
3. Topics: Rapid changes in the business environment for pet insurance industry

Pet insurance is attracting the attention of businesses for being one of the few growth markets among many insurance types.

In addition to the recent rush of new entrants, pet insurance industry is also seeing the entry of leading life and nonlife insurers, foreign firms, and even from among GAFA.

Pet insurance growth rate (compared with other types of nonlife insurance)

Sources
 Pet insurance: Overview of Pet-related Sector Marketing (Fuji Keizai Co., Ltd.)
 Other insurances: The General Insurance Association of Japan
 Calculation method: Percentage of growth or decline with 2018 as the base year.
 *Pet insurance data are for calendar year (Jan.-Dec.)



Timeline of entry into Japan's pet insurance market

Timeline of entry into pet insurance market (2000-)

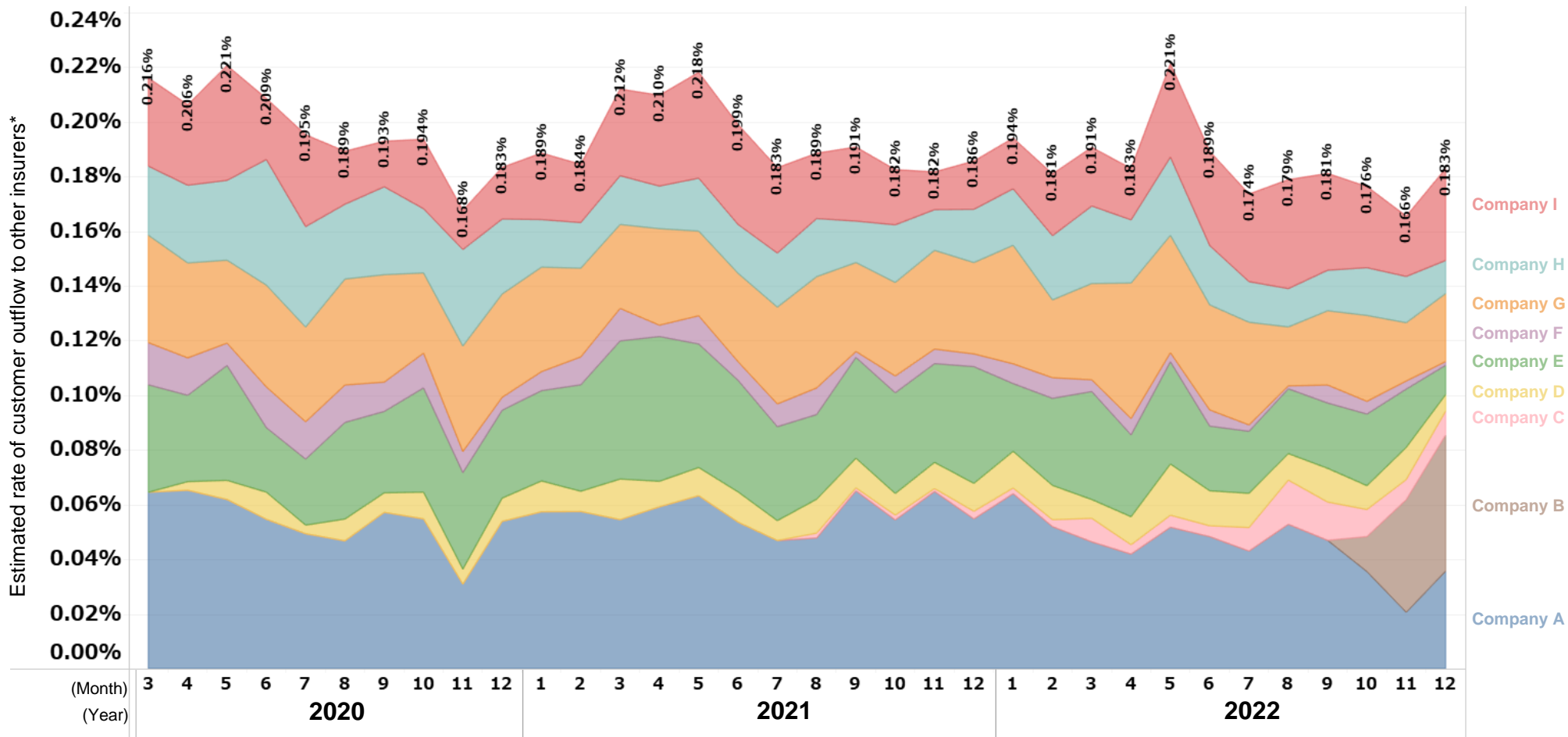


*Includes information based on news reports.

3. Topics: Outflow of customers to other insurers

Although the number of new policies is steadily on the rise, the monthly rate of outflow to total policies in force stays at a little below 0.2% (around 2% annually).

In recent years, the rate is on a downward trend.



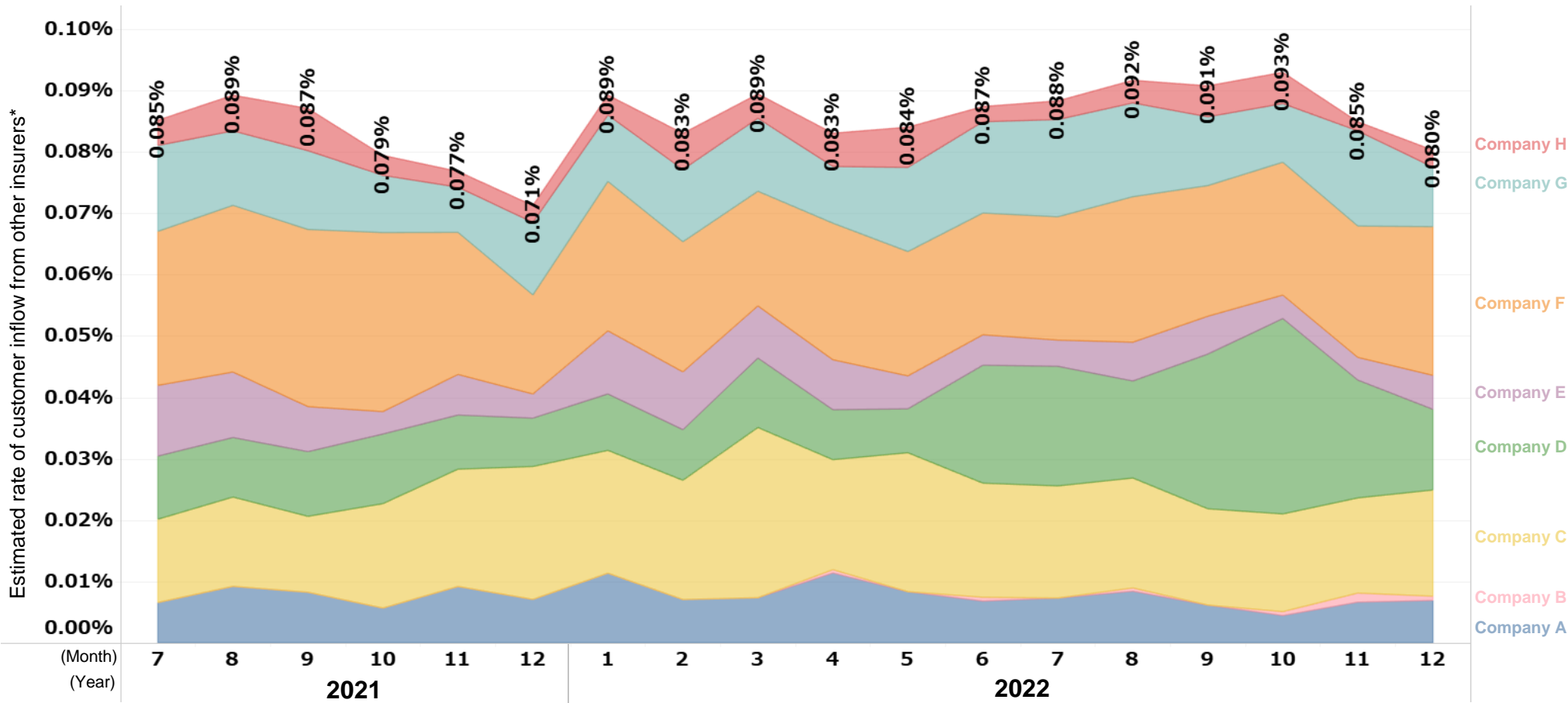
* Rate of customer outflow to other insurers: We estimated the number of policies we have lost to other insurers using the results of web-based questionnaire survey of policyholders who did not renew their policies, conducted by Anicom Insurance, Inc., and estimated the ratio of policies lost to other insurers to total policies in force.

3. Topics: Inflow of customers from other insurers

Customers who have switched from other insurers stated their appreciation of our OTC (over-the-counter) insurance settlement as the reason for the switch, confirming that the inflow is a result of their choice of convenience over low price.

The monthly rate of inflow to total policies in force is around 0.08% (around 1% annually).

We are rolling out measures to stem the outflow and boost the inflow.



* Rate of customer inflow from other insurers: We estimated the number of policies we have gained from other insurers using the results of web-based questionnaire survey of new policyholders, conducted by Anicom Insurance, Inc., and estimated the ratio of policies gained from other insurers to total policies in force.

APPENDIX

1. Major management indicators
2. Anicom Insurance (non-consolidated): Recurring revenue indicators
(trend in new policies / number of pet insurance policies in force)
3. Anicom Insurance (non-consolidated): Recurring expenses indicators
(loss ratio (E/I), expense ratio based on earned premiums)
4. Peripheral new-business revenue opportunities and synergy with pet insurance



1. Major management indicators

	3Q FY03/22	End-FY03/22	3Q FY03/23	Vs. previous year		Vs. previous year-end		End-FY03/23 (forecast as of May 11)
				Numbers	Rate	Numbers	Rate	
(1) Policies in force	1,004,913	1,028,831	1,094,863	89,950	9.0 %	66,032	6.4 %	1,120,000
(2) New policies	173,357	229,099	164,643	-8,714	-5.0 %	-	-	232,000
(3) Renewal rate	87.8 %	87.8 %	88.1 %	-	-	-	-	87.8 %
(4) Insurance payout cases	3,048 ,000	4,019 ,000	3,195 ,000	147 ,000	4.8 %	-	-	4,268 ,000
(5) Animal hospitals accepting Anicom	6,651	6,681	6,768	117	1.8 %	87	1.3 %	6,790

	3Q FY03/22	3Q FY03/23	YoY Change	End-FY03/23 (forecast as of May 11)
(6) E/I loss ratio	59.2 %	59.8 %	0.6 pt	58.1 %
(7) Expense ratio (based on earned premiums)	37.5 %	35.1 %	-2.4 pt	35.9 %
(8) Combined ratio (based on earned premiums)	96.7 %	94.9 %	-1.8 pt	94.0 %

	End-FY03/22	3Q FY03/23	Vs. previous year-end	End-FY03/23 (forecast as of May 11)
(9) Solvency margin ratio (non-consolidated)	334.6 %	302.0 %	-32.6 pt	Around 320 %

	3Q FY03/22	3Q FY03/23	YoY Change
(10) No. of applicants of Doubutsu Kenkatsu (gut microbiota testing)	138,253	156,271	13.0 %
(11) No. of samples for genetic testing	80,626	74,638	-7.4 %
(12) No. of page views of Animal Health Encyclopedia	6,641,595	3,566,748	-46.3 %
(13) No. of page views of Veterinary Clinic Search Site	1,293,626	1,267,961	-2.0 %

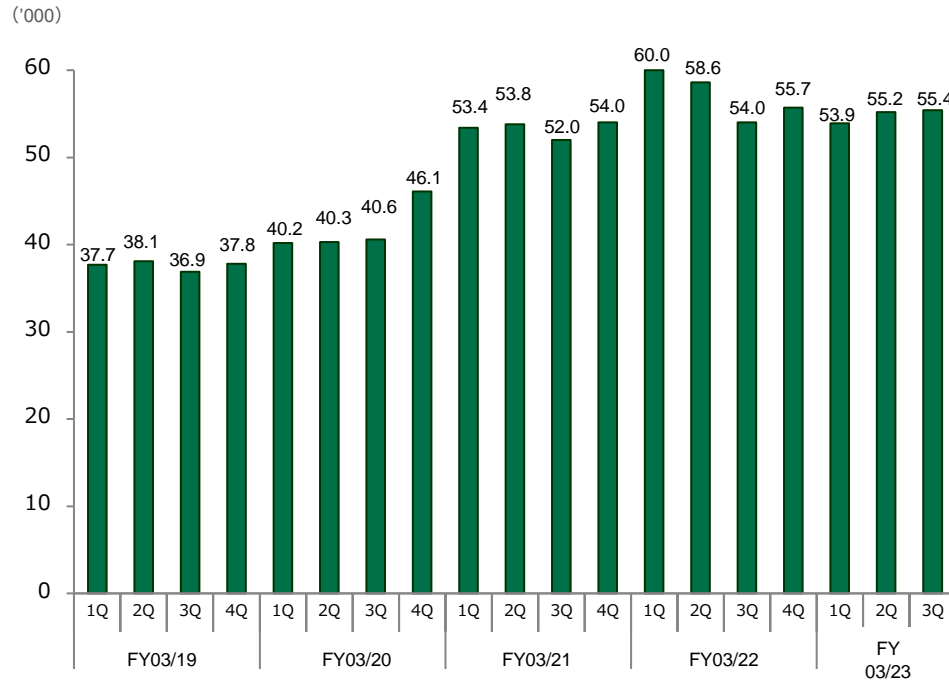
2. Anicom Insurance (non-consolidated): Recurring revenue indicators

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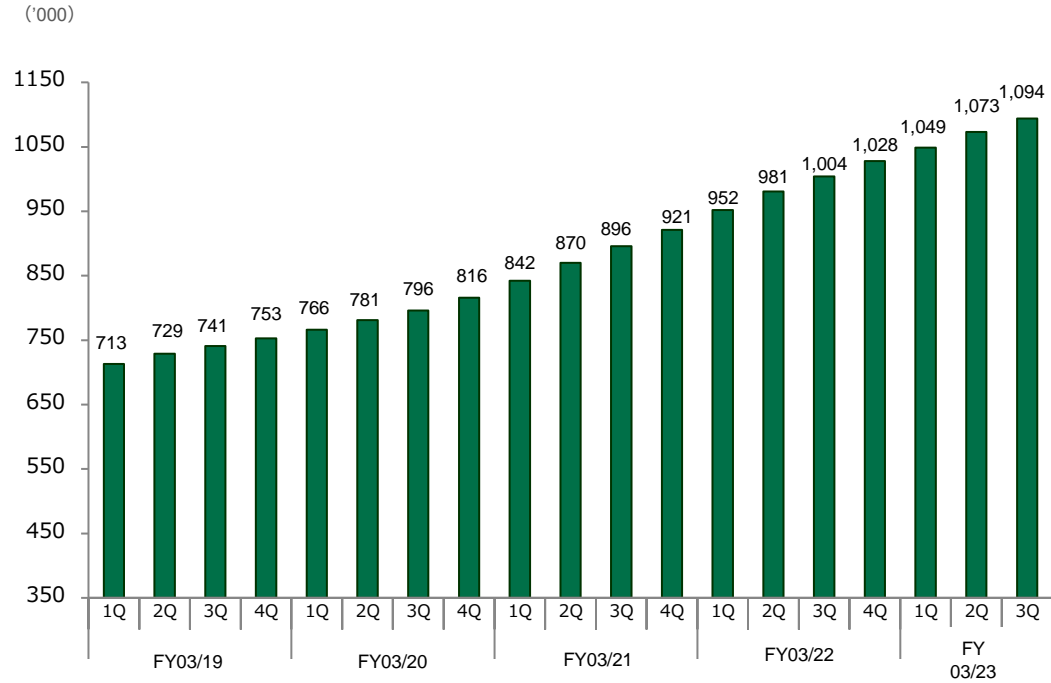
Quarterly trend in number of new policies



The number of new policies increased steadily

On a combined newborn/general channels basis, the number of new policies topped 50,000, achieving strong progress of 71.0% against the annual target of 232,000.

Quarterly trend in number of policies in force



Number of policies in force

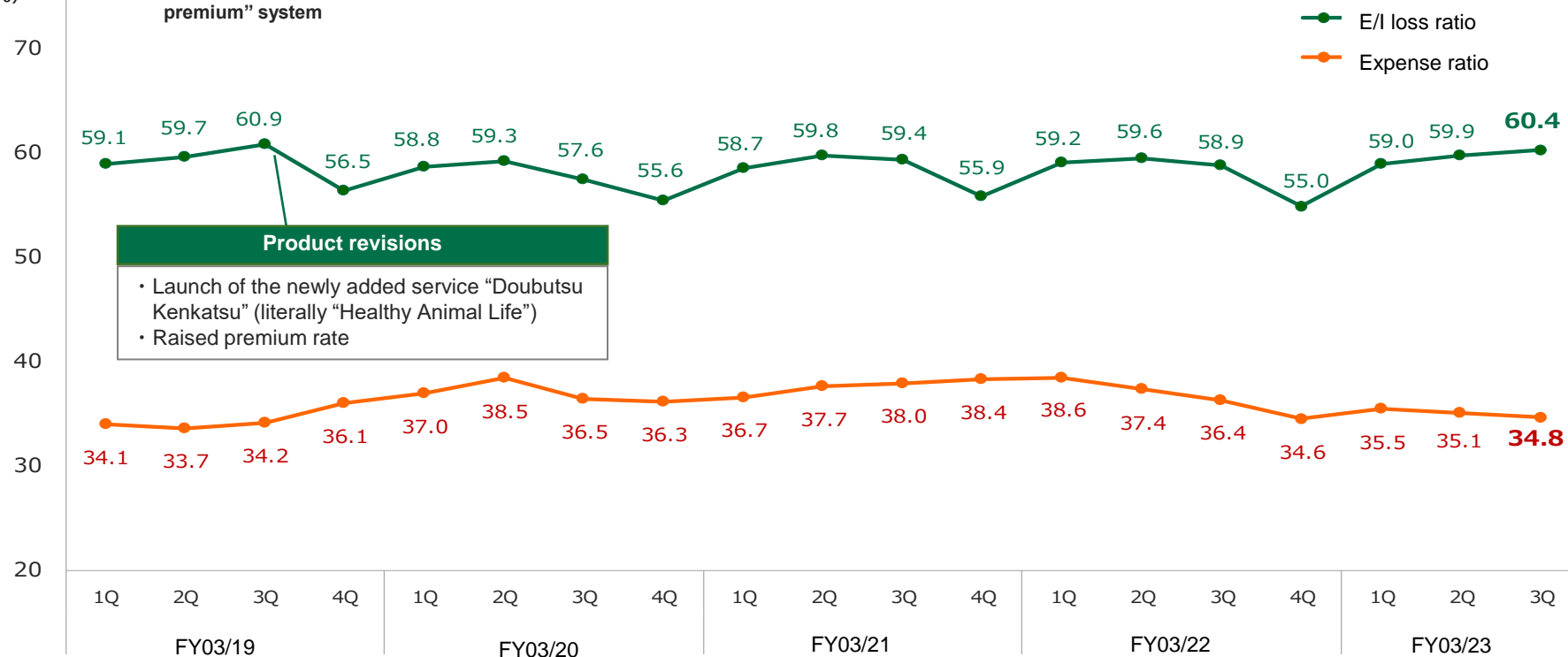
The number of policies in force totaled 1,094,000, progressing toward the annual target of 1,120,000.

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

[Reference information]

- 1Q FY03/15
 - Raised premium rate
 - Average revision of 12% (%)
- 3Q FY03/15
 - New products with limited hospital days
 - Launch of “health discount/extra premium” system
- 2Q FY03/18
 - Raised premium rate
 - Raised premium rate for animals that are eight years or older

Note 1: The graph below shows quarterly average values, and the data therefore may differ from average values for current period.
 Note 2: The expense ratio represents the “expense ratio based on earned premiums” (insurance business expenses / earned premiums).



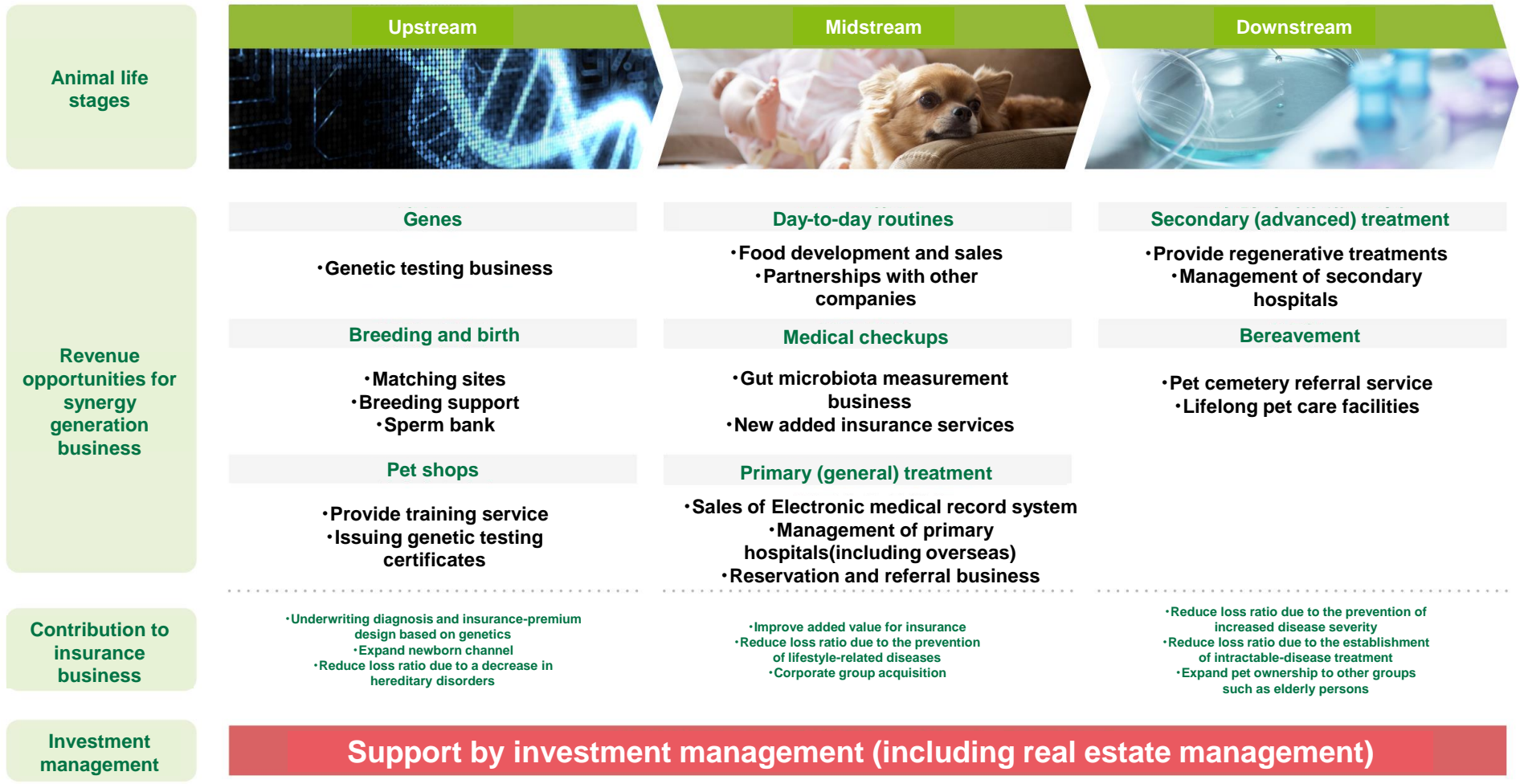
E/I loss ratio

The product portfolio continued to improve due to a significant increase in new policy acquisition since FY2020. Meanwhile, claims paid increased and remained at a high level due to the higher frequency of hospital visits caused by the impact of changes in behavior in the COVID-19 pandemic, as well as an increase in the average payout per claim. Recently, however, it is confirmed that such impact of the changes is showing a tendency toward gradually becoming stabilized.

Expense ratio

We continued with proactive investment aimed at the business expansion. The costs of the unique Doubutsu Kenkatsu service increased. The expense ratio had been trending upward due mainly to a rise in agency commissions owing to an increase in new policies and intensifying competition, while a reduction in agency commissions and the measures taken to improve efficiency and costs are beginning to show effect.

4. Relationship between Insurance Business and Synergy Generation Business

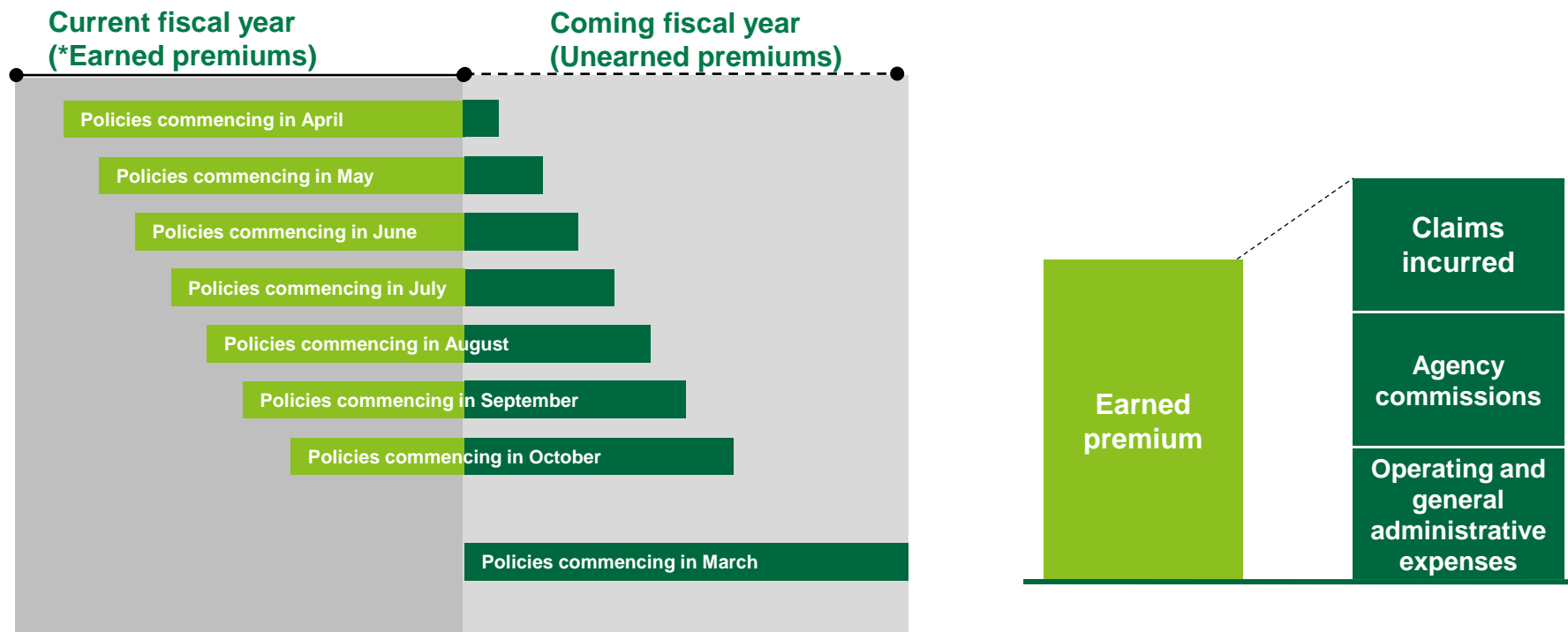


Setting up an animal database

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

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



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