ipet Holdings / 7339

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

Executive summary

Business overview

- In October 2020, ipet Holdings was established as the wholly owning parent of ipet Insurance Co., Ltd., through a single share transfer. The company's core subsidiary, ipet Insurance, sells pet insurance and has a market share in the pet insurance industry of nearly 27%, second only to Anicom Holdings, which has a market share of 40.5%. ipet Holdings' only reporting segment is the Nonlife Insurance business, which accounted for 98.9% of recurring revenue and 96.5% of recurring profit in FY03/21.
- The company sells its mainstay pet insurance to general consumers, especially pet owners, to cover a certain percentage of the cost of surgery or other medical treatment for illness or injury, mainly for dogs, cats, and other pets kept in households (policy length is one year). This insurance is similar in function to medical insurance for humans (third-sector insurance), but the Insurance Business Act defines it as "insurance to cover damages suffered by the policyholder due to accident" (nonlife insurance). Products covering the risk of injury to pets were originally operated by mutual aid associations. The predecessor of ipet Insurance was established in 2004, but the earlier mutual aid associations were reorganized into nonlife or small-amount short-term insurers following a 2005 revision of the Insurance Business Act. Companies competing in the pet insurance industry include five nonlife insurers licensed by the Financial Services Agency (including the company itself) and 10 small-amount short-term insurers registered with Local Finance Bureaus.
- The pet insurance sales and underwriting business, which is the company's main business, is a recurring-revenue business in which the company collects premiums monthly from policyholders. Revenue can be explained in terms of the policy count and premium amount, but profits are affected by insurance accounting. The company first books premium revenue, and insurance payouts (cost of revenue) occur later, with unearned premiums for the next and subsequent insurance periods being carried forward as underwriting reserves, so profits straddle fiscal years. In the case of ipet Insurance, the number of policies in force is increasing rapidly, and Shared Research understands that it will remain difficult for the company to generate accounting profits for the time being. It will be important to maintain or even improve the policy renewal rate and increase productivity.
- The following are some key points that differentiate ipet Insurance from competitors: 1) it is a nonlife insurer licensed by the Financial Services Agency (with good credibility as a listed company), 2) it is a member of a safety net called the Non-life Insurance Policy-holders Protection Corporation of Japan, 3) it is able to provide over-the-counter settlement services at major veterinary hospitals nationwide alongside industry leader Anicom Holdings (TSE: 8715, a nonlife insurer), and 4) it has experience and expertise in developing online channels, which are seeing rapid growth (its accumulation of expertise has allowed the company to control the overall loss ratio and secure profits).
- ipet Insurance has grown to hold a 27% market share in the pet insurance industry with more than 600,000 policies in force as of FY03/21. Hereafter, the company will focus on restructuring its management base as it works to complement its pet insurance and produce derivative products with the aim of diversifying its Nonlife Insurance business. The company established a pure holding company (ipet Holdings, Inc.) on October 1, 2020, and now plans to establish group companies based on appropriate procedures.
- In May 2021, the company formulated and disclosed a new medium-term management plan, positioning the next three years as a phase for laying the groundwork for new growth. It is targeting FY03/24 recurring revenue of JPY37.3bn, adjusted recurring profit of JPY1.4bn, and adjusted net income of JPY910mn, based on the assumption that it can reach 884,000 policies in force. Together with the medium-term plan, the company also announced new KPIs. To its conventional KPI (number of policies in force), it has added lifetime value (LTV), policy acquisition cost (PAC), and internal rate of return (IRR), for a total of four indicators it will use in evaluating performance. It intends to calculate its business value as (LTV per

policy) x (average remaining years / average years of renewal) x number of policies in force to date + (LTV per policy – PAC per policy) x (projected increase in number of policies in force).

Earnings trends

- In FY03/21, the company posted recurring revenue of JPY22.9bn (+24.8% YoY), recurring profit (non-GAAP) of JPY401mn (-15.9% YoY), adjusted recurring profit (non-GAAP) of JPY1.1bn (+5.8% YoY), and adjusted net loss (non-GAAP) of JPY195mn (versus net profit of JPY726mn in FY03/20). Since ipet Holdings was established as the wholly owning parent of ipet Insurance Co., Ltd., through a single share transfer on October 1, 2020, the company's first fiscal year runs from October 1, 2020–March 31, 2021.
- The company's FY03/22 forecast calls for recurring revenue of JPY28.6bn (+25.0% YoY), adjusted recurring profit of JPY880mn (-21.4% YoY), and adjusted net income of JPY580mn. The projected increase in recurring revenue will be due to an expected increase in insurance underwriting income, while the projected decrease in adjusted recurring profit will be due to an expected increase in business expenses related to the promotion of digital transformation (DX).

Strengths and weaknesses

- ipet Holdings' strengths include 1) the fact that OTC insurance payouts are an entry barrier, 2) it is a pioneer of online channels, and 3) it has a low-priced product that enables sales expansion without cannibalization. The company's weaknesses include 1) an unchanged product design since its founding, 2) effect of reserves on recurring profit, and 3) inadequate management resources.

Shared Research believes ipet has the following attributes:

- Strong market position in growing online channels
- Product mix that enables sales growth of low-priced products without fear of cannibalization
- Ability to strengthen business foundation and pioneer new markets through CRM
- Potential to improve business efficiency (many inefficiencies in current business processes)

Key financial data

Income statement (JPYmn)	FY03/12 Parent	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent	FY03/21 Cons.	FY03/22 Est.
Recurring revenue	3,283	4,287	5,103	6,365	8,128	10,071	12,268	14,941	18,334	22,878	28,600
YoY	31.7%	30.6%	19.0%	24.7%	27.7%	23.9%	21.8%	21.8%	22.7%	24.8%	25.0%
Recurring profit (Non-GAAP)	-	626	616	-1,521	-336	345	444	453	477	401	-
YoY	-	-	-1.6%	-	-	-	28.7%	2.0%	5.3%	-15.9%	-
RPM	-	14.6%	12.1%	-	-	3.4%	3.6%	3.0%	2.6%	1.8%	-
Net income (Non-GAAP)	-	-	-	-	-	271	-81	963	308	-712	-50
Adjusted recurring profit (Non-GAAP)	-	764	779	-1,317	-76	668	835	929	1,058	1,119	880
YoY	-	-	2.0%	-	-	-	25.0%	11.3%	13.9%	5.8%	-21.4%
Adjusted RPM	-	17.8%	15.3%	-	-	6.6%	6.8%	6.2%	5.8%	4.9%	3.1%
Catastrophe reserve impact	105	138	163	204	260	322	391	475	580	718	
Adjusted net income						593	310	816	725	-195	580
YoY							-47.7%	163.2%	-11.2%	-	-
Adjusted net margin						5.9%	2.5%	5.5%	4.0%	-	2.0%
Catastrophe reserve impact							391	-147	417	516	
J-GAAP											
Recurring revenue	**3,283**	**4,287**	**5,103**	**6,365**	**8,128**	**10,071**	**12,268**	**14,941**	**18,334**	**22,878**	
YoY	31.7%	30.6%	19.0%	24.7%	27.7%	23.9%	21.8%	21.8%	22.7%	24.8%	
Underwriting revenue	3,281	4,285	5,100	6,363	8,127	10,067	12,212	14,831	18,115	22,412	
Investment revenue	1	2	2	1	2	4	50	60	173	282	
Other recurring revenue	2	1	1	0	0	-	6	49	45	182	
Recurring expenses	**2,665**	**3,896**	**4,659**	**7,825**	**7,820**	**9,773**	**11,706**	**14,643**	**17,920**	**22,496**	
YoY	21.9%	46.2%	19.6%	67.9%	-0.1%	25.0%	19.8%	25.1%	22.4%	25.5%	
Underwriting expenses	2,017	2,502	2,782	3,276	4,639	5,851	6,983	9,398	12,237	16,461	
Operating and administrative expenses	1,235	1,487	1,946	2,585	3,190	3,921	4,713	5,224	5,579	5,944	
Other	360	424	470	2,618	-9	0	9	4	49	32	
Recurring profit	**618**	**392**	**444**	**-1,460**	**308**	**297**	**561**	**297**	**413**	**381**	
YoY	101.7%	-36.7%	13.3%	-	-	-3.5%	88.9%	-47.1%	39.1%	-7.7%	
RPM	18.8%	9.1%	8.7%	-22.9%	3.8%	2.9%	4.6%	2.0%	2.3%	1.7%	
Net income	**609**	**306**	**345**	**-1,249**	**106**	**196**	**32**	**851**	**261**	**-727**	
YoY	32.1%	-49.8%	12.9%	-	-	84.8%	-83.7%	-	-69.3%	-	
Net margin	18.5%	7.1%	6.8%	-19.6%	1.3%	1.9%	0.3%	5.7%	1.4%	-3.2%	
Per-share data											
Shares issued (year-end; '000)	-	-	-	-	-	4,696	4,697	5,336	10,797	10,812	
EPS	-	-	-	-	-	57.9	-17.4	183.4	28.7	-66.0	-4.6
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-	
Dividend per share	-	-	-	-	-	-	-	-	-	-	-
Book value per share	-	-	337.4	-177.4	569.4	614.6	618.0	1,000.3	517.0	461.8	
Balance sheet (JPYmn)											
Cash and deposits	1,500	2,071	2,998	3,634	5,259	5,113	4,666	5,035	3,050	1,649	
Securities	-	-	-	-	13	683	2,160	3,566	5,067	8,421	
Tangible fixed assets	27	85	90	78	69	109	153	232	401	599	
Intangible assets	28	29	29	56	63	415	346	1,312	2,049	1,410	
Other assets	2,519	2,789	2,831	1,071	1,304	1,576	1,814	2,472	2,877	3,457	
Allowance for doubtful accounts	-16	-31	-34	-20	-5	-5	-1	-1	-	-	
Deferred tax assets	249	215	191	459	276	278	84	834	1,017	1,754	
Total assets	**4,307**	**5,157**	**6,105**	**5,278**	**6,979**	**8,179**	**9,250**	**13,574**	**15,599**	**17,408**	
Reserve for insurance contract	1,381	1,895	2,399	2,817	3,641	4,601	5,560	7,019	8,869	11,287	
Other liabilities	218	245	272	242	510	501	684	1,055	991	947	
Provision for bonuses	34	30	95	100	144	174	100	126	144	151	
Reserves under special laws	-	-	-	-	0	1	3	7	14	23	
Differed tax liabilities	-	-	-	-	-	-	-	-	-	-	
Total liabilities	**1,639**	**2,183**	**2,787**	**3,208**	**4,305**	**5,293**	**6,347**	**8,237**	**10,018**	**12,415**	
Shareholders' equity	2,668	2,974	3,319	2,070	2,676	2,872	2,906	5,322	5,624	4,992	
Valuation and translation adjustments	-	-	-	-	-2	13	-3	14	-43	88	
Minority interests	-	-	-	-	-	-	-	-	-	-	
Total net assets	**2,668**	**2,974**	**3,319**	**2,070**	**2,674**	**2,886**	**2,902**	**5,336**	**5,580**	**4,992**	
Total liabilities and equity	**4,307**	**5,157**	**6,105**	**5,278**	**6,979**	**8,179**	**9,250**	**13,574**	**15,599**	**17,408**	
Statement of cash flows											
Cash flows from operating activities	1,434	1,158	1,554	1,372	1,193	1,014	1,304	1,529	1,544	2,260	
Cash flows from investing activities	-2,100	-834	-1,223	-835	-65	-717	-1,846	-2,048	-2,580	-3,532	
Cash flows from financing activities	437	-3	-5	-2	498	-1	-4	1,484	156	-128	
Financial indicators											
ROA (RP-based)	17.8%	8.3%	7.9%	-25.7%	5.0%	3.9%	6.4%	2.6%	2.8%	2.3%	
ROE	28.6%	10.8%	11.0%	-46.4%	4.5%	7.1%	1.1%	20.7%	4.8%	-13.6%	
Equity ratio	62.0%	57.7%	54.4%	39.2%	38.3%	35.3%	31.4%	39.3%	35.8%	29.2%	
Combined ratio (earned premiums basis)	-	84.0%	85.9%	89.6%	90.0%	94.1%	93.3%	94.1%	94.5%	95.9%	
E/I loss ratio	-	36.1%	36.3%	37.2%	39.1%	45.5%	43.1%	45.5%	48.7%	52.2%	
Expense ratio (earned premiums basis)	-	47.9%	49.6%	52.4%	50.9%	50.9%	50.1%	48.6%	45.8%	43.8%	
Combined ratio	84.2%	81.1%	82.8%	85.5%	86.2%	87.5%	87.9%	88.8%	88.1%	88.6%	
Net loss ratio	33.8%	34.3%	34.1%	34.6%	36.7%	38.8%	39.9%	42.4%	44.5%	47.2%	
Net expense ratio	50.4%	46.8%	48.7%	50.9%	49.5%	48.7%	48.0%	46.4%	46.4%	41.5%	
Solvency margin ratio	260.8%	255.9%	276.4%	330.3%	379.2%	315.6%	284.8%	381.4%	347.3%	260.4%	

Source: Shared Research based on company data
Note: The company transitioned to a holding company structure on October 1, 2020, so Q3 FY03/21 was its first consolidated accounting quarter since it was established.

Recent updates

Highlights

On September 13, 2021, Shared Research updated the report following interviews with ipet Holdings, Inc.

On August 6, 2021, the company announced earnings results for Q1 FY03/22; see the results section for details.

On July 6, 2021, Shared Research updated the report following interviews with the company.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative quarterly earnings (non-GAAP)

Cumulative Non-GAAP (JPYmn)	FY03/20 Q1 Parent	Q2 Parent	Q3 Parent	Q4 Parent	FY03/21 Q1 Parent	Q2 Parent	Q3 Cons.	Q4 Cons.	FY03/22 Q1 Cons.	FY03/22 % of Est.	FY Est. Cons.
Recurring revenue	4,217	8,646	13,369	18,334	5,195	10,744	16,584	22,878	6,649	23.3%	28,600
YoY	21.7%	22.0%	22.4%	22.7%	23.2%	24.3%	24.0%	24.8%	28.0%		25.0%
Underwriting revenue	4,186	8,534	13,204	18,115	5,158	10,580	16,323	22,412	6,376		
YoY	21.6%	21.3%	21.8%	22.1%	23.2%	24.0%	23.6%	23.7%	23.6%		
Investment revenue	19	89	131	173	26	142	226	282	130		
YoY	90.0%	229.6%	227.5%	188.3%	40.8%	59.6%	72.5%	63.0%	387.4%		
Other recurring revenue	11	22	34	45	10	21	35	182	142		
YoY	-15.4%	-8.3%	-8.1%	-8.2%	-9.1%	-4.5%	2.9%	304.4%	-		
Recurring expenses	4,121	8,330	12,961	17,856	5,135	10,607	16,330	22,477	6,545		
YoY	23.2%	21.2%	23.0%	23.3%	24.6%	27.3%	26.0%	25.9%	27.5%		
Underwriting expenses	2,684	5,585	8,794	12,172	3,744	7,762	11,992	16,443	4,755		
YoY	31.1%	29.4%	33.1%	31.7%	39.5%	39.0%	36.4%	35.1%	27.0%		
Net claims paid	1,673	3,424	5,414	7,443	2,215	4,719	7,314	9,853	2,976		
YoY	28.7%	26.7%	28.4%	28.6%	32.4%	37.8%	35.1%	32.4%	34.4%		
% of recurring revenue	39.7%	39.6%	40.5%	40.6%	42.6%	43.9%	44.1%	43.1%	44.8%		
Loss adjustment expenses	134	318	478	623	151	334	513	716	196		
YoY	38.1%	54.4%	51.7%	26.4%	12.7%	5.0%	7.3%	14.9%	29.8%		
% of recurring revenue	3.2%	3.7%	3.6%	3.4%	2.9%	3.1%	3.1%	3.1%	2.9%		
Commissions and collection fees	474	984	1,597	2,320	749	1,603	2,485	3,472	1,008		
YoY	32.0%	30.0%	35.6%	39.9%	58.0%	62.9%	55.6%	49.7%	34.6%		
% of recurring revenue	11.2%	11.4%	11.9%	12.7%	14.4%	14.9%	15.0%	15.2%	15.2%		
Provision for outstanding losses and claims	77	231	262	326	202	248	337	510	3		
YoY	541.7%	111.9%	309.4%	94.0%	162.3%	7.4%	28.6%	56.4%	-98.5%		
% of recurring revenue	1.8%	2.7%	2.0%	1.8%	3.9%	2.3%	2.0%	2.2%	0.0%		
Provision for underwriting reserves	322	627	1,040	1,458	424	857	1,341	1,885	567		
YoY	16.2%	16.1%	24.8%	28.7%	31.7%	36.7%	28.9%	29.3%	33.7%		
% of recurring revenue	7.6%	7.3%	7.8%	8.0%	8.2%	8.0%	8.1%	8.2%	8.5%		
Investment expenses	4	4	13	55	34	51	59	58	59		
YoY	-	-	-23.5%	266.7%	690.0%	1,017.8%	359.8%	5.5%	73.5%		
Operating and administrative expenses	1,428	2,734	4,115	5,579	1,354	2,780	4,248	5,944	1,731		
YoY	10.0%	6.9%	5.2%	6.8%	-5.2%	1.7%	3.2%	6.5%	27.8%		
Other recurring expenses	3	5	38	49	-	11	29	32	-		
YoY	-	400.0%	-	-	-	129.7%	-23.7%	-34.7%	-		
Recurring profit (Non-GAAP)	96	316	407	477	60	137	254	401	104		-
YoY	-19.4%	47.7%	6.8%	5.3%	-37.7%	-56.6%	-37.6%	-15.9%	73.3%		-
RPM	2.3%	3.7%	3.0%	2.6%	1.2%	1.3%	1.5%	1.8%	1.6%		-
Net income (Non-GAAP)	65	210	264	308	36	79	148	-712	59		-50
YoY	-88.8%	-67.1%	-64.9%	-68.0%	-44.6%	-62.4%	-43.9%	-	63.9%		-
Adjusted RP (Non-GAAP)	231	590	831	1,058	226	477	777	1,119	308	35.1%	880
YoY	0.9%	34.4%	14.1%	13.9%	-2.3%	-19.2%	-6.5%	5.8%	36.7%		-21.4%
Adjusted RPM	5.5%	6.8%	6.2%	5.8%	4.4%	4.4%	4.7%	4.9%	4.6%		3.1%
Catastrophe reserve impact	135	274	424	581	166	340	523	718	204		
Adjusted net income	161	407	569	726	155	323	525	-195	206	35.7%	580
YoY	-4.2%	30.9%	11.1%	-10.9%	-4.1%	-20.6%	-7.7%	-	33.1%		-
Combined ratio (Earned / Incurred basis)	94.7%	94.0%	94.3%	94.5%	95.3%	96.2%	96.2%	95.9%	96.2%		
Losses incurred	1,884	3,973	6,154	8,392	2,568	5,301	8,164	11,079	3,175		
YoY	33.7%	31.6%	33.9%	30.1%	36.3%	33.4%	32.7%	32.0%	23.6%		
Loss ratio (Earned / Incurred basis)	47.1%	48.6%	48.9%	48.7%	52.4%	52.7%	52.7%	52.2%	52.8%		
Earned premiums (cumulative)	3,998	8,180	12,587	17,237	4,899	10,062	15,505	21,244	6,013		
YoY	22.1%	21.7%	21.5%	21.6%	22.5%	23.0%	23.2%	23.2%	22.7%		
Earned premiums (calc'd from loss ratio)	3,998	8,180	12,587	17,237	4,899	10,062	15,505	21,244	6,013		
Operating expenses	1,902	3,718	5,712	7,899	2,103	4,383	6,754	9,297	2,609		
YoY	14.8%	12.2%	12.2%	14.8%	10.6%	17.9%	18.2%	17.7%	24.1%		
Expense ratio (Earnd / Incurred basis)	47.6%	45.5%	45.4%	45.8%	42.9%	43.6%	43.6%	43.8%	43.4%		
Combined ratio (net premiums written basis)	88.6%	87.4%	87.9%	88.1%	86.6%	89.2%	89.3%	88.6%	90.7%		
Loss ratio (net premiums written basis)	43.2%	43.8%	44.6%	44.5%	45.9%	47.8%	48.0%	47.2%	49.7%		
Expense ratio (net premiums written basis)	45.4%	43.6%	43.3%	43.6%	40.8%	41.4%	41.4%	41.5%	40.9%		

Source: Shared Research based on company data
Notes: Net loss ratio = (Net claims paid + loss adjustment expenses) ÷ net premium revenue
E/I loss ratio = Incurred loss ÷ earned premiums
Incurred loss = Net claims paid for the current financial year +loss adjustment expenses + provision for reserve for outstanding losses and claims
Earned premiums = Underwriting revenue minus provision for underwriting reserves (unearned premiums basis)
The company transitioned to a holding company structure on October 1, 2020, so Q3 FY03/21 was its first consolidated accounting quarter since it was established.

Quarterly earnings (non-GAAP)

Quarterly Non-GAAP	FY03/20				FY03/21				FY03/22
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	Parent	Parent	Parent	Parent	Parent	Parent	Cons.	Cons.	Cons.
Recurring revenue	4,217	4,429	4,723	4,965	5,195	5,549	5,840	6,294	6,649
YoY	21.7%	22.2%	23.3%	23.5%	23.2%	25.3%	23.7%	26.8%	28.0%
Underwriting revenue	4,186	4,348	4,670	4,911	5,158	5,422	5,743	6,089	6,376
YoY	21.6%	21.0%	22.7%	23.1%	23.2%	24.7%	23.0%	24.0%	23.6%
Investment revenue	19	70	42	42	26	116	84	56	130
YoY	90.0%	311.8%	223.1%	110.0%	36.8%	65.7%	100.0%	33.3%	400.0%
Other recurring revenue	11	11	12	11	10	11	14	147	142
YoY	-15.4%	-	-7.7%	-8.3%	-9.1%	-	16.7%	-	-
Recurring expenses	4,121	4,209	4,631	4,895	5,135	5,472	5,723	6,147	6,545
YoY	23.2%	19.3%	26.4%	24.0%	24.6%	30.0%	23.6%	25.6%	27.5%
Underwriting revenue	2,684	2,901	3,209	3,378	3,744	4,018	4,230	4,451	4,755
YoY	31.1%	28.0%	39.9%	28.2%	39.5%	38.5%	31.8%	31.8%	27.0%
Net claims paid	1,673	1,751	1,990	2,029	2,215	2,504	2,595	2,539	2,976
YoY	28.7%	24.9%	31.4%	29.1%	32.4%	43.0%	30.4%	25.1%	34.4%
% of recurring revenue	39.7%	39.5%	42.1%	40.9%	42.6%	45.1%	44.4%	40.3%	44.8%
Loss adjustment expenses	134	184	160	145	151	183	179	203	196
YoY	38.1%	68.8%	46.8%	-18.5%	12.7%	-0.5%	11.9%	40.0%	29.8%
% of recurring revenue	3.2%	4.2%	3.4%	2.9%	2.9%	3.3%	3.1%	3.2%	2.9%
Commissions and collection fees	474	510	613	723	749	854	882	987	1,008
YoY	32.0%	28.1%	45.6%	50.6%	58.0%	67.5%	43.9%	36.5%	34.6%
% of recurring revenue	11.2%	11.5%	13.0%	14.6%	14.4%	15.4%	15.1%	15.7%	15.2%
Provision for outstanding losses and claims	77	154	31	64	202	46	89	173	3
YoY	541.7%	58.8%	-	-38.5%	162.3%	-70.1%	187.1%	170.3%	-98.5%
% of recurring revenue	1.8%	3.5%	0.7%	1.3%	3.9%	0.8%	1.5%	2.7%	0.0%
Provision for underwriting reserves	322	305	413	418	424	433	484	544	567
YoY	16.2%	16.0%	41.0%	39.3%	31.7%	42.0%	17.2%	30.1%	33.7%
% of recurring revenue	7.6%	6.9%	8.7%	8.4%	8.2%	7.8%	8.3%	8.6%	8.5%
Investment expenses	4	-	9	42	34	17	8	-1	59
YoY	-	-	-47.1%	-	690.0%	-	-11.1%	-	73.5%
Operating and administrative expenses	1,428	1,306	1,381	1,464	1,354	1,426	1,468	1,696	1,731
YoY	10.0%	3.7%	2.1%	11.5%	-5.2%	9.2%	6.3%	15.8%	27.8%
Other recurring expenses	3	2	33	11	-	11	18	3	-
YoY	-	100.0%	-	450.0%	-	450.0%	-45.5%	-72.7%	-
Recurring profit (Non-GAAP)	96	220	91	70	60	77	117	147	104
YoY	-19.4%	132.0%	-45.5%	-2.8%	-37.5%	-65.0%	28.6%	110.0%	73.3%
RPM	2.3%	5.0%	1.9%	1.4%	1.2%	1.4%	2.0%	2.3%	1.6%
Net income (Non-GAAP)	65	145	54	44	36	43	69	-860	59
YoY	-88.8%	141.7%	-52.6%	-79.1%	-44.6%	-70.3%	27.8%	-	63.9%
Adjusted recurring profit (Non-GAAP)	231	359	241	227	226	251	300	342	308
YoY	0.9%	71.0%	-16.6%	12.9%	-2.2%	-30.1%	24.5%	50.7%	36.3%
% of recurring revenue	5.5%	8.1%	5.1%	4.6%	4.4%	4.5%	5.1%	5.4%	4.6%
Catastrophe reserve impact	134	139	150	157	166	174	183	195	204
Adjusted net income (Non-GAAP)	161	246	162	157	155	168	202	-720	206
YoY	-4.2%	72.0%	-19.4%	-48.2%	-3.7%	-31.7%	24.7%	-	32.9%
Combined ratio (Earned / Incurred basis)	94.7%	93.4%	94.7%	95.2%	95.3%	97.1%	96.2%	95.1%	96.2%
Losses incurred	1,884	2,089	2,181	2,238	2,568	2,733	2,863	2,915	3,175
YoY	33.7%	29.9%	38.2%	20.7%	36.3%	30.8%	31.3%	30.3%	23.6%
Loss ratio (Earned / Incurred basis)	47.1%	50.0%	49.5%	48.1%	52.4%	52.9%	52.6%	50.8%	52.8%
Earned premium	3,998	4,182	4,407	4,650	4,899	5,163	5,443	5,739	6,013
YoY	22.1%	21.3%	21.3%	21.8%	22.5%	23.5%	23.5%	23.4%	22.7%
Operating expenses	1,902	1,816	1,994	2,187	2,103	2,280	2,371	2,543	2,609
YoY	14.8%	9.5%	12.4%	22.0%	10.6%	25.6%	18.9%	16.3%	24.1%
Expense ratio (Earned / Incurred basis)	47.6%	43.4%	45.2%	47.0%	42.9%	44.2%	43.6%	44.3%	43.4%
Combined ratio (net premiums written basis)	88.6%	86.3%	88.7%	88.8%	86.6%	91.6%	89.6%	86.8%	90.7%
Loss ratio (net premiums written basis)	43.2%	44.5%	46.0%	44.3%	45.9%	49.6%	48.3%	45.0%	49.7%
Expense ratio (net premiums written basis)	45.4%	41.8%	42.7%	44.5%	40.8%	42.1%	41.3%	41.8%	40.9%

Source: Shared Research based on company data
Note: The company transitioned to a holding company structure on October 1, 2020, so Q3 FY03/21 was its first consolidated accounting quarter since it was established.

Quarterly earnings (J-GAAP)

Cumulative J-GAAP	FY03/20				FY03/21				FY03/22	FY03/22	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of Est.	FY Est.
Recurring revenue	4,217	8,646	13,369	18,334	5,195	10,744	16,584	22,878	6,649	23.3%	28,600
YoY	21.7%	22.0%	22.4%	22.7%	23.2%	24.3%	24.0%	24.8%	28.0%		
Underwriting revenue	4,186	8,534	13,204	18,115	5,158	10,580	16,323	22,412	6,376		
YoY	21.6%	21.3%	21.8%	22.1%	23.2%	24.0%	23.6%	23.7%	23.6%		
Investment revenue	19	89	131	173	26	142	226	282	130		
YoY	90.0%	229.6%	227.5%	188.3%	40.8%	59.6%	72.5%	63.0%	387.4%		
Other recurring revenue	11	22	34	45	10	21	35	182	142		
YoY	-15.4%	-8.3%	-8.1%	-8.2%	-9.1%	-4.5%	2.9%	304.4%	-		
Recurring expenses	4,193	8,405	13,021	17,920	5,178	10,545	16,267	22,496	6,560		
YoY	26.1%	22.0%	24.4%	22.4%	23.5%	25.5%	24.9%	25.5%	26.7%		
% of recurring revenue	99.4%	189.8%	275.7%	360.9%	99.7%	190.0%	278.5%	357.4%	98.7%		
Underwriting expenses	2,757	5,661	8,854	12,237	3,787	7,701	11,929	16,461	4,769		
YoY	36.0%	30.8%	35.5%	30.2%	37.4%	36.0%	34.7%	34.5%	25.9%		
% of recurring revenue	65.4%	65.5%	66.2%	66.7%	72.9%	71.7%	71.9%	72.0%	71.7%		
Net claims paid	1,673	3,424	5,414	7,443	2,215	4,719	7,314	9,853	2,976		
YoY	28.7%	26.7%	28.4%	28.6%	32.4%	37.8%	35.1%	32.4%	34.4%		
% of recurring revenue	39.7%	39.6%	40.5%	40.6%	42.6%	43.9%	44.1%	43.1%	44.8%		
Loss adjustment expenses	134	318	478	623	151	334	513	716	196		
YoY	38.1%	54.4%	51.7%	26.4%	12.7%	5.0%	7.3%	14.9%	29.8%		
% of recurring revenue	3.2%	3.7%	3.6%	3.4%	2.9%	3.1%	3.1%	3.1%	2.9%		
Commissions and collection fees	474	984	1,597	2,320	749	1,603	2,485	3,472	1,008		
YoY	32.0%	30.0%	35.6%	39.9%	58.0%	62.9%	55.6%	49.7%	34.6%		
% of recurring revenue	11.2%	11.4%	11.9%	12.7%	14.4%	14.9%	15.0%	15.2%	15.2%		
Provision for outstanding losses and claims	77	231	262	326	202	248	337	510	3		
YoY	541.7%	111.9%	309.4%	94.0%	162.3%	7.4%	28.6%	56.4%	-98.5%		
% of recurring revenue	1.8%	2.7%	2.0%	1.8%	3.9%	2.3%	2.0%	2.2%	0.0%		
Provision for underwriting reserves	396	703	1,100	1,522	468	797	1,278	1,906	583		
YoY	54.1%	27.4%	44.4%	18.1%	18.2%	13.4%	16.2%	25.2%	24.6%		
% of recurring revenue	9.4%	8.1%	8.2%	8.3%	9.0%	7.4%	7.7%	8.3%	8.8%		
Investment expenses	4	4	13	55	34	51	59	58	59		
YoY	-	-	-23.5%	266.7%	690.0%	1,017.8%	359.8%	5.5%	73.5%		
Operating and administrative expenses	1,428	2,734	4,115	5,579	1,354	2,780	4,248	5,944	1,731		
YoY	10.0%	6.9%	5.2%	6.8%	-5.2%	1.7%	3.2%	6.5%	27.8%		
% of recurring revenue	33.9%	31.6%	30.8%	30.4%	26.1%	25.9%	25.6%	26.0%	26.0%		
Other recurring expenses	3	5	38	49	-	11	29	32	-		
Interest expenses	-	-	-	-	-	-	1	3	-		
Recurring profit	23	240	348	413	17	198	317	381	89		
YoY	-83.5%	20.0%	-23.2%	39.1%	-26.1%	-17.5%	-8.9%	-7.7%	423.5%		
RPM	0.5%	5.4%	7.4%	8.3%	0.3%	3.6%	5.4%	6.1%	1.3%		
Extraordinary gains (losses)	-1	-4	-5	-7	-2	-3	-5	-1,377	-1		
Pre-tax profit	22	236	343	406	15	195	312	-996	87		
Income taxes	9	80	121	144	10	72	118	-269	39		
Implied tax rate	40.9%	33.9%	35.3%	35.5%	66.7%	36.9%	37.8%	27.0%	44.8%		
Net income	12	156	221	261	5	122	194	-727	48		
YoY	-98.0%	-75.2%	-72.5%	-69.3%	-58.3%	-21.8%	-12.2%	-	860.0%		
Net margin	0.3%	3.5%	4.7%	5.3%	0.1%	2.2%	3.3%	-	0.7%		

Quarterly J-GAAP	FY03/20				FY03/21				FY03/22
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Recurring revenue	4,217	4,429	4,723	4,965	5,195	5,549	5,840	6,294	6,649
YoY	21.7%	22.2%	23.3%	23.5%	23.2%	25.3%	23.7%	26.8%	28.0%
Underwriting revenue	4,186	4,348	4,670	4,911	5,158	5,422	5,743	6,089	6,376
YoY	21.6%	21.0%	22.7%	23.1%	23.2%	24.7%	23.0%	24.0%	23.6%
Investment revenue	19	70	42	42	26	116	84	56	130
YoY	90.0%	311.8%	223.1%	110.0%	36.8%	65.7%	100.0%	33.3%	400.0%
Other recurring revenue	11	11	12	11	10	11	14	147	142
YoY	-15.4%	-	-7.7%	-8.3%	-9.1%	-	16.7%	-	-
Recurring expenses	4,193	4,212	4,616	4,899	5,178	5,367	5,722	6,229	6,560
YoY	26.1%	18.2%	29.0%	17.3%	23.5%	27.4%	24.0%	27.1%	26.7%
% of recurring revenue	99.4%	95.1%	97.7%	98.7%	99.7%	96.7%	98.0%	99.0%	98.7%
Underwriting expenses	2,757	2,904	3,193	3,383	3,787	3,914	4,228	4,532	4,769
YoY	36.0%	26.2%	44.6%	18.2%	37.4%	34.8%	32.4%	34.0%	25.9%
% of recurring revenue	65.4%	65.6%	67.6%	68.1%	72.9%	70.5%	72.4%	72.0%	71.7%
Net claims paid	1,673	1,751	1,990	2,029	2,215	2,504	2,595	2,539	2,976
YoY	28.7%	24.9%	31.4%	29.1%	32.4%	43.0%	30.4%	25.1%	34.4%
% of recurring revenue	39.7%	39.5%	42.1%	40.9%	42.6%	45.1%	44.4%	40.3%	44.8%
Loss adjustment expenses	134	184	160	145	151	183	179	203	196
YoY	38.1%	68.8%	46.8%	-18.5%	12.7%	-0.5%	11.9%	40.0%	29.8%
% of recurring revenue	3.2%	4.2%	3.4%	2.9%	2.9%	3.3%	3.1%	3.2%	2.9%
Commissions and collection fees	474	510	613	723	749	854	882	987	1,008
YoY	32.0%	28.1%	45.6%	50.6%	58.0%	67.5%	43.9%	36.5%	34.6%
% of recurring revenue	11.2%	11.5%	13.0%	14.6%	14.4%	15.4%	15.1%	15.7%	15.2%
Provision for outstanding losses and claims	77	154	31	64	202	46	89	173	3
YoY	541.7%	58.8%	-	-38.5%	162.3%	-70.1%	187.1%	170.3%	-98.5%
% of recurring revenue	1.8%	3.5%	0.7%	1.3%	3.9%	0.8%	1.5%	2.7%	0.0%
Provision for underwriting reserves	396	307	397	422	468	329	481	628	583
YoY	54.1%	4.1%	89.0%	-19.9%	18.2%	7.2%	21.2%	48.8%	24.6%
% of recurring revenue	9.4%	6.9%	8.4%	8.5%	9.0%	5.9%	8.2%	10.0%	8.8%
Investment expenses	4	0	9	42	34	17	8	-1	59
YoY	-	-	-47.1%	-	750.0%	-	-11.1%	-	73.5%
Operating and administrative expenses	1,428	1,306	1,381	1,464	1,354	1,426	1,468	1,696	1,731
YoY	10.0%	3.7%	2.1%	11.5%	-5.2%	9.2%	6.3%	15.8%	27.8%
% of recurring revenue	33.9%	29.5%	29.2%	29.5%	26.1%	25.7%	25.1%	26.9%	26.0%
Other recurring expenses	3	2	33	11	-	11	18	3	-
Interest expenses	-	-	-	-	-	-	1	2	-
Recurring profit	23	217	108	65	17	181	119	64	89
YoY	-83.5%	255.7%	-57.3%	-	-26.1%	-16.6%	10.2%	-1.5%	423.5%
RPM	0.5%	4.9%	2.3%	1.3%	0.3%	3.3%	2.0%	1.0%	1.3%
Extraordinary gains (losses)	-1	-3	-1	-2	-2	-1	-2	-1,372	-1
Pre-tax profit	22	214	107	63	15	180	117	-1,308	87
Income taxes	9	71	41	23	10	62	46	-387	39
Implied tax rate	40.9%	33.2%	38.3%	36.5%	66.7%	34.4%	39.3%	29.6%	44.8%
Net income	12	144	65	40	5	117	72	-921	48
YoY	-98.0%	300.0%	-62.6%	-16.7%	-58.3%	-18.8%	10.8%	-	860.0%
Net margin	0.3%	3.3%	1.4%	0.8%	0.1%	2.1%	1.2%	-	0.7%

Source: Shared Research based on company data
Note: The company transitioned to a holding company structure on October 1, 2020, so Q3 FY03/21 was its first consolidated accounting quarter since it was established.

Ordinary underwriting reserves and catastrophe reserves on unearned premiums and initial year balance bases

	FY03/20				FY03/21				FY03/22
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Ordinary underwriting reserves (unearned premiums basis)	3,721	3,887	4,151	4,411	4,670	4,929	5,229	5,579	5,943
Provision for the reserves	188	354	618	878	259	518	818	909	364
Ordinary underwriting reserves (initial year balance basis)	4,094	4,262	4,510	4,775	5,078	5,233	5,530	5,964	6,343
Provision for the reserves	262	430	678	943	303	458	755	886	379
Catastrophe reserves	2,357	2,497	2,646	2,803	2,969	3,143	3,326	3,521	3,726
Provision for the reserves	134	274	423	580	166	340	523	552	205

Source: Shared Research based on company data
Note: The company transitioned to a holding company structure on October 1, 2020, so Q3 FY03/21 was its first consolidated accounting quarter since it was established.

Adjustment from recurring profit on unearned premiums basis (non-GAAP) to recurring profit on initial year balance basis (J-GAAP)

Cumulative	FY03/20				FY03/21				FY03/22
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Recurring profit (Non-GAAP; unearned premium basis)	96	316	407	477	60	137	254	401	104
Ordinary underwriting reserves (unearned premiums basis) (a)	188	354	617	878	259	518	818	1,168	363
Ordinary underwriting reserves (initial year balance basis) (b)	261	430	677	942	302	457	755	1,188	378
Adjustments for J-GAAP (a-b)	-72	-75	-60	-64	-43	61	63	-20	-15
Recurring profit (J-GAAP; initial year balance basis)	23	240	348	413	17	198	317	381	89
Quarterly	**FY03/20**				**FY03/21**				**FY03/22**
(JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**
Recurring profit (Non-GAAP; unearned premium basis)	96	220	91	70	60	77	117	147	104
Ordinary underwriting reserves (unearned premiums basis) (a)	188	166	263	261	259	259	300	350	363
Ordinary underwriting reserves (initial year balance basis) (b)	261	169	247	265	302	155	298	433	378
Adjustments for J-GAAP (a-b)	-72	-3	15	-4	-43	104	2	-83	-15
Recurring profit (J-GAAP; initial year balance basis)	23	217	108	65	17	181	119	64	89

Source: Shared Research based on company data
Note: The company transitioned to a holding company structure on October 1, 2020, so Q3 FY03/21 was its first consolidated accounting quarter since it was established.

Number of policies in force and policy renewal rates

Cumulative	FY03/20				FY03/21				FY03/22	FY03/22
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Est.
No. of policies in force	439,854	459,051	482,336	508,225	533,364	562,993	590,825	622,069	648,045	723,000
YoY	18.2%	17.9%	18.8%	20.0%	21.3%	22.6%	22.5%	22.4%	21.5%	
Recurring revenue / No. of policies	9,517	18,591	27,375	35,644	9,671	18,792	27,627	36,028	9,839	
YoY	2.9%	2.9%	2.5%	1.7%	1.6%	1.1%	0.9%	1.1%	1.7%	-
Renewal rate	89.5%	89.4%	89.4%	89.3%	89.3%	89.3%	89.5%	89.6%	88.9%	
YoY change	-0.6pp	-0.5pp	-0.9pp	-0.8pp	-0.2pp	-0.1pp	+0.1pp	+0.3pp	-0.4pp	

Source: Shared Research based on company data
Note: The company transitioned to a holding company structure on October 1, 2020, so Q3 FY03/21 was its first consolidated accounting quarter since it was established.

Q1 FY03/22 results

Summary

- Recurring revenue: JPY6.6bn (+28.0% YoY; 23.3% of full-year forecast)
- Recurring expenses: JPY6.5bn (+27.5% YoY)
- Recurring profit (Non-GAAP): JPY104mn (+73.3% YoY)
- Adjusted recurring profit (Non-GAAP): JPY308mn (+36.7% YoY; 35.1% of full-year forecast)
- Adjusted net income (Non-GAAP): JPY206mn (+33.1% YoY; 35.7% of full-year forecast)

In Q1 FY03/22, the company posted recurring revenue of JPY6.6bn (+28.0% YoY), recurring profit of JPY104mn (+73.3% YoY), and adjusted recurring profit (non-GAAP; unearned premiums basis) of JPY308mn (+36.7% YoY). Both recurring revenue and recurring profit increased YoY with adjusted recurring profit rising 36.7% YoY due mainly to the steady growth of new policies and a lower-than-expected increase in loss ratio. Q1 recurring revenue reached 23.3% of the company's forecast, and adjusted recurring profit reached 35.1%. The company implemented product revisions including revision to insurance premiums on May 2, 2021.

From FY03/21, the company started disclosing a new earnings evaluation parameter, LTV (LTV) per policy, which decreased to JPY59,892 in April–June 2021 due to higher loss ratio and a temporary drop in renewal rate stemming from product revisions implemented in May 2021. In October 2020–June 2021, LTV per policy was JPY64,573; policy acquisition cost (PAC) per policy was JPY18,883; and group internal rate of return (IRR) was 43.0%. LTV tends to be affected by loss ratio and renewal rate as it is calculated using the formula: (revenue – policy maintaining costs) ÷ number of policies in force x average duration of policies, in a certain period of time. The business value is calculated using the formula below.

Business value＝(LTV per policy) x (average remaining years of coverage / average years of duration) x number of policies in force to date + (LTV per policy – PAC per policy) x (projected increase in number of policies in force)

Recurring revenue

Aided by the growing demand for pets in Japan, the company saw steady growth in the number of policies in force, and recurring revenue rose 28.0% (+JPY1.5bn) YoY to JPY6.6bn. Of the JPY1.5bn increase in recurring revenue, underwriting revenue accounted for JPY1.2bn (+23.6% YoY), investment revenue JPY104mn (+387.4% YoY), and other recurring revenue JPY132mn (14.2x YoY). Underwriting revenue grew along with the increase in the number of policies in force.

Growth in number of policies in force

The number of policies in force came to 648,045 (+25,976 policies from end-FY03/21, +21.5% YoY). The progress rate against the target of 723,000 policies for FY03/22 (+100,931 YoY) was 25.7%. Average monthly increase in number of policies in force during Q1 FY03/22 was 8,659, up from 8,380 in Q1 FY03/21 but below the average net increase of 10,415 in Q4 FY03/21. This was partly because of a temporary fall in renewal rate due to the product revisions and the amendment to the animal welfare law. The number of policies in force exceeded 650,000 on July 5, 2021.

Renewal rate

The renewal rate fell slightly to 88.9% (-0.7pp from end-FY03/21) due to the product revisions implemented on May 2, 2021. Some French bulldog owners canceled policies because of raised insurance premium. The revised premiums will be applied to new policies. The impact of the premium revision is expected to continue over the next year.

Product revisions: On May 2, 2021, ipet decided to revise various aspects of its products (including premiums) effective May 2, 2021. It has refrained from revising premiums for more than 10 years, but the recent consumption tax hike, changes in the social environment surrounding pets, and rising medical costs caused by advances in veterinary medicine have made it difficult to continue providing highly convenient services under the same product structure taking into account the current status of insurance claims. The company therefore determined that product revisions, including changes to premiums, are needed. In particular, in response to needs associated with aging pets, it will lower premiums for older pets—dogs 12 years or older and cats nine

years or older—and implement fixed amounts. The company said premium revenue was impacted, although the revision had effects for only one month in Q1 FY03/22.

Overview of product revisions

Revisions	Detail	Affected products
Revision of premiums	・Reduce premiums and set fixed amounts for older dogs and cats ・Raise some premiums for younger dogs and cats	Uchinoko, Uchinoko Plus, Uchinoko Light
Revision of dog breed classifications	・Revise classifications for 11 breeds ・Rename classifications	Uchinoko, Uchinoko Plus
Elimination of discounts	・Eliminate renewal discount for insureds that have had no incidents ・Eliminate policy discounts for online applications	All products
Revision of policy provisions	・Clarify provisions ・Expand scope of insureds ・Expand scope of covered surgeries	All products

Source: Shared Research based on company data

Investment revenue

The company is mainly accumulating bonds and investment trusts with low market risk to obtain stable investment revenue over the medium to long term. Investment revenue on interest and dividend income came to JPY130mn (+387.4% or +JPY104mn YoY). The company plans to continue expanding its insurance assets under management.

Recurring expenses

Recurring expenses rose 27.5% YoY to JPY6.5bn due to an increase in commissions accompanying steady growth in new policies and a rise in the total amount of claims paid since more time spent at home because of the pandemic led to more veterinary hospital visits.

Underwriting expenses were up JPY761mn (+34.4%) YoY to JPY3.0bn, with commissions and collection fees increasing JPY259mn (+34.6%) YoY to JPY1.0bn. An increase in the number of policies in force resulted in higher commissions and collection fees. Underwriting expenses were up JPY1.0bn (+27.0%) YoY to JPY4.8bn. Investment-related expenses of JPY59mn were up JPY25mn or 73.5% YoY.

Selling and administrative expenses of JPY1.7bn were up JPY377mn or 27.8% YoY. Adjusted recurring profit was up JPY82mn YoY, reaching 35.1% of the company's projection of JPY880mn.

Loss ratio

Owing to the increase in policies in force and the companying rise in insurance claims, the incurred loss came to JPY3.2bn (JPY3.0bn in net claims paid + JPY196mn in loss adjustment expenses + JPY3mn in provision for reserve for outstanding losses and claims). The E/I loss ratio (based on earned premiums) of 52.8% was up 0.6pp from end-FY03/21, reflecting an expansion in claims paid in line with increases in the number of insurance claims and payout per claim. As the loss ratio jumped to 52.4% in Q1 FY03/21 from 48.7% in FY03/20 amid the COVID-19 pandemic, the company's expected, in its initial forecast, the ratio to exceed 53.0% in Q1 FY03/22 but the ratio actually came below the forecast. More specifically, the uptick in the loss ratio was the result of an increase in outpatient care visits by the company's customers, an ongoing rise in medical fees, and the increasing age of the pets insured by the company.

Expense ratio

Operating expenses (= ipet Insurance's selling and administrative expenses + commissions and collections fees) came to JPY2.7bn. The expense ratio (based on earned premiums) of 43.4% (Shared Research estimate) was down 0.5pp from end-FY03/21. The decline reflected increases in personnel costs and in commissions paid to agencies stemming from the ongoing expansion of the company's insurance business, with a temporary decline in expenses associated with some services and marketing activities that were curtailed during the state of emergency.

Combined ratio

The combined ratio (of the E/I loss ratio and the expense ratio on an earned premium basis) climbed 0.8pp YoY to 96.2%.

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Outlook for FY03/22

The company's earnings forecast for FY03/22 is recurring profit of JPY28.6bn (+25.0% YoY), adjusted recurring profit of JPY880mn (-21.4% YoY), and adjusted net income of JPY580mn. The increase in recurring profit reflects forecast growth in insurance underwriting revenue, while the expected decline in in adjusted recurring profit reflects an increase in costs due to the rollout of the company's DX strategy, with the aim of lowering the combined ratio over the long term.

Issues and direction of initiatives

The significant increase in the number of policies in force through FY03/21 means there are more high-cost first-year policies, so the company anticipates higher operating costs. In response, it aims to improve its administrative workflow and systems to improve operational efficiency and keep administrative expenses under control. The company also says it will work to improve service quality to meet customer needs and maintain or increase its contract ratio.

Another issue is the rising loss ratio. With people spending more time at home on average due to the COVID-19 pandemic and increased awareness among policyholders as pet insurance becomes more common, pet owners are taking their pets to hospitals more frequently. The company also expects the loss ratio to rise due to higher unit costs as pets age and veterinary care becomes more sophisticated, and to an increase in policies for newborn pets, which typically result in a greater number of insurance payouts. In response, the company aims to shift to an expense structure that can absorb the rise in loss ratio, while also strengthening initiatives to curb the rise.

Revision of premiums

The company revised its insurance premiums in May 2021, lowering the premiums for dogs aged 12 or older and cats aged 9 or older to a fixed amount in response to requests from customers with aging pets. Shared Research understands that the premiums had been relatively high compared to competitors, which could have raised the risk of policy cancelation. On the other hand, the company raised premiums for dogs less than one year old and five years of age. We will be watching to see if the revised premiums attract new policyholders and affect overall performance.

Revisions	Detail	Affected products
Revision of premiums	・Reduce premiums and set fixed amounts for older dogs and cats ・Raise some premiums for younger dogs and cats	Uchinoko, Uchinoko Plus, Uchinoko Light
Revision of dog breed classifications	・Revise classifications for 11 breeds ・Rename classifications	Uchinoko, Uchinoko Plus
Elimination of discounts	・Eliminate renewal discount for insureds that have had no incidents ・Eliminate policy discounts for online applications	All products
Revision of policy provisions	・Clarify provisions ・Expand scope of insureds ・Expand scope of covered surgeries	All products

Source: Shared Research based on company data

Medium-term management plan

Medium-term management plan (FY03/22–FY03/24)

The number of policies in force topped 600,000 in FY03/21, and the company secured a solid position in the pet insurance market, with a market share of nearly 27%. In October 2020, it transitioned to a holding company format and, in March 2021, made Pet's All Right Co., Ltd., a subsidiary. It plans to keep expanding its business under the holding company format hereafter.

In this context, the company formulated and disclosed a new medium-term plan (FY03/22–FY03/24) on May 14, 2021, and over the next three years intends to lay the groundwork for growth. Key objectives of the plan are to improve the top line with quality, increase productivity, and enhance the management base. The company will celebrate its 20th anniversary in May 2024.

Key objectives and specific initiatives

Key objectives	Specific initiatives
1. Improve the top line with quality	Enhance selling capacity as under the previous medium-term plan, continue efforts to contribute to earnings, improve the quality of sales efforts, and maintain or even increase the renewal rate
2. Increase productivity	Improve administrative operations and systems, rationalize business expenses, and control the loss ratio's rise
3. Enhance the management base	Strengthen human resources and risk management systems

Source: Shared Research based on company data

Priority initiatives

Key objective 1: Improve the top line with quality

1) Enhancement of offline channels, centered on pet shops	・Enhance consulting sales activities for agencies ・Strengthen contact points for sales
2) Enhancement of other channels	・Keep aiming to make the online channel No. 1 in the industry ・Increase the number of new policies acquired through collaboration with Dai-ichi Life Holdings
3) Development of new channels	・Develop an adoption agency channel ・Develop a breeder channel ・Develop the cat market
4) Improvement in renewal rate	As the earnings structure makes it difficult to generate profits during a policy's first year, improving the renewal rate is important for increasing earnings. To improve the rate, the company will focus on promoting CRM measures and improving the quality of sales efforts
5) Expansion of products and services	・Develop products that satisfy customer needs ・Further expand OTC settlement services at veterinary hospitals

Source: Shared Research based on company data

Key objective 2: Increase productivity (1)

Objective	Strengthen administration and systems to support an increase in the number of policies in force
Description	Update the backbone system, review workflows, and automate work where possible
Schedule	Assuming implementation over the three years of the medium-term plan, start with administrative areas where investment will have the greatest effect
Expected impact	The company expects the effects of investment will become apparent from FY03/25 onward, after the current medium-term plan ends.

Source: Shared Research based on company data

The company finished upgrading its backbone system in December 2020. Next, it will be promoting the DX Project, which aims to make its administrative systems more resilient. The DX Project represents a change of direction in terms of backbone system development such as that carried out as part of the "promotion of digitalization" conducted under the previous medium-term plan.

Previously, the company developed its entire backbone system in-house, which required a large number of staff and ongoing investment in updates. Development itself was also difficult due to the complexity of pet insurance operations. Hereafter, the company will have an outside vendor develop the backbone system based on a SaaS-type system. It will not have to bear depreciation costs, since it will not own the software as assets. In addition, since development involves only partial customization at the time of SaaS implementation, expandability can be guaranteed. System updates will also be handled by the outside vendor.

Key objective 2: Increase productivity (2)

Non-personnel expenses	Promote strategies for operating bases (including the head office), work style reform (bringing teleworking into the mix), and transition of forms to an electronic format
Sales expenses	Improve the efficiency of sales expenses, add value through consulting-type sales, and increase the satisfaction of both agencies and sales staff
Personnel expenses	Pursue optimal allocation of human resources
Maintain combined ratios of 90% (net) and 95% (E/I)	

Source: Shared Research based on company data

Key objective 2: Increase productivity (3)

Measure 1	Revise premiums flexibly based on loss ratio trends
Measure 2	Educate pet owners on how to keep their pets safe from injury and disease (through an online pet consultation service, in which veterinarians provide information on pet diseases, accidents, and training measures)
Measure 3	Optimize the company's portfolio of sales channels
Measure 4	Promote initiatives to underwrite suitable policies and prevent fraudulent insurance claims

Source: Shared Research based on company data

Key objective 3: Enhance the management base

Human resources strategy to increase productivity

Enhancement of human resources	・Improve the skills of each executive and employee ・Conduct appointments and promotions based on ability and results ・Secure young and talented human resources
Improvement in individual awareness	・Increase loyalty → Improve engagement ・Allow a variety of work styles in pursuit of ease of working ・Evaluate personnel using a performance-based approach

Source: Shared Research based on company data

Risk management structure at ipet Insurance

Implementation of risk appetite framework	・Ensure soundness of operations ・Identify risks ・Improve earnings capacity
Penetration of risk culture	・Enhance risk governance ・Strengthen integrated risk management preparedness ・Ensure preparedness in regard to economic solvency margin regulations

Source: Shared Research based on company data

Risk management structure at ipet Holdings

Groupwide integrated risk appetite (business planning and capital allocation)	・Maximize corporate value by improving capital efficiency ・Improve earnings capacity by taking risks in growth areas ・Maintain competitiveness ・Maintain financial soundness
Implement quantitative and qualitative risk management at each group company	

Source: Shared Research based on company data

Group management

Pet's All Right

In March 2021, the company made Pet's All Right a wholly owned subsidiary. Pet's All Right operates an online pet health consultation business that allows customers to consult with veterinarians, dog trainers, and holistic care counselors using their smartphones. The company says it aims to generate synergies by promoting the acquisition of new contracts for the consultation service through its pet shop channel, which is one of the group's strengths. It also aims to improve its own renewal rate by providing an array of services that enrich pets' lives.

P's-first Insurance

P's-first Insurance became a subsidiary of ipet Insurance on October 1, 2020. Since P's-first does not underwrite policy renewals, existing customers can continue with ipet Insurance if they wish. P's-first began referring customers to ipet Insurance for policies expiring in December 2020, and the inflow of customers has already exceeded ipet Insurance's expectations, contributing to group synergy. Hereafter, P's-first will maintain a system for appropriately responding to insurance claims from customers even after all of its policies have expired or been transferred to ipet Insurance. It also plans to develop new products as a small-amount short-term insurer capable of responding flexibly to customer needs.

Targets

(JPYmn)	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.	FY03/22 Targets	FY03/23 Targets	FY03/24 Targets
Recurring revenue	14,941	18,334	22,878	28,600	33,500	37,300
Adjusted (cons.) recurring revenue	929	1,058	1,119	880	1,320	1,370
Adjusted (cons.) net income	815	726	-195	580	880	910
No. of policies in force	423,352	508,225	622,069	723,000	807,000	884,000

Source: Shared Research based on company data

Main KPIs

In formulating the new medium-term management plan, the company emphasized the profitability of its business over the medium to long term. For this reason, to its conventional KPI (number of policies in force), it has added lifetime value (LTV), policy acquisition cost (PAC), and internal rate of return (IRR), for a total of four indicators it will use in evaluating performance.

Lifetime value (LTV) per policy		Policy acquisition cost (PAC) per policy	
Definition:	Total cumulative profit a customer brings to the ipet group	Definition:	Marketing cost and one-time investment cost per policy acquisition; in other words, total initial costs
Formula:	(Revenue − policy maintenance cost) ÷ number of policies in force × average duration in a given period	Formula:	(Commissions on new policies + sales cost + amortization + one-time investment) ÷ number of new policies in a given period
Assumptions:	1) Total of Pet Insurance and Pets All Right businesses 2) Average duration is calculated from the renewal rate 3) Uses US-based Trupanion's model for comparability	Assumption:	Total of Pet Insurance and Pets All Right businesses
Number of pet insurance policies in force		**Group internal rate of return (IRR)**	
	This is the number of active pet insurance policies at a certain point in time, serving as basis for future revenue generation.		From the perspective of the entire group, this is the total amount of profit (LTV) the company expects to earn on its investment (PAC), expressed as a percentage yield.

Source: Shared Research based on company data

The company's business value can be calculated using the following equation. As its mainstay business is a recurring-revenue business based on the assumption that pet insurance policies will be renewed, its business value comprises the value of policies in force to date plus the value of policies to be issued in the future. Business value can therefore be calculated as follows.

> Business value = (LTV per policy) x (average remaining years / average years of renewal) x number of policies in force to date + (LTV per policy – PAC per policy) x (projected increase in number of policies in force)

Based on the company's 2H FY03/21 results, LTV per policy is JPY67,545, average remaining years is 6.3, average years of renewal is 9.6, and there were 622,069 policies in force. Plugging these values (as disclosed by the company) into the equation, we can estimate that the value of policies to date is JPY27.5bn. Also, based on actual results, the company says PAC per policy was JPY18,325, and IRR for the pet insurance businesses was 46.1%. By adding the value of policies to be issued in the future, the company believes it can calculate a reasonable business value.

Business

Business model overview

Business description

Market share of nearly 27%, putting the company in second place in the pet insurance industry

In October 2020, ipet Holdings was established as the wholly owning parent of ipet Insurance Co., Ltd., through a single share transfer. The company's core subsidiary, ipet Insurance, sells pet insurance and has a market share in the pet insurance industry of nearly 27%, second only to Anicom Holdings, which has a market share of 40.5%. ipet Holdings' only reporting segment is the Nonlife Insurance business, which accounted for 98.9% of recurring revenue and 96.5% of recurring profit in FY03/21.

The company sells its mainstay pet insurance to general consumers, especially pet owners, to cover a certain percentage of the cost of surgery or other medical treatment for illness or injury, mainly for dogs, cats, and other pets kept in households (policy length is one year). This insurance is similar in function to medical insurance for humans (third-sector insurance), but the Insurance Business Act defines it as "insurance to cover damages suffered by the policyholder due to accident" (nonlife insurance). Products covering the risk of injury to pets were originally operated by mutual aid associations. The predecessor of ipet Insurance was established in 2004, but the earlier mutual aid associations were reorganized into nonlife or small-amount short-term insurers following a 2005 revision of the Insurance Business Act. Companies competing in the pet insurance industry include five nonlife insurers licensed by the Financial Services Agency (including the company itself) and 10 small-amount short-term insurers registered with Local Finance Bureaus.

The pet insurance sales and underwriting business, which is the company's main business, is a recurring-revenue business in which the company collects premiums monthly from policyholders. Revenue can be explained in terms of the policy count and premium amount, but profits are affected by insurance accounting. The company first books premium revenue, and insurance payouts (cost of revenue) occur later, with unearned premiums for the next and subsequent insurance periods being carried forward as underwriting reserves, so profits straddle fiscal years.

The following are some key points that differentiate ipet Insurance from competitors: 1) it is a nonlife insurer licensed by the Financial Services Agency (with good credibility as a listed company), 2) it is a member of a safety net called the Non-life Insurance Policy-holders Protection Corporation of Japan, 3) it is able to provide over-the-counter settlement services at major veterinary hospitals nationwide alongside industry leader Anicom Holdings (TSE: 8715, a nonlife insurer), and 4) it has experience and expertise in developing online channels, which are seeing rapid growth (its accumulation of expertise has allowed the company to control the overall loss ratio and secure profits).

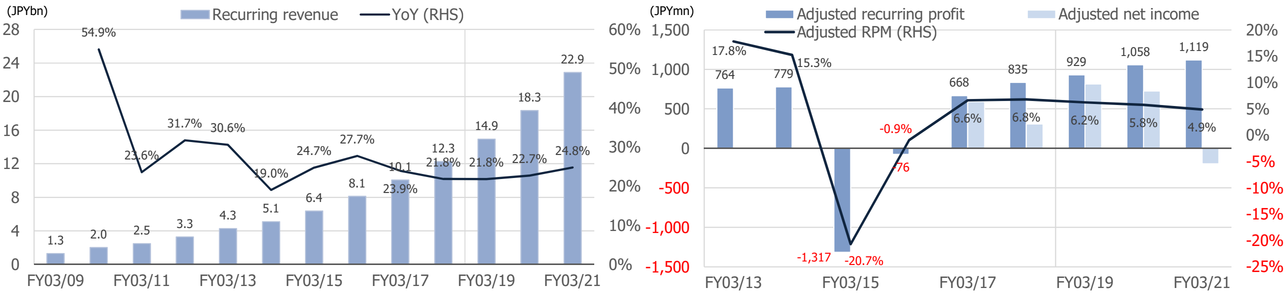
ipet Insurance has grown to hold a 27% market share in the pet insurance industry with more than 600,000 policies in force as of FY03/21. Hereafter, the company will focus on restructuring its management base as it works to complement its pet insurance and produce derivative products with the aim of diversifying its Nonlife Insurance business. The company established a pure holding company (ipet Holdings, Inc.) on October 1, 2020, and now plans to establish group companies based on appropriate procedures.

Policy on entering new businesses

Shared Research understands that ipet Holdings will focus on entering new businesses under its holding company structure by focusing on the pet industry and businesses with a large potential market size, and by actively making use of M&A and capital and business alliances with other companies, with an emphasis on synergies with the pet insurance business. In fact, in March 2021, ipet Holdings acquired all shares in Pet's All Right Co., Ltd., which operates a platform service providing consultations on pet health and training and a range of pet-related information.

In FY03/21, the company's recurring revenue grew 24.8% YoY due to steady gains in the number of policies in force. Adjusted recurring profit rose just 5.8% YoY due to an increase in expenses accompanying the influx of new policies and more frequent insurance claims.

Performance



Source: Shared Research based on company data

Nonlife Insurance business (98.9% of recurring revenue in FY03/21)

Pet insurance products

The company currently sells four pet insurance products. Its mainstay products are Uchinoko and Uchinoko Light, both of which cover dogs and cats and are sold to general pet owners. In the case of Uchinoko, there are two plans, covering either 50% or 70% of costs for hospital visits, hospitalization, and surgery. On the other hand, Uchinoko Light was designed specifically to cover surgery costs, but not hospital visits. It covers 90% of surgery costs, and the premium for a cat (not yet one year old) is a reasonable JPY780 per month. The other two products the company sells are Uchinoko Plus and Uchinoko Cute, both of which are sold only via pet shop agencies.

The insurance period for these products is one year, with automatic renewal from the second year onward. Premiums vary depending on the chosen plan, the age of the pet (and whether it is a dog or cat), the breed, and other factors. For example, the premium for a toy poodle less than one year old in a 50% coverage plan is JPY2,480.

Pet insurance products

Product		Targets	Hospitalization	Outpatient	Surgery	OTC payouts	Premiums	Notes
Uchinoko	Pet medical insurance	Dogs and cats	Covered	Covered	Covered	Covered	Dog (Toy Poodle aged 0): From JPY2,480/mo (50% Plan) Cat (aged 2): From JPY2,400/mo (50% Plan)	- Policy period: One year (automatically renewed from the second year) - Covers all of hospitalization, outpatients, and surgery, for treatment of various diseases and injuries - Two coverage plans available (70% and 50%) - Covers bills for the initial month when pets tend to experience mild sickness
Uchinoko Light	Pet surgery insurance	Dogs and cats	Partially covered (only for continuous hospitalization that includes surgery; up to ten days per surgery)	-	Covered	Covered	Dog (Toy Poodle aged 1): JPY990/mo Cat (aged 0): JPY780/mo	- Policy period: One year (automatically renewed from the second year) - Focuses on coverage of surgery (which tends to be expensive) - 90% of surgery bills covered with reasonable premiums - 10% discount when applied online
Uchinoko Plus	Product limited to pet shops	Dogs and cats	Covered	Covered	Covered	-		- Policy period: One year (automatically renewed from the second year) - Covers all of hospitalization, outpatients, and surgery, for treatment of various diseases and injuries - Two coverage plans available (70% and 50%) - 100% of treatment bills covered in the first month of adoption (when pets tend to get sick)
Uchinoko Cute	Product limited to pet shops	Exotic animals designated by iPet	Covered	Covered	Covered	Covered		- Policy period: One year (automatically renewed from the second year) - Covers all of hospitalization, outpatient, and surgery, for treatment of various diseases and injuries - Three coverage plans available (70%, 50%, and 30%)

Source: Shared Research based on company data
Note: Exotic animals include rabbits, ferrets, birds, hedgehogs, squirrels and flying squirrels, hamsters, mice, guinea pigs, lizards, and turtles.

Both in Japan and elsewhere, pet owners are less likely to purchase insurance for cats. The company says that in Japan about 15% of dogs are covered, but just 3–4% of cats (in the UK, 30% of dogs and 16% of cats have coverage). This appears to be because cats are less likely to be purchased at pet shops, instead coming through adoption agencies or natural increase (pregnancies of existing pets), and are less susceptible than dogs to injury and disease. However, if it comes to it, surgery can be quite costly.

The company has been focusing its attention on the cat market, realizing that if it can raise awareness of pet insurance, it can encourage customers to purchase policies online. In fact, the ratio of policies for cats is higher via online channels than through pet shop agencies. In terms of disease, cats can be particularly susceptible to kidney-related trouble, which is costly to treat. To handle such cases, the company recommends Uchinoko Light, which costs less and applies only to surgery, rather than the standard product that functions more like health insurance. It has also strengthened its cooperation with adoption agencies, a major source of cats. The company has been investing to improve ties with adoption agencies, increase its name recognition, and develop products.

Product revision (May 2021)

The company had not revised its premiums since it first launched its products more than 10 years ago. In light of the consumption tax hike, changes in the social environment surrounding pets, and rising insurance payouts due to growing medical costs accompanying advanced and increasingly sophisticated veterinary medicine, the company determined that it was necessary to revise the products, including premiums, in order to provide customers with more convenient services. Shared Research sees the revision of premiums as a strategic move to increase the number of new policies and maintain a good renewal rate, now that the company has a 27% market share and stable management in place.

Specifically, the company lowered the premiums for dogs aged 12 or older and cats aged 9 or older to a fixed amount in response to requests from customers with aging pets. Shared Research understands that the premiums had been relatively high compared to competitors, which could have raised the risk of policy cancelation. On the other hand, the company raised premiums for dogs less than one year old and five years of age.

Example of revised premiums

Uchinoko: Dog (From "Small Dog" to "Dog A"), monthly payment

	70% Plan			50% Plan		
	Before	Revised	Rate of change	Before	Revised	Rate of change
Aged 0	2,810	3,090	10.0%	2,270	2,480	9.3%
Aged 5	3,990	4,310	8.0%	3,120	3,340	7.1%
Aged 10	7,350	6,990	-4.9%	5,550	5,270	-5.0%
Aged 12	9,450	8,510	-9.9%	7,060	6,360	-9.9%
Aged 15	13,770	8,510	-38.2%	10,180	6,360	-37.5%

※ Flat rate after age 12

Uchinoko: Cat, monthly payment

	70% Plan			50% Plan		
	Before	Revised	Rate of change	Before	Revised	Rate of change
Aged 0	2,990	2,990	0.0%	2,400	2,400	0.0%
Aged 5	3,440	3,260	-5.2%	2,710	2,610	-3.7%
Aged 9	5,520	4,990	-9.6%	4,210	3,980	-5.5%
Aged 12	7,830	4,990	-36.3%	5,870	3,980	-32.2%
Aged 15	12,110	4,990	-58.8%	8,950	3,980	-55.5%

※ Flat rate after age 9

Source: Shared Research based on company data

Sales channels

How pets are acquired

According to a FY2015 survey by the Japan Veterinary Medical Association, 48% of dogs aged 0–6 were purchased via pet shops and other retailers, 18.8% from breeders, 29.8% were adopted (22.9% from friends and acquaintances, 4.3% from private-sector organizations, and 2.6% from public-sector organizations), and 3.5% were acquired by other means. For cats, 12.3% were purchased from retailers, 4.1% from breeders, 49.0% were formally adopted (breakdown: 36.7%, 9.6%, 2.7%), and 34.6% were informally adopted (feral or abandoned cats, or kittens born at home).

According to the Japan Pet Food Association's national survey on dog and cat ownership (2020), 53.7% of pets came from pet shops, 14.0% from friends or acquaintances, 11.9% directly from professional breeders, 8.7% from friends or acquaintances who are breeders, and 3.9% from matching websites operated by adoption agencies.

The majority of new policies are purchased at pet shops at the time customers purchase their pets. When pets are acquired via adoption agencies or other routes, the ratio of owners purchasing policies is much lower, so both the company and its competitors are paying more attention to those routes recently.

The aforementioned surveys indicate that dogs are commonly acquired from pet shops or breeders, while cats are obtained more often through adoption agencies or other routes. This suggests there is room for growth not just at pet shop agencies, but in online channels (where the number of contracts would be similar to pet shops in the case of pets under one year of age, or even greater if pets of any age are taken into account), and development of breeder and adoption agency markets is also important.

Sales channels

Although pet shops remain the company's main sales channel for new policies, the online channel has grown fast, with its share increasing from around 10% in 2013 to 40% as of FY03/18. ipet Insurance regards itself as a pioneer of online channels. The company started up a project to acquire online channels in 2013 and has made it a strategic priority. Since high risk policyholders are more likely to take out insurance, it is working to control the relatively high loss ratio as it expands its sales routes. The company's pet shop agencies totaled 1,058 companies as of March 31, 2020 (according to the company's own Disclosure pamphlet).

Pet shops

New policies break down by sales channel as follows: Approximately 60% via pet shops, 40% via online, the remaining (less than 10%) via general insurance agencies. Pet shops are the main channel for selling policies to insure newborns, which improve insurers' product portfolios. It is a priority channel because approximately 50% of dogs are purchased from pet shops. Insurers currently invest money earned from the pet shop channel into cultivating online channels because policies acquired through online channels contribute to stable earnings when renewed despite having high initial customer acquisition costs.

The pet shop market is undergoing polarization between large and smaller companies. Large companies are increasing their number of stores while smaller, family-run pet shops are on the decline. Competition is severe among large pet shops because competitors have already established some business with them. ipet Insurance is exploring business expansion through collaboration with pet shops while avoiding price competition. The company is examining various aspects of pet shops' business processes to provide an earnings contribution other than agency commissions. For example, ipet Insurance provides support for nonlife insurance agents (e.g., in obtaining qualifications and insurance sales training) and offers business process support utilizing IT to agencies.

ipet Insurance intends to continue making sales efforts and assist insurance agents for large pet shops while it aims to improve loyalty by providing a proprietary IT system to smaller pet shops that cannot afford to install commercial systems. This shows how ipet Insurance is strengthening its relationship with agencies in ways other than paying commission.

The number of policies in force at ipet Insurance is expanding in large part driven by a growing market and effects of various initiatives. We think pet shops are contributing to the rise. The company is also well positioned to take market share from smaller insurers because it is one of the top two insurers that offer most OTC insurance payouts, giving it an advantage over insurers with less market share.

Supporting nonlife insurance agents and strengthening sales: ipet Insurance prioritizes providing support for nonlife insurance agents to help pet insurance policyholders understand 70% payout plans and pet damage rider. The company is also seeking to stabilize its earnings by helping policyholders understand the cost advantage of paying premiums annually. ipet Insurance will continue to strengthen these initiatives.

Online channels

ipet Insurance cultivated online channels to diversify its sales channels, and the online channels have matured into a new source of earnings, which has driven the company's growth. It plans to continue strengthening the online channels in its medium- to long-term strategy. It is important to note that the company is incorporating CRM techniques, effectively utilizing accumulated customer data in various ways, and applying the know-how to acquiring new customers. However, the company believes there is scope for improvement in growth rates and loss ratio by increasing the head count at CRM-related divisions and strengthening telemarketing by prioritizing CRM in growing online channels. It has also increased outbound calls from call centers to policyholders and prospective customers to improve renewal rates among the former and contract conclusion rates among the latter.

Online channels have a relatively high loss ratio because they tend to provoke adverse selection. That being said, online channels are making a solid contribution to earnings at recurring profit level because the majority of sales are direct (no agency commission paid) and the company has accumulated marketing know-how. Further, people with a high loss ratio who are aware of the need for insurance will try to sign up regardless of CRM, whereas others may drop out during the signing up process. Steadily acquiring the latter group of customers, the company is preventing a rise in the loss ratio.

Customer Relationship Management (CRM): A management technique to deepen trust-based relationships with customers and earn recurring revenue by establishing points of contact with customers in various ways, appropriately managing customer information, and making improvements to products and services by utilizing customer feedback.
Adverse selection: The tendency of high-risk policyholders to buy insurance. Unlike the pet shop channel, many online customers will apply for insurance after a triggering event.

Development of sales bases

As of March 2021, the company had three sales divisions in Tokyo, Nagoya, and Osaka, ten branches in Sapporo, Sendai, Utsunomiya, Niigata, Toyama, Shizuoka, Takamatsu, Hiroshima, Fukuoka, and Kagoshima, and two sales offices in Aomori (Aomori sales office of the Sendai branch) and Okinawa (Okinawa sales office of the Fukuoka branch). Aomori Prefecture is also home to the Aomori Business Center (Offices 1 and 2).

The company allocates vehicles to all sales offices and has a policy of customer-focused sales, i.e., visiting customers regularly and providing training to insurance agents. Such efforts help enhance the appeal of the company's unique services and attractive commission rates to sales agents, and have become an established selling style. As a result, pet shop sales agents who deal directly with policyholders have become competent at explaining the advantages of 70% payout plan and annual premium payments, the need for pet damage riders, and about credit card payments in detail, which appears to have contributed to improved performance metrics.

Business alliance with Dai-ichi Life Holdings

In February 2019, ipet Insurance entered a business alliance with Dai-ichi Life Holdings, with the aim of selling ipet Insurance's pet insurance products through Dai-ichi Life Insurance Company, Ltd., a subsidiary of Dai-ichi Life Holdings. The company introduces and proposes the pet insurance products to customers through Dai-ichi Life's Total Life Plan Designers and its owned media.

P's-first Insurance becomes a subsidiary

On October 1, 2020, the company made P's-first Insurance (a small-amount short-term insurance business) a subsidiary. P's-first Insurance had total assets of JPY746mn, net assets of JPY173mn, recurring revenue of JPY1.3bn, recurring profit of JPY21mn as of end-March 2020, and roughly 18,000 insurance policies in force. One of P's-first's affiliates is a pet shop chain with about 80 stores, mainly in the Kanto region, and one of its strengths is direct sales through its pet shop channel.

P's-first Insurance's policies are to remain in force until maturity, with policies transferred to ipet Insurance thereafter if requested by the policyholder. P's-first Insurance's key insurance products provide 100% coverage versus 70% for many of ipet's products. The company assumes an inflow of 1,000 P's-first Insurance customers per month, or 12,000 yearly. This amounted to about 2% of the 562,993 policies in force at end-September 2020.

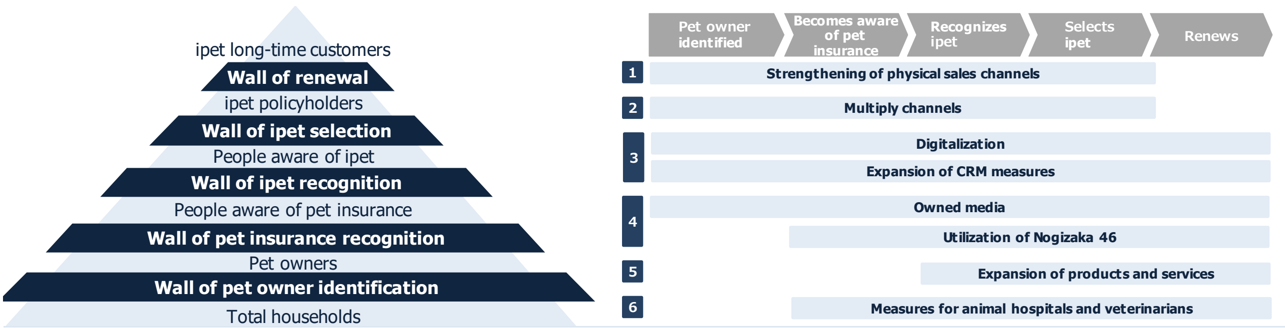
Promotion of digitalization

Customer Relationship Management (CRM)

Shared Research thinks CRM consists of initiatives to make pet owners continuing customers of the company in the context of a pyramid-shaped structure of challenges to acquire continuing customers (see below). First, the company must overcome the challenge of identifying pet owners (finding 20% of households or 12mn pet owners in Japan). Second, it needs to make pet owners aware of pet insurance (targeting 60% of pet owners or 7mn pet owners to become aware of pet insurance). Third, the company must make those pet owners know about ipet Insurance (50% x 7mn = 3.5mn owners). Fourth, owners must choose pet insurance with the company (10% x 3.5mn = 350,000). Finally, policyholders must renew their policies (90% x 350,000 = over 300,000).

It is crucial to identify pet owners who make up 20% of total of 12mn households in Japan (at the first stage of the challenge), which makes a big contribution to increasing the number of policies in force and improving sales efficiency. The second challenge also offers opportunities because awareness of pet insurance is still low. Opportunities for cat owners in particular to learn about pet insurance are limited because cats are mostly adopted (formally or informally) or given away. The narrower the target, the more effective the company's CRM strategies become. The company is tackling each challenge outlined above by utilizing CRM (including digitalization). Below we discuss the company's strategy from the perspective of tackling challenges (note that there is some duplication with differentiation strategies).

The five challenges the company faces before acquiring continuing customers



Source: Shared Research based on company data

Significantly reduces administrative tasks

Digitalization entails converting data to electronic form, automating business processes using technologies like robotic process automation (RPA) and artificial intelligence (AI), and periodically replacing backbone systems and CRM systems. Although ipet Insurance lags its competitors in converting data to electronic form, this is the area where the company could expect to sharply reduce its administrative costs. The company says the two most time-consuming and costly processes are inputting insurance claims and assessing insurance payments. The company's digitalization efforts focus on these two areas.

The company says most insurance claims from animal hospitals to the company are hard copies, with only 15–20% in electronic form. Its administration center uses optical character recognition/reader (OCR) to input claim data. With the number of claims increasing, transitioning to electronic claim data would lead to large savings in time and labor required for data input. The company plans to integrate application programing interface (API) with animal hospitals' electronic medical record (EMR) and customer management systems to progress automation while continuing to use OCR.

ipet Insurance plans to improve the efficiency of claim assessment by using RPA and AI. According to the company, its pilot RPA system enabled significant streamlining of processes equivalent to 25,000 hours annually.

RPA：Robotic Process Automation
OCR：Optical Character Recognition/Reader
API：Application Programming Interface

Considerable scope to improve work flow

As it is undergoing rapid growth, upgrading its IT system is a major priority for ipet Insurance. The company is compensating for an outdated system by reviewing work flow design and additional human resources, but there is substantial scope for improvement. The company replaced its backbone system, and plans to utilize cloud technologies, and strengthen API integration. It finished replacing the backbone system in December 2020, which should allow it to streamline work flows (the old system constrained work flows) and increase freedom of product development.

It lumps together efforts to make its administrative systems more resilient as the DX Project, which it is promoting anew. The DX Project represents a change of direction in terms of backbone system development.

Previously, the company developed its entire backbone system in-house, which required a large number of staff and ongoing investment in updates. Development itself was also difficult due to the complexity of pet insurance operations. Hereafter, the company will have an outside vendor develop the backbone system based on a SaaS-type system. It will not have to bear depreciation costs, since it will not own the software as assets. In addition, since development involves only partial customization at the time of SaaS implementation, expandability can be guaranteed. System updates will also be handled by the outside vendor.

Other measures to increase earnings

In addition to the aforementioned channel strategies, product revisions, and expansion of its network of bases, the company is conducting measures to increase the ratio of annual payments and raise the unit price per policy, which will help to boost recurring revenue.

Increasing share of annual premium payments

Annual premium payments contribute to earnings stability because monthly payments are at risk of cancelation every month. Policyholders making annual premium payments accounted for only 30% of the total in FY03/18, whereas they accounted for an estimated 60–70% at the market leader. Monthly payment plans are automatically renewed every month, but it still means policyholders are reminded 12 times a year that they are not making use of their insurance because their pets are healthy. Annual premium payments tend to make policyholders feel positive about having insurance over the year and makes CRM more efficient.

Increasing average insurance premium through adding pet damage rider

Average premiums (premium revenue ÷ number of policies) are trending up mainly due to the rising average age of insured animals, which increases premiums. Other contributing factors are an increase in share of annual premiums (improving renewal rates and preventing cancelations also affect average age) and pet insurance damage rider.
As with annual premiums, the increase in average insurance premium is the result of efforts to persuade policyholders of the benefits of pet damage riders. The rider is a third-party liability clause that pays claims if a pet injures a person or causes damage to property. More and more policyholders opt for the rider, which offers peace of mind at a small price.

Costs

Loss ratio

The company's E/I loss ratio was 52.2% in FY03/21, but has seen an uptrend, mainly due to the gradual increase in the average age of insured animals, which roughly correlates to higher claims, and a rising number of hospitals offering OTC settlement which improves user convenience. The COVID-19 pandemic has led to lifestyle changes, such as people spending more time at home, and this has led to pet owners taking their pets to hospitals more frequently. The company expects the E/I loss ratio to continue rising above 50% in the longer term, although it aims to slow the upward progression by adding policy rider and utilizing CRM (see above).

Expense ratio

The expense ratio peaked at 52.4% in FY03/15 and fell to 43.8% in FY03/21. Longer term, the company says it targets an expense ratio of 35%. The main factor that lowers the expense ratio is an increase in the number of policyholders (i.e., higher recurring revenue). However, the company is aware that it lacks management resources to accelerate growth.

Although the loss ratio is likely to continue its gradual increase, the company aims to maintain combined ratios of 90% (net) and 95% (E/I). Most of agency commissions have an L-shaped structure, being high in the first year of signing up with an agency and dropping sharply thereafter, which makes it important to maintain a high renewal rate. We note that if CRM is successful in further increasing renewal rates, it would contribute to recurring revenue growth as well as decreasing commission rate.

Other (1.1% of recurring revenue in FY03/21)

Pet's All Right becomes subsidiary

On October 21, 2020, the company reached an agreement with parent company Dream Incubator (TSE1: 4310) regarding the transfer of shares in Pet's All Right Co., Ltd., from Dream Incubator. Pet's All Right operates a business focused on pet health and training consultations and pet information platform services, and was originally developed by Recruit (TSE1: 6098).

Pet's All Right had operating revenue of JPY380mn and was operating in the black. Membership costs JPY1,580 per month (source: Pet's All Right homepage). Shared Research thinks the company may be able to lift revenue per customer through mutual referrals between it and Pet's All Right.

Market and value chain

Market overview

Total pet-related market

According to Pet Business Marketing Overview 2021, published by Yano Research Institute Ltd. in January 2021, the total pet-related market in 2019 grew 1.7% YoY to JPY1.57tn on a retail value basis. In 2020, it is projected to grow 3.4% YoY to JPY1.62tn. With spending per pet increasing, the pet-related market is likely to keep expanding.

Pet insurance market

Of the total pet-related market, the domestic pet insurance market is expected to grow from JPY84.1bn in 2019 to JPY99.3bn in 2020 (+18.1% YoY). With a penetration rate of only about 12%, the domestic market has a lot of room for growth compared to other countries with advanced pet insurance systems (penetration is about 65% in Sweden and 25% in the UK). In fact, both Anicom Holdings, the top pet insurer, and ipet Holdings, the number two pet insurer, have been enjoying double-digit growth.

Number of domestic pets

As of 2020, there were some 18.1mn dogs and cats kept as pets in Japan (8.5mn dogs and 9.6mn cats; source: Japan Pet Food Association). Multiplied by the 12% insurance penetration rate, the number of animals covered would be about 2.2mn.

Market share

The domestic pet insurance market comprises 15 small-amount short-term and other insurers, including ipet Holdings (ipet Insurance and P's-first Insurance), and the company (ipet Insurance alone) had 25.4% of policies in force in the market at end-December 2019 and 26.7% at end-December 2020 (source: Fuji Keizai Group's 2020 Marketing Overview of Pet-related Market and 2021 Marketing Overview of Pet-related Market).

Competitor trends

Competitive environment

As of FY03/21, five companies offered pet insurance, breaking down into ipet Insurance, Anicom Holdings, AXA General Insurance, au Insurance, and Pet & Family Insurance (shifted from a small-amount short-term insurance company as of April 1, 2019), with 10 small-amount short-term insurance companies, for a total of 15 companies.

Pet insurance industry

	Insurance company	Claim payment	Description
Non-life insurance	ipet Insurance	Over-the-counter	Online application
	Anicom Insurance	Over-the-counter	Online application
	Pet & Family Small-amount Short-term Insurance Company	Over-the-counter	Online application. No change in premiums for pet ages 10 or older. Shifted to non-life insurance business on April 1, 2019
	AXA General Insurance		Online application. Free 24-H consultation by veterinarian
	au insurance		Online application. Free 24-H consultation by veterinarian
Small-amount short-term insurance	Aeon S.S. Insurance		Online application. Covers pet hotel charges while owners are hospitalized
	e-Pet S.S. Insurance		Online application
	SBI Ikiiki SSI		Online application accepted for pet ages up to 11 year 11 months.
	SBI Prism SSI (made Japan Animal Club a subsidiary)		
	FPC		Online application. Premium increase happens only twice in lifetime (three times for mid to large dogs)
	Nihon Pet Plus SSI (formerly Garden SSI)		Online application. 90% coverage plan available.
	Pets First SSI		Online application. Coverage starts right on the day of purchase at selected pet shops
	Pets Best Japan		Online application
	Pet Medical Support		Online application. Free 24-H consultation by veterinarian
	Rakuten SS Insurance		Rakuten acquired Motto Gyutto SSI which merged with Ansin SSI in Sep. 2016

Source: Shared Research based on company data

Based on company disclosure

		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
No. of policies in force	Anicom Insurance	340,628	396,234	446,414	504,969	544,815	585,962	635,670	698,566	753,332	816,254	921,873
	ipet Insurance	79,993	107,434	137,188	158,146	196,964	249,330	300,203	355,513	423,352	508,225	622,069
	SBI (SBI Prism SSI + Ikiiki SSI)								1,338	8,950	100,896	0
	Pet & Family SSI	19,934	31,328	44,407	60,841	76,430	96,434	115,827	131,000	146,183	161,058	
	Rakuten SS Insurance	24,147	30,921	36,914	40,627	45,850	52,534	72,963	71,955	103,277	140,136	
	Total for the five companies	464,702	565,917	664,923	764,583	864,059	984,260	1,124,663	1,258,372	1,435,094	1,726,569	1,543,942
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Underwriting revenue	Anicom Insurance	10,858	13,592	15,781	18,087	21,733	25,370	28,068	31,290	34,535	39,105	43,312
	ipet Insurance	2,485	3,281	4,285	5,100	6,363	8,126	10,067	12,212	14,831	18,115	22,412
	SBI (SBI Prism SSI + Ikiiki SSI)	808	928	1,115	1,233	1,717	2,195	2,558	2,821			
	Pet & Family SSI	546	869	1,259	1,855	2,353	2,969	3,601	4,492	5,207	5,798	0
	Rakuten SS Insurance	659	904	1,122	1,242	1,424	1,650	1,959	1,774	2,218	3,664	0
	Total for the five companies	15,357	19,574	23,562	27,518	33,590	40,310	46,253	52,589	49,366	66,682	65,724
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Premium per policy	Anicom Insurance	34,394	36,892	37,456	38,023	41,405	44,872	45,952	46,903	47,572	49,828	49,838
	ipet Insurance	35,423	35,010	35,033	34,540	35,837	36,415	36,638	37,248	38,084	38,891	39,657
	SBI (SBI Prism SSI + Ikiiki SSI)	-	-	-	-	-	-	-	-	-	-	-
	Pet & Family SSI	27,015	27,255	27,838	30,489	30,785	30,790	31,089	36,398	37,568	37,742	0
	Rakuten SS Insurance	26,916	28,904	30,060	30,253	30,804	31,407	26,848	24,480	25,314	30,105	0
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Underwriting revenue share among the five companies	Anicom Insurance	70.7%	69.4%	67.0%	65.7%	64.7%	62.9%	60.7%	59.5%	70.0%	58.6%	65.9%
	ipet Insurance	16.2%	16.8%	18.2%	18.5%	18.9%	20.2%	21.8%	23.2%	30.0%	27.2%	34.1%
	SBI (SBI Prism SSI + Ikiiki SSI)	5.3%	4.7%	4.7%	4.5%	5.1%	5.4%	5.5%	5.4%			
	Pet & Family SSI	3.6%	4.4%	5.3%	6.7%	7.0%	7.4%	7.8%	8.5%	10.5%	8.7%	0.0%
	Rakuten SS Insurance	4.3%	4.6%	4.8%	4.5%	4.2%	4.1%	4.2%	3.4%	4.5%	5.5%	0.0%
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Recurring revenue	Anicom Insurance	11,107	13,845	16,186	18,366	22,638	26,506	28,978	32,339	35,829	41,465	48,049
	ipet Insurance	2,493	3,283	4,287	5,103	6,365	8,128	10,071	12,268	14,941	18,334	22,878
	SBI (SBI Prism SSI + Ikiiki SSI)	814	934	1,121	1,236	1,720	2,198	2,563	2,824	8,981	10,521	0
	Pet & Family SSI	547	871	1,260	1,856	2,354	2,970	3,601	4,492	5,207	5,798	
	Rakuten SS Insurance	661	905	1,124	1,243	1,425	1,650	1,975	1,857	2,218	3,851	
	Pet Medical Support (PS Insruance)											
	Total for the five companies	15,622	19,838	23,979	27,804	34,502	41,452	47,188	53,780	67,176	79,969	70,927
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Recurring profit	Anicom Insurance	342	337	837	733	1,250	2,129	2,372	1,853	2,278	2,189	2,758
	ipet Insurance	307	618	392	444	-1,460	308	297	561	297	413	381
	SBI (SBI Prism SSI + Ikiiki SSI)	20	2	-13	29	39	55	32	-34	-	-	-
	Japan Animal Club											
	SBI IkiIki SSI											
	Pet & Family SSI	-194	-554	-571	-527	-546	-423	20	93	144	-395	
	Rakuten SS Insurance	116	79	134	210	253	184	82	282	-235	-382	
	Pet Medical Support (PS Insruance)											
	Total for the five companies	590	482	778	888	-463	2,253	2,803	2,721	2,537	1,859	3,139
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Recurring profit margin	Anicom Insurance	3.1%	2.4%	5.2%	4.0%	5.5%	8.0%	8.2%	5.7%	6.4%	5.3%	5.7%
	ipet Insurance	12.3%	18.8%	9.1%	8.7%	-22.9%	3.8%	2.9%	4.6%	2.0%	2.3%	1.7%
	SBI (SBI Prism SSI + Ikiiki SSI)	2.4%	0.2%	-1.2%	2.3%	2.3%	2.5%	1.2%	-1.2%	-	-	-
	Pet & Family SSI	-35.5%	-63.6%	-45.3%	-28.4%	-23.2%	-14.2%	0.5%	2.1%	2.8%	-6.8%	
	Rakuten SS Insurance	17.5%	8.7%	11.9%	16.9%	17.8%	11.1%	4.2%	15.2%	-10.6%	-9.9%	
	Average	3.8%	2.4%	3.2%	3.2%	-1.3%	5.4%	5.9%	5.1%	3.8%	2.3%	4.4%
		FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Net loss ratio	Anicom Insurance	48.1%	57.3%	63.7%	62.8%	59.3%	56.9%	56.5%	56.2%	56.3%	55.2%	56.2%
	ipet Insurance	33.1%	33.8%	34.3%	34.1%	34.6%	36.7%	38.8%	39.9%	42.4%	44.5%	47.2%
	SBI (SBI Prism SSI + Ikiiki SSI)	40.1%	40.2%	38.2%	42.4%	38.7%	39.1%	38.2%	38.4%	-	-	-
	Pet & Family SSI	39.9%	43.4%	42.6%	41.0%	45.7%	46.8%	48.5%	47.3%	51.7%	59.9%	-
	Rakuten SS Insurance	15.7%	17.2%	23.2%	28.4%	28.7%	33.7%	-	48.3%	41.7%	-	-
	Average	35.4%	38.4%	40.4%	41.7%	41.4%	42.6%	45.5%	46.0%	48.0%	53.2%	51.7%

Source: Shared Research based on company data
Note: As of end-May 2021

Strengths and weaknesses

Strengths

- **OTC insurance payouts are an entry barrier:** Few other pet insurers make payouts over the counter at animal hospitals (i.e., policyholder only pays the difference between the veterinary bill and insurance payout). As of end-March 2021, 5,297 animal hospitals in Japan accepted ipet insurance. This figure compares with 6,541 for Anicom Holdings and just several hundred for Pet & Family Small-amount Short-term Insurance. Animal hospitals have little incentive to provide OTC insurance payouts for other companies when the top two companies have a market share of over 70%. OTC insurance payouts are also a risk for animal hospitals because if they make a mistake in their bill calculations, they must collect the difference from their clients. Shared Research believes that OTC insurance payouts thus represent a barrier to entry by competitors.
- **Pioneer of online channels:** ipet Insurance has been a pioneer of online channels in the Pet Insurance business. Policies through online channels grew as a percentage of new policies from 10% in 2013 to over 40% in 2018. Although online channels generally have a higher loss ratio than pet shop channels due to the risk of adverse selection*, ipet has expanded its online channels without the overall loss ratio worsening. (Note that expense ratio is lower on direct insurance sales, which require no agency commissions.) We also think the company will be able to leverage its know-how in online sales to further expand online channels, which the company thinks have considerable growth potential.

*Adverse selection: The tendency of high-risk policyholders to buy insurance. Unlike the pet shop channel, many online customers will apply for insurance after a triggering event.

- **Low-priced product that enables sales expansion without cannibalization:** Shared Research thinks the pre-existence of a low-priced product (Uchinoko Light) is an advantage for ipet because it does not cause cannibalization with the company's other main product. According to the 2020 Rakuten Insight survey, the company's Uchinoko Light (specialized insurance covering surgery) ranked Number One for seven years straight. ipet has always sold both the standard Uchinoko (monthly premiums for newborn small dogs are JPY2,480 for 50% payout plan) and the low-priced Uchinoko Light (JPY990), so it can absorb the risk of customers leaving even if competitors lower their premiums. This gives it the advantage of being able to market its low-priced product aggressively without worrying about losing customers.

Weaknesses

- **Unchanged product design since its founding:** ipet has not revised its pet insurance premiums since its founding. Consequently, it has a small share of annual premiums (30% versus an estimated 60–70% at the market leader), which means a small stable earnings base and potential cancelation risk due to relatively high premiums for older pets. However, results so far show the effectiveness of CRM measures as renewal rates have remained strong at over 90%.
- **Effect of reserves on recurring profit:** With a net loss ratio below 50%, ipet Insurance is required to transfer 3.2% of its annual premium revenue to its catastrophe reserve every financial year. This puts the company at a disadvantage to other listed pet insurance companies having higher loss ratios. For instance, because Anicom Holdings has a loss ratio of around 60%, it needs to only transfer to the catastrophe reserve an amount proportional to the increase in premium revenue. The company's product design assumes a loss ratio of around 50%, whereas Anicom Holdings tries to keep its loss ratio at around 60%. Therefore, we assume the company will remain at a disadvantage in this area.

Catastrophe reserve: Provision of 3.2% of premium revenue to prepare for disasters such as typhoons and earthquakes. However, the reserve is drawn down to a minimum of 50% of the total at the start of the financial year for the portion of the net loss ratio (net claims paid ÷ net premium revenue) that exceeds 50%.

- **Inadequate management resources:** The company's lack of management resources is a disadvantage. To address this situation, it intends to promptly recruit personnel to launch new businesses. Hiring talented people is an urgent priority for business growth following transition to a holding company. In fact, expansion could hinge on this factor. Shared Research believes the company has met the challenge of increasing personnel in the Pet Insurance business (the Nonlife Insurance business had 515 employees at end-FY03/21), but human resources remain a management issue.

Historical performance

Historical performance

Full-year FY03/21 results

- Recurring revenue: JPY22.9bn (+24.8% YoY, 104.5% of full-year forecast)
- Recurring expenses: JPY22.5bn (+25.9% YoY)
- Recurring profit (non-GAAP): JPY401mn (-15.9% YoY, 100.3% of full-year forecast)
- Adjusted recurring profit (non-GAAP): JPY1.1bn (+5.8% YoY, 102.7% of full-year forecast)
- Adjusted net loss (non-GAAP): JPY195mn (adjusted net income JPY726mn in FY03/20)

Key Points

- Steady growth in insurance policies resulted in recurring revenue expanding 24.8% YoY. Adjusted recurring profit increased 5.8% based on favorable expansion in new policies and was ahead of the full-year forecast.
- However, due to a change in the accounting policy for development of the core IT system in FY03/2021 related to the software suspense account which had been included as a capitalized asset, the company recorded an extraordinary JPY1.4bn loss on disposal of fixed assets, resulting in a net loss of JPY712mn.

Number of policies in force and renewal rate

The number of policies in force was 622,069 at end-March 2021 compared to the company plan of 581,000 (the number of policies broke through 600,000 on January 28, 2021). The COVID-19 pandemic had a positive impact on both the number of new policies and the renewal rate, and the transfer of policies from P's-first Insurance began in December, resulting in a record quarterly net increase in policies in force in Q4 FY03/21. The renewal rate was 89.6% in Q4, remaining close to the 90% line.

Loss ratio

The cumulative E/I loss ratio at the end of the year (based on earned premiums) of 52.2% was up 3.5pp YoY, reflecting an expansion in insurance payouts in line with increases in the number of insurance claims and costs per claim. More specifically, the uptick in the E/I loss ratio was the result of an increase in outpatient care visits by the company's customers, an ongoing rise in medical fees, and the increasing age of the pets insured by the company.

Expense ratio

The year-end expense ratio (based on earned premiums) of 43.8% was down 2.1pp YoY.

Loss on disposal of software

The company previously intended to keep development of its backbone system in-house, but has now changed its policy to allow use of software as a service (SaaS) from an outside vendor to expand the system. It determined this change was necessary due to rapid growth in the number of policies in force and the number of insurance claims. For this reason, the company retired some of the assets (about JPY1.4bn) it had previously recorded as software in progress.

Topics

- The company expects to implement product updates, including premium revisions, from May 2, 2021.
- Pet's All Right Co., Ltd., which operates an online health consultation platform, became a wholly owned subsidiary in March 2021.
- Sompo Risk Management Inc.'s 2020 ESG Management Survey ranked ipet Holdings at 4th of 142 companies listed outside the First Section of the Tokyo Stock Exchange.

Cumulative Q3 FY03/21 consolidated results

The company was established on October 1, 2020, as the pure holding company (parent) of ipet Insurance through a single transfer of all of the latter's shares. These Q3 earnings results are the first time it is disclosing data on a consolidated basis as a holding company. As consolidation results in no practical difference in the scope of the company's operations, the following YoY differences are comparisons with subsidiary ipet Insurance's FY03/20 results.

Performance summary

- Recurring revenue: JPY16.6bn (+24.0% YoY, 75.7% of full-year forecast)
- Recurring expenses: JPY16.3bn (+26.0% YoY)
- Recurring profit (non-GAAP): JPY254mn (-37.6% YoY, 63.5% of full-year forecast)
- Adjusted recurring profit (non-GAAP*): JPY777mn (-6.5% YoY, 71.3% of full-year forecast)
- Adjusted net income (non-GAAP): JPY525mn (-7.7% YoY, 70.0% of full-year forecast)

*Unearned premium method

Progress toward the company's full-year forecast was essentially according to plan, with recurring revenue reaching 75.7% of the target and adjusted recurring profit 71.3%. Underwriting revenue grew JPY3.1bn YoY on solid acquisition of new policies, but claims paid (= net claims paid [+JPY1.9bn YoY] + loss adjustment expenses + provision for reserve for outstanding losses and claims) rose JPY2.0bn YoY, sales agent commissions grew JPY888mn YoY, and provision for underwriting reserves increased by JPY301mn YoY.

Recurring revenue

Aided by the growing number of Japanese households buying pets, the company saw steady growth in the number of insurance policies, and recurring revenue rose 24.0% YoY to JPY16.6bn (+JPY3.2bn YoY). Of the increase in recurring revenue, underwriting revenue accounted for JPY3.1bn (+23.6% YoY), investment revenue JPY95mn (+72.5% YoY), and other recurring revenue JPY1mn (+2.9% YoY). Underwriting revenue grew in tandem with the increase in the number of policies in force. The increase in investment revenue included a JPY57mn YoY increase in gains on sales of marketable securities holdings and a JPY30mn increase in interest and dividends received.

Number of policies in force

At end-Q3 FY03/21 the company had 590,825 policies in force, an increase of 82,600 or 16.3% over end-FY03/20. This means that in cumulative Q3, it has already achieved its full-year FY03/21 target of 581,000 policies in force. The average monthly net gain in cumulative Q3 was 9,178 policies, exceeding the figures of 7,073 in FY03/20 and 5,653 in FY03/19. Furthermore, it went on to hit 600,000 policies in force on January 28, 2020. The policy renewal rate, remained high at 89.5% (+0.2pp YoY), with still no signs of a downtrend. Amid flourishing demand for pets, both the pet shop and online channels were solid. The company posted a net increase of 82,600 from end-FY03/20 in policies in force. Typically, when policies in force increase, net new policies tend to weaken since the cancelation rate also rises, but the company nevertheless achieved steady net new policies even amid the COVID-19 pandemic. In Shared Research's view, the major insurance agency routes obtained in FY03/20 and expanded branch openings have paid off. In addition, the company is gaining about 1,000 policies per month via P's-first Insurance.

Investment revenue

The company is mainly accumulating bonds and investment trusts with low market risk to obtain stable investment revenue over the medium to long term. Investment revenue on interest and dividend income came to JPY226mn (+72.5% or +JPY95mn YoY), including a JPY57mn increase in gains on sales of marketable securities holdings and a JPY30mn increase in interest and dividends received. The company plans to continue expanding its insurance assets under management.

Recurring expenses

Recurring expenses rose 26.0% YoY to JPY16.3bn due to an increase in commissions accompanying steady growth in new policies and a rise in the total amount of claims paid since more time spent at home because of the pandemic led to more veterinary hospital visits.

Cumulative Q3 underwriting expenses of JPY12.0bn were up JPY3.2bn or 36.4% YoY, with increases in the number of claims pushing net claims paid up to JPY7.3bn (+JPY1.9bn or +35.1% YoY), and growth in the number of policies in force pushing up commissions and collection fees paid to JPY2.5bn (+JPY888mn or +55.6% YoY). Investment-related expenses of JPY59mn were up JPY46mn or 359.8% YoY.

SG&A expenses of JPY4.2bn were up JPY133mn or 3.2% YoY. Adjusted recurring profit was down JPY54mn YoY but in line with plan, reaching 71.3% of the company's JPY1.1bn projection.

Loss ratio

Owing to the increase in policies in force and the companying rise in insurance claims, the incurred loss came to JPY8.2bn (JPY7.3bn in net claims paid + JPY513mn in loss adjustment expenses + JPY337mn in provision for reserve for outstanding losses and claims). The cumulative Q3 E/I loss ratio (based on earned premiums) of 52.7% was up 3.8pp YoY, reflecting an expansion in insurance payouts in line with increases in the number of insurance claims and costs per claim. More specifically, the uptick in the E/I loss ratio was the result of an increase in outpatient care visits by the company's customers, an ongoing rise in medical fees, and the increasing age of the pets insured by the company.

Expense ratio

Operating costs (= ipet Insurance's SG&A expenses + commissions and collections fees paid) came to JPY6.8bn. The expense ratio (based on earned premiums) of 43.6% was down 1.8pp YoY, the decline reflecting increases in personnel costs stemming from the ongoing expansion of the company's insurance business and increases in commissions paid to agencies, with a temporary decline in expenses associated with some services and marketing activities that were curtailed during the state of emergency.

Combined ratio

The combined ratio (the sum of the E/I loss ratio and the expense ratio on an earned premium basis) climbed 1.9pp YoY to 96.2%. The company says it will continue to work to streamline operations by developing core systems and pursuing digitalization. It says this will enable it to reduce its expense ratio and absorb the rise in the E/I loss ratio, and thereby bring down its combined ratio in the long term.

Financial position

As of end-Q3 FY03/21, the company's balance sheet showed total assets of JPY17.6bn, up JPY2.0bn versus end-FY03/20. Contributing to the increase in assets were a JPY1.2bn increase in cash and deposits, a JPY341mn increase in intangible fixed assets (stemming from additions to its core IT system aimed at supporting future growth in the business), and a JPY628mn increase in other assets. On the liability side, total liabilities of JPY11.7bn were up JPY1.7bn versus end-FY03/20, due mainly to a JPY1.6bn increase in insurance policy reserves that accompanied the rise in the number of policies in force. Net assets of JPY5.9bn were up JPY302mn versus end-FY03/20, the increase reflecting a JPY194mn increase in retained earnings (reflecting net income reported for the period) and a JPY101mn increase in valuation difference on marketable securities.

Topics

Product revisions

On January 25, 2021, ipet decided to revise various aspects of its products (including premiums) effective May 2, 2021. It has refrained from revising premiums for more than 10 years, but the recent consumption tax hike, changes in the social environment surrounding pets, and rising medical costs caused by advances in veterinary medicine have made it difficult to continue providing highly convenient services under the same product structure taking into account the current status of insurance claims. The company therefore determined that product revisions, including changes to premiums, are needed. In particular, in response to needs associated with aging pets, it will lower premiums for older pets—dogs 12 years or older and cats nine years or older—and implement fixed amounts.

Overview of product revisions

Revisions	Detail	Affected products
Revision of premiums	・Reduce premiums and set fixed amounts for older dogs and cats ・Raise some premiums for younger dogs and cats	Uchinoko, Uchinoko Plus, Uchinoko Light
Revision of dog breed classifications	・Revise classifications for 11 breeds ・Rename classifications	Uchinoko, Uchinoko Plus
Elimination of discounts	・Eliminate renewal discount for insureds that have had no incidents ・Eliminate policy discounts for online applications	All products
Revision of policy provisions	・Clarify provisions ・Expand scope of insureds ・Expand scope of covered surgeries	All products

Source: Shared Research based on company data

Business operations under holding company structure

The company transitioned to a holding company structure on October 1, 2020. The company, ipet Holdings, Inc., is the pure holding company for ipet Insurance Co., Ltd. In regard to business development under a holding company structure, the company is moving forward with preparations to obtain regulatory approval in line with its goal of launching multiple businesses in 2021.

P's-first Insurance made a subsidiary

On October 1, 2020, the company made small-amount short-term insurance business P's-first Insurance a subsidiary. P's-first Insurance had total assets of JPY746mn, net assets of JPY173mn, recurring revenue of JPY1.3bn, recurring profit of JPY21mn (figures as of end-March 2020), and roughly 18,000 insurance policies in force.

P's-first Insurance's insurance policies are to remain in force until maturity, with policies transferred to ipet Insurance thereafter if requested by the policyholder. P's-first Insurance's key insurance policies provide 100% coverage versus 70% for most of the company's products. The company assumes an inflow of 1,000 P's-first Insurance customers per month, or 12,000 yearly. This amounts to about 2% of the 562,993 policies in force at end-September 2020.

Pet's All Right made a subsidiary

On October 21, 2020, the company reached an agreement with parent company Dream Incubator (TSE1: 4310) regarding the transfer of shares in Pet's All Right Co., Ltd. from Dream Incubator. Pet's All Right operates a business focused on pet health and discipline consultations and pet information platform services, and was originally developed by Recruit (TSE1: 6098).

Pet's All Right had revenue of JPY380mn, and was operating in the black. Membership costs JPY1,580 per month (source: Pet's All Right homepage). Shared Research thinks that the company may be able to lift revenue per customer through mutual referrals between it and Pet's All Right.

Development of pet-friendly rental housing complexes

There is a shortage of rental housing complexes where owners can stay with their pets. The company acquired land and launched construction of pet-friendly rental condos to rectify the situation. According to the company's research, only about 20% of new rental housing complexes in Tokyo and three neighboring prefectures (Saitama, Chiba, and Kanagawa) allow pets, and roughly 70% of these are for single person households. The company thus decided to build rental condos that differ from conventional condos which merely allow pets. The idea is to promote the spread of rental condos designed in the first instance for residents and their pets to live together.

Properties currently under construction are the Takao Project (expected completion date: June 2021; six-minute walk from Takao Station on the JR Chuo Line and Keio Line) and the Kichijoji Project (expected completion date: within FY2021; 12 minutes by bus from Kichijoji Station on the JR Chuo Line and Keio Inokashira Line).

1H FY03/21 results (out October 29, 2020)

On October 1, 2020, ipet Holdings, Inc. was established as a pure holding company for ipet Insurance Co., Ltd. and listed on the Tokyo Stock Exchange Mothers Market. On the same day, the company made P's-first Insurance (operator of a small-amount short-term insurance business) a subsidiary. On October 21, 2020, the company reached an agreement with parent company Dream Incubator (TSE1: 4310) regarding the transfer of shares in Pet's All Right Co., Ltd. from Dream Incubator. The commentary following refers to earnings of the company's subsidiary, ipet Insurance Co., Ltd.

ipet Insurance Co., Ltd.

- ▷ Recurring revenue: JPY10.7bn (+24.3% YoY, progress of 49.1% versus full-year forecast)
- ▷ Recurring expenses: JPY10.6bn (+27.3% YoY)
- ▷ Recurring profit (non-GAAP): JPY137mn (-56.6% YoY, progress of 34.3%)
- ▷ Adjusted recurring profit (non-GAAP): JPY477mn (-19.2% YoY, progress of 43.8%)
- ▷ Adjusted net income (non-GAAP): JPY323mn (-20.6% YoY, progress of 43.1%)

In 1H FY03/21, revenue rose and profit declined YoY. Shared Research thinks that results were largely in line with company expectations, with progress toward the full-year forecast of 49.1% for recurring revenue and 43.8% for adjusted recurring profit. The main factors in the JPY179mn YoY decline in recurring profit were YoY increases of JPY1.3bn in net claims paid, JPY619mn in commissions and collection fees, and JPY229mn in underwriting reserves, despite a JPY2.0bn increase in underwriting revenue.

Recurring revenue

Recurring revenue: JPY10.7bn (+24.3% YoY)

Aided by the growing number of Japanese households buying pets, the company saw steady growth in sales of new insurance policies and steady expansion in top-line revenue. Of the JPY10.7bn in recurring revenue booked during the six-month period, insurance underwriting revenue accounted for JPY10.6bn (+24.0% YoY), investment revenue JPY142mn (+59.6% YoY), and other revenue JPY21mn (-4.5% YoY). The increase in investment revenue reflected a combination of a JPY80mn increase in gains on sales of marketable securities holdings, a JPY15mn decline in interest and dividends received, and a JPY14mn decline in gains on monies held in trusts.

Number of policies in force

At end-Q2 FY03/21 the company had 562,993 policies in force, an increase of 54,768 or 10.8% over end-FY03/20. This represented 96.9% of its target of 581,000 policies in force for FY03/21. The average monthly net gain in 1H was 9,128 policies, exceeding the figures of 7,073 in FY03/20 and 5,653 in FY03/19, putting the company on track to exceed its target as early as Q3. New policy numbers were a record high. The policy renewal rate, at 89.3%, remained high and unchanged versus end-FY03/20, with still no signs of a downtrend. Amid flourishing demand for pets, both the pet shop and online channels were solid. The company posted a net increase of 54,768 from end-FY03/20 in policies in force. Typically, when policies in force increase, net new policies tend to weaken since the cancelation rate also rises, but the company nevertheless achieved steady net new policies even amid the COVID-19 pandemic. In Shared Research's view, the major insurance agency routes obtained in FY03/20 and expanded branch openings have paid off.

Investment revenue

The company is mainly accumulating bonds and investment trusts with low market risk to obtain stable investment revenue over the medium to long term. Investment revenue on interest and dividend income came to JPY142mn. The company plans to continue to expand its insurance assets under management.

Recurring expenses

Recurring expenses: JPY10.6bn (+27.3% YoY)

1H underwriting expenses of JPY7.8bn were up JPY2.2bn or 39.0% YoY, with increases in the number of claims pushing net claims paid up to JPY4.7bn (+JPY1.3mn or 37.8% YoY), and growth in the number of policies in force pushing up commissions/ collection fees paid to JPY1.6bn (+JPY619mn or 62.9% YoY). Investment-related expenses of JPY51mn were up JPY47mn or 1,017.8% YoY. SG&A expenses of JPY2.8bn were up JPY46mn or 1.7% YoY. Adjusted recurring profit (excluding additions to catastrophe reserves) of JPY477mn was down 19.2% YoY and adjusted net income of JPY323mn was down 20.6% YoY, but the results were said to be generally in line with plan.

Loss ratio

Owing to the increase in policies in force and the companying rise in insurance claims, the incurred loss came to JPY5.3bn (JPY4.7bn in net claims paid + JPY334mn in loss adjustment expenses + JPY248mn in provision for reserve for outstanding losses and claims). The 1H E/I loss ratio (based on earned premiums) of 52.7% was up 4.1pp versus the same six-month period last year, the rise reflecting a combination of increases in the number of insurance claims and higher premiums. The company sees its E/I loss ratio continuing to rise going forward as the age of the pets it has insured and medical fees continue to rise.

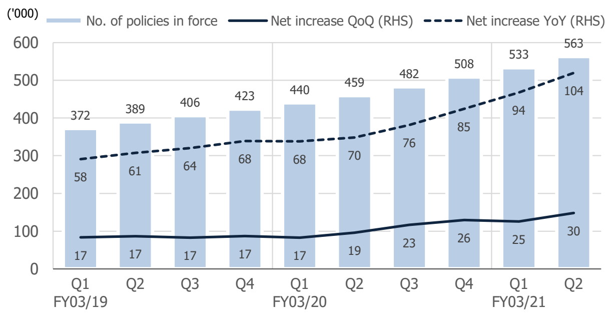
Expense ratio

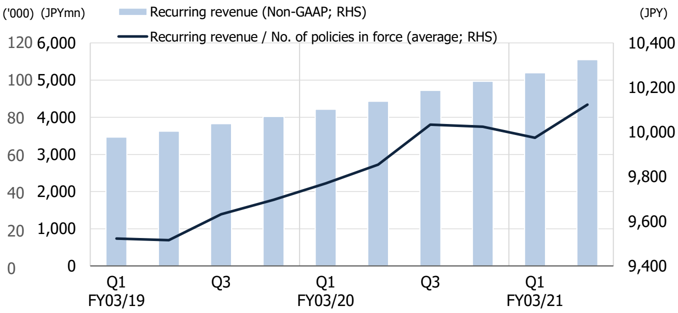
The expense ratio (based on earned premiums) of 43.6% was down 1.9pp versus the same six-month period last year, the decline reflecting increases in personnel costs stemming from the ongoing expansion of the company's insurance business and increases in commissions paid to agencies, with a temporary decline in expenses associated with some services and marketing activities that were curtailed during the state of emergency.

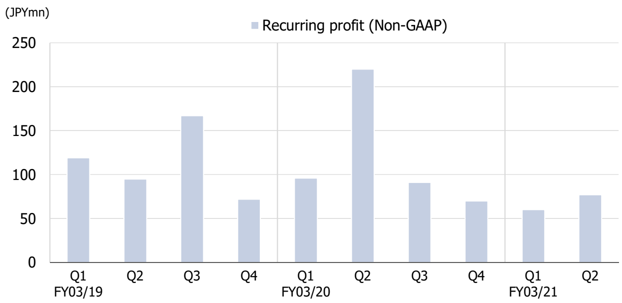
Combined ratio

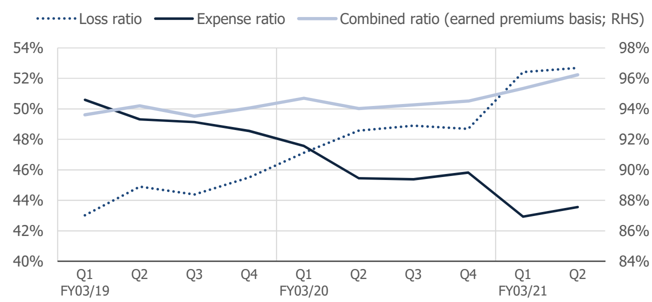
The combined ratio (the sum of the E/I loss ratio and the expense ratio on an earned premium basis) climbed 2.2pp YoY to 96.2%. The company says it will continue to work to streamline operations by developing core systems and pursuing digitalization. It says this will enable it to reduce its expense ratio and absorb the rise in the E/I loss ratio, and thereby bring down its combined ratio in the long term.

Number of policies and premium payments per policy









Source: Shared Research based on company data
Note: The figures above are from ipet Insurance Co., Ltd. (delisted), which the company converted into a wholly owned subsidiary on October 1, 2020.

Financial position

As of end-Q2 FY03/21, the company's balance sheet showed total assets of JPY16.8bn, up JPY1.2bn versus end-FY03/20. Contributing to increase in assets were a JPY740mn increase in cash and deposits, and a JPY247mn increase in intangible fixed assets (stemming from additions to its core IT system aimed at supporting future growth in the business), and a JPY327mn increase in other assets. On the liability side, total liabilities of JPY11.0bn were up JPY978mn versus end-FY03/20, due mainly to a JPY1.0bn increase in insurance policy reserves that accompanied the rise in the number of policies in force. Net assets of JPY5.8bn were up JPY201mn versus end-FY03/20, the increase reflecting a JPY75mn increase in valuation difference on marketable securities and a JPY122mn increase in retained earnings (reflecting net income reported for the period).

Topics

Business operating under holding company structure

The company transitioned to a holding company structure on October 1, 2020. The company, ipet Holdings, Inc., is the pure holding company for ipet Insurance Co., Ltd.

P's-first Insurance made a subsidiary

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Properties currently under construction are the Takao Project (expected completion date: June 2021; six-minute walk from Takao Station on the JR Chuo Line and Keio Line) and the Kichijoji Project (expected completion date: within FY2021; 12 minutes by bus from Kichijoji Station on the JR Chuo Line and Keio Inokashira Line).

Q1 FY03/21 results (out July 31, 2020)

- ▷ Recurring revenue: JPY5.2bn (+23.2% YoY) (23.7% progress toward company target)
- ▷ Recurring expenses: JPY5.2bn (+23.5% YoY)
- ▷ Recurring profit (non-GAAP): JPY60mn (-37.7% YoY) (15% progress)
- ▷ Adjusted recurring profit (non-GAAP): JPY226mn (-2.3% YoY) (20.7%)
- ▷ Adjusted net income (non-GAAP): JPY155mn (-4.1% YoY) (20.7%)

Recurring revenue

Recurring revenue: JPY5.2bn (+23.2% YoY)

Steady growth in insurance policies resulted in strong recurring revenue growth. Recurring revenue broke down into insurance underwriting revenue of JPY5.2bn (+23.2% YoY), investment revenue of JPY26mn (+40.8% YoY), and other recurring revenue of JPY10mn (-9.1% YoY). Of the investment revenue, interest and dividend revenue declined by JPY2mn versus the same quarter last year while gain on money held in trust rose by JPY8mn.

Number of policies in force

At end-Q1 FY03/21 the company had 533,364 policies in force, an above-plan increase of 25,139 or 4.9% over end-FY03/20. The company had an average monthly net increase in policies of 8,380 for Q1, up from 7,073 in Q4 FY03/20 and 5,653 in 3Q FY03/20. New policies reached a new record high. The renewal rate held steady QoQ at a high 89.3%, with no sign of declining. Thanks to robust pet demand, net new policies were up 25,139 vs. end-FY03/20. Typically, when policies in force increase, net new policies tend to weaken since the cancelation rate also rises, but the company nevertheless achieved steady net new policies even amid the COVID-19 pandemic. In Shared Research's view, the major insurance agency routes obtained in FY03/20 and expanded branch openings have paid off.

Investment revenue

The company is mainly accumulating bonds and investment trusts with low market risk to obtain stable investment revenue over the medium to long term. Investment revenue on interest and dividend income came to JPY26mn. The company plans to continue to expand its insurance assets under management.

Recurring expenses

Recurring expenses: JPY5.1bn (+24.6% YoY)

In the breakdown of the factors contributing to higher recurring expenses, underwriting expenses were up 39.5% YoY to JPY3.7bn, investment expenses were up 690.0% to JPY34mn, and SG&A expenses were down 5.2% to JPY1.4bn. Increases in the number of claims pushing net claims paid up to JPY2.2bn (+JPY542mn or 32.4% YoY), and growth in the number of policies in force pushing commissions/collection fees paid up to JPY749mn (+JPY275mn or 58.0% YoY).

SG&A expenses of JPY1.4bn were down JPY74mn or 5.2% YoY, reflecting a temporary drop in marketing and operating expenses as sales activities were temporarily cut back in response to the coronavirus pandemic and the government's state of emergency declaration. Adjusted recurring profit (excluding additions to catastrophe reserves) of JPY226mn was down 2.2% YoY and adjusted net income of JPY155mn was down 3.7% YoY, but the results were said to be generally in line with plan.

Loss ratio

Owing to the increase in policies in force and the companying rise in insurance claims, the incurred loss came to JPY2.6bn (JPY2.2bn in net claims paid + JPY151mn in loss adjustment expenses + JPY202mn in provision for reserve for outstanding losses and claims). The Q1 E/I loss ratio (based on earned premiums) of 52.4% was up 5.3pp versus the same quarter last year, the rise reflecting a combination of increases in the number of insurance claims and higher premiums. The company sees its E/I loss ratio continuing to rise going forward as the age of the pets it has insured and medical fees continue to rise

Expense ratio

The expense ratio (based on earned premiums) of 42.9% was down 4.6pp versus the same quarter last year. The decline reflected temporary drop in marketing and operating expenses as sales activities were temporarily cut back in response to the government's state of emergency declaration. This was more than enough to offset increases in business expenses elsewhere, including increases in personnel costs accompanying ongoing expansion of its insurance business and increases in commissions paid to agencies.

Combined ratio

The combined ratio (the sum of the E/I loss ratio and the expense ratio on an earned premium basis) climbed 0.6pp YoY to 95.3%. The company says it will continue to work to streamline operations by developing core systems and pursuing digitalization. It says this will enable it to reduce its expense ratio and absorb the rise in the E/I loss ratio, and thereby bring down its combined ratio in the long term.

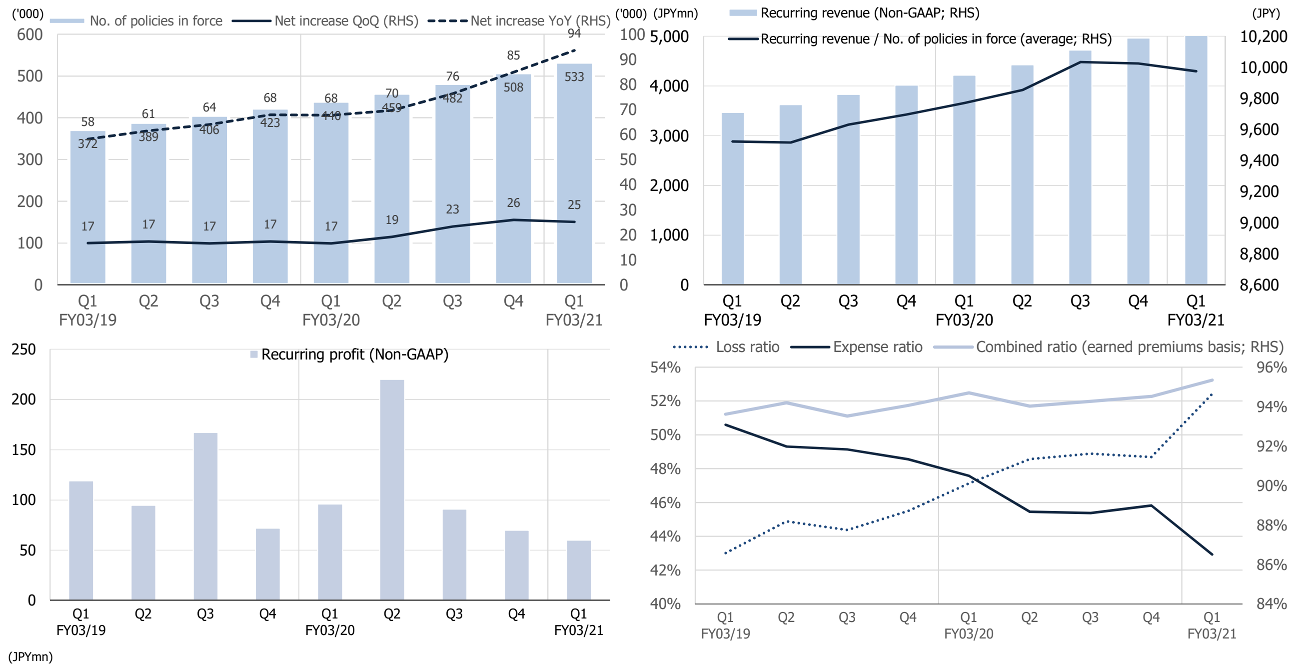
Status of assets

The company's balance sheet as of end-Q1 FY03/21 showed total assets of JPY16.3bn, up JPY731mn versus end-FY03/20. The increase reflected a combination of pluses and minuses, chief among which were a JPY705mn decline in cash and deposits, a JPY1.1bn increase in marketable security holdings (reflecting growth in assets under management), and a JPY100mn increase in intangible fixed assets (stemming from additions to its core IT system aimed at supporting future growth in the business). On the liability side, total liabilities of JPY10.7bn were up JPY632 versus end-FY03/20, due mainly to an increase in insurance policy reserves of JPY671mn in line with a rise in the number of policies in force. Net assets of JPY5.7bn were up JPY98mn versus end-FY03/20, the increase reflecting a JPY91mn increase in valuation difference on available-for-sale securities and a JPY5mn increase in retained earnings (reflecting net income reported for the period).
The end-Q1 solvency margin ratio fell 8.1pp from end-FY03/20 to 339.2%.

Sales base expansion

In April 2020, the company opened a new Shizuoka Office under its Middle-Japan sales division, and elevated the Niigata Office of its Toyama Branch to the Niigata Branch. With these moves, the company has the largest sales and marketing network in the pet insurance industry with 15 locations (3 sales divisions, 9 branches, and 3 sales offices).

Number of policies and premium payments per policy



Source: Shared Research based on company data

Income statement

Non-GAAP (JPYmn)	FY03/12 Par.	FY03/13 Par.	FY03/14 Par.	FY03/15 Par.	FY03/16 Par.	FY03/17 Par.	FY03/18 Par.	FY03/19 Par.	FY03/20 Par.	FY03/21 Cons.
Recurring revenue	3,283	4,287	5,103	6,365	8,128	10,071	12,268	14,941	18,334	22,878
YoY	31.7%	30.6%	19.0%	24.7%	27.7%	23.9%	21.8%	21.8%	22.7%	24.8%
Recurring profit (Non-GAAP)	-	626	616	-1,521	-336	345	444	453	477	401
YoY	-	-	-1.6%	-	-	-	28.7%	2.0%	5.3%	-15.9%
RPM	-	14.6%	12.1%	-	-	3.4%	3.6%	3.0%	2.6%	1.8%
Net income (Non-GAAP)	-	-	-	-	-	271	-81	963	308	-712
Adjusted recurring profit (Non-GAAP)	-	764	779	-1,317	-76	668	835	929	1,058	1,119
YoY	-	-	2.0%	-	-	-	25.0%	11.3%	13.9%	5.8%
Adjusted RPM	-	17.8%	15.3%	-	-	6.6%	6.8%	6.2%	5.8%	4.9%
Catastrophe reserve impact	105	138	163	204	260	322	391	475	580	718
Adjusted net income	-	-	-	-	-	593	310	816	725	-195
YoY	-	-	-	-	-	-	-0	2	-0	-
Adjusted net margin	-	-	-	-	-	0	0	0	0	-
Catastrophe reserve impact						322	391	-147	417	516
No. of policies in force	107,434	137,188	158,146	196,964	249,330	300,203	355,513	423,352	508,225	622,069
YoY	34.3%	27.7%	15.3%	24.5%	26.6%	20.4%	18.4%	19.1%	20.0%	22.4%
Change	+27,441	+29,754	+20,958	+38,818	+52,366	+50,873	+55,310	+67,839	+84,873	+113,844
Recurring rev. / Policies in force	30,561	31,252	32,268	32,313	32,600	33,547	34,508	35,292	36,075	36,777
YoY	-1.9%	2.3%	3.2%	0.1%	0.9%	2.9%	2.9%	2.3%	2.2%	1.9%
Combined ratio (Earned / Incurred basis)	-	84.0%	85.9%	89.6%	90.0%	94.1%	93.3%	94.1%	94.5%	95.9%
Loss ratio	-	36.1%	36.3%	37.2%	39.1%	45.5%	43.1%	45.5%	48.7%	52.2%
Expense ratio	-	47.9%	49.6%	52.4%	50.9%	50.9%	50.1%	48.6%	45.8%	43.8%
Combined ratio (net premiums written basis)	84.2%	81.1%	82.8%	85.5%	86.2%	87.5%	87.9%	88.8%	88.1%	88.6%
Loss ratio	50.5%	47.1%	34.1%	34.6%	36.7%	38.8%	39.9%	42.4%	44.5%	47.2%
Expense ratio	33.8%	34.3%	48.7%	50.9%	49.5%	48.7%	48.0%	46.4%	43.6%	41.5%
J-GAAP (JPYmn)	**FY03/12 Par.**	**FY03/13 Par.**	**FY03/14 Par.**	**FY03/15 Par.**	**FY03/16 Par.**	**FY03/17 Par.**	**FY03/18 Par.**	**FY03/19 Par.**	**FY03/20 Par.**	**FY03/21 Cons.**
Recurring revenue	3,283	4,287	5,103	6,365	8,128	10,071	12,268	14,941	18,334	22,878
Underwriting revenue	3,281	4,285	5,100	6,363	8,127	10,067	12,212	14,831	18,115	22,412
Investment revenue	1	2	2	1	2	4	50	60	173	282
Other recurring revenue	2	1	1	0	0	-	6	49	45	182
YoY	31.7%	30.6%	19.0%	24.7%	27.7%	23.9%	21.8%	21.8%	22.7%	24.8%
Recurring expenses	2,665	3,896	4,659	7,825	7,820	9,773	11,706	14,643	17,920	22,496
Underwriting expenses	2,017	2,502	2,782	3,276	4,639	5,851	6,983	9,398	12,237	16,461
Net claims paid	1,053	1,361	1,601	2,054	2,816	3,628	4,523	5,788	7,443	9,853
Loss adjustment expenses	55	110	138	150	169	277	354	493	623	716
Commissions and collection fees	420	517	539	654	829	984	1,146	1,658	2,320	3,472
Provision for outstanding losses and claims	34	41	77	97	105	161	162	168	326	510
Provision for underwriting reserves	454	473	427	320	719	799	796	1,289	1,522	1,906
SG&A expenses	1,235	1,487	1,946	2,585	3,190	3,921	4,713	5,224	5,579	5,944
Other recurring expenses	360	424	470	2,618	-9	0	9	4	49	32
Interest expenses	0	0	0	0	0	0	0	-	-	3
Provision for doubtful accounts	0	15	2	3	-9	-	-3	-	-	-
Amort. of deferred assets under Article 113	356	408	468	2,615	-	-	-	-	-	-
Other recurring expenses	3	1	0	0	0	0	12	3	49	29
Deferred expenses under Article 113	-946	-517	-539	-654	-	-	-	-	-	-
YoY	21.9%	46.2%	19.6%	67.9%	-0.1%	25.0%	19.8%	25.1%	22.4%	25.5%
Underwriting expenses	-	24.0%	11.2%	17.8%	41.6%	26.1%	19.3%	34.6%	30.2%	34.5%
SG&A expenses	-	20.4%	30.9%	32.8%	23.4%	22.9%	20.2%	10.8%	6.8%	6.5%
% of recurring revenue	81.2%	90.9%	91.3%	122.9%	96.2%	97.0%	95.4%	98.0%	97.7%	98.3%
Underwriting expenses	61.4%	58.3%	54.5%	51.5%	57.1%	58.1%	56.9%	62.9%	66.7%	72.0%
Net claims paid	32.1%	31.7%	31.4%	32.3%	34.6%	36.0%	36.9%	38.7%	40.6%	43.1%
Loss adjustment expenses	1.7%	2.6%	2.7%	2.4%	2.1%	2.8%	2.9%	3.3%	3.4%	3.1%
Commissions and collection fees	12.8%	12.1%	10.6%	10.3%	10.2%	9.8%	9.3%	11.1%	12.7%	15.2%
Provision for outstanding losses and claims	1.1%	1.0%	1.5%	1.5%	1.3%	1.6%	1.3%	1.1%	1.8%	2.2%
Provision for underwriting reserves	13.8%	11.0%	8.4%	5.0%	8.8%	7.9%	6.5%	8.6%	8.3%	8.3%
SG&A expenses	37.6%	34.7%	38.1%	40.6%	39.3%	38.9%	38.4%	35.0%	30.4%	26.0%
Other recurring expenses	11.0%	9.9%	9.2%	41.1%	-	0.0%	0.1%	0.0%	0.3%	0.1%
Deferred expenses under Article 113	-28.8%	-12.1%	-10.6%	-10.3%	-	-	-	-	-	-
Recurring profit	618	392	444	-1,460	308	297	561	297	413	381
YoY	101.7%	-36.7%	13.3%	-	-	-3.5%	88.9%	-9.0%	-13.0%	-14.6%
RPM	18.8%	9.1%	8.7%	-	3.8%	2.9%	4.6%	2.0%	2.3%	1.7%
Extraordinary gains (losses)	-7	-	-	-	-0	-6	-258	167	-7	-1,377
Pre-tax profit	611	392	444	-1,460	308	291	303	464	406	-996
Income taxes	2	86	99	-211	202	94	271	-387	144	-269
Implied tax rate	0.4%	22.0%	22.3%	14.5%	65.5%	32.3%	89.4%	-83.4%	35.5%	27.0%
Net income attrib. to owners of the parent	609	306	345	-1,249	106	196	32	851	261	-727
YoY	32.1%	-49.8%	12.9%	-	-	84.8%	-83.7%	2,559.4%	-69.3%	-
Net margin	18.5%	7.1%	6.8%	-	1.3%	1.9%	0.3%	5.7%	1.4%	-

Source: Shared Research based on company data

How to view disclosure categories

Non-GAAP

We focus on two important points when analyzing the earnings of ipet Insurance and comparing them with those of competitors. First, the company deals with ordinary underwriting reserves and provision differently from other nonlife insurers. Second, its accounting treatment of provision of catastrophe reserves is different from that of its main competitor Anicom Holdings.

Under the provisions of the Insurance Business Law, nonlife insurance companies must record every financial year under liabilities unearned premium or the initial year balance in the said financial year, whichever is the greater, as ordinary underwriting reserves. The difference between the figures of the current and previous financial years is booked as provision. Whereas ipet uses the initial year balance basis, its competitors use the unearned premiums basis.

Unearned premium: Premium revenue corresponding to the time period remaining on an insurance policy (period prior to expiration of the policy term)

The initial year balance at time of reporting quarterly results: Calculated as total premiums received in the past year (including current quarter) – (claims paid + other expenses incurred under those policies for which the premiums have been received)

Unearned premiums basis and initial year balance basis

With regard to the former, ipet Insurance discloses operating results on both a non-GAAP basis (unearned premiums basis), which are internal figures used for management to make decisions, and on a J-GAAP basis (initial year balance basis). The reason for this is to facilitate comparisons with competitors because no other listed nonlife insurance company discloses results on a J-GAAP basis.

Adjusted recurring profit (non-GAAP recurring profit ± impact of catastrophe reserves)

The company also uses adjusted recurring profit (non-GAAP recurring profit ± impact of catastrophe reserves) as a profit indicator for management purposes. This figure is adjusted for the impact of catastrophe reserves. The catastrophe reserve is booked as a liability each financial year, amounting to 3.2% of annual premium revenue to prepare for losses caused by disasters. However, the reserve can be drawn down to the level whereby the net loss ratio falls to 50% (reduced expense). Thus, nonlife insurance companies with a net loss ratio exceeding 50% can book 3.2% of its revenue increase as a provision for catastrophe reserves. Put another way, ipet Insurance must transfer 3.2% of its premium revenue to its loss reserve because its loss ratio is below 50%, whereas its competitors, whose loss ratios exceed 50%, only transfer 3.2% of the increase in their premium revenue. This makes the recurring profit of ipet Insurance appear weak relative to peers.

Adjustment from unearned premiums basis (non-GAAP) to initial year balance basis (J-GAAP)

(JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Recurring profit (non-GAAP; unearned premiums basis)	345	444	453	477	401
Provision for ordinary underwriting reserves (unearned premiums basis) (a)	429	522	658	878	1,168
Provision for ordinary underwriting reserves (initial year balance basis) (b)	477	405	814	942	1,188
Adjustment to J-GAAP (a-b)	-47	117	-155	-64	-20
Recurring profit (J-GAAP; initial year balance basis)	297	561	297	413	381

Adjustment from recurring profit on unearned premiums basis (non-GAAP) to adjusted recurring profit (non-GAAP)

(JPYmn)	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Recurring profit (non-GAAP; unearned premiums basis)	345	444	453	477	401
Impact of catastrophe reserves	322	391	475	580	717
Adjusted recurring profit (non-GAAP)	668	835	929	1,058	1,119

Adjusted recurring profit

(JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Recurring profit (Non-GAAP)		626	616	-1,521	-336	345	444	453	477	401
Provision for catastrophe reserves		138	163	204	260	322	391	475	580	718
Adjusted recurring profit (Non-GAAP)		764	779	-1,317	-76	667	835	928	1,057	1,119
E/I loss ratio		36.1%	36.3%	37.2%	39.1%	45.5%	43.1%	45.5%	48.7%	52.2%
Catastrophe reserves	267	406	570	774	1,034	1,356	1,748	2,223	2,803	3,521
YoY change		139	164	204	260	322	392	475	580	718

Source: Shared Research based on company data

Recurring revenue

Recurring revenue is the equivalent of sales and consists of insurance underwriting revenue, investment revenue, and other recurring revenue. Insurance underwriting revenue is the main revenue earned from nonlife insurance companies' mainstay business, and in the case of ipet Insurance, it consists solely of premiums received from policyholders (net premium revenue). Investment revenue is revenue earned from managing its insurance assets while other recurring revenue is earned from operations other than insurance underwriting and management of its insurance assets.

Expense items

Insurance underwriting expenses

(JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
Underwriting expenses	**2,017**	**2,502**	**2,782**	**3,276**	**4,639**	**5,851**	**6,983**	**9,398**	**12,237**	**16,461**
Net claims paid	1,053	1,361	1,601	2,054	2,816	3,628	4,523	5,788	7,443	9,853
Loss adjustment expenses	55	110	138	150	169	277	354	493	623	716
Commissions and collection fees	420	517	539	654	829	984	1,146	1,658	2,320	3,472
Provision for outstanding losses and claims	34	41	77	97	105	161	162	168	326	510
Provision for underwriting reserves	454	473	427	320	719	799	796	1,289	1,522	1,906
Percentage of net premiums written										
Underwriting expenses	61.5%	58.4%	54.5%	51.5%	57.1%	58.1%	57.2%	63.4%	67.6%	73.4%
Net claims paid	32.1%	31.8%	31.4%	32.3%	34.7%	36.0%	37.0%	39.0%	41.1%	44.0%
Loss adjustment expenses	1.7%	2.6%	2.7%	2.4%	2.1%	2.8%	2.9%	3.3%	3.4%	3.2%
Commissions and collection fees	12.8%	12.1%	10.6%	10.3%	10.2%	9.8%	9.4%	11.2%	12.8%	15.5%
Provision for outstanding losses and claims	1.1%	1.0%	1.5%	1.5%	1.3%	1.6%	1.3%	1.1%	1.8%	2.3%
Provision for underwriting reserves	13.9%	11.0%	8.4%	5.0%	8.8%	7.9%	6.5%	8.7%	8.4%	8.5%

Summary of expense categories

(JPYmn)	FY03/18	FY03/19	FY03/20	FY03/21	% of underwriting revenue	Notes
Underwriting expenses	**6,983**	**9,398**	**12,337**	**16,461**	**73.4%**	
Net claims paid	4,523	5,788	7,443	9,853	44.0%	Closely linked with the number of policies in force. Should be considered together with the provision for outstanding losses and claims.
Loss adjustment expenses	354	493	623	716	3.2%	Mainly personnel expenses.
Commissions and collection fees	1,146	1,658	2,320	3,472	15.5%	Commissions paid to agencies. Closely linked with the value of newly signed policies (as commissions for newly signed policies are more generous than those for renewals).
Provision for outstanding losses and claims	162	168	326	510	2.3%	An estimate for claims payable. In pet insurance, howerver, the level of estimating is low. Due to its nature as "claims in progress", should be considered together with net claims paid.
Provision for underwriting reserves	796	1,289	1,522	1,906	8.5%	Total of provision based on initial year balance and proviison for catastrophe reserve.

Source: Shared Research based on company data

An outline of expense categories is summarized in the table above. Many expense items are variable expenses linked with the number of policies in force and the value of new policies written. However, there are items that could be adjusted through changes in product offerings, such as net claims paid (including a provision for reserve for outstanding losses and claims).

Loss ratio

Data that can be used in tracking the company's expenses include loss ratio, expense ratio, as well as a combination of the two ratios. Loss ratio corresponds to CoGS at non-financial companies. Loss ratio consists of net loss ratio and E/I loss ratio (earned premium basis). Net loss ratio is close to a cash basis, while E/I loss ratio is close to an accrual basis.

Net loss ratio: (Net claims paid + loss adjustment expenses) / Net premium revenue
E/I loss ratio: A loss ratio indicator that factors in provision for and reversal of reserve for outstanding losses and claims and ordinary underwriting reserves on a current year accrual basis
E/I loss ratio = Incurred loss / Earned premiums
Incurred loss: Net claims paid for the current financial year + (reserve for outstanding losses and claims at the end of the current financial year – reserve for outstanding losses and claims at the end of the previous financial year)
Earned premium: Unearned premiums at the end of the previous financial year + Net premium revenue in the current financial year – unearned premiums at the end of the current financial year

The company's insurance products are designed assuming a loss ratio of around 50%, although the loss ratio is currently in the low 40–55% range. This is the result of an increase in policies for pets that are less than one year old purchased at pet shops amid robust growth in the past few years and a relatively low share of older pets due to the company's short history. That being said, the average age of insured animals is on an upward trend, so the loss ratio is also trending up slowly. ipet Insurance is taking various steps to curtail the rise in the loss ratio, such as changing the way it places ads.

Loss ratio and other indicators

		FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21
E/I loss ratio	a)	-	36.1%	36.3%	37.2%	39.1%	45.5%	43.1%	45.5%	48.7%	52.2%
Expense ratio (earned premiums basis)	b)	-	47.9%	49.6%	52.4%	50.9%	50.9%	50.1%	48.6%	45.8%	43.8%
Combined ratio (earned premiums basis)	a) + b)	-	84.0%	85.9%	89.6%	90.0%	94.1%	93.3%	94.1%	94.5%	95.9%
Net loss ratio	c)	33.8%	34.3%	34.1%	34.6%	36.7%	38.8%	39.9%	42.4%	44.5%	47.2%
Net expense ratio	d)	50.4%	46.8%	48.7%	50.9%	49.5%	48.7%	48.0%	46.4%	43.6%	41.5%
Combined ratio	c) + d)	84.2%	81.1%	82.8%	85.5%	86.2%	87.5%	87.9%	88.8%	88.1%	88.6%
Solvency margin ratio		260.8%	255.9%	276.4%	330.3%	379.2%	315.6%	284.8%	381.4%	347.3%	260.4%
Renewal rate		-	-	-	-	-	88.4%	90.2%	90.1%	90.0%	89.6%
E/I loss ratio	Earned-Incurred ratio, or (Net claims paid + Increase in reserves for outstanding losses and claims + Loss adjustment expenses) ÷ Earned premiums										
Net loss ratio	Written-Paid (W/P) ratio, or (Net claims paid + Loss adjustment expenses) ÷ Net premiums written										
Net expense ratio	(Commissions and collection fees + Undertaking expenses) ÷ Net premiums written										

Source: Shared Research based on company data

Commissions to sales agents

Most of commissions to sales agents have an L-shaped structure, being high in the first year of signing up with an agent and dropping sharply thereafter. Thus, the higher the renewal rate, the greater the share of low rates for commissions to sales agents. However, average commission rates are trending up due to increased competition.

Operating costs

Operating costs are expenses for insurance sales and maintenance and management to earn premium revenue, and is calculated as the sum of loss adjustment expenses, selling and administrative expenses, commissions and collection fees. Details are disclosed in annual financial statements filed with the Ministry of Finance and disclosure materials, but not in quarterly summary financial statements. Recurring expenses are the total of insurance underwriting expenses, selling and administrative expenses, and other recurring expenses, but a breakdown of selling and administrative expenses, which account for a large share of recurring expenses, is not provided in quarterly financial statements. We thus use annual figures for reference.

Selling and administrative expenses consist of non-personnel expenses and personnel expenses, with advertising and outsourcing expenses accounting for most of the former. We note that advertising expenses vary from year to year and from quarter to quarter, and tend to be affected by management strategy.

Combined ratio

Calculated as the sum of loss ratio and expense ratio, the combined ratio is an indicator of nonlife insurance companies' earnings capability.

Solvency margin ratio

The solvency margin ratio is an indicator of the ability of an insurance company's capital, reserves, and other funds to cover unforeseen risks such as a catastrophic natural disaster or sharp decline in the value of assets held. A company whose solvency margin ratio is below 200% must take urgent steps to rectify the situation as directed by the Commissioner of the Financial Services Agency, such as submitting and implementing an improvement plan.

Balance sheet

(JPYmn)		FY03/12 Parent	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent	FY03/21 Cons.
ASSETS	Cash and deposits	1,500	2,071	2,998	3,634	5,259	5,113	4,666	5,035	3,050	1,649
	Securities	-	-	-	-	13	683	2,160	3,566	5,067	8,421
	Loans receivable	-	-	-	-	-	8	25	119	122	116
	Tangible fixed assets	27	85	90	78	69	109	153	232	401	599
	Buildings	7	28	31	32	29	28	29	46	45	75
	Other tangible fixed assets	20	57	59	46	40	80	123	186	144	152
	Intangible assets	28	29	29	56	63	415	346	1,312	2,049	1,410
	Software	27	13	10	8	60	54	54	60	66	1,034
	Software in progress	-	16	18	48	3	360	292	1,252	1,982	
	Other	1	0	0	0	0	0	0	0	-	375
	Other assets	2,519	2,789	2,831	1,071	1,304	1,576	1,814	2,472	2,877	3,457
	Accrued premiums	177	226	271	364	462	576	723	906	1,167	1,469
	Accounts receivable–other	211	389	295	419	526	622	735	888	1,022	1,250
	Accrued income	0	0	1	0	0	2	5	10	11	10
	Cash segregated as deposits	63	43	81	117	120	185	182	271	235	259
	Suspense payments	130	197	164	119	129	147	115	284	242	230
	Deposits paid	133	-	-	-	-	-	-	-	-	
	Deferred assets under Article 113	1,780	1,889	1,960	-	-	-	-	-	-	
	Other	22	44	59	53	67	42	52	111	198	237
	Deferred tax assets	249	215	191	459	276	278	84	834	1,017	1,754
	Allowance for doubtful accounts	-16	-31	-34	-20	-5	-5	-1	-1	-	-
Total assets		**4,307**	**5,157**	**6,105**	**5,278**	**6,979**	**8,179**	**9,250**	**13,574**	**15,599**	**17,408**
LIABILITIES	Provision for insurance cancellation	1,381	1,895	2,399	2,817	3,641	4,601	5,560	7,019	8,869	11,287
	Reserves for outstanding losses and claims	151	192	269	366	471	632	794	963	1,290	1,801
	Underwriting reserves	1,230	1,704	2,130	2,451	3,170	3,969	4,766	6,056	7,579	9,485
	Other liabilities	218	245	272	242	510	501	684	1,055	991	947
	Income taxes payable	27	65	65	41	33	129	51	384	201	191
	Deposits received	16	20	5	2	3	11	43	43	20	21
	Accounts payable–other	153	141	197	192	472	351	552	592	593	657
	Suspense receipts	-	-	0	1	0	1	0	0	-	1
	Lease obligations	13	19	6	4	3	6	35	29	40	51
	Provision for bonuses	34	30	95	100	144	174	100	126	144	151
	Provision for directors' bonuses	6	13	20	50	10	16	-	30	-	
	Reserves under special laws	-	-	-	-	0	1	3	7	14	23
	Reserves for price fluctuations	-	-	-	-	0	1	3	7	14	23
Total Liabilities		**1,639**	**2,183**	**2,787**	**3,208**	**4,305**	**5,293**	**6,347**	**8,237**	**10,018**	**12,415**
NET ASSETS	Shareholders' equity	2,668	2,974	3,319	2,070	2,676	2,872	2,906	5,322	5,624	4,992
	Capital stock	3,065	3,065	3,065	3,065	3,315	3,315	3,315	4,097	4,118	102
	Capital surplus	2,778	2,778	2,778	2,778	3,028	3,028	3,028	3,811	3,831	7,854
	Retained earnings	-3,174	-2,869	-2,524	-3,773	-3,667	-3,470	-3,437	-2,586	-2,324	-3,051
	Treasury stock	-	-	-	-	-	-	-	-	-	-
	Valuation and translation adjustments	-	-	-	-	-2	13	-3	14	-43	88
	Valuation difference on securities	-	-	-	-	-2	13	-3	14	-43	88
Total net assets		**2,668**	**2,974**	**3,319**	**2,070**	**2,674**	**2,886**	**2,902**	**5,336**	**5,580**	**4,992**
Total liabilities and capital		**4,307**	**5,157**	**6,105**	**5,278**	**6,979**	**8,179**	**9,250**	**13,574**	**15,599**	**17,408**

Source: Shared Research based on company data

Loans receivable

Loans to employees

Accrued premiums and accounts receivable

Accrued premiums (monthly and annual) are recorded as accounts receivable when settlement has been confirmed by the receiving agent, and converted to cash after payment is received. They are more or less proportional to the number of policies and generally 1.5 months' balance is recorded.

Underwriting reserves

Underwriting reserves consist of ordinary underwriting reserves and catastrophe reserve.

Accounts payable

Agency and other commissions, statutory welfare expenses, other

Cash flow statement

Cash flow statement (JPYmn)	FY03/12 Parent	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent	FY03/21 Cons.
Pre-tax profit	611	392	444	-1,460	308	291	303	464	406	-996
Depreciation	37	29	48	42	48	57	70	89	109	172
Increase (decrease) in outstanding losses and claims	34	41	77	97	104	161	162	168	326	510
Increase (decrease) in underwriting reserves	454	473	427	320	719	799	796	1,289	1,522	1,906
Increase (decrease) in accounts receivable	0	15	2	-13	-15	-	-3	-	-1	-
Increase (decrease) in provision for bonuses	34	-4	65	5	44	30	-74	26	18	7
Increase (decrease) in provision for directors' bonuses	6	7	7	30	-40	6	-16	30	-30	-
Increase (decrease) in reserves for price fluctuations	-	-	-	-	0	0	2	3	6	9
Interest and dividend income	-1	-2	-2	-1	-1	-3	-30	-60	-125	-168
Losses (gains) on securities	-	-	-	-	0	0	-19	13	5	-44
Interest expenses	0	0	0	0	-	0	0	-	-	3
Losses (gains) on tangible fixed assets	-	-	-	0	0	5	259	-	47	1,388
Other assets (ex. investing- and financing-related)	-154	-180	66	-172	-213	-219	-229	-526	-374	-489
Other liabilities (ex. investing- and financing-related)	28	-5	16	-22	280	-121	221	-11	23	123
Other	-	-	-	-	-	-	-	-	-	-
Sum	1,441	1,171	1,630	1,455	1,234	1,007	1,443	1,361	1,956	2,417
Interest and dividend income received	1	2	1	2	1	2	21	53	123	177
Interest expenses paid	-0	-0	-0	-0	-0	-0	-0	-0	-	-3
Income taxes paid	-8	-14	-77	-85	-42	-17	-161	-55	-534	-331
Income taxes refunded	-	-	-	-	-	21	0	-	-	-
Cash flows from operating activities	1,434	1,158	1,554	1,372	1,193	1,014	1,304	1,529	1,544	2,260
Decrease (increase) in deposits	-1,090	-250	-600	-100	-0	441	-100	594	1,104	1,030
Purchase of securities	-	-	-	-	-13	-664	-1,624	-1,387	-2,382	-5,937
Proceeds from sale and redemption of securities	-	-	-	-	-	13	150	4	741	2,869
Payments of loans receivable	-	-	-	-	-	-8	-26	-112	-20	-307
Collection of loans receivable	-	-	-	-	-	0	9	17	18	312
Total investment transactions	-1,118	-250	-600	-100	-13	-218	-1,591	-883	-1,546	-2,031
Total operating activities and investment transactions	315	908	954	1,272	1,179	796	-287	645	-1	228
Purchase of tangible fixed assets	-	-69	-40	-19	-14	-74	-58	-144	-222	-261
Purchase of intangible fixed assets	-0	-17	-4	-23	-31	-354	-194	-922	-839	-568
Payments for deposits	-36	-3	-40	-38	-8	-71	-3	-98	-5	-46
Proceeds from collection of deposits	1	22	1	0	1	1	0	1	34	12
Purchase of shares in subsidiaries resulting in change in scope of consolidation										-635
Other	-946	-517	-539	-654	-	-	-	-	-	
Cash flows from investing activities	-2,100	-834	-1,223	-835	-65	-717	-1,846	-2,048	-2,580	-3,532
Proceeds from share issuance	440	-	-	-	500	-	1	1,493	40	7
Repayments of borrowings										-125
Purchase of treasury shares										-
Cash delivered upon merger	-	-	-	-	-	-1	-	-	125	
Repayment of lease obligations	-3	-3	-5	-2	-1	-	-5	-8	-8	-11
Other	-	-	-	-	-	-	-	-	-	
Cash flows from financing activities	437	-3	-5	-2	498	-1	-4	1,484	156	-128
Increase (decrease) in cash and cash equivalents	-229	321	326	535	1,626	294	-547	964	-880	-1,401
Cash and cash equivalents: beginning of year	639	410	731	1,057	1,593	3,218	3,513	2,966	3,931	3,050
Cash and cash equivalents: end of year	410	731	1,057	1,593	3,218	3,513	2,966	3,931	3,050	1,649

Source: Shared Research based on company data

Cash flows from operating activities

Net cash inflows were JPY2.3bn (JPY715mn YoY increase in inflows). Main factors were pre-tax loss of JPY996mn, JPY1.4bn in loss on disposal of fixed assets, and an increase of JPY1.9bn in underwriting reserves accompanying insurance business expansion.

Cash flows from investing activities

Net cash outflows were JPY3.5bn (JPY951mn YoY increase in outflows). Main factors were JPY5.9bn used to purchase securities due to accumulation of assets under management, proceeds of JPY2.9bn from the sale or redemption of securities, and JPY635mn used to purchase shares in subsidiaries, resulting in change in the scope of consolidation.

Cash flows from financing activities

Net cash outflows were JPY128mn (JPY285mn YoY decrease in inflows). Main factors were JPY125mn used to repay loans, proceeds of JPY7mn from share issuance due to exercise of stock acquisition rights, and JPY11mn used to repay lease obligations.

As a result, the balance of cash and cash equivalents declined JPY1.4bn YoY to JPY1.6bn as of end-FY03/21.

Other information

News and topics

May 2021

On May 27, 2021, the company announced a change of representative director.

At a meeting held on the same day, the company's board of directors resolved to change its representative director.

Details of change

Atsuko Yasuda: (new position) President and CEO (current position) Head of Corporate Planning Department
Teppei Yamamura: (new position) To resign upon expiry of his term (current position) President and CEO

Effective date of change

June 25, 2021

On May 14, 2021, the company announced its medium-term management plan covering FY03/21 through FY03/23.

Management targets

(JPYmn)	FY03/19 Act.	FY03/20 Act.	FY03/21 Act.	FY03/22 Targets	FY03/23 Targets	FY03/24 Targets
Recurring revenue	14,941	18,334	22,878	28,600	33,500	37,300
Adjusted (cons.) recurring revenue	929	1,058	1,119	880	1,320	1,370
Adjusted (cons.) net income	815	726	-195	580	880	910
No. of policies in force	423,352	508,225	622,069	723,000	807,000	884,000

Source: Shared Research based on company data

October 2020

On October 1, 2020, the company announced its establishment as a pure holding company of ipet Insurance Co., Ltd., and its listing on the Tokyo Stock Exchange Mothers Market.

On the same day, the company announced its consolidated earnings and dividend forecast for FY03/21, and its shareholder benefit program.

The company's consolidated earnings forecast is based on the earnings forecast announced by ipet Insurance Co., Ltd. on May 11, 2020; it takes into account the impact of the establishment of the holding company, but there are no changes to the figures disclosed. The dividend forecast for FY03/21 also has not changed from that previously announced (no dividend).

September 2020

On September 15, 2020, the company announced that it has obtained approval to establish a holding company, ipet Holdings, Inc.

Overview of the holding company

- ▷ Company name: ipet Holdings, Inc.
- ▷ Representative: President and CEO, Teppei Yamamura
- ▷ Head office address: Roppongi 1-8-7, Minato-ku, Tokyo
- ▷ Date of establishment: October 1, 2020
- ▷ Method of establishment: Establishment of a wholly owning parent company (holding company) via a sole share transfer

- Business description: Management of the nonlife insurance company that was made a subsidiary pursuant to the provisions of the Insurance Business Law, and all incidental businesses
- Purpose of establishment: Using the pet insurance business as a base, the company aims to expand into business areas that offer synergies with the pet insurance business against the backdrop of a vast pet services market, as well as to grow earnings and offer a wider range of services to customers. It also intends to strategically develop group operations with the aim of offering solutions to social issues relating to pets.
- Capital: JPY100mn
- Stock exchange: Tokyo Stock Exchange Mothers Market (Securities code: 7339)

On September 2, 2020, the company announced that it obtained approval to make P's-first Insurance Co., Ltd. a subsidiary (via share acquisition) from regulatory authorities.

Overview of P's-first Insurance

- Date established: December 1, 2015
- Capital: JPY290mn (including legal capital surplus)
- Business: Small-amount short-term insurance business (an affiliate operates a pet shop chain comprising some 80 chain stores)
- Number of policies in force: About 18,000 policies
- Date of share acquisition by the company (making P's-first Insurance a subsidiary): October 1, 2020 (tentative)

On September 1, 2020, the company announced that its pure holding company, ipet Holdings, Inc., to be established on October 1, 2020, has been approved for initial listing on the Tokyo Stock Exchange Mothers Market.

Overview of listing approval

Company name: ipet Holdings, Inc.
Stock exchange: Mothers Market of Tokyo Stock Exchange
Listing date: October 1, 2020
Securities code: 7339
Stock abbreviation: M - ipet HD
Trading unit: 100 shares

Upcoming schedule (tentative)

Delisting date of ipet Insurance: Tuesday, September 29, 2020
Date of share transfer and establishment of pure holding company: Thursday, October 1, 2020
Date of registration of establishment of ipet Holdings: Thursday, October 1, 2020
Listing date of ipet Holdings: Thursday, October 1, 2020

Practical application of ESG management and initiatives related to SDGs
ESG

ipet Holdings will target further growth through initiatives to reduce the environmental impact of its operations (E), contribute to a society in which people can live happy and healthy lives with their pets (S), and improve its reliability by enhancing governance (G).

Environment: Toward reduction of environmental impact

Business process innovation and eco-friendly initiatives

- Go paperless by promoting digitization (using digital marketing and the policyholder-oriented "My Page")
- Use eco-friendly sales vehicles
- Provide educational activities about living together in harmony and making the environment more beautiful (information and educational activities on pet training)
- Promote environmental protection initiatives (by changing Uchinoko Light membership cards from plastic to paper, promoting a shift to digital pamphlets, and using electronic contracts with customers)

Social: Toward a society in which people can live happily and healthily with their pets

Expanded penetration of pet insurance and contributions to society in relation to pets

- Support pet owners through pet insurance (by revising products and realizing a premium structure that makes it easy for policyholders to keep renewing their policies)
- Address social issues related to pets by moving to a holding company structure
- Collaborate with Aomori Prefecture regarding animal protection (by providing a website with disaster prevention information related to pets, publishing a map sharing information on seeking shelter with pets, and supporting online courses to train volunteers in the care of newborn animals)
- Provide a range of information and educational activities related to pets
- Donate to and support activities related to animal welfare
- Promote job satisfaction for employees (by introducing a leave plan that encompasses pet care and pet bereavement, and establishing a system for teleworking and staggered commuting)
- Hire young people and women
- Promote employment of people with disabilities

Governance: Toward becoming a more trusted pet insurance group

Enhanced governance

Strengthen the supervisory functions of the Board of Directors and improve transparency (by adopting a company with audit and supervisory committee format and establishing a nomination and compensation advisory committee)

- Work to prevent fraudulent claims
- Further strengthen compliance and risk management

・The 2020 ESG Management Survey ranked ipet Holdings at 4th of 142 companies listed outside the First Section of the Tokyo Stock Exchange.

SDG initiatives

Key objectives	Examples of specific initiatives	Corresponding SDGs
■Living healthily with pets	·Provide pet insurance ·Provide information and educational activities on pet disease and injury ·Revise products to make them more sustainable	SDGs: 1, 3, 4, 17
■Living safely with pets	·Provide information and educational activities on disaster prevention for pets ·Strengthen promotion of disaster prevention measures for people and pets in Aomori Prefecture ·Support training of rescue dogs	SDGs: 3, 4, 11
■Ensuring happiness for all people, both with and without pets	·Provide information and educational activities on pet training ·Conduct manner awareness activities ·Donate card games and calendars to foster care facilities	SDGs: 3, 4, 11
■Loving all living things	·Maintain a partnership agreement on animal protection with Aomori Prefecture ·Support online courses in Aomori Prefecture to train volunteers in the care of newborn animals ·Make donations for photo submissions for a project to make card games and calendars ·Donate flea and tick repellants to Pet Home, a website for pet adoption information ·Provide information and educational activities on end-of-life care for pets	SDGs: 1, 2, 3, 4, 10, 11, 17
■Further improving reliability as an insurer	·Promote a customer-oriented approach ·Enhance governance ·Work to prevent fraudulent insurance claims ·Further strengthen compliance and risk management ·Promote digitization leading to paperless operations ·Use eco-friendly vehicles for sales activities ·Promote environmental protection by digitizing pamphlets and other documents ·Use electronic contracts with customers	SDGs: 7, 9, 12, 13, 16
■Working for the healthy lives and growth of employees	·Introduce a leave plan that encompasses pet care and pet bereavement ·Promote the advancement of women ·Enhance disaster prevention measures ·Provide online training for employees ·Establish a system for teleworking and staggered commuting ·Promote employment of people with disabilities	SDGs: 3, 4, 5, 8, 11

Source: Shared Research based on company data

17 SDGs

SDGs

1	No poverty	End poverty in all its forms everywhere
2	Zero hunger	End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
3	Good health and well-being	Ensure healthy lives and promote well-being for all at all ages
4	Quality education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
5	Gender equality	Achieve gender equality and empower all women and girls
6	Clean water and sanitation	Ensure availability and sustainable management of water and sanitation for all
7	Affordable and clean energy	Ensure access to affordable, reliable, sustainable, and modern energy for all
8	Decent work and economic growth	Promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all
9	Industry, innovation, and infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation
10	Reduced inequalities	Reduce inequality within and among countries
11	Sustainable cities and communities	Make cities and human settlements inclusive, safe, resilient, and sustainable
12	Responsible consumption and production	Ensure sustainable consumption and production patterns
13	Climate action	Take urgent action to combat climate change and its impacts
14	Life below water	Conserve and sustainably use the oceans, seas, and marine resources for sustainable development
15	Life on land	Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss
16	Peace, justice, and strong institutions	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels
17	Partnerships for the goals	Strengthen the means of implementation and revitalize the global partnership for sustainable development

Source: Shared Research based on United Nations materials

History

Date	History
May 2004	Establishes company that will become ipet Insurance
June 2006	Applies to Kanto Local Finance Bureau to operate as specified insurer
February 2008	Changes name to ipet Co., Ltd.
March 2008	Registers as small-amount short-term insurance business
March 2012	Acquires nonlife insurance business license Changes name to ipet Insurance Co., Ltd.
April 2018	Lists on Tokyo Stock Exchange Mothers Market
October 2020	Establishes ipet Holdings, Inc., and moves to holding company format Makes P's-first Insurance Co., Ltd., a subsidiary of ipet Insurance Co., Ltd. Makes ipet Insurance a wholly owned subsidiary of ipet Holdings
March 2021	Makes Pets All Right Co., Ltd., a subsidiary of ipet Holdings

Source: Shared Research based on company data

Top management

On May 27, 2021, ipet Holdings announced a change in representative director. President and CEO Teppei Yamamura will step down at the end of his current term, and Atsuko Yasuda, head of corporate planning, will take over as the new president and

CEO. These personnel changes are to be formalized at the Board of Directors meeting after the company's first general meeting of shareholders scheduled for June 25, 2021, and upon obtaining the approval of the Financial Services Agency.

Atsuko Yasuda, president and CEO; born June 22, 1974	
April 1997	Joined Fuji Xerox Co., Ltd.
October 2006	Joined Dream Incubator Inc.
January 2015	Worked as freelance consultant
October 2017	Joined ipet Insurance Co., Ltd.
July 2018	Became head of general affairs at ipet
April 2020	Became executive officer and head of general affairs at ipet
October 2020	Became head of corporate planning at ipet
April 2021	Became executive officer and head of corporate planning at ipet Insurance Co., Ltd.
June 2021	Became president and CEO of ipet Holdings, Inc.

Teppei Yamamura, Chairman; born March 27, 1975	
April 1997	Joined Yasuda Life (now Meiji Yasuda Life Insurance Company)
May 2013	Joined ipet Insurance Co., Ltd.
October 2014	Became a director and head of sales and planning management
June 2015	Became director and deputy CEO
June 2016	Assumed the role of president of ipet Insurance Co., Ltd.
October 2020	Became president and CEO of ipet Holdings, Inc. upon its establishment
June 2021	Became chairman of ipet Insurance Co., Ltd.

Corporate governance and others

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Committee
Controlling shareholder and parent company	Yes
Number of directors under Articles of Incorporation	10
Number of directors	6
Directors' terms under Articles of Incorporation	1
Chairman of the Board of Directors	Representative director excluding chairperson and president
Number of outside directors	2
Number of independent outside directors	2
Number of members of Audit & Supervisory Committee under Articles of Incorporation	3
Number of members of Audit & Supervisory Committee	2
Participation in electronic voting platform	No
Providing convocation notice in English	No
Implementation of measures regarding director incentives	Restricted stock plan
Eligible for stock option	Directors and employees of subsidiaries
Disclosure of individual director's compensation	None
Policy on determining amount of compensation and calculation methodology	In place
Corporate takeover defenses	None

Source: Shared Research based on company data

Major shareholders (as of March 31, 2021)

Top shareholders	Shares held ('000)	Shareholding ratio
Dream Incubator Inc.	6,068	56.12%
GOLDMAN SACHS INTERNATIONAL	636	5.88%
GOLDMAN SACHS & CO. REG	549	5.07%
Sojitz Corporation	468	4.32%
YCP Holdings Limited (Standing proxy: Mizuho Bank, Ltd.)	468	4.32%
So-Two. Inc.	420	3.88%
Custody Bank of Japan, Ltd. (Trust account)	360	3.32%
The Master Trust Bank of Japan, Ltd. (Trust account)	264	2.44%
NORTHERN TRUST CO.(AVFC) SUB A/C NON TREATY	223	2.06%
Focus Corporation	100	0.92%
SUM	9,556	88.33%

Source: Shared Research based on company data

Shareholder returns

The company's Articles of Incorporation stipulate that it shall pay dividends of surplus by resolution of the Board of Directors, so the company plans to return profits to shareholders, giving proper consideration to business performance.

Status of parent and major subsidiaries

Parent company status

Company	Main business	Established	Capital	ipet's voting rights held
Dream Incubator Inc.	Consulting	April 20, 2000	JPY4,998mn	56.13%

Source: Shared Research based on company data

Status of subsidiaries

Company	Main business	Established	Capital	Voting rights ipet holds
ipet Insurance Co., Ltd.	Non-life insurance	May 11, 2004	JPY4,119mn	100%
Pets First SSI Co., Ltd.	Small-amount and short-term insurance	December 01, 2015	JPY200mn	100%
Pet's All Right, Inc.	Online pet healthcare consultation	September 10, 2020	JPY10mn	100%

Source: Shared Research based on company data
Note: ipet Insurance Co., Ltd., became a wholly owned subsidiary of ipet Holdings on October 1, 2020, through a single share transfer.
Note: P's-first Insurance Co., Ltd., became a wholly owned subsidiary of ipet Insurance Co., Ltd., on October 1, 2020, through a share purchase.
Note: Pet's All Right Co., Ltd., became a wholly owned subsidiary of ipet Holdings on March 15, 2021, through a share purchase.

P's-first Insurance Co., Ltd., is excluded from the scope of equity method accounting because its impact on the net income and retained earnings of ipet Holdings is minimal and does not have a material impact on consolidated financial statements.

Employees

- ▷ Nonlife Insurance business: 515 employees (annual average number of part-time and temporary employees: 31)
- ▷ Other: 54 employees (0 part-time, etc.), including ipet Holdings and Pet's All Right Co., Ltd.
- ▷ Insurance holding company: 49 employees

Profile

Company Name	Head Office
ipet Holdings, Inc.	MFPR Roppongi Azabudai Building, Roppongi 1-8-7, Minato-ku, Tokyo 106-0032
Phone	**Listed On**
81-3-5574-8615	Mothers Market of the Tokyo Stock Exchange
Established	**Exchange Listing**
October 1, 2020	October 1, 2020 (TSE Mothers)
Website	**Financial Year-End**
https://www.ipet-hd.com	March 31
IR Contact	**IR Web**
https://www.ipet-hd.com/ja/contact.html	https://www.ipet-hd.com/ja/ir.html

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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ARATA CORPORATION
Artspark Holdings Inc.
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Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZoom, Co., Ltd.
Base Co., Ltd
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
CanBas Co., Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chori Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
COTA CO.,LTD.
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiki Axis Co.,Ltd.
Daiseki Co., Ltd.
Daiwabo Holdings Co.,Ltd.
Demae-Can CO., LTD.
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Doshisha Corporation
Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
en Japan Inc.
Estore Corporation.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Co., Ltd.
FreeBit Co., Ltd.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
GiG Works Inc.
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
Hoosiers Holdings
Hosokawa Micron Corporation
Hope, Inc.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Holdings CO., Ltd.
Itochu Enex Co., Ltd.
ItoKuro Inc.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co., LTD.
KANEMATSU CORPORATION
kaonavi, inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
KLab Inc.
Kondotec Inc.
Kringle Pharma, Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
Marumae Co., Ltd.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Holdings Co., Ltd.
Metaps Inc.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
Mortgage Service Japan Limited.
MRT Inc.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
NEC Networks & System Integration Corporation
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
NIHON CHOUZAI Co.,Ltd.
Nihon Denkei Co., Ltd.
Nippon Commercial Development Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
Nisso Corporation
NS TOOL CO., LTD.
OLBA HEALTHCARE HOLDINGS,Inc.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd.
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PCA CORPORATION
PIGEON CORPORATION
Premium Water Holdings
P3, inc.
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
Sanyo Trading Co., Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seikagaku Corporation
Seria Co.,Ltd.
Serverworks Co.,Ltd.
SHIFT Inc.
Shikigaku Co., Ltd.
Shinanen Holdings Co., Ltd.
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Space Value Holdings Co., Ltd.
Startia Holdings, Inc.
Star Mica Holdings Co., Ltd.
Stream Media Corporation
Strike Co., Ltd.
Sunnexta Group Inc.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
The Hokkoku Bank,Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd.
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
V-cube,Inc.
World Holdings Co., Ltd.
WOW WORLD Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

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