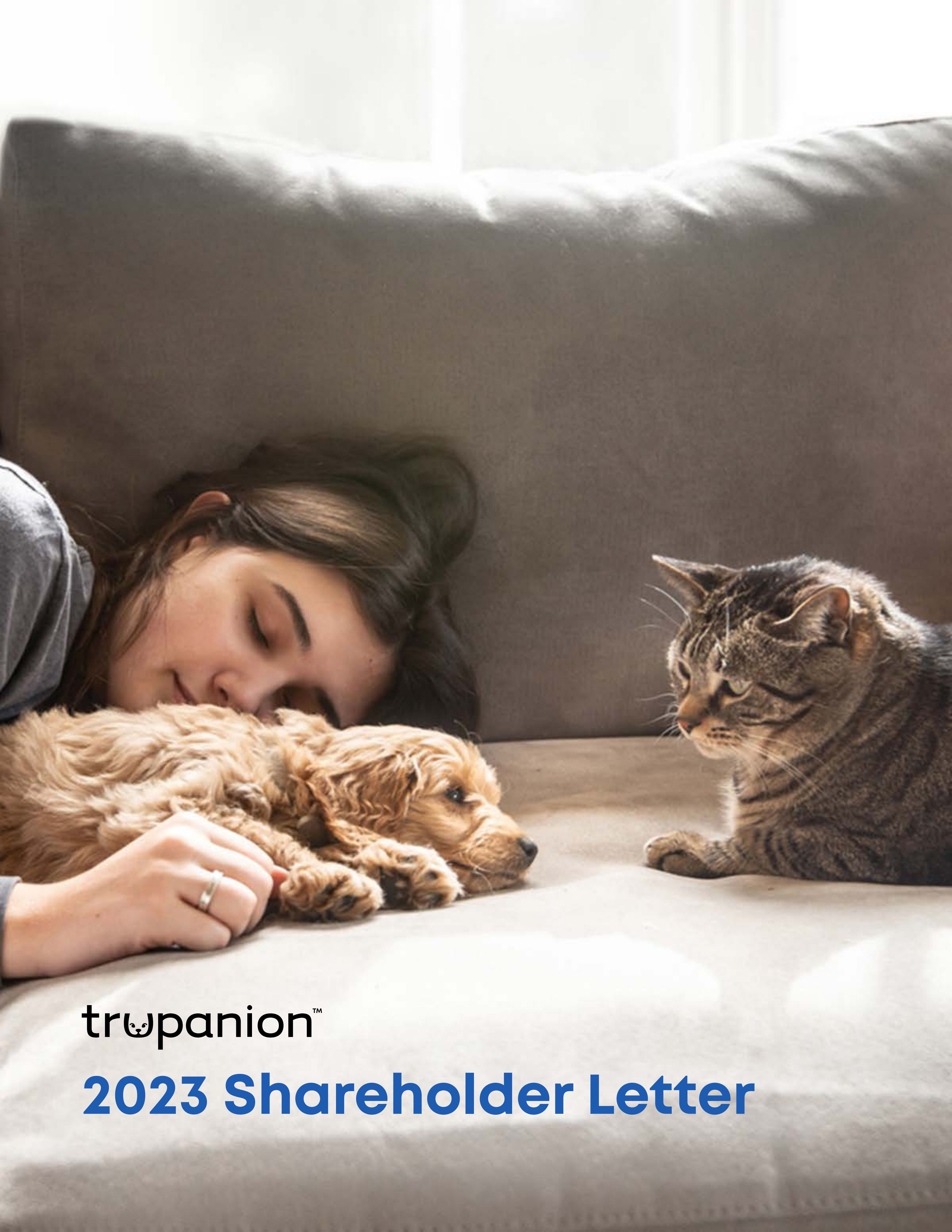

trupanion™

2023 Shareholder Letter

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To Our Shareholders

“I basically believe in the soldier on system. Lots of hardship will come and you gotta handle it well by soldiering through.”

– Charlie Munger, in his last CNBC interview

Why I Founded Trupanion

Darryl Rawlings
Chief Executive Officer & Chair of the Board

Twenty-six years into this journey, I feel it is appropriate to remind our shareholders of the why behind Trupanion. It is the story of my childhood dog, Mitzy. Many of you have heard this story, but I revisit this story today, because while we are nearly 40 years out from losing Mitzy, and 26 years into building Trupanion, the problem that faced my parents is still one that faces millions of pet-loving families around the world.

The story of Mitzy begins when I was a teenager growing up in Vancouver, Canada. We were your typical middle-class family, and my parents, looking to give my brother and I all the opportunities they could afford, lived paycheck to paycheck. One weekend, when Mitzy was only 2 years of age, it was clear she was ill and not obvious to us what the issue was. With our local veterinarian closed for the weekend, we headed to a 24/7 emergency clinic on West 4th in downtown Vancouver.

The diagnosis was quick. The veterinarian informed us that Mitzy had a twisted stomach, which fortunately was operable, and the operation would save her life. With the surgery, we would have another decade or so of time with Mitzy. But, then came the discussion of cost. And, because my parents, like so many families, lived month to month with no available credit, they could not afford the surgery.

In the end, we left the veterinarian that day without Mitzy, and in the process, everyone was devastated. The veterinarians and their staff were available to help, had the knowledge and the tools to do so, but also had a business to run. They simply could not operate without being paid. My parents were not only devastated that they could not save our beloved dog but also embarrassed for their son to discover the impact of his parents not having a way to budget for the care that Mitzy needed. I too was devastated, frustrated, and angry. There had to be a better way. This horrible outcome is what set the wheels in motion for me to start Trupanion.

Fourteen years after losing Mitzy, at the age of 28, I sold a cigar business that I had started a few years earlier. I used those proceeds to build a company that could solve the problem and make it easier for families like mine to budget and care for their pets, while empowering veterinarians and their staffs to deliver high quality care effectively. Two years later, I enrolled Trupanion’s first pet, my dog, Monty.

Our goal was--and still is--to eliminate the need for "financial" euthanasia, and our mission is to help loving, responsible pet parents budget and care for their pets.

To be successful, we have to help more than a few Mitzies--we need to help millions! We measure our impact in the billions of dollars we have spent paying veterinary invoices on behalf of our members. It took 20 years for Trupanion to pay out our first billion dollars in member invoices. Three years later, we crossed the $2 billion threshold. Later this year, we expect to cross $3 billion, and if we continue to grow intrinsic value per share at 20% to 25% year after year, within a decade, we will be paying out $5 billion per year in veterinary invoices. This is how we define success. By all the Mitzies and responsible, loving pet parents that we get to help. ***To make this happen, everyone in the ecosystem needs to win. Everyone! This includes pets, pet parents, veterinarians and their staff, our territory partners, team members, industry partners, regulators, and, of course, our shareholders.***

Normally, this is where I would pivot my attention to the results of the business over the past year. But, those of you who are close to the story know that it is Margi who has been leading the execution of the company and of the 60-month plan. For this reason, Margi has been involved in the drafting of this year's letter, and I expect that she will play a bigger role in writing these letters moving forward. I will let her introduce herself.

Margi's Introduction

Margi Tooth
President

I've had the privilege of working closely with Darryl on a number of letters in the past, not least a heavy involvement in the writing of the 60-month plan letter in 2021. This year, however, our approach has been different, giving me time to reflect fully on the progress over the last year, as well as step back and assess the many learnings collected over the last 12 months. I look forward to a more involved role with this unique shareholder letter for many years to come. Before we walk you through our 2023 results, I'd like to share a brief overview of why I am so pleased to be here.

Trupanion is a unique company, and the opportunity in front of us is immense. We are in a large, under-penetrated (and now global) market. We have a dedicated and talented team that genuinely cares about our mission and is focused on the long term. Our value proposition to our members is the best in the industry, and our partnership with veterinarians is deep-rooted, aligned, and unique in helping pet parents when it matters most by improving access to care. We now have multiple products across various geographies and price points, and to support this diverse portfolio, we are developing an organizational and technological infrastructure to be able to service our growing pool of members. Finally, we are now building a stronger financial model by self-funding our capital requirements and strengthening our balance sheet. The future in front of us is brighter than ever.

2023 in Review

2023 was an interesting year for many reasons. For the first time in company history, we generated over a billion dollars in annual revenue. Total revenue grew 22% to $1.1 billion. Our core Subscription Business contributed $713 million in revenue, and our lower margin "Other Business" contributed $396 million.

On the surface, crossing a billion dollars with a 22% revenue growth rate could be deemed by some as a good year, but these results mask some more distinct challenges.

We have long considered our Adjusted Operating Income (AOI) as the most important metric in our business. This is our own self-defined, non-GAAP term, and it is a critical financial metric that we use to manage the business. It represents the discretionary profit (pre-tax) that we earn from our existing pets before we spend money to acquire new pets or invest in new growth initiatives.

Key Consolidated Financial Metrics

Year	Enrolled pets	Revenue	Adjusted operating income	Invested capital to acquire new pets	Net cash*	Net income (loss)	Fully diluted share count**	Revenue per share	YoY growth	Adjusted operating income per share	YoY growth	Statutory capital & surplus	Required statutory capital & surplus ***
2014	232,450	115.9	0.9	11.1	61.5	(21.2)	33.8	$3.43	2%	$0.03	-82%	23.7	23.7
2015	291,818	147.0	3.6	14.8	45.6	(17.2)	34.1	$4.30	26%	$0.11	267%	28.1	27.8
2016	343,649	188.2	14.8	14.7	51.6	(6.9)	34.9	$5.40	25%	$0.42	282%	32.9	29.5
2017	423,194	242.7	23.4	18.4	57.8	(1.5)	35.4	$6.85	27%	$0.66	57%	40.4	26.5
2018	521,350	304.0	31.9	23.7	135.2	(0.9)	37.9	$8.03	17%	$0.85	29%	60.1	60.0
2019	646,728	383.9	44.2	33.3	140.2	(1.8)	38.0	$10.12	26%	$1.16	36%	78.3	62.6
2020	862,928	502.0	57.1	45.1	302.6	(5.8)	42.4	$11.85	17%	$1.35	16%	98.6	88.5
2021	1,176,778	699.0	78.5	69.5	294.3	(35.5)	42.8	$16.32	38%	$1.83	36%	131.7	129.3
2022	1,537,573	905.2	89.3	80.4	239.0	(44.7)	42.8	$21.17	30%	$2.09	14%	171.4	158.7
2023	1,714,473	1,108.6	83.5	70.4	242.0	(44.7)	43.5	$25.47	20%	$1.92	-8%	241.3	177.2

Note: Revenue, Adjusted operating income, Invested capital to acquire new pets, Net cash, Net income, Statutory capital shown in $ millions
* Cash, investments, and our building assets minus debt ** Total share count plus options and warrants granted, which includes outstanding shares plus unexercised/unvested options and RSUs, as well as shares granted in subsequent years pertaining to the year's performance *** Estimate

From 2015 to 2021, we experienced strong double-digit growth in AOI and AOI per share every year. In 2022, adjusted operating income only grew 14%--a disappointing result that we covered in last year's letter. In 2023, our discretionary income went backwards! AOI per share decreased 8%. Entering the year, we had assumed veterinary inflation would jump to 12%, more than double the historical rate of 5-6% per year we have seen (nearly) every year for the past 20+ years. At the time, we believed 12% to be a reasonable, if not an overly conservative, assumption. In actuality, veterinary inflation came in even higher than we anticipated, at 15% year over year. Our conservatism was not sufficient, and we got it wrong.

Undoubtedly, the spike in inflation hurt us in the short term. We also wish we had caught it sooner and had been poised to react quicker. But, the why behind the 15% inflation is important to touch on. For some time, we have been saying that veterinarians need to raise their prices. We are part of the animal health eco-system, and the overwhelming stressors within the veterinary community are clear to us. We see the ongoing challenges of staffing, compassion fatigue, and the hangover of the pandemic directly affecting the once revered relationship between veterinarians and their clients. Veterinary teams across North America have been struggling, and we have been a very vocal advocate for this heroic profession, championing their plight. In fact, in our Q2 2022 conference call, we said it was our expectation that veterinarians would need to raise prices by a total of 30-50% over a 3-4 year period in order to build sustainable businesses and continue to treat and care for our pets. It seems that all the talk across the veterinary industry in 2022 finally led veterinarians to increase their prices. Comparing prices at the end of 2021 with those in December 2023, the total increase of almost 30% is well on the way to our ballpark estimate and on track to give the industry the economic relief it so desperately needs.

What is also reflected in this step up is a direct demand among pet parents to access veterinary care for their pets. This is our reason for being. We exist so pet parents and veterinarians can treat pets the way they deem necessary. We are not here to control cost of care, nor do we dictate the type of care provided. We simply ensure pets get the care they need, when they need it. With rising cost of care and more demand amongst pet parents for greater access to care, the need for Trupanion will only continue to grow.

Now, returning to adjusted operating income. Our goal in our 60-month plan (published in 2021) was to grow our intrinsic value per share at 25% a year from 2021 to 2025. Growth in adjusted operating income also can act as a simple proxy for our growth in intrinsic value per share. Last year, we said that growing intrinsic value per share at 20% year over year is a good result and that we are ecstatic when we grow 25%+.

In aggregate, the total AOI that we would have available to invest at a 20% AOI CAGR versus a 25% AOI CAGR is as follows:

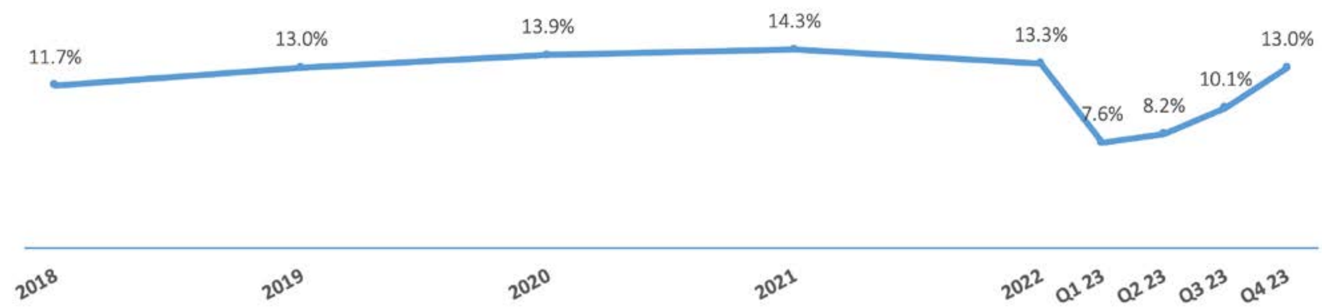
(in $ millions)	2020 AOI	2021 AOI	2022 AOI	2023 AOI	**3yr total**	2024 AOI	2025 AOI	**5yr total**
20% growth	57.1	68.5	82.2	98.7	**249.4**	118.4	142.1	**509.9**
25% growth	57.1	71.4	89.2	111.5	**272.1**	139.4	174.3	**585.8**
Actual & 2024 Guidance	57.1	78.5	89.3	83.5	**251.3**	100-120		

If veterinary inflation in 2023 had been at the 12% we had predicted and planned for, we would have earned another 3 percentage points on our subscription revenue of $713 million. On that basis, our AOI would have been approximately $105 million, firmly between the 20% and 25% 3-year CAGR growth rates. Instead, at 15% inflation, we earned just $84 million. The negative cash impact of our pricing miss and not reaching our subscription AOI margin target of 15% will likely be $72 million when it is all said and done ($10 million in 2022, $37 million in 2023, and an estimated $25 million in 2024 based on our guidance).

(in $ millions)	2022 AOI	2023 AOI	2024 AOI
Actual & 2024 Guidance	89.3	83.5	100-120
Subscription @ 15% AOM + Other	99.4	120.3	130-140
Deficit	(10.2)	(36.7)	(10)-(40)

Even with the setback in 2023, in which our AOI declined year over year, we are still working to have our aggregate 5-year adjusted operating income total exceed $510 million. This is above our 20% benchmark but shy of our aspirational goal. If we take into account the guidance range for 2024, announced in our year-end earnings release, we would need $139-159 million of AOI in 2025 in order to reach the $510 million total. Doing so will require that we re-accelerate growth in adjusted operating income in the final 24 months of our 60-month plan. This will require us to continue the ongoing repair of our margins, which will in turn give us license to increase our spending on pet acquisition costs and re-accelerate our growth, while maintaining the realized efficiencies noted across our business during the last year.

Subscription Adjusted Operating Margin



Now back to that "interesting year" comment. Our margin compression rippled through the company, hurting our year-over-year growth in AOI, year-over-year growth in total pet acquisition spending, and the lifetime value of a pet. With most of these key metrics, taking a step back, one would expect that this would be considered a disappointment--especially when compared to our performance in 2022. Yet, what is reflected in the chart above tells us a different story, one that we collectively should be proud of. Here's why...

We committed to our cost-plus model and went about the 12-18 month journey to restore our adjusted operating margin (AOM). We cut expenses, realizing that this temporary margin compression was going to cost us close to $72 million of cash between 2022, 2023, and 2024. We reduced our overall pet acquisition spend to lean into the lower margin per pet and focused on a return to free cash flow positive. Additionally, we began to monitor and report multiple P&Ls across our various products and across different geographies within our core Trupanion product. This de-centralized approach is critical when managing the unique lifetime values of our pets from different P&Ls, and it resulted in a 21% reduction of our average per pet acquisition cost in the year.

Turning away from margin, the year threw one final challenge in front of of us – this time in the form of our audit and the material weaknesses that arose from it. Efforts to remediate these material weaknesses are are underway, and as a business, we have been taught the lesson that rapid growth must come with an equally rapid development of processes and controls. In some instances, this did not happen. Ultimately, these findings have stimulated a deeper level of discipline, rigor, and operational diligence across our technology and infrastructure processes that will undoubtedly make us stronger in the long run.

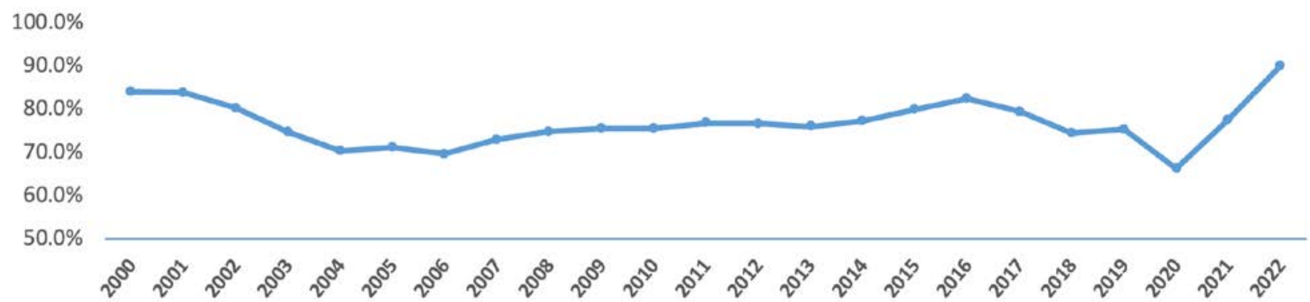
Despite it all, the team has shown great resilience and fortitude. The passion borne from a company obsessed with its mission and its members is a gift. Motivation to solve the problem of how to budget for the cost of unexpected veterinary care has resulted in important lessons and learnings as we reorganized, tested, and began to build stronger, more resilient foundations.

The team has and will continue to soldier on.

Inflation Parallels within Auto Insurance

We have not been alone in our dealings with inflation. According to S&P, in 2020, the US automotive insurance sector recorded its lowest claims ratio (loss ratio + LAE ratio) in over 20 years as people stayed at home and drove less. The industry refunded customers due to this significant windfall. When life returned to normal and inflation came through, the cost of new cars and car repairs went up. In 2022, the sector reported its highest claims ratio in over two decades.

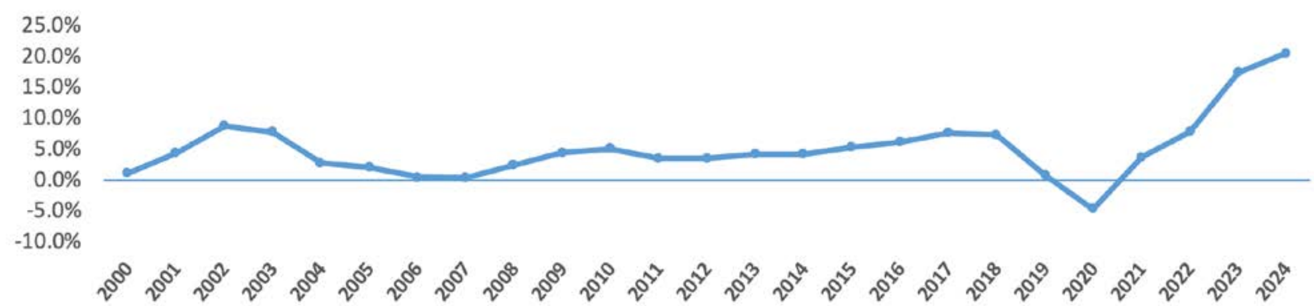
US Private Auto Insurance Industry – Total Claims Ratio



Source: S&P Global. Total claims ratio defined as Loss Ratio + Loss Adjustment Expense Ratio (LAE Ratio)

While 2022 was a difficult year, the sector is implementing rate increases at levels not seen in decades. Revenues across the sector are now hitting all-time highs. Progressive and Allstate share prices are currently trading at all-time highs as well. This suggests that investors believe that claims ratios will eventually recover and that high inflation is actually healthy for the industry. High inflation increases the need for insurance.

US Private Auto Insurance Industry – Annual Price Changes



Source: US Bureau of Labor Statistics. Consumer Price Index for Motor vehicle insurance in US city average, all urban consumers, not seasonally adjusted. 2024 represents average year-over-year change for January and February.

When comparing our experience with veterinary inflation to the charts above, the trends look eerily similar. This provides us with further confidence that our margin pressures will be temporary if we take the right pricing actions.

Trupanion Subscription Business

As we have said before, the vast majority of Trupanion's intrinsic value is derived from our core Subscription Business. Today this includes our core Trupanion product; our 'Powered By' suite of products for Aflac and Chewy; our medium and low average monthly revenue per unit (ARPU) products, Furkin and PHI Direct; and our products in Continental Europe. Of our $83.5 million of adjusted operating income in 2023, $70.2 million, or 84%, was generated from our Subscription Business. We ended the year with over 991,000 total enrolled subscription pets. During the year, we earned subscription revenue of approximately $712.9 million. Of this, we spent approximately $539.7 million paying veterinary invoices on behalf of our members, $69.2 million providing member support (for Trupanion and our 'Powered By' products, this support is 24/7/365), and $33.7 million on fixed expenses.

Trupanion - Subscription *(in $ millions)*	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Total Enrolled Pets	**215,491**	**272,636**	**323,233**	**371,683**	**430,770**	**494,026**	**577,957**	**704,333**	**869,862**	**991,426**
Revenue	**$103.5**	**$133.4**	**$173.4**	**$218.4**	**$263.7**	**$321.2**	**$387.7**	**$494.9**	**$596.6**	**$712.9**
YoY Change	*35%*	*29%*	*30%*	*26%*	*21%*	*22%*	*21%*	*28%*	*21%*	*19%*
Minus paying veterinary invoices	($74.0)	($95.2)	($124.4)	($155.2)	($190.5)	($231.7)	($277.9)	($351.9)	($432.8)	($539.7)
Minus paying variable expenes	($10.9)	($14.0)	($16.6)	($21.1)	($24.6)	($29.4)	($35.4)	($48.5)	($58.6)	($69.2)
Minus paying fixed expense	($17.3)	($19.9)	($17.3)	($18.2)	($17.7)	($18.2)	($20.4)	($23.4)	($25.9)	($33.7)
Discretionary Profit (AOI)	**$1.3**	**$4.3**	**$15.0**	**$23.8**	**$31.0**	**$41.9**	**$54.0**	**$71.0**	**$79.3**	**$70.2**
YoY Change		*231%*	*249%*	*59%*	*30%*	*35%*	*29%*	*31%*	*12%*	*-12%*
Discretionary Profit Margin (AOM)	*1.3%*	*3.2%*	*8.7%*	*10.9%*	*11.7%*	*13.0%*	*13.9%*	*14.3%*	*13.3%*	*9.8%*
Capital deployed to acquire new pets (PAC)	**$10.9**	**$14.7**	**$14.5**	**$18.4**	**$23.3**	**$32.9**	**$44.2**	**$69.0**	**$79.8**	**$70.2**
YoY Change		*34%*	*-1%*	*25%*	*27%*	*41%*	*34%*	*56%*	*16%*	*-12%*
Estimated IRR of PAC			**33%**	**43%**	**46%**	**40%**	**41%**	**36%**	**30%**	**22%**
Cash after new pet aquisition	**($9.6)**	**($10.4)**	**$0.5**	**$5.4**	**$7.7**	**$9.0**	**$9.8**	**$2.0**	**($0.5)**	**$0.0**
Capital expenditures	($5.6)	($4.9)	($1.9)	($3.1)	($4.4)	($5.4)	($7.5)	($12.4)	($17.1)	($18.3)
Cash generated / (Cash used)	**($15.2)**	**($15.3)**	**($1.4)**	**$2.3**	**$3.3**	**$3.6**	**$2.3**	**($10.4)**	**($17.6)**	**($18.3)**

Below is our monthly per-pet economics, or cash flow prior to new pet acquisition, for our average subscription pet in 2023.

	2021		2022		2023	
Average monthly cost (ARPU) *	$63.56	100.0%	$63.82	100.0%	$65.26	100.0%
Less: paying veterinary invoices	($45.27)	71.2%	($46.38)	72.6%	($49.50)	75.9%
Less: variable expenses	($6.25)	9.8%	($6.27)	9.8%	($6.34)	9.7%
= contribution profit	$12.04	18.9%	$11.17	17.5%	$9.42	14.4%
Less: fixed expenses	($3.01)	4.7%	($2.77)	4.3%	($3.10)	4.8%
= profit per pet per month	$9.03	14.2%	$8.40	13.2%	$6.32	9.7%
Less: capital charge requirement**	($0.64)	1.0%	($0.64)	1.0%	($0.65)	1.0%
= cash generated per month for the average pet	$8.39	13.2%	$7.76	12.2%	$5.67	8.7%

* Analysis excludes MGA products

** Capital charge is an estimate of capital cost, it does not represent the actual net interest expense in the period

The decrease in AOI margins in 2023 resulted in our profit per pet, per month decreasing 25% to $6.32. Our average monthly retention decreased from 98.69% to 98.49%. This combination drove a reduction in the lifetime value of a pet (LVP) from $641 per pet to $419. All else being equal, a contraction in LVP requires us to reduce pet acquisition cost (PAC) in order to stay within our IRR guardrails of 30-40%. In aggregate, we reduced our PAC spending by nearly $10 million, or 12% year over year, and we added 287,000 new pets to Trupanion or 11% more than last year.

On a per pet basis, our PAC decreased from $289 per pet to $228, a 21% reduction. In short, the team demonstrated an impressive ability to maintain growth discipline, despite lower PAC dollars.

We have been frequently asked how our PAC has become more efficient–this comes down to being more granular in our investments, looking at each P&L (different products and geographies) independent of one another, and reducing some areas of spend that act as a longer-term halo effect. Throttling back spend is not our long-term aspiration, but we know we can do this if we need to.

Margi's Thoughts

How We Think About Pet Acquisition Spend

Our pet acquisition cost consists of every dollar we spend to acquire a pet. This includes territory partner commissions, the cost of our contact center sales team, the compensation of team members involved in pet growth and more traditional sales and marketing costs such as paid search, direct mail and social media spend (to name a few). This all-inclusive approach gives us a clear cost base to understand the cost of acquiring a pet. Once we have this insight, we can make decisions on how best to deploy our capital.

PAC spend across each P&L is built up in layers with each component driving lead volume (market awareness and interest), improving conversion rate, or supporting the first 90-day member experience (the point at which our churn is greatest). With each layer, the team then considers geography, breed and value proposition (if our pricing is right) before investment is made. Each P&L requires a different focus; some may be early stages of development, some may have higher lead volume with lower conversion and some may have a currently mispriced product, leading us to lower spend. In the quirky world of pets, sometimes we see higher cat enrollment rates versus dogs and this again influences our decisions. The individual P&L growth characteristics can shift quickly depending on key operating metrics. It is the role of each P&L growth owner to understand which levers to pull and push. When spend is higher, we tend to see the sales funnel widen – raising awareness of the need for pet insurance and the rationale behind choosing Trupanion. When spend reduces, we double down our focus on the businesses with the highest returns and painstakingly work to grow from the ground up. In both instances we grow, yet our learnings are less broad – which is good in the short term but in an underpenetrated market, we don't aspire to grow slowly. In fact, if our AOI continues to grow at the high rates we aspire to, we will soon have hundreds of millions of dollars available each year to grow the business. Over time, I expect we will continue to learn, refine and reapply concepts and tactics to drive efficiency. While more investment helps to drive faster growth, it's critical that any step up in spend is managed thoughtfully.

Retention for Core Trupanion Brand

Amidst the backdrop of unprecedented inflation and hard, but necessary, pricing increases, retention remained strong. As you have heard us say before, pets are not discretionary. For our members, they are part of their family, and in times of rising cost of care, the need for Trupanion is even greater!

In 2023, we retained about 301,000 pets that received a rate change of 20% or more within our core Trupanion business. Average monthly retention for this group was 98.28%. While this is lower than our average retention throughout our history, it is a high level given the magnitude of a 20%+ rate change, and it further illustrates the stickiness of our product. We believe that the average subscriber life of a Trupanion member is twice that of the industry average, which illustrates the value of our product and service.

2023 Churn	Active pets at year end	Number of cancelled pets	Distribution	Monthly churn	Monthly retention rate	YoY Change
No rate change	179,511	51,883	19.49%	2.47%	97.53%	-0.12%
Rate Change < 20%	441,069	64,592	47.88%	0.99%	99.01%	-0.04%
Rate Change >= 20%	300,551	33,728	32.63%	1.72%	98.28%	-0.18%
Total	921,131	150,203	100.00%	1.42%	98.58%	-0.12%

As seen above, improving retention among our members who are new to Trupanion remains our biggest area of opportunity. Last year, we took a step back in this regard. The transition to our new policy administration and claims adjudication platform has taken time to put in place and impacted what historically have been unprecedented service levels. With the migration now almost behind us, we look forward to making strides towards once again delivering the service levels for which we are known.

New Products and New Geographies

This seems an appropriate time to re-introduce the topic of mix. Recall in our shareholder letter last year, we commented: “a pet is not just “a pet”. Ten thousand new pets with an average lifetime value of $700 are worth 100% more than 10,000 new pets with an average lifetime value of $350. So, although we are agnostic to where we invest to acquire new pets, each channel, product, or region must stand on their own and hit our internal rate of return target.” This year we took strides towards breaking down our metrics across our various products and channels to highlight the influence these new products, channels, and, eventually, geographies will have on our subscriber metrics.

In 2023, approximately 12% of our new pets came from Furkin, PHI Direct and our ‘Powered By’ suite of products with Aflac and Chewy. Around 5% of new pets came from our entrance into a handful of markets in Continental Europe, where we are still operating through a third-party insurance underwriter (Managing General Agent or MGA). These products and geographies generally offer lower coverage and generate lower ARPU, lower retention, and a lower LVP. Today, the AOM and IRRs on these products are negative, but we expect them to generate similar internal rates of return as our core Trupanion offering at scale.

	Full Year 2023			
	Total Sub Segment	Trupanion Core	Other North American Products	Managing General Agent Products
Gross new pets	286,700	237,800	34,500	14,400
New pet ARPU	$61.92	$65.45	$37.61	Not included in our per pet metrics given MGA underwriting structure
Pet acquisition cost	$228	$242	$138	
Retention*	98.63%	98.66%	94.35%	
Average subscriber life (in months)*	73.0	74.6	17.7	
Estimated profit per pet per month*	$7.48	$7.97	Not at scale	
Margin per pet*	12.1%	12.2%		
Pet lifetime value*	$546	$595		
IRR (new methodology)**	36%	37%		

*Calculated on a trailing 3-year basis, Other North America Products since inception
**New methodology calculates LVP based on new pet ARPU in the period while using a trailing 3-year basis for retention and profit per pet

In Europe, we spent roughly $3 million dollars to add approximately 14,400 new pets in 2023. International expansion remains a key part of our 60-month plan, as we have more than doubled our addressable market to over 50,000 veterinary hospitals--a key metric in our 60-month plan. Our international team has made significant progress, and we expect to launch a Trupanion-branded product in Europe this year.

Of course, not every international endeavor has resulted in a direct route to market. After many months researching the opportunity in the Japanese market, we made a mutual decision with our partner, Aflac, to withdraw our intended market entry. After studying the environment, quite simply it was clear to us that such an expansion does not meet our return hurdles--at least not today. Japan may well still be an opportunity in the future, and regardless, we remain excited about our partnership with Aflac in the US.

We are often asked why take the international route today if North America is such an underpenetrated market. With such a limited upfront investment and already some meaningful contributions, we are looking forward to demonstrating what we believe this well-timed expansion will bring. We believe we are building a foundation for decades of growth and believe the timing is right to move now, not later.

A Quick Update on New Products

In addition to international expansion, we outlined a number of initiatives that we would be launching as part of our 60-month plan. Here's an update on how they're going so far.

Insurance Products: It has been three years since we launched our lower cost insurance options in Canada. PHI Direct and Furkin have made good progress over the last year and are set to break-even in the coming 12 months. These two newer, direct-to-consumer market entrants took some time to come into their own, with the team learning the discipline of starting up new products on a cost basis significantly smaller than the core Trupanion product (as any start-up should). Our learnings have spanned from lead generation, conversion improvement, and, most recently, retention focus. The most critical part has been adjusting to run a fledgling business efficiently enough to make a return within our 30-40% IRR guardrails. Our expectation is that these products will drive an increasing portion of our growth rate in the Subscription Business and will be contributing strongly within our core operating guardrails of AOM (15%) and IRR (30-40%) over the coming years.

Complementary Products: The six building blocks of our 60-month plan include a potential GPS-device for locating lost pets and our pet food initiative. Progress on the GPS-device was put on pause a couple of years ago, as we patiently wait for technology to catch-up with our intent. We intend to continue on our GPS journey in good time when the costs and size of the units both reduce. We will report on progress when there's news to share.

Food: We have been very pleased with progress across this program in the last 12 months. To date, our investment in this area has been very modest. We expect to be in development mode for many months to come. For competitive reasons, we are not sharing more information on this initiative at the moment.

Aligned Partners

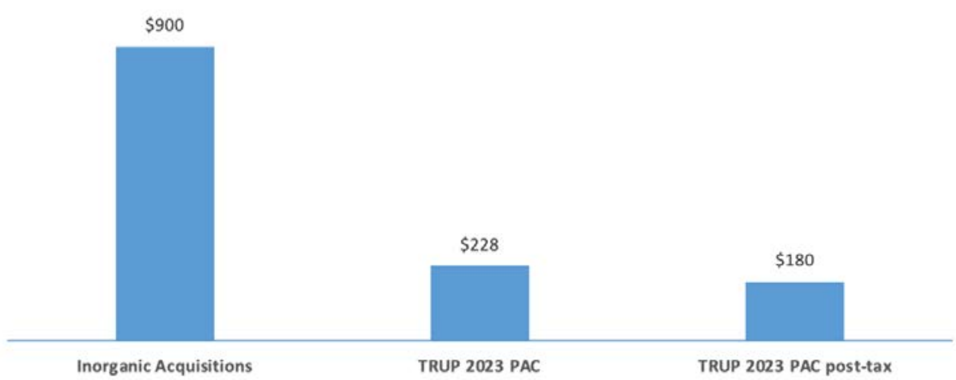
We recognized several years ago that for a category to move from early adopter to mass market, a brand needs to increase reach; in our case, reach to pet parents. Our partnership with veterinarians is symbiotic, and our expectation is consistent for every partnership or distribution channel we develop. Our partnerships with State Farm, Aflac, and Chewy are built on that premise. We are aligned in our desire to educate the next generation of pet parents about the concept of insuring their pets with an endorsement from a brand they know and trust--a partnership that helps grow each business, equally, and helps solve our mission. We understand that any good partnership works best when there is true alignment, and we work hard with all of our partners to ensure a win-win.

Our distribution strategy is simple. We start with the veterinarian and then layer on channel and partners to enhance our reach. In that sense, any partner we introduce is intended to complement our distribution and reach to new pet parents (for example home/auto insurance, worksite & retail). For each of them, we introduce a new element to their business--expertise in high-value medical insurance for pets and sustainable monthly recurring income. There is a less tangible benefit to our collaboration; people don't gamble on the health of their pet. Associating a brand with the protection of a beloved family member creates a powerful brand affinity. It is hard and takes time. Introducing distribution channels is rarely straightforward. Each one comes with a new set of learnings. For competitive reasons, we've stayed away from commenting on the individual P&L performance, but it's fair to say that so far we have seen mixed performance. That said, our accountability to you, our shareholders, means we are committed to returning results at, or close to, our target operating metrics (revenue, adjusted operating income, lifetime value, and IRR) for each and every partnership. Over the next 12-18 months, we would expect each of these partnerships to be operating close to the margin profile and the returns that we see in our core Trupanion product. We look forward to updating you as our growth engines kick back in, in full force.

Why We Love Organic Growth

There has been a substantial increase in acquisition activity within the pet insurance industry over the past 3 years, driven predominately by one multi-billion-dollar investment entity. As of December 2023, the JAB Holding Company disclosed that they invested $4.9 billion into acquiring over 20 pet insurance brands (source). Since then, JAB closed an additional acquisition, Pets Best, a long-time business partner of ours. Based on our estimates, most industry transactions have been completed at an approximate cost of $900 per pet or above. While we have no doubt that JAB has a plan to organically grow these businesses in an efficient manner and thereby lower the final bill on a per-pet-basis, these acquisitions further solidify the attractiveness of our vet-centric organic growth model, as the figure below shows. We believe our cost of organically acquiring pets is significantly lower than the cost of acquiring a pet insurance company at current market values.

Pet Acquisition Cost



This is especially true when you consider our PAC spend in relation to our per pet lifetime value. We believe our retention is industry leading and drives a highly attractive per pet lifetime value.

Let us review why that might be the case and what makes Trupanion unique. Our approach to the market comes through a field team we call territory partners. We fundamentally believe that support from veterinarians is critical to driving broader acceptance of medical insurance for pets in North America. We have built our success around this belief, making pet owners aware of our solution through our territory partners to educate veterinarians about the benefits of high-quality medical insurance for their clients. Territory partners build relationships and trust with veterinarians as the local face of Trupanion. This approach has not changed since our founding. Our field team is now 185 strong, and last year we visited an estimated 26,900 hospitals. Throughout our history, we have made approximately 1,200,000 face-to-face visits.

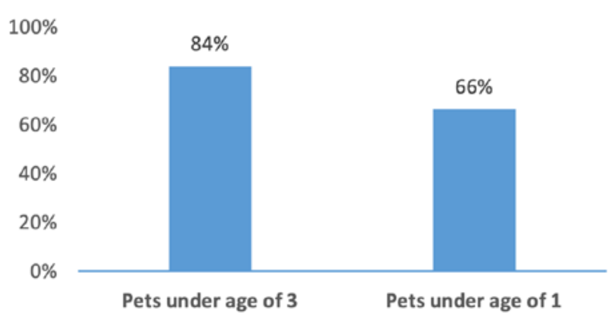
	Number of countries we are in	Number of hospitals in those countries	Number of territory partners and associates	Estimated number of hospitals we are visiting every 60-90 days*	Estimated aggregate number of face-to-face visits	Actual average number of active hospitals**	Actual average number of new pets per active hospital per month**	Number of hospitals with software ***
2012	2	25,000	34	15,000	262,000	5,034	0.918	n/a
2013	2	25,000	40	16,200	324,000	5,531	1.008	n/a
2014	2	25,000	58	15,400	404,000	6,098	1.053	n/a
2015	2	25,000	84	19,000	490,000	7,359	1.093	n/a
2016	2	25,000	105	21,300	577,000	7,875	1.066	n/a
2017	2	25,000	107	19,800	662,000	8,242	1.063	n/a
2018	2	25,000	123	20,200	751,000	9,279	1.133	3,184
2019	3	28,000	130	21,600	852,000	10,315	1.141	4,534
2020	3	28,000	152	17,200	909,000	11,517	1.199	5,442
2021	3	28,000	161	17,000	971,000	14,736	1.260	6,430
2022	7	41,000	159	22,900	1,066,000	15,942	1.332	7,965
2023	9	58,000	185	26,900	1,191,000	15,914	1.376	9,504

*Per the data available. Hospitals are added when we get a new enrollment from a new hospital that we haven't seen before or if we're alerted by a territory partner that a new hospital has opened up in their area.
**North America only.
***Includes all hospitals with the ability to pay the veterinarian directly, through vet portal (software), vet portal lite (software lite) and PIMS integrations.

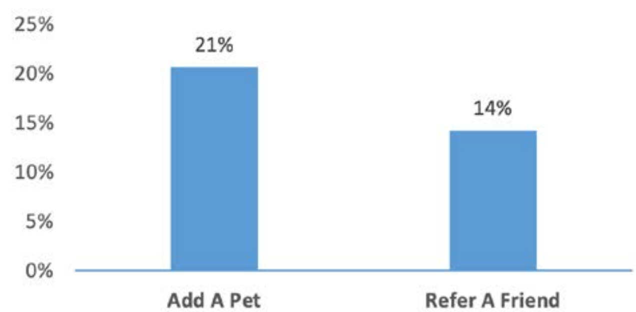
This veterinary alignment creates further benefits in support of the greatest lifetime value. 84% of subscription pets enrolled in 2023 were under the age of 3 and 66% were under the age of 1.

Percentage of 2023 Gross New Pets for Core Trupanion Product

By Age of Pet



From Add a Pet and Referrals



Our focus on the vet channel supports our intent to bring in young pets. Members with pets of this profile have the best possible experience: commonly healthy young puppies and kittens with no pre-existing conditions. When matched with our incredibly broad coverage, this combination allows us to pay invoices without hesitation and often directly to the veterinarian. This world-class experience drives our higher retention, and thus our higher lifetime value per pet. It also is a key component of our organic member growth through referrals and "Add a Pet".

Darryl's Thoughts

Tax Efficiency of Organic Growth and Effect on Compounding

A further benefit of organic growth is tax efficiency. Our pet acquisition costs are fully expensed in our GAAP income statements as well as for our taxable income. If we were to acquire a pet insurance company, we would not be allowed to expense that cost in the same way for tax purposes. As a result, it makes sense to think of our PAC on an after-tax basis. Assuming a tax rate of 21%, this means that our $228 PAC amounts to $180 on an after-tax basis, further delineating pet acquisition cost between our organic growth model and that of a predominately acquisition model.

Tax efficiency is even more impactful when combined with our high rates of growth and a long-term mindset. Paying taxes every year at a rate of 21.0% will turn a 25.0% pre-tax CAGR into a 19.8% post-tax CAGR. If one can grow for 15 years and delay taxes to the end of that term, it would result in a 23.1% CAGR. If you are compounding $100 this way, you will have $2,266 after 15 years when you are able to defer taxes, 52% higher than the $1,493 you will have when you pay taxes each year. The ability to fully expense our pet acquisition costs allows us to defer taxes in a similarly efficient manner.

Compounding at 25% while paying taxes annually			
	Pre-tax gain @ 25%	Taxes @ 21%	Ending Value
			100.0
Year 1	25.0	(5.3)	119.8
Year 2	29.9	(6.3)	143.4
Year 3	35.9	(7.5)	171.7
Year 4	42.9	(9.0)	205.6
Year 5	51.4	(10.8)	246.3
Year 6	61.6	(12.9)	294.9
Year 7	73.7	(15.5)	353.1
Year 8	88.3	(18.5)	422.9
Year 9	105.7	(22.2)	506.4
Year 10	126.6	(26.6)	606.4
Year 11	151.6	(31.8)	726.2
Year 12	181.5	(38.1)	869.6
Year 13	217.4	(45.7)	1,041.3
Year 14	260.3	(54.7)	1,247.0
Year 15	311.7	(65.5)	1,493.3
After-tax CAGR			**19.8%**

Compounding at 25% while paying taxes in final period			
	Pre-tax gain @ 25%	Taxes @ 21%	Ending Value
			100.0
Year 1	25.0	0.0	125.0
Year 2	31.3	0.0	156.3
Year 3	39.1	0.0	195.3
Year 4	48.8	0.0	244.1
Year 5	61.0	0.0	305.2
Year 6	76.3	0.0	381.5
Year 7	95.4	0.0	476.8
Year 8	119.2	0.0	596.0
Year 9	149.0	0.0	745.1
Year 10	186.3	0.0	931.3
Year 11	232.8	0.0	1,164.2
Year 12	291.0	0.0	1,455.2
Year 13	363.8	0.0	1,819.0
Year 14	454.7	0.0	2,273.7
Year 15	568.4	(575.9)	2,266.3
After-tax CAGR			**23.1%**

Long-Term Sustainability of Our Growth

Now that we have made a case for the attractiveness of our organic growth model, let us revisit our long-term growth plans. As previously discussed, the goal of our 60-month plan is to grow intrinsic value per share by 25% per year. Longer term, in our large and underpenetrated market, we are happy to grow 20% per year. Historically, growing intrinsic value at 20% necessitated revenue growth of 20%. However, in the very long term, this could change. We could provide our investors with a total shareholder return of 20% by growing revenue 15%, for example, and generating excess cash flow that we return to investors. With that qualification out of the way, let us look at how we could get there by growing revenue and AOI at 20%. In such a revenue scenario, we can reasonably expect ARPU growth over this timeframe to approximate 5-6% per year, a conservative assumption given our historical experience. Assuming we agree, this requires subscription pet count to grow 14% per year. Let's look at what this means for subscription revenue, ARPU, and net pet growth in 5 years, 10 years, and 15 years.

	2023	Year 5 @ 20% CAGR	Year 10 @ 20% CAGR	Year 15 @ 20% CAGR
Subscription revenue @ 20% growth (in $ millions)	713	1,774	4,414	10,984
ARPU @ 5.5% growth	$65	$85	$111	$146
Implied net pet growth %		13.8%	13.8%	13.8%

These assumptions would imply that in 5 years, we would insure an average pet count of 1.7 million. The same growth rate would imply an average pet count of 3.3 million in 10 years and 6.3 million in 15 years. In 5 years, we would need to sign up around 500,000 pets per year in order to keep growing at 20%. In 15 years, this number would be 1.8 million. We arrived at this by assuming monthly retention consistent with our 10-year historical average of 98.6%. This provided us with cancellations that were added to our implied net pet count.

	2023	Year 5 @ 20% CAGR	Year 10 @ 20% CAGR	Year 15 @ 20% CAGR
Implied average subscription pets enrolled (excl. MGA)	907,874	1,733,197	3,299,832	6,282,547
Implied net new pets	109,931	210,254	399,517	760,140
Cancellations @ 98.6% monthly retention	162,352	291,177	554,372	1,055,468
Implied gross new pets	272,283	501,432	953,888	1,815,608

Following this methodology, the next logical question is whether it is reasonable to assume we can acquire pets at these high rates. To answer this question, we need to look at our addressable market.

Starting in North America, we have said that over 12 million puppies and kittens are born each year, or 1 million per month. Based on various data sources we have access to, the actual number is a bit higher than that, so let us go with 14 million. Assuming we're able to hit a 25% penetration rate for insured pets--or similar rates to that of the UK--this would equate to a potential market of 3.5 million new puppies and kittens each year.

Expanding our addressable market to include the much larger European market (we currently operate in Belgium, Czech Republic, Germany, Poland, Slovakia, and Switzerland) would at a minimum double our market size, 28 million puppies and kittens annually. Assuming the same 25% penetration of insured pets, this would result in a market of 7 million puppies and kittens per year. Projected growth of 20% over 15 years would necessitate capturing approximately 26% of this 7 million market by Year 15. That might be ambitious, but we believe these numbers showcase that we have a lot of room to grow until we reach a minimum of 1 million new pets per year.

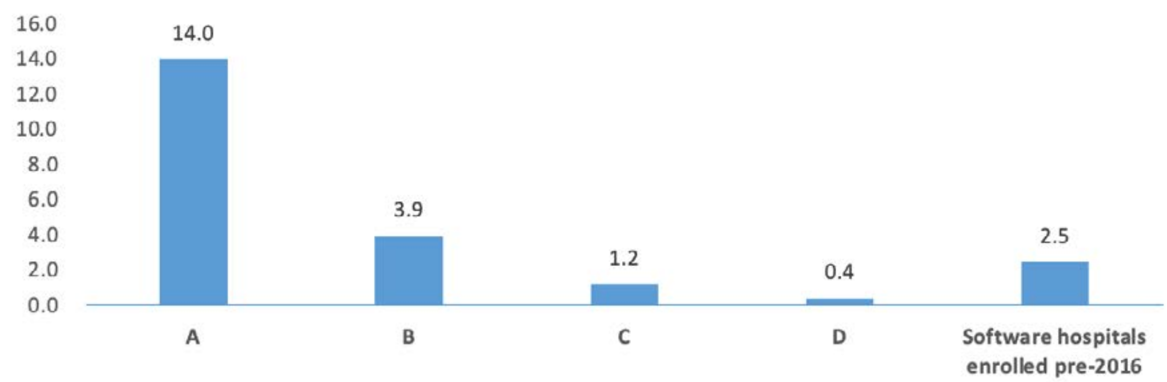
Now that we understand what pool of pets we need to bring into Trupanion, let's discuss how we go about acquiring these pets. The core of our acquisition model is, and is expected to remain, the veterinary channel. Growth in active hospitals (a veterinary hospital that enrolled at least one new pet in the previous 90 days), and same-store sales (new pets per active hospital per month), form the basis of our discounted cash flow model. Looking at our gross new pets forecast and implied active hospital count is somewhat illuminating.

	2023	Year 5 @ 20% CAGR	Year 10 @ 20% CAGR	Year 15 @ 20% CAGR
Implied gross new pets	272,283	501,432	953,888	1,815,608
Active hospitals @ 1.5 same store sales		27,857	52,994	100,867
Active hospitals @ 3.0 same store sales		13,929	26,497	50,434
Active hospitals @ 6.0 same store sales		6,964	13,248	25,217

If we add 1.5 new pets per active hospital per month (slighlty up from our current rate of 1.38), we will require about 28,000 active hospitals in 5 years, 53,000 in 10 years, and 101,000 in 15 years. Our current addressable market is approximately 58,000 hospitals. Thus, hitting the levels of growth we aspire to requires that we increase our current same-store sales. One could reasonably ask, what gives us the confidence in our ability to do so? The answer to this question requires we drill down into our current same-store sales data on a more granular basis. Across our 15,900 active hospitals in North America, we rank each hospital based on the number of pets that enroll with Trupanion in a given month. We rank our hospitals anywhere from an A hospital (enrolling 10 pets per month or more) down to a D hospital (less than 1 pet per month). Hospitals that did not enroll a pet in the prior three-month period are not included in our active hospital count.

As you will see in the chart below, our A hospitals are enrolling 14 new pets per month! B hospitals are also well over the threshold of 3.0 new pets per month. Hospitals that had direct-payment software installed for more than 8 years are also close to the 3.0 threshold already.

2023 Same Store Sales by Vet Hospital Ranking



We believe we will close this gap in same-store sales between the average active hospital and our best performing hospitals as we increase awareness of our products and further educate our vet partners.

Given the results of the last 20+ years, we have confidence to believe that our goals are both ambitious and attainable for many more years. We believe that the low market penetration of medical insurance for pets coupled with our vet-centric model allows for 20% revenue growth for at least another 10 years. Perhaps we could expect growth to slow once we would need to add more than 1 million pets per year.

DARRYL'S CASE STUDY:
UnitedHealth

Book Value

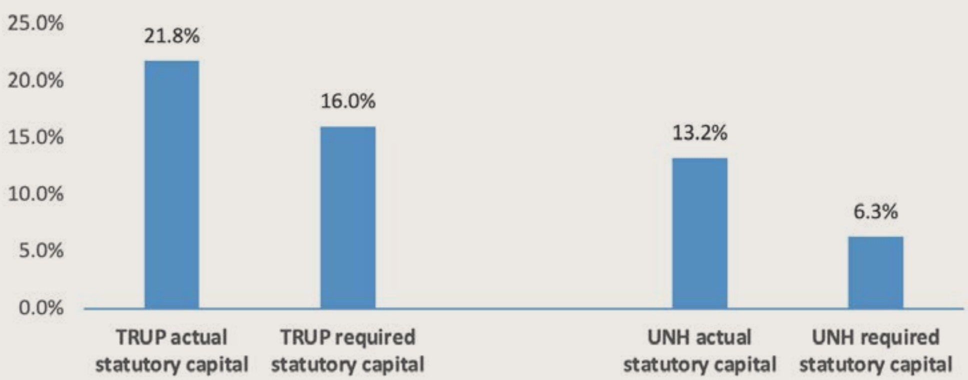
Investors sometimes argue that all insurance companies should be valued on book value, particularly tangible book value, which excludes goodwill and intangibles. Let's take a look at the second largest insurance company in the US by market cap (after Berkshire Hathaway), UnitedHealth (UNH). At the end of 2007, UNH had a book value of $20.1 billion and a tangible book value of $1.5 billion. UnitedHealth's market cap at the time was $79 billion, or 53x tangible book value. That seems quite high, but perhaps investors in 2007 were expecting tangible book value to grow considerably? To the contrary, by the end of 2023, tangible book value had gone from $1.5 billion to negative $24.5 billion. If growth in tangible book value was the expectation of investors, they got it wrong! And yet, between 2007 and 2023, UNH generated a total annualized return of 15.9% for investors. Compare this to the total annualized return of the S&P of just 9.8%, and perhaps tangible book value doesn't tell us everything.

Annualized Total Return from 12/2007 to 12/2023

Capital Requirements

Now to my second point on UnitedHealth, capital requirements. Today, pet health insurance is supervised by Property and Casualty (P&C) insurance regulators. Insured property within this category is often affected by cyclical and secularly changing weather events that are difficult to forecast. Because of this, P&C insurance companies are required to maintain high capital levels to handle potential catastrophes. These events are far less impactful within human and pet health. And yet, because of this P&C classification, we are currently held to much more stringent capital requirements than our human health counterparts. For example, UnitedHealth's required statutory capital as of December 2023 was $18.3 billion. This amounts to only 6% of the $291 billion premiums it earned in 2022. Trupanion's required statutory capital as of December 2023 amounts to 16% of the premiums we earned in 2023.

2023 Statutory Capital ÷ Premium Earned



Over the long term, I expect pet health insurance to grow and demonstrate to regulators that its business is different from typical P&C insurance companies. Ultimately, I expect this will result in a lowering of our capital requirements.

New Free Cash Flow Target

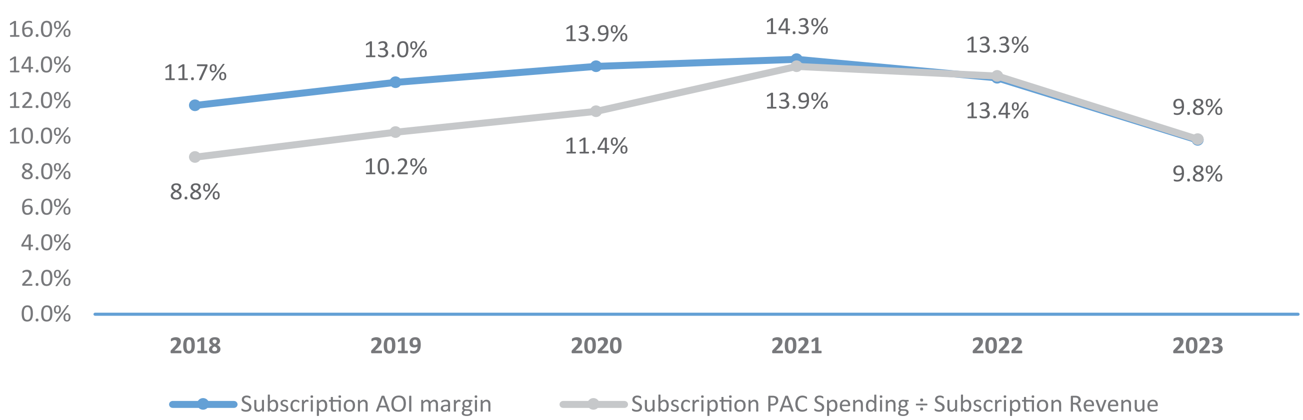
Revenue growth*	% of revenue required to self-fund capital requirements**	% of revenue held to meet minimum capital requirements**
10%	1.4%	14%
15%	2.3%	15%
20%	3.2%	16%
25%	4.3%	17%
30%	5.4%	18%
35%	6.7%	19%
40%	8.0%	20%

*The risk-based capital calculation is based off of a three-year average revenue growth rate.
**Assumes risk-based capital target remains the same year over year. Estimated based on 2022 experience. Minimum capital requirements are subject to change.

In last year's letter, we shared the table on the right, which shows the approximate amount of money we need to put aside to self-fund our capital requirements with zero debt and no re-insurance. As the growth of our Other Business segment starts to slow, it will lower both our total revenue growth and our capital requirements. Remember that our goal of growing intrinsic value per share at 20% to 25% heavily relies on our Subscription Business growth. As growth in our Other Business starts to slow, we expect the percentage of revenue required to self-fund our capital requirements over the medium term to fall somewhere between the 1.4% and 3.2%, shown in the table above.

The reduction of this capital need gives us a little more breathing room and positions us well when coupled with our new target for an annual free cash flow margin of 2.5% of total revenue. If we achieve this target, we believe we can simultaneously realize our growth plans and self-fund a required and consistent risk-based capital level.

While our new free cash flow target represents the margin on our total revenue, it is helpful to first look at our Subscription Business to understand how we will achieve this goal. Within this segment, the difference between our AOI and our PAC spending is the major determinant of our free cash flow (our Other Business has virtually no PAC spending). There are some additional cash flow items (development spending, transaction expenses, net interest expense, taxes, working capital changes, capital expenditures) that will impact this margin, but they are of lesser significance and some of these items offset each other (in most years we have a cash flow benefit from working capital as our business grows). To get a sense of how we can reach this new margin target, it makes sense to compare our subscription AOI margin to our subscription pet acquisition spending as a percentage of revenue. Over the last 3 years, these 2 items have been very close to each other.



If we are able to reach our AOI margin target of 15% and gradually deploy capital at the higher end of our IRR guardrails between 30-40%, we will "save" PAC spend that ultimately can support increases in cash flow. This is a trade-off we are prepared to make to strengthen our balance sheet. Cash preservation, coupled with the current high inflationary environment driving higher increases in ARPU, leaves less pressure on growth in pet count while still reaching our desired 20% growth in intrinsic value per share. We are excited about the new free cash flow margin target, as it will lessen our dependence on debt financing ("the kindness of strangers"). The challenges of 2023 have convinced us that we need this new guardrail to increase the antifragility of our company. A strong balance sheet will make our business even more predictable and increase the confidence we have in our intrinsic value.

Our Other Business

Our Other Business in 2023 grew revenue 28% year over year. Adjusted operating income grew 35% year over year to $13 million. The majority of the business in this segment has been driven from a third party, Pets Best Insurance Services, whom we have partnered with for several years.

Trupanion - Other business *(in $ millions)*	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	**$12.4**	**$13.6**	**$14.9**	**$24.3**	**$40.2**	**$62.8**	**$114.3**	**$204.1**	**$308.6**	**$395.7**
YoY Change	*67%*	*9%*	*10%*	*63%*	*65%*	*56%*	*82%*	*79%*	*51%*	*28%*
Minus paying veterinary invoices	($5.7)	($7.9)	($8.9)	($14.6)	($23.5)	($38.5)	($72.1)	($129.6)	($212.9)	($287.9)
Minus paying variable expenes	($5.2)	($4.4)	($4.7)	($8.2)	($13.1)	($18.3)	($33.1)	($57.4)	($72.5)	($75.8)
Minus paying fixed expense	($2.1)	($2.0)	($1.5)	($2.0)	($2.7)	($3.6)	($6.2)	($9.6)	($13.4)	($18.7)
Discretionary Profit (AOI)	**($0.6)**	**($0.8)**	**($0.2)**	**($0.5)**	**$0.9**	**$2.4**	**$3.0**	**$7.5**	**$9.9**	**$13.4**
YoY Change		*33%*	*-70%*	*97%*	*-305%*	*-157%*	*29%*	*146%*	*32%*	*35%*
Discretionary Profit Margin (AOM)	*-4.8%*	*-5.7%*	*-1.5%*	*-1.8%*	*2.3%*	*3.8%*	*2.7%*	*3.7%*	*3.2%*	*3.4%*
Capital deployed to acquire new pets (PAC)	$0.1	$0.1	$0.2	$0.2	$0.4	$0.4	**$0.8**	**$0.5**	**$0.6**	**$0.2**
YoY Change		*-25%*	*134%*	*0%*	*64%*	*20%*	*70%*	*-58%*	*42%*	*-57%*
Cash after new pet aquisition	**($0.7)**	**($0.9)**	**($0.4)**	**($0.7)**	**$0.5**	**$2.0**	**$2.2**	**$7.0**	**$9.3**	**$13.2**
Other uses of Cash										
Cash generated / (Cash used)							**$2.2**	**$7.0**	**$9.3**	**$13.2**

In last year's letter, we outlined the agreement with Pets Best and their decision to move business to other underwriters. We expected that the result of this agreement would have a negative effect on topline growth. However, their ongoing process with new underwriters has taken longer than expected, and the Other Business grew at 28% in 2023. As previously discussed, in the midst of this transition, Pets Best was in the process of being acquired by an investment company with a large business in the pet insurance space. With the acquisition now closed, there remains some uncertainty around the timing of this transition, but we believe that 2023 will represent a peak in terms of percentage of revenue coming from the Other Business. While this segment is very meaningful in terms of its revenue contribution, its AOI margins are significantly lower than the margins within our Subscription Business. As growth in the Other Business slows, the corresponding impact on our adjusted operating income, and thus intrinsic value, is not overly meaningful. More favorably, the slower growth should lessen our capital requirements for the entire company (as discussed in the previous Free Cash Flow section).

Intrinsic Value per Share

In our 2019 Shareholder Letter, you'll recall our discounted cash flow (DCF) analysis, which included a 15-year forecast of the total cash generated from our subscription pets and our "Other Business" pets. For reference, please see the original table below, updated for our actual results thus far:

	Monthly cash generated from the average subscription pet	Total Pet Months	Total cash generated subscription pets	Total cash generated other pets	Total cash generated
2018 Actual	$5.74	4,843,808	$27.8M	**$0.5M**	$28.3M
2019 Actual	$6.85	5,575,676	$38.2M	**$1.7M**	$39.9M
2020	$7.78	6,407,329	$49.9M	$1.6M	$51.5M
2021	$8.47	7,280,343	$61.7M	$2.3M	$64.0M
2022	$9.18	8,242,219	$75.6M	$3.1M	$78.7M
2023	$9.81	9,304,305	$91.3M	$4.0M	$95.3M
2024	$10.32	10,479,007	$108.1M	$4.8M	$112.9M
2025	$10.86	11,781,547	$127.9M	$5.7M	$133.6M
2026	$11.43	13,230,666	$151.2M	$6.9M	$158.1M
2027	$12.04	14,850,112	$178.8M	$8.2M	$187.0M
2028	$12.68	16,667,751	$211.4M	$9.9M	$221.3M
2029	$13.37	18,707,901	$250.1M	$11.8M	$261.9M
2030	$14.09	20,997,766	$295.9M	$14.3M	$310.2M
2031	$14.86	23,567,914	$350.1M	$17.2M	$367.3M
2032	$15.67	26,452,650	$414.4M	$20.8M	$435.2M

Total $289.5 M

Actual cash generated*

$52.1 M
$70.8 M
$81.0 M
$76.6 M

Total $ 280.5 M

Difference - $9.0 M

*Actual results are based on our AOI and a capital charge. The capital charge is an estimate of capital cost; it does not represent the actual net interest expense in the period.

You might recall from our 2019 letter that we use a 3-year historical average of our subscription gross margin to estimate future cash flows for our intrinsic value per share calculation. With our 3-year average subscription AOI margin declining from 13.9% to 12.5%, it is fair to say that we did not grow shareholder value last year. In fact, for the first time in our company's history, intrinsic value per share took a step backwards.

While ideally (and indeed in the original planning for this shareholder letter), we would provide an update to our intrinsic value per share, as anyone knows when building a discounted cash flow model, it requires confidence in the future. While our revenue growth has remained consistent, our recent challenges with margin compression make this modeling exercise less relevant. We expect our intrinsic value to recover as we restore AOI margins.

Darryl's Thoughts

Dilution

Few people understand dilution better than I do. Consider that when I started Trupanion in Canada (then called Vetinsurance), I owned 100% of the company. We were a marketing company, as we used a third-party underwriter. The value proposition to our members was only 60%, as we had to pay 10% to our underwriter at the time. Six years later, before making the decision to enter the United States, I owned approximately 75%. In 2007, I raised $12 million in venture capital and $10 million in debt to expand into the United States and to become our own underwriter--absolutely the right call in our mission to help more pets and to provide a better value proposition to these pets. This move took my ownership from approximately 75% to 20%.

In 2014, we raised approximately $70 million of capital in our initial public offering, in part to invest in our patented software that would allow us to be the only company in North America with the capability to pay veterinarians directly at the time of checkout, in seconds. Once again, the right call! My ownership position was approximately 8% by that time.

In 2018, we issued equity to purchase our headquarter building. Many insurers can use the equity in their building towards their capital requirements, which lowers the economic cost of such acquisitions. And lastly, in 2020, we received the investment from Aflac, which helped power the growth initiatives in our 60-month plan. At the end of 2025, because of the Aflac investment, we will have multiple products, in multiple channels, and in multiple countries. We will also have alignment with the largest publicly traded supplemental insurance company in the United States. Once again, I believe this was the right call.

At the time of the IPO, I made a decision to create a 10-year plan to diversify slowly, so that by 2025, 20% of my family's net worth would be outside of Trupanion. I ran that 10b5-1 plan for 8 years, and only cancelled in 2023, when I could not justify selling shares significantly below what I believed to be our intrinsic value. The combination of these equity events, and the decision to diversify my families' holdings, has resulted in an equity ownership position in Trupanion today of approximately 3.4%.

Expanding Trupanion and improving our value proposition and customer experience to help more pet owners and veterinarians was the right decision, and I would make it again. Had I not taken any of these actions, I would own a larger percentage today of a far less valuable company. We take dilution seriously, as dilution can be very expensive if used in the wrong way. The returns I expect from building and retaining our fantastic team should vastly exceed the cost of dilution of any performance pool that we decide to grant.

Our Team

Let's discuss compensation. We always want to pay team members the maximum we can afford to pay, living within our guardrails, based on the value that they create. When the aggregate value created exceeds 10% year over year, and in particular, when the value created exceeds 20% year over year, more is shared back with the teams responsible for driving outsized performance. It is also important to note that when we look at value created, we look at it on per-share basis to account for the effects of dilution. From 2016 to 2021, our team exceeded the threshold (see table below) and benefitted from the distribution of a substantial share pool. Our 2022 and subsequent 2023 results did not meet the same growth threshold.

Performance Grant Program

Yet, recall earlier we highlighted that our results in 2023 don't tell the whole story. Our margin shortfall tested our balance sheet in 2023, and our team worked diligently, making tough decisions to bring our margins back on track and avoid dilution. Because of the team's efforts, the company is back on stable footing with a pathway to meet our desired growth targets. We are pleased with the progress that has been made and what the team has accomplished in the past year. As such, we elected to reward them for their efforts by awarding a grant pool worth $18 million after not awarding any performance grants in 2022. We believe the cost of this dilution is outweighed by its returns, which are retaining and growing our team, as well as our newly strengthened position due to the team's response to unprecedented inflationary pressures in 2023.

We recognize this is a deviation from our historical policy where we granted performance-based compensation only when our intrinsic value per share increased by more than 10%. Yet we believe it was the right decision to show our appreciation for our dedicated team.

As noted, we take dilution seriously, and as large shareholders, we felt it appropriate to reward the team for righting the ship. Over the next few years, as we anticipate returning to growing our intrinsic value per share by 20% to 25% per year, it is our intention to deduct this compensation from future performance pools to ensure that our long-term shareholders only see dilution consistent with our previously published table of sharing a percentage of value creation with the team if they outperform.

YoY increase to intrinsic value @ the enterprise level	Overall company performance pool %	Net increase in intrinsic value per share
1 - 10%	0.0%	1 - 10%
11%	0.3%	10.7%
12%	0.3%	11.7%
13%	0.4%	12.6%
14%	0.4%	13.6%
15%	0.5%	14.5%
16%	0.6%	15.4%
17%	0.7%	16.3%
18%	0.8%	17.2%
19%	0.9%	18.1%
20%	1.0%	19.0%
21%	1.1%	19.9%
22%	1.3%	20.7%
23%	1.4%	21.6%
24%	1.6%	22.4%
25%	1.7%	23.3%
26%	1.9%	24.1%
27%	2.0%	25.0%
28%	2.2%	25.8%
29%	2.3%	26.7%
30%	2.5%	27.5%

Team Ownership

Equity ownership lies at the heart of our compensation philosophy, serving as a link between our team members and the long-term interests of our shareholders. As of September 30th 2023, our team members, excluding Darryl, collectively held approximately 4% of Trupanion's outstanding shares, a testament to our shared commitment to thinking and acting like owners.

This ethos extends similarly to our board members, whose compensation is predominantly structured around equity. Among them are individuals deeply invested in Trupanion's success, such as Max Broden, CFO of Aflac, and Richard Enthoven, who is associated with Tarmac, the investment entity holding approximately 8.6% of Trupanion's shares as of November of 2023. Both Max and Richard joined the Board in 2023, as did Paulette Dodson and Betsey McLaughlin, adding talent and valuable expertise to this group.

It would be remiss at this point to not make a special call out to Dan Levitan, who after 16 years of dedicated service, will not seek re-election in June. Dan has been an integral part of our journey since leading our Series A round in 2007, expanding Trupanion from Canada to the United States. We express our deepest gratitude to Dan for his unwavering commitment and invaluable contributions over the years.

We also want to thank Zay Satchu, who will also be stepping down in June, for her contributions as a board member over the years.

Margi's Conclusion

As I look ahead, I reflect on the lessons we learned in 2023. After a faltering start with decreasing margins, the team re-set, reorganized, and grew. This collaboration and almost real-time adjustment enabled us to close out the year in a far stronger position than we started it. As a business that has sustained double-digit growth in subscription revenue and pets for two decades, throttling back our growth engine required us to flex the far less developed muscle of cash preservation. The teams did this artfully, and the results were commendable. I am proud of the team and their response to the challenges of last year.

Considering the lessons of 2023 and the tenacity and spirit of the team, it's clear that Trupanion is coming of age. We have been evolving to become more effective, deliberate, and precise in how we operate. 2024 will be the real testament of our learnings, as we continue forward with the intent of driving toward our target margin and eventually, when margins allow, a return to the velocity of pet growth in service of our mission, closer to that which we have become accustomed.

A market that is heavily under-penetrated and has clear potential for decades of double-digit topline growth presents a great opportunity, and it's one we appreciate our shareholders have also recognized. Historically, our growth rate has leaned largely into adding pets. In fact, typically, this has been the largest contributor to our growth rate over time, but we understand that 20% growth in intrinsic value per share can come in different ways for our shareholders. 2024, for example, will lean more heavily on growth in ARPU than has typically been the case, as I expect the rapid veterinary inflation to transition from a margin headwind to a tailwind in our business.

As we continue to grow and mature, we recognize our growth levers will modulate and expand. We don't always anticipate every dollar will be reinvested to add pets (although the majority likely will), when we know the longer-term benefit to our mission is to enhance our balance sheet, enabled by our new free cash flow target. We are excited to do this for the long-term benefit of Trupanion and all of those in our ecosystem.

On behalf of Darryl and myself, we would like to thank our shareholders who continue to believe in the integrity of the company. Prior to the margin compression that we have all endured, our top 20 holders owned slightly over 70% of the company (based on S&P data). As of the writing of this letter, our top 20 holders own over 90% of the company. After soldiering on through a difficult two years, I believe our shareholders will finally experience the benefits from improved execution, margin expansion, and strengthened results overall.

I expect the journey forward to be challenging, yet ultimately rewarding. Before the year is out, we expect to cross the significant milestone of $3 billion veterinary invoices paid to our global member base. Hundreds of thousands of pets are healthy because of what we collectively do each day. It's this very mission that drives us forward and gives us the greatest belief in our alignment with the veterinary community and, ultimately, our ability to achieve our bold mission.

Kuyashii,

Margi

Darryl Rawlings
Chief Executive Officer
& Chair of the Board

Margi Tooth
President

END NOTES

This letter and other publicly available reports include certain non-GAAP financial measures. These non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in its industry as other companies in its industry may calculate or use non-GAAP financial measures differently. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact on Trupanion's reported financial results. The presentation and utilization of non-GAAP financial measures is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP. Trupanion urges its investors to review the reconciliation of its non-GAAP financial measures to the most directly comparable GAAP financial measures in its consolidated financial statements, and not to rely on any single financial or operating measure to evaluate its business. These reconciliations are included within our Supplemental Financial Information provided on Trupanion's Investor Relations website.

Our internal rate of return is calculated assuming the new subscription pets we enroll during the period will behave like an average subscription pet. Cash outflows from an average pet include average pet acquisition cost for the applicable period. Cash outflows also include a monthly capital charge, which we estimate as 1% of the monthly average revenue per pet for the four quarters preceding the period end date. Cash inflows from an average pet are calculated based on subscription revenue less cost of revenue from our subscription business segment for the 12 months prior to the period end date excluding stock-based compensation expense related to cost of revenue from our subscription business segment, sign-up fee revenue and the change in deferred revenue, minus fixed expenses related to our subscription business, which are the pro-rata portion of general and administrative and technology and development expenses, less stock-based compensation, based on revenues. Further details on the calculation for 2023 are included within our Supplemental Financial Information provided on Trupanion's Investor Relations website. Because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact a company's non-cash expenses, Trupanion believes that providing various non-GAAP financial measures that exclude stock-based compensation expense and depreciation and amortization expense allows for more meaningful comparisons between its operating results from period to period. Trupanion offsets new pet acquisition expense with sign-up fee revenue in the calculation of net acquisition cost because it collects sign-up fee revenue from new members at the time of enrollment and considers it to be an offset to a portion of Trupanion's new pet acquisition expenses. Trupanion believes this allows it to calculate and present financial measures in a consistent manner across periods. This letter also presents new pet acquisition expense on an after-tax bases, which management believes facilitates comparisons to companies that grow inorganically. Trupanion's management believes that the non-GAAP financial measures and the related financial measures derived from them are important tools for financial and operational decision-making and for evaluating operating results over different periods of time.

DISCLAIMER

This letter contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and section 27A of the Securities Act of 1933, as amended (Securities Act). All statements contained in this letter other than statements of historical fact, including statements regarding lifetime values of a pet, discounted cash flows and our intrinsic value model, our 60-month plan, our capital allocation strategies, effects of inflation, future results of operations and financial position (including ARPU, AOM, AOI, IRR, PAC, new pets enrolled, retention and churn, active hospitals, international expansion, veterinary invoices, and variable and fixed expenses) our business strategy and plans and our objectives for future operations.

In particular, this letter discusses our internal discounted cash flow model, and you should regard substantially all parts of this discussion as forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “model,” “plan,” “potentially,” “predict,” “project,” “target,” “will,” “would,” and similar expressions that convey uncertainty of future events or outcomes, are intended to identify forward-looking statements.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including risks relating to:

• our net losses since inception, our ability to maintain revenue growth, maintain profitability, obtain returns on our investments in pet acquisition, and other financial risks;

• our ability to attract online visitors, grow or member base, and maintain retention rates;

• our ability to maintain relationships with Territory Partners, veterinarians and strategic partners;

• our ability to remain competitive and maintain brand recognition;

• our ability to scale our infrastructure, manage our growth, budget for veterinary invoice expenses, and other business risks;

• our other business;

• security breaches, payment processing, and related technology and intellectual property matters;

• compliance with risk-based capital and other regulations;

• litigation or regulatory proceedings;

• dependence on key personnel;

• compliance with covenants in our credit agreement;

• international operations, including exchange rates;

• investments or acquisitions, owning an office building, and other strategic matters;

• tax, accounting and general economic matters;

• being a public company;

• ownership of our common stock; and

• those described under the heading “Risk Factors” in our Annual Report on Form 10-K and other filings we make from time to time with the Securities and Exchange Commission.

Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this letter may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely on forward-looking statements as predictions or guarantees of future events. Although we believe that the assumptions and expectations reflected in the forward-looking statements are reasonable based on our historical experience, these assumptions and expectations involve significant judgment and uncertainty, and in some cases these assumptions and expectations (and therefore the judgment and uncertainty) have been projected over an extended period of time. Future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements may not be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason, except as required by law.

trupanion™

2020 Shareholder Letter

To our shareholders

By the numbers, 2020 was a strong year for Trupanion.

Total revenue grew 31% over the prior year to $502 million.

Adjusted operating income grew 29% year-over-year to $57 million. We deployed $44 million of these funds within our subscription business at an estimated internal rate of return of 41%. Free cash flow, after pet acquisition and strategic investments, was $14.1 million.

Table 1. Key Metrics

	2014	2015	2016	2017	2018	2019	2020
Revenue	$115.9M	$147.0M	$188.2M	$242.7M	$304.0M	$383.9M	$502.0M
Year over Year change	38%	27%	28%	29%	25%	26%	31%
Discretionary Profit (AOI)	$0.9M	$3.6M	$14.8M	$23.4M	$31.9M	$44.2M	$57.1
Percentage of revenue	1%	2%	8%	10%	10%	12%	11%
Pet Acquisition Spend	$11.1M	$14.8M	$14.7M	$18.4M	$23.7M	$33.3M	$45.1M
Development Costs*	N/A	N/A	N/A	N/A	N/A	N/A	$0.3M
Internal Rate of Return (from new subscription pets)**	N/A	N/A	33%	43%	46%	40%	41%
Free Cash Flow***	($16.4M)	($15.3M)	$3.1M	$6.5M	$8.3M	$10.8M	$14.1M

*Development expenses are costs related to product exploration and development that are pre-revenue and historically have been insignificant. We view these activities as uses of our adjusted operating income separate from pet acquisition spend.

**In 2019, we modified our calculation of IRR to reflect the per pet unit economics of our subscription business. We have restated all prior periods in this table to reflect this change in approach. For the calculation of our internal rate of return for 2020, please see page 6.

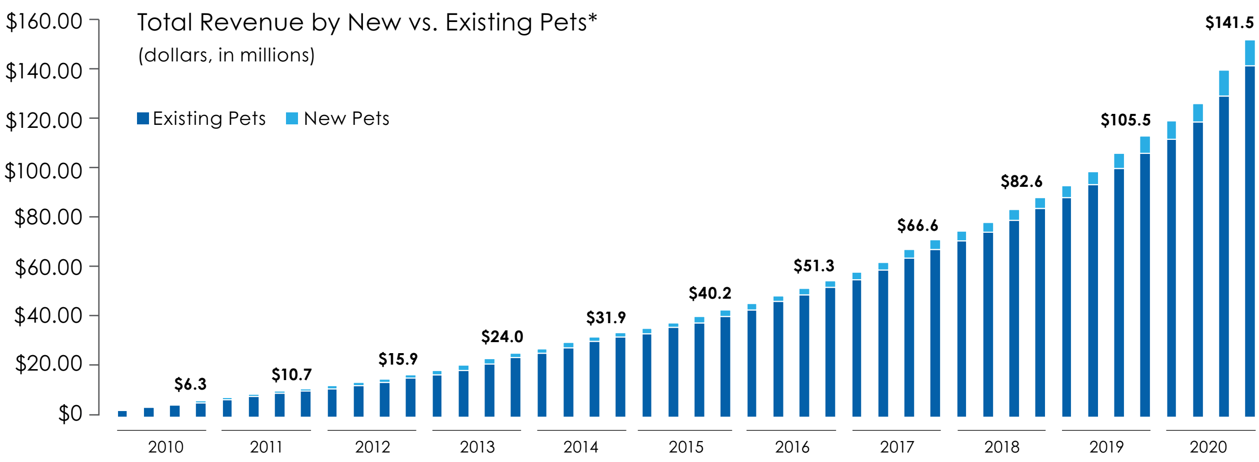
***2018 free cash flow of $8.3 million reflects free cash flow of ($44.3) million, adjusted to exclude the $52.5 million used to purchase our building.

In the fourth quarter, we significantly strengthened our balance sheet, issuing an additional 3.6 million shares of our common stock to Aflac in a strategic financing and alliance worth approximately $200 million under a 3-year lock-up.

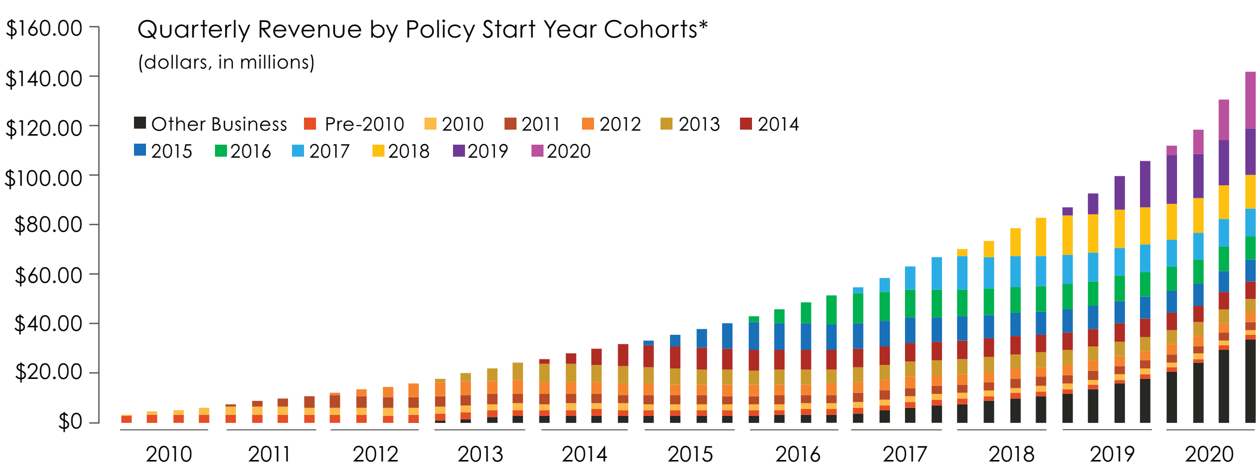
Financial Metrics / Performance

Table 2. Financial Metrics/Performance 2012-2020

Year	Enrolled pets	Revenue	YoY revenue growth	Adjusted operating income	Invested capital to acquire new pets	IRR on an average pet	Cash, short-term investments, our building assets, minus debt	Earnings (Net Loss)
2012	127,704	$55.5M	50%	$3.0M	$6.7M	N/A	$5.1M	($8.1M)
2013	182,497	$83.8M	51%	$4.3M	$8.4M	N/A	$7.9M	($8.2M)
2014	232,450	$115.9M	38%	$0.9M	$11.1M	N/A	$60.6M	($21.2M)
2015	291,818	$147.0M	27%	$3.6M	$14.8M	N/A	$43.2M	($17.2M)
2016	343,649	$188.2M	28%	$14.8M	$14.7M	33%	$48.8M	($6.9M)
2017	423,194	$242.7M	29%	$23.4M	$18.4M	43%	$54.4M	($1.5M)
2018	521,326	$304.0M	25%	$31.9M	$23.7M	46%	$134.7M	($0.9M)
2019	646,728	$383.9M	26%	$44.2M	$33.3M	40%	$139.4M	($1.8M)
2020	862,928	$502.0M	31%	$57.1M	$45.1M	41%	$297.8M	$(5.8M)



*Excludes miscellaneous revenue.



*Excludes miscellaneous revenue.

Business Segments

Today, the majority of Trupanion's business and intrinsic value is derived from our direct-to-consumer, monthly subscription business.

Of our $57 million of adjusted operating income in 2020, $54 million of this was generated from our subscription business, which is a 29% increase over 2019.

We ended the year with over 577,000 total enrolled subscription pets. During the year, we earned subscription revenue of approximately $388 million. Of this, we spent approximately $278 million paying veterinary invoices on behalf of our members, $35 million providing 24/7 support and $20 million on fixed expenses.

Our business segments as a percent of revenue in 2020:

Table 3. Business Segments as a Percent of Revenue 2020

	Subscription Business	Other Business	Total Business	Subscription Business	Other Business	Total Business
Revenue	100%	100%	100%	$387.7M	$114.3M	$502.0M
Less: Paying Veterinary Invoices	72%	63%	70%	$277.9M	$72.1M	$350.0M
Less: Variable Expenses	9%	29%	14%	$35.4M	$33.1M	$68.5M
Less: Fixed Expenses	5%	5%	5%	$20.4M	$6.0M	$26.4M
= Adjusted Operating Margin (AOM) or Income (AOI)	14%	3%	11%	$54.1M	$3.0M	$57.1M

Per Pet Economics

Below is our monthly per pet economics, or cash flow prior to new pet acquisition, for our average subscription pet in 2020.

Table 4. Per Pet Monthly Economics 2020

	2020	
Average Monthly Cost (ARPU)	$60.37	100.0%
Minus paying veterinary invoices (COGS)	($43.26)	71.7%
Minus variable expense (fast 24/7 service)	($5.51)	9.1%
Contribution Profit	$11.60	19.2%
Minus fixed expenses (G&A + IT)	($3.17)	5.3%
Profit per pet per month	**$8.43**	13.9%
Capital charge for money we are required to hold in cash or assets	($0.60)	1.0%
Cash generated per month for the average pet	**$7.83**	13.0%

In total, we added approximately 166,000 new subscription pets in 2020—year-over-year growth of 17%. Net pets, accounting for churn, increased 33% in the year.

Table 5. Pet Growth 2018-2020

Year	Gross New Pets	YoY Growth	Churn	Net New Pets	YoY Growth
2018	126,182	N/A	(67,095)	59,087	N/A
2019	141,283	12%	(78,027)	63,256	7%
2020	165,738	17%	(81,807)	83,931	33%

In 2020, we extended the average pet's life with Trupanion to 78 months, up from 70 months in 2019. Retention, as broken down by our three buckets:

Table 6. 2020 Churn By Rate Change

	Active Pets at Year End	Number of Cancelled Pets	Distribution	Monthly Churn	Monthly Retention	YOY Change in Monthly Retention
No rate change (1ST year pets)	114,846	28,814	19.87%	2.29%	97.71%	0.41%
Rate Change < 20% (Post 1ST year pets)	382,021	40,567	66.10%	0.97%	99.03%	0.03%
Rate Change ≥ 20% (Post 1ST year pets)	81,090	12,429	14.03%	1.40%	98.60%	0.01%
Total	577,957	81,810	100.00%	1.29%	98.71%	0.13%

When analyzing the three buckets, pets that are newly enrolled, and have yet to experience a rate change, have the lowest level of monthly retention. Therefore, if you were to accelerate the percentage of pets in that bucket, the overall blended rate could go down even if the retention rates by bucket remain the same.

Expansion in subscription adjusted operating income, coupled with improved retention, drove a 25% year-over-year increase in lifetime value of a pet, less fixed expenses in 2020.

Table 7. 2020 IRR Calculation

TTM Retention	98.71%	Year	0	1	2	3	4	5	6	
Months	77.5	Months	6	12	12	12	12	12	11.5	77.5
Full Year Pet Aquisition Cost (PAC)	247	Profit per Pet per Month	$8	$8	$8	$8	$8	$8	$8	
Profit per Pet	$7.83	Profit per Pet	$47	$94	$94	$94	$94	$94	$90	607
Capital Charge	1%									
FY ARPU	$60.37	PAC	-$247							
			-$200	$94	$94	$94	$94	$94	$90	
								IRR	41%	

Growth in lifetime value of a pet increases our allowable pet acquisition spend (PAC), while still operating within our targeted internal rate of return. Expansion in allowable PAC increases our ability to successfully execute our growth plans. Consider the following:

Table 8. Discretionary Cash Available for Acquisition Spend, Per Pet

Year	Contribution profit over the life of an average pet	Fixed expenses over the life of an average pet	Total profit over the life of the average pet	PAC	Lead*	Convert*	Retention*	Retention
2016	$631	$341	$290	$123	85%	15%	0%	98.60%
2017	$727	$318	$409	$152	75%	25%	0%	98.63%
2018	$710	$261	$449	$164	60%	40%	0%	98.60%
2019	$753	$230	$523	$212	50%	50%	0%	98.58%
2020	$899	$246	$653	$247	50%	46%	4%	98.71%

*Historically, we have not tracked the attribution between our lead generation, conversion and retention costs. Therefore, the percentages in the table above are internal management estimates.

Veterinary Metrics

We ended 2020 with 152 territory partners and their associates in the field “visiting” an estimated 17,200 hospitals in North America.

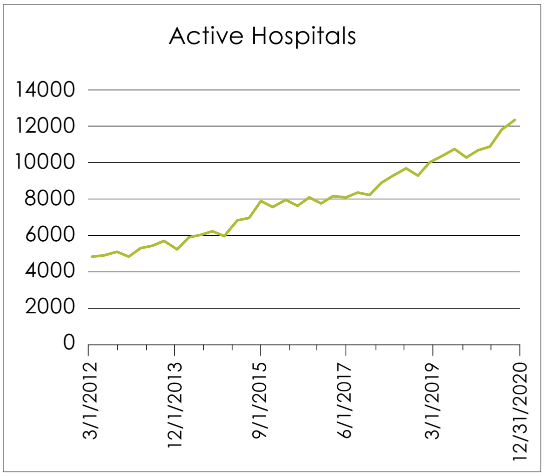
Table 9. Veterinary Clinic Metrics

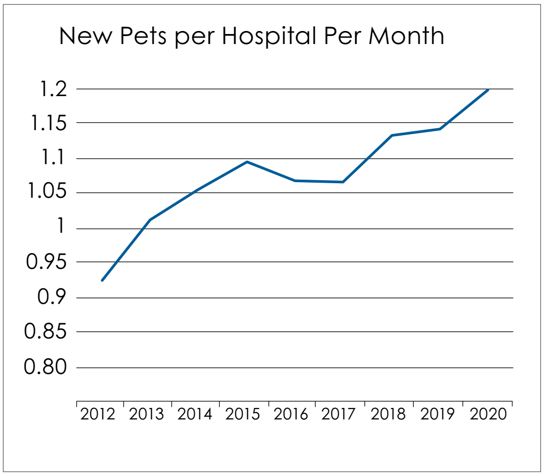
Year	Number of territory partners	Estimated number of clinics we are visiting every 60-90 days*	Estimated aggregate number of face-to-face visits	Actual average number of active hospitals	Actual average number of new pets per active hospital per month	Number of partnered clinics with software & account manager
2012	34	15,000	262,000	5,034	0.918	n/a
2013	40	16,200	324,000	5,531	1.008	n/a
2014	58	15,400	404,000	6,098	1.053	n/a
2015	84	19,000	490,000	7,359	1.093	n/a
2016	105	21,300	577,000	7,875	1.066	n/a
2017	107	19,800	662,000	8,242	1.063	n/a
2018	123	20,200	751,000	9,279	1.133	2,908
2019	130	21,600	852,000	10,315	1.141	4,426
2020	152	17,200	909,000	11,517	1.199	5,220

*Per the data available, this represents hospitals that have been visited at least once during the year. Given we don’t have perfect tracking of visits, this is the definition used to approximate visits every 60-90 days.

In a year where care moved curb-side and in-person visits were limited, overall engagement was solid, but compared to the prior year, the growth in face-to-face visits declined.

We averaged 11,517 active hospitals during the year—a number that has since continued to climb. As a reminder, we define active hospitals as those that have had at least one pet enroll with Trupanion in the prior three month period. We were able to deliver this 12% increase in active hospitals, while increasing the number of pets that enrolled per active hospital to 1.2, up from 1.1 in 2019.





We ended the year with our software and a partnered account manager in approximately 5,200 hospitals, up from approximately 4,400 at the end of 2019. We had hoped to make more progress with our software deployments in 2020. COVID presented a challenge to doing so.

Increasing the deployment and utilization of our software is important. It allows us to pay hospitals directly, and in an automated way. It's also an important part of our customer value proposition.

Members who experience the brand and our product this way are more likely to add-a-pet or refer-a-friend. In 2020, 0.82% of our subscription book of business was from our add-a-pet, refer-a-friend channel, up from 0.73% in 2019.

The Importance of Key Metrics

Higher ARPU, more active hospitals, improved same-store-sales, expansion in adjusted operating margin, reduced churn, greater member referrals and new pets added are the metrics that when we outperform relative to our expectations, drive outsized growth in intrinsic value.

Team

Trupanion's culture is unique.

Some might call it a moat—I do. Maintaining our culture as we grow will be important and is an area I am personally focused on.

We have several feedback mechanisms at Trupanion, but one of my favorites is what I've historically called the Stupid Box (now re-branded TruSolutions). The Stupid Box is available to all team members in order to identify policies, actions or behaviors in our organization that are, well, stupid. It's also one way I maintain a pulse on our culture. I personally review and assign an owner for each and every submission.

Earlier this year, the Stupid Box received a submission from a new team member, Cami, on one of my favorite topics—Nirvana. I'll let you read her passage:

"After hearing about Trupanion's usage of "nirvana" in today's session, I wondered if anyone has suggested that this term and the context in which this term is being used may be considered culturally insensitive? I understand the casual usage of the term, as well as the pop cultural reference to the Seattle-born band, Nirvana. However, I feel that it must be recognized as a more meaningful term for some. As a Buddhist myself, I have to admit that I was a little taken aback when I first received emails about "reaching Nirvana". The usage of "Nirvana" in this context does not necessarily offend me; rather, it indicates a cultural ignorance or disregard. I know I am new to the company, but it is precisely because of the transparency and welcoming attitudes I have encountered during my first couple of weeks that I feel comfortable speaking about this. I believe changing the term "Nirvana" will create a more inclusive atmosphere for employees and prospective employees. If I were told about "Nirvana" during my interviewing process, I think I would've thought of Trupanion in a more negative light. Thank you."

Following her feedback, I had the chance to talk with Cami and understand her point of view. Cami's submission was courageous, her perspective valuable and the take-away clear. Our term "Nirvana" had to change. From here on, when you hear me refer to the state of self-sustaining growth, in which members adding pets or referring friends is offsetting churn, it will be under our newly coined term, "TruTopia". Thank you Cami.

I've always believed that diversity makes Trupanion stronger, more effective. Simply put, diversity provides better outcomes for all our constituents, pet owners, veterinarians and their co-workers, Trupanion team members, strategic partners and shareholders. Diversity also provides the opportunity to learn from one another. Cami's submission is a perfect example of that.

In some areas of diversity we've done well, and in other areas where we've fallen short, we're making changes. Currently, Trupanion is focused on ensuring gender and racial diversity. This will be a goal in every team within the organization and it begins with our board of directors.

First, I'll give you some history of how the board was comprised. At the beginning of 2020, we had 8 board members, myself, Dan, Murray, Hays, Howard, Mike, Robin and Jackie. 6 males, 2 females, all Caucasian. I am on the board because I founded the company. Dan, Murray, Mike & Hays all led investments to finance Trupanion in 2007, which enabled our expansion from Canada to the United States. At this point, I acknowledge that while important, diversity was not at the top of my priority list. Howard joined the board in connection with his service as Trupanion's Chief Operating Officer. Our post IPO board members were Robin and Jackie, adding much needed gender diversity.

Over the past year, as we were looking to add a new Board member, I chose to interview candidates only if they would increase our diversity. Recently we added Eric. Eric grew up in Texas, is a father of two, pet guy, lawyer and the Mayor of Dallas. We appointed Eric because of his character and life experiences. We interviewed Eric because of a strong recommendation and because he increased our diversity.

As board members retire, we are being deliberate in appointing new non-Executive board members who add to our diversity. My goal, that I would be personally proud of, is to achieve at least 1/3 representation across race, gender and age (including over 60 & under 50) among independent board members.

This means we will not advance board candidates unless they meet the diversity requirements. At the same time, we will only add board members who meet our standards based on their individual character.

More broadly, diversity should be a focus in teams across the company. All managers need to access the diversity of their team and build upon it with new hires. This needs to be deliberate and thoughtful but also practical.

Once a team has racial and gender diversity, we want to continue our never ending goal of becoming diverse in even more ways. The dimensions of diversity are vast. Age, nationality, physical ability, languages spoken—we want our organization to increasingly represent all these facets and more!

Trupanion's culture prioritizes individuality and inclusivity. We want to foster an environment where all voices are heard, and where team members feel empowered to bring their truest self to work. Our entry way hall holds the quote by Oscar Wilde, "Be yourself, everyone else is taken."

Once an individual is on the Trupanion team, their success should be 100% based on their achievements and contributions at Trupanion. Existing team members should never be promoted because of their diversity. Nobody wants to second guess if the advancements of one's career are due to their gender or skin color.

Equity is important. Our policies and programs were designed to ensure all team members have the same benefits, access to resources, and opportunities to build meaningful careers at Trupanion. This approach extends throughout the way we work together; for example, each team member has the same size desk. We want every employee to think and act like an owner of the Company. To build this alignment, each team member is granted equity in Trupanion at the time of hire.

Trupanion is a mission driven organization, and our team of over 1,100 individuals (and growing!) unifies around our collective goal of helping pets. No year is a better example of that than 2020.

It is hard to succinctly explain how I feel about the team and what we accomplished together in 2020. During one board meeting, I found myself literally brought to tears when describing the efforts of the team. At the time, I had no words to describe my gratitude. In fact, there is no word in the English language that succinctly captures this sentiment. Fortunately, there is one in Japanese: Kanrui.

As we cross over the one year mark—in which we transitioned all team members to a remote work environment—I believe that our culture is healthy and vibrant. Team member retention is strong, nearly 15% of team members advanced their careers internally, and we increased the level and quality of our communications. I look forward to seeing what we can accomplish together in the days, months and years ahead.

Intrinsic Value & Per Share Performance

In 2020, we calculated an increase in Trupanion's estimated intrinsic value per share of 88% before stock grants.

As a reminder, our calculation of intrinsic value is based on our discounted cash flow model.

Our intrinsic value model is informed by historical metrics—metrics we work hard to improve upon. Higher ARPU, more active hospitals, improved same-store-sales, expansion in adjusted operating margin, reduced churn, greater member referrals and new pets added are the metrics that when we outperform relative to our expectations, drive outsized growth in intrinsic value.

Each year, in addition to updating our inputs for another year of performance, we also evaluate other assumptions in our model such as the discount rate. For example, as we become a larger, more dependable company, we believe a lower risk premium is appropriate, resulting in a slight decrease to our discount rate.

This change, along with our strong performance in 2020, resulted in the 88% increase in our estimated intrinsic value per share stated above.

In addition to highlighting what metrics have a material impact on the value of our company and informing how we run the business and make decisions, our intrinsic value model helps guide how we compensate our team—with some adjustments discussed below.

Although our discounted cash flow model evolves over time, with the goal of becoming more and more accurate, for purposes of team member compensation and the calculation of our overall stock pool, we apply an apples to apples comparison. Inputs like discount rates, that can go up or down based on interest rates and risk profile, and are outside of the control of employees, are not factored in when determining compensation.

Under this approach, which isolates proven performance within the control of team members, we calculated an estimated increase to intrinsic value per share of 29% in 2020. Further, when determining the overall stock pool, we use the two-year compounded annual growth rate (CAGR) in calculated intrinsic value per share, rather than a single year, to better reflect long-term sustainable performance. For the 2020 performance year, the two-year CAGR of our calculated intrinsic value per share was 31%.

In accordance with our Intrinsic Value Incentive Plan, a portion of this intrinsic value growth is shared with team members. Please see my 2016 shareholder letter for additional details.

In 2020, our fully diluted share count, which includes options and unvested restricted stock units, increased by 4,406,975 shares to 42,358,814. Of this increased share count, approximately 80% was based on the capital raise with Aflac, and the remaining 20% balance was shared with the team based on our results.

Given the calculated increase in intrinsic value of 31% (based on a two-year CAGR for compensation purposes), we were able to share 2.6% of the increase with the team, with the remaining benefitting shareholders.

In order to share 2.6% with the team, the total size of the grant pool was 850,608 shares. 202,668 shares were allocated during the year for new hire grants, individual performance awards and board compensation, leaving 647,940 shares that were issued in 2021 for our performance grant program related to the 2020 year.

50,350 shares within our performance pool were set aside as a charitable contribution to MightyVet.org, which is a non-profit founded to support veterinary professionals and aligns closely with our mission.

Our key financial metrics on a per share basis:

Table 10. Key Financial Metrics Per Share

Year	Total share count plus options & warrants granted*	Revenue per share	YoY growth	Adjusted operating income per share	YoY growth	Cash, short-term investments, our building assets, minus debt per share	YoY growth	Earnings (loss) per share**
2012	22,467,205	$2.47	53%	$0.13	-7%	$0.23	-30%	($9.76)
2013	24,889,316	$3.37	36%	$0.17	31%	$0.32	39%	($6.23)
2014	33,813,736	$3.43	2%	$0.03	-82%	$1.79	459%	($1.64)
2015	34,138,237	$4.31	26%	$0.11	267%	$1.27	-29%	($0.62)
2016	34,879,610	$5.40	25%	$0.42	282%	$1.40	10%	($0.24)
2017	35,444,460	$6.85	27%	$0.66	57%	$1.53	9%	($0.05)
2018	37,862,667	$8.03	17%	$0.85	28%	$3.56	133%	($0.03)
2019	37,951,839	$10.12	26%	$1.16	37%	$3.67	3%	($0.05)
2020	42,358,814	$11.85	17%	$1.35	16%	$7.03	91%	($0.16)

*Share count includes outstanding shares plus unexercised options and unvested restricted stock, as well as shares granted in subsequent year pertaining to the year's performance. In addition, total outstanding shares increased by 3,636,364 shares in 2020 due to Aflac's common stock purchase.

**Loss per share is calculated using the GAAP basic weighted-average shares at year-end.

Looking Ahead

Over the last 20 years, we have worked hard to build the foundation of our company and bring it to operating scale.

We've forged our own path, and we've led the industry.

2020 marked the completion of our 5 year plan, the vision for which was laid out in my 2014 Shareholder Letter. For those interested in assessing our performance, I encourage you to go back and re-read the 2014 Shareholder Letter. Every year since then, I've attached the 2014 Shareholder Letter to that of the current years' letter. Beginning 2021 and through 2025, you can expect I'll do the same with our 2020 letter.

2021 marks the start of our next 5 years—or as we at Trupanion call it—our 60 month plan.

Included herein are the contents of our 60-month plan. For competitive reasons, select information has been edited out, but I've left much of the document in its original form. Unlike prior shareholder letters, the content of our 60-month plan was not written solely by me, nor was it originally intended for an external audience. Rather, it was written by my team, led by Tricia Plouf and Margi Tooth, who were recently promoted to Co-Presidents, and will be closely overseeing the execution of the plan—with team members as the intended audience, to share our vision of where we are headed over the next 60 months.

In totality, our 60-month plan describes how we intend to increase the value proposition for our members while dramatically increasing our service levels over the next five years. It describes how we plan to add distribution channels, and expand on our partnerships with State Farm and Aflac, and access the 1 million puppies and kittens that are visiting the veterinarian for the first time every year.

Our 60-month plan details how we plan to expand our insurance product lines to include PHI Direct and Furkin (our low and medium ARPU products, respectively), expand our geographies by entering Japan and Europe, as well as add a new monthly subscription pet food where we hope to verify our hypothesis that pets eating a healthy diet in the right amount of calories will be healthier.

In addition to all of the above, we outline how we are going to organize our existing "Trupanion" subscription business into distinct regions, how we will continue to drive high rates of growth in the breeder channel; and how we are continuing to harness the benefits of social media and other direct-to-consumer marketing channels.

If we achieve the goals in our 60-month plan, we'll grow revenue to over $1.5 billion, reach over 3.5 million pets and deliver growth in intrinsic value of over 25% per year. Doing so will not be easy—it will require a lot of hard work, decent execution and perhaps a bit of luck. But as one shareholder recently observed, at Trupanion we just work harder than most. We do not shy away from tough goals!

In totality, our 60-month plan sets the stage for an exciting growth story at Trupanion. I hope that in sharing this 60-month plan, you'll be as excited as we are about where we are headed.

Kuyashii,

DARRYL RAWLINGS

Founder & Chief Executive Officer

trupanion™

Medical insurance for the life of your pet.

2021-2025

Our 60-Month Strategic Plan

OUR MISSION

To help loving, responsible pet owners budget and care for their pets.

What you will read in this document is our plan for the next 5 years for Trupanion. It follows a very successful 20 years, during which time a significant effort by the team enabled us to achieve operational scale—growing to a size where we can operate efficiently. We've done a good job in this respect—thank you! That work has laid the foundation for us to take Trupanion forward and given us more opportunities than ever before. To reflect this, we've refreshed our mission statement.

What has not changed since Day 1 is our singular focus on helping pets. We remain committed to this, and we hope that as you read this document and see what Trupanion aspires to become by the end of 2025, you will be as excited and motivated as we are about what lies ahead.

Today Trupanion is a monthly subscription business grown primarily through the sale of our core product, "Trupanion," which is sold through the veterinary channel. Our strength to date has been our collective ability to create, market, sell and service an intangible product that does what it says, both from the pet owner and veterinary perspective.

Trupanion Inc. (the company consisting of all our brands and entities) is a high-growth company, with revenue consistently increasing around 25% each year. As a team we have continued to be nimble and determined—it's this agility from our people that will set us up well for the future.

Between now and 2025, we will redefine many of our working practices. We will need to create new teams and new processes. We will learn new techniques and rise to new challenges. We will grow, evolve and reorganize. We will look very different in 5 years!

Our way of working and areas of focus that we know today will evolve to take on different meanings or play new and different roles in the company growth. This exciting phase will present more opportunities than ever before and we invite you, our team, to immerse yourself and make the most of this thriving company that we've created together. We will only be successful if our entire team is driving towards the same goal: achieving our mission.

> *For a **seed** to achieve its greatest expression, it must come completely undone. The shell cracks, its insides come out and everything changes. To someone who doesn't understand **growth,** it would look like complete destruction.*
>
> –CYNTHIA OCCELLI,
> Author, Mentor, & Entrepreneur

By 2025 we plan to create new growth initiatives to help us expand the reach of our core Trupanion product globally and begin the growth of new pet care brands in the animal health arena. Each of these initiatives will be underpinned by world-class subject matter experts supported with technology that will enable more effective solutions across the business. Combining operational excellence and growth-focused business units will enable us to help millions of pets and pet owners.

At all times we shall remain committed to our mission, our people, and our stakeholders; pets, pet owners, veterinarians, team members, territory partners and associates, strategic partners and investors.

We also remain dedicated to being bold, being nimble and being determined. We look forward to building our next 5 years together.

KUYASHII

The Japanese concept of being fueled by the doubting of others.

THE BOTTOM LINE—TARGETED GROWTH RATE & INCREASE IN INTRINSIC VALUE

Our 5-year goal is to achieve a consistent **annual revenue growth rate of 25% or greater.** This would equate to annual revenue for Trupanion Inc. of $1.5 billion by December 31ST, 2025. This revenue growth will also enable us achieve another goal: **to increase our intrinsic value[1] per share by approximately 25%** each year.

To achieve a collective annual growth rate of 25% we will target higher growth rates for each individual business segment–building in some room for error. This will help give us a higher degree of confidence that we can consistently grow our revenue at a rate of 25% or more each year. While some areas, such as the core Trupanion product in North America, may be seeking a 25% growth rate, others that are smaller or just beginning, such as Worksite Benefits or PHI Direct, will likely have a faster rate of growth. In aggregate, if every business unit achieves their goal, our overall growth may be much larger than 25%. This "building block" approach allows us to be more certain of success as it increases our likelihood of achieving our collective goal.

Nothing, however, will be more important than the combined effort of our people—the cement between our building blocks. Our strength to date has been our team and as we look to nurture, grow and add to Team Trupanion, we feel confident that we are creating an organization built for brilliance.

OUR 6 BUILDING BLOCKS

These building blocks are our planned areas of growth over the next 5 years. Some of these build on our current business model and expertise, and others leverage the same skills and knowledge to expand into new and exciting opportunities. Now that we have reached operational scale, not only can we continue to hone our existing member experience, we can also look to add more ways to support loving, responsible, and informed pet owners and their pets, for life. Here's the list we plan to focus on:

1. INSURANCE

- Grow our core "Trupanion" product in North America

2. INSURANCE

- Introduce PHI Direct and Furkin to North America. These are new pet medical insurance products designed to be offered primarily online. They will offer the same high value proposition as the Trupanion product but at different price points (we call these Low and Medium ARPU products)

3. INSURANCE

- Expand our sales of pet medical insurance to countries beyond the US, Canada and Australia—both with and potentially without the Trupanion brand

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1 Intrinsic Value is the value an informed and educated individual or entity would typically pay for a company under stable market conditions. We are always looking to increase this at a rate faster than 20%.

4. FOOD

- Introduce Landspath (a high-quality monthly subscription wellness diet, sold exclusively via veterinarians) in North America to try to prove our hypothesis that feeding pets a high quality diet, in what their veterinarian believes is the appropriate number of calories, will lead to healthier lives and therefore justify lower premiums for their medical insurance

5. PET CARE

- Introduce a GPS-based device that is perpetually powered to immediately locate lost pets—a global opportunity

6. TECHNOLOGY

- Enhance and expand our technology solutions, including through acquisitions, to dramatically expand our technology capabilities. As we become experts in technology in the pet space, we may also enter into a technology re-sale space (global opportunity).

THESE BUILDING BLOCKS ARE NOT LISTED IN ORDER OF PRIORITY–EACH BLOCK WILL HAVE OWNERS DEDICATED TO GROWING THEIR BUSINESS UNITS AND AS SUCH, EACH ONE SHOULD BE CONSIDERED AS IMPORTANT AS THE NEXT. AN IN-DEPTH DETAIL OF EACH BLOCK FOLLOWS.

BUILDING BLOCK 1—INSURANCE-GROW OUR NORTH AMERICAN TRUPANION PRODUCT[2]

We believe that any informed, responsible pet owner would want to buy Trupanion for their pet. Being well-informed removes the uncertainty and confusion around product selection, and Trupanion ultimately becomes the obvious choice for those that are knowledgeable. Our flagship product is widely acknowledged as having the best and the broadest coverage available and it is our goal to grow the adoption of this comprehensive product and the associated revenue by **25% each year from 2021 to 2025.**

Historically, the entire company has worked together to support the growth of this product. This has been an effective way of working over the past 20 years, however our size and scale mean that it is no longer sustainable to take such a broad market approach and expect to be as effective, especially as we start to introduce new products and channels into our eco-system.

Therefore, during our next 5-year chapter, we will adjust our organizational structure to provide a dedicated focus on all markets our core and much loved Trupanion-branded product is present in. We will build upon the framework of the Market Leader model to create alignment, ownership and depth of regional understanding to drive the best experience for all stakeholders. The Market Leader role will evolve to become a General Manager. By 2025 we expect to have up to 5 North American markets, each with a General Manager.

These General Managers will be responsible for the growth in their geography in support of the Territory Partners and their Associates. They will work across business units and partner with support

2 In 2020, Trupanion is our core product. It is the one product the business hinges around and it is where we are all focused. By 2025, this will dramatically change as other business areas around us grow and expand.

teams to drive lead growth, conversion improvements and achieve TruTopia. They will own the expansion and reach of the Trupanion product, Landspath (see page 11) and, most critically, support Territory Partners in maintaining close relationships within the veterinary community. These relationships are essential to our success and have created immense barriers for our competitors to overcome—sustaining them will be critical to achieving our growth plans.

Key aspects of our core Trupanion product strategy remain essential within the General Manager construct. We must: expand our reach to every new pet owner (lead growth), find new ways to educate and sell Trupanion (convert) and deliver on an exceptional member experience (keep). Over the next 5 years we will strive to maintain a state of TruTopia—where the number of pets enrolling through friend recommendation or pets added by existing members offsets the number of pets that are cancelled each month.

To successfully achieve these goals in North America, we will need to **(A) strengthen our moats**[3], i.e. things we have or do that would be really hard for any competitor to have or do as well as us, **(B) increase the distribution** of the Trupanion brand, and associated brands, **(C) increase the rate at which we convert** these pet owners and, **(D) continue to enhance our member experience.** We'll explore these goals over the following pages before picking back up with our building blocks.

A) Strengthening our moats

Trupanion moat—low-cost operator with high value proposition. To be clear, "low-cost" certainly does not mean low quality or lowest price. Being a low-cost operator means that we are operating with efficiency, enabling us to provide exceptional service at a cost that helps us to enhance our competitive advantage by being able to give more back to our members. **Our goal by 2025 is to pay over 90% of veterinary invoices within 5 minutes.** In 2020, we paid approximately 24% in 5 minutes.

This exceptional member and hospital experience will primarily be delivered through our software. We also plan to significantly increase the rate of claims automation for those hospitals that, for reasons outside of our control, do not or cannot have access to our software. In 2020 our automation rates are around 18% of all claims, **by 2025 we are targeting 80% of claims handled through automation.**

Automation, which importantly includes our software and non-software claims, allows us to pay invoices faster without sacrificing accuracy due to our post-claim audit process by our claims team. Automation will mean we are spending less per claim overall to deliver outstanding service. Today, we target spending 71% of our members' monthly cost on paying invoices. In addition, we spend 9% of members' monthly costs to offer our high-quality service.

Our goal is to dramatically increase our service levels and to do so, we will leverage our automation and software patents. Our investment in technology will ensure we can continue to support our claims team members and allow them the time to focus on more complex claims, coverage summaries, and supporting our new products. We are committed to providing this group with the tools they need to carry out exciting, technical work—all of which will improve our member experience.[4]

3 Trupanion Moat: A feature of our business that would take a competitor over 3 – 5 years to replicate. They require deep sustained level of effort and time to build and maintain and often can hinge on deep relationships.

4 Note that lowering our average cost per claim by increasing claims automation does not mean we will be eliminating our claims department or reducing the size of the team. In many cases it will enable current processes to be more efficient and also allow team members to have more time to focus on the more complex work as well as coverage summaries and new products.

When we use our patented software and claims automation to pay directly, our total cost to process a claim is reduced. This reduction in cost will allow us to pass this money back to the pet owner in the form of an even greater value proposition.

By 2025 we want to **improve our total claims ratio** (claims payments + cost to process a claim) for all members from **71 to 72%.**

SOFTWARE

Our patented software is a key part of our low-cost operator moat. Over the past five years we have been learning how to streamline installing our software in hospitals, or to have hospitals frequently use the software after installation. We realize it's not easy.

At the start of 2021 we anticipate that close to 6,000 hospitals will have our software installed—a little under 25% of the total hospital population. These 6,000 hospitals provide a good foundation for the next five years as the benefits of direct and immediate payment become known to more pet owners. By the end of 2025, we expect the **penetration rate of our software to be over 90%.** Our approach to generating demand for our software will need to adjust to reach this milestone; here's how we plan to achieve this:

We will increase our investment in the software to fund a product redesign—both in terms of look and feel as well as functionality. Our software will become the "bee's knees" of hospital software providing real-time opportunities to engage with the hospital team to create an increase in utilization.

We will launch a robust awareness campaign with our existing member base. Now that we have approximately 600,000 pets enrolled, we will connect with our hundreds of thousands of pet owners, to develop awareness of our unique ability to pay their invoice for them. We plan to create ways for our members to initiate conversations with their hospitals about direct payment. We believe many of our members do not even know this service exists and we see this as a huge opportunity to grow our software penetration while increasing the number of members and veterinary teams experiencing the benefits.

In meeting this goal we anticipate it will result in us achieving a **99.00% member retention rate,** which is a critical element for achieving TruTopia with our core Trupanion product.

TRUPANION MOAT—PRICING OF OUR SUB-CATEGORIES

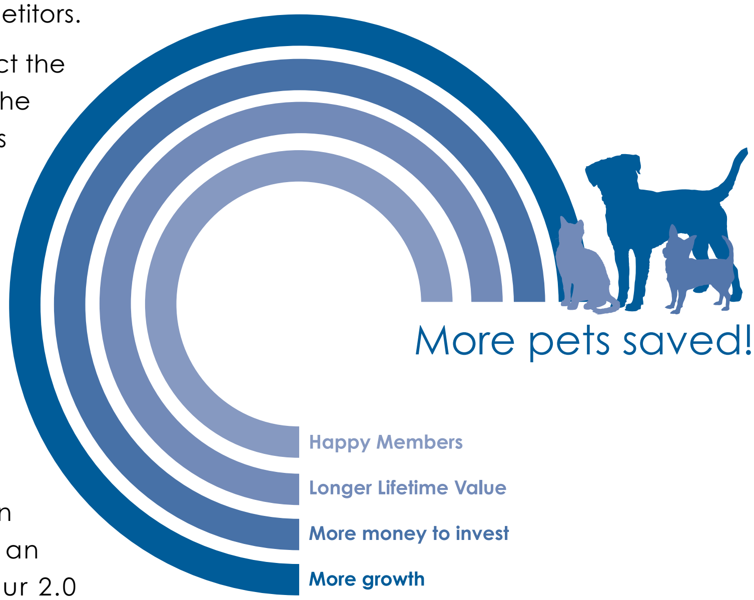
As with any moat, it takes hard work and sustainable effort to build and maintain it (if it was easy, it wouldn't be a moat)! A core tenet of our business model is our pricing promise to treat all pet owners fairly. This means the owner of a retriever in Seattle should pay a different amount AND receive the same value as the owner of a poodle in Phoenix. No matter the species, breed, age or location, the value returned to our members when they make a claim should be consistent if their pet is "average". It's important to note that our intangible product provides value by helping a pet owner budget and care for their pet in the event it's needed. The amount we return is the average amount we spend paying our members' invoices, currently 71% and targeting 72%.

Said another way, imagine that for every $1 we receive, we spend 71 cents (targeting 72 cents) to pay invoices. Every time we can improve our efficiency, more of that $1 can be spent paying invoices, which increases the value to the member. The better the experience, the happier our members.

The more accurately we can price, the more we can deliver on this pricing promise. The better we can do this up-front (rather than having to make dramatic changes later) the more likely members will remain members.

We are proud that we already have more focus and talented, dedicated actuaries than any of our competitors.

We believe that rate increases should reflect the trend in a given geographical area where the cost of care and overall inflation increases between 5-8% each year. We have learned that when our members experience rate increases over 20%, retention is lower. We know retention reduces further if a member receives 20+% increases year after year. To provide exceptional member experience we will smooth out our rate adjustments with an enhanced approach to pricing. To do this we will become more focused on the expansion of our neighborhood pricing approach, an approach started with the launch of our 2.0 product in Florida.



Neighborhood pricing ensures we have better pricing data to develop rates that are appropriate—ultimately helping to avoid large swings in pricing due to changes in the data that could have been anticipated. We are able to do this more effectively due to data that we can pull from our software, through information shared through our partnerships with practice management system providers and analysis of cost trends of pet owners in general, not just Trupanion members.

Our goal between 2021 and 2025 is for our members to experience rate increases in-line with local inflation in their neighborhood. This will likely be an increase between 5-12% each year as we learn to adjust and sharpen our approach. In the event that we need to increase rates more, this will be as a result of changes shown in our data that are driven by the market (e.g., significant increase in cost of care in a neighborhood). In any situation, our pricing and member-facing teams will partner to craft deeper communication and training moments to help support and guide our members and partners through proactive rate adjustment conversations.

Having more data sources allows us to target **98% pricing accuracy across our top 5,000 sub-categories** by 2025 (up from 50% across our top 100 subcategories in 2020).

B) Increasing Our Reach to New Pet Owners—Our distribution strategy

One great benefit to having built the Trupanion brand into what it is today is that we attract the interest of potential new strategic partners and distribution channels. These companies want to be involved in the growth of the category, and they recognize the value of our brand and our expertise. Over the next five years we will have big opportunities to dramatically increase the number of pet owners learning about Trupanion as a brand, the core Trupanion product, and in some instances the assurance of quality the Trupanion brand represents. These opportunities include entering into new or enhancing existing partnerships with other industry leaders to expand the distribution of the Trupanion brand.

Between now and 2025, we will look to significantly increase the infrastructure and support dedicated to growing our channels and as such will look to build out a new area of our business related entirely to maximizing distribution. Each of our distribution channels will be operated as a business unit with a clearly defined owner—resourced with dedicated teams—focused on delivering the best returns. This ownership will be critical to success. The owners will operate as partners to the General Managers, creating new channels of distribution for each market to support mutual growth. They will also be responsible for driving growth through partner brands, such as Aflac, helping to reinforce the assurance the Trupanion brand presents when in partnership with others.

The biggest distribution opportunities for new or incremental lead growth can be summarized as follows:

E-LEADS

Trupanion has exclusive relationships with IDEXX and Covetrus, the owners of over 75% of practice information management systems (PIMS) used in North America today. PIMS are important for us because they can provide us with access to the **new pet owners** who make their first visit with their pet to a hospital each month. This is approximately **one million people—potentially one million leads per month!** We refer to these as e-leads.

A core part of our 5-year strategy is to understand how to operationalize the e-leads channel to reach this group of one million new pet owners every month.

We are confident that the combination of our current partnerships—and the opportunity of new partnerships ahead of us—will help us to maximize our reach to new pet owners during the next 5 years.

STATE FARM

We are proud of our exclusive relationship with America's largest insurance brand, State Farm. With access to over 18 million homes—and likely 9+ million pet owners—we have huge opportunity for growth. We have started to make progress in 2020 with the launch of Trupanion across the State Farm website, yet still have to develop a robust agent engagement program to fully appreciate the value of this huge US brand.

With such a large addressable market, we feel this target is distinctly achievable with partnership buy-in. To do this, we will need to enhance our resourcing and support of this major potential channel in 2021. As with all major distribution channels, we will be scaling our support and working cross-functionally with subject matter experts to provide the necessary resources in terms of infrastructure to excite State Farm agents and grow this business unit to meet its potential.

BREEDER

As our fastest-growing channel over the last 5 years, our goal for the next 5 will be to continue to expand our reach across the breeder community. Breeder has proven to be a fantastic channel for the Trupanion product with strong lead growth, the highest conversion rates and exceptional lifetime value. These three components indicate a very strong future for the breeder channel.

WORKSITE BENEFITS (FORMERLY CORPORATE BENEFITS)—AFLAC—POWERED BY TRUPANION

This is a distribution channel that enables employers to offer pet medical insurance to their team members as a benefit. We believe that Worksite Benefits can exceed $100m in revenue by 2025.

In 2020, we have seen solid growth generated by our internal team, but to be successful long-term, we believe that strategic partnerships in the worksite space are essential. With that in mind, we are very excited to be beginning our relationship with the leading provider of worksite benefits, Aflac.

As a key shareholder in Trupanion, Aflac will be a committed partner with full alignment, eager to support the growth of medical insurance for pets as a Worksite Benefit.

We will look to Aflac to be our catalyst for growth in this space. We will need to think differently and will leverage their extensive knowledge and partnerships with all leading benefit platforms to help redefine our product offering to take advantage of a market currently dominated by our competitors. We don't yet know the details around how this will look but we do know that our Worksite Benefit product, starting in 2021, will be very different. It will be one of the first products to be launched to market as "Powered by Trupanion". We're excited to launch into a several-year growth plan incorporating Aflac's extensive broker network, partnering with their new direct to consumer brand and ultimately, joining forces with the 20,000 strong 'Aflac Army' of agents.

We are confident that with Aflac alongside us, we can increase this emerging channel to achieve **$100m in revenue by 2025.**

SOCIAL MEDIA

Facebook and other digital platforms are shifting from conversion tools to fast becoming lead generation channels. These channels have the ability to target responsible, loving pet owners with a new pet at home, to initiate conversations about the need for high quality medical insurance.

As we continue to mature as a business, some of the skills we have been learning will start to become further embedded into our business units. Converting our leads and retaining our members will be essential skills needed across all business units: geographies, product lines, and distribution channels. While we are currently dedicated to supporting the core Trupanion product, we will adjust to support our new products and partners, speed up the learning process, and ultimately help these new lines of business to grow faster. We've spent 20 years learning how to do this for Trupanion; now we can take that learning and apply to other products and brands.

C) Conversion

Growing our ability to educate and inform pet owners "Why Trupanion" will continue to be a major focus for many teams in the business.

Conversion is measured as a blend of pet owners converting both online and over the phone. Our phone conversion rates have been consistently strong in past years and we have come to expect more than 1 in 2 pet owners will enroll this way. As we look to continue to grow the core Trupanion product, phone conversion will play a key role in establishing the first "brand cuddle." We are committed to call-driving initiatives to maximize our opportunities. This high-touch experience gives us a rare chance to connect directly with our members and to hear about their pets! This will remain a key part of our strategy. It's why we love what we do!

Online conversion is more challenging. We have made good progress to improve this—most significantly in 2020—and will continue to focus in this area. We will adjust our lens further to fully support complete digital conversion to encapsulate all device-type experiences that a future member may have access to—text, mobile, chat, email, web, tablet, etc. We intend to increase our digital conversion rates from 11% to well over 20% by the end of 2025.

This increase in digital conversion will significantly increase our blended conversion—web and phone conversion rates combined—from over 15% in 2020 to **over 25% by 2025.** We set this goal because we believe that 1 in 4 pet owners is a potential Trupanion member, and we are targeting a blended conversion rate that is representative of that.

As well as supporting the core Trupanion product, our conversion skills will be applied to support new geographies, products, and distribution channels. We will inevitably require growth in this space to support so many new business partners across the company.

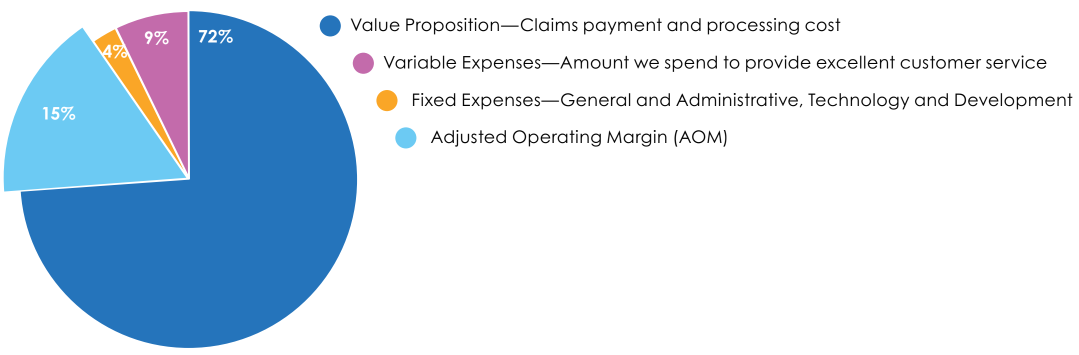
D) Enhance our member experience

In addition to increasing access to our software, paying invoices faster, and pricing more accurately, we will continue to invest time and resources into further enhancing our member experience.

Developing technologies and finding ways to engage, surprise, and delight our members will be key to create an increase in lifetime value, referrals, and pets added to support TruTopia.

While we look to grow our Trupanion-brand product substantially, our target Adjusted Operating Margin (AOM) will remain at 15%. We expect to miss this target at the end of the current 5-year Plan by about 1%. For the next 5-year chapter, we anticipate achieving the 15% goal as follows by 2025:

Targeted Adjusted Operating Margin



To support this operational efficiency, we will look to invest more in our financial systems and teams, such as introducing a new accounting and human resources information system and working with leading technology providers to give access to tools that allow for quicker decision making and easier reporting for all. As we increase the need to support a growing number of brands, countries and products, we will invest in our people and technology to do this the right way.

ANCILLARY PRODUCT GROWTH

As well as driving the growth of the core Trupanion product, we will look at expanding our expertise to support the development and launch of new products. The products below will be focused in the North American markets initially. Depending on launch metrics and growth acceleration, we may choose to deploy these in other geographies before the end of 2025 too—time will tell.

BUILDING BLOCK 2—INSURANCE-PHI DIRECT AND FURKIN

Over the next 5 years we are excited to launch two new subscription products—PHI Direct and Furkin—into the North American market. Our ability to operate at scale means that we are now able to support the development of new brands and accelerate their growth curve—which also allows the broader Trupanion family to grow. Many of our operational teams will be involved in bringing these two brands to life—we will be expanding our contact center, claims, finance, communications, marketing, IT, people ops, legal and facilities teams in support of these product additions.

These new pet medical insurance products will offer pet owners different price point choices. Critically, each will offer the **same high value proposition** as our Trupanion-brand product (the targeted 72% spent paying invoices). The brands will not be marketed together but by being available, they will help pet owners to clearly understand the difference in coverage.

We believe that when we can educate pet owners about the real differences between high, medium and low ARPU products—Trupanion (high ARPU = broadest and most comprehensive coverage), Furkin (med ARPU = mid-level coverage) and PHI Direct (low ARPU = lowest level coverage)—we can grow penetration of the industry and Trupanion Inc.'s overall share of market. In short, we know that some consumers may enroll in brands other than Trupanion, which is OK if they are informed and understand the difference in coverage. If that occurs, we want them to make an educated decision and enroll with a brand that we own that provides high value and is not misleading.

We plan to launch these products in Canada and then the US. The products will be marketed as direct-to-consumer brands and will not be sold through our Territory Partners and Associates, nor will they be Powered by Trupanion.

BUILDING BLOCK 3—INSURANCE: INTERNATIONAL GROWTH-HOSPITALS & PET GROWTH

The more hospitals we partner with, the more pets we help. Over the next 5 years we intend to take advantage of opportunities to expand into countries other than the U.S, Canada and Australia. Our partnership with Aflac presents us with a direct opportunity to enter into Japan where Aflac has customers in 1 in 4 households! We have plans to explore this early into our next 5-year chapter.

In addition to Japan, we don't know exactly which countries we'll move to next. We anticipate **potential** expansion into countries such as the UK, Brazil, and potentially parts of Western Europe. In keeping with our approach in the North American market and Australia, we will create leadership positions to oversee the general management and growth for each of these new geographies.

Our goal for entering into these additional markets is to double the number of hospitals where pet owners can learn about our Trupanion-branded product from about 25k today to 35k by the end of 2025, and then to 50k by the end of 2030.

For each hospital we enter, we will use the same unit of measurement for success—striving for consistent growth in same-store-sales to maximize our reach to each new pet entering a hospital. Naturally, the core elements of a growth model to drive leads and increase conversion and member retention will be critical ingredients for sustainable brand growth and increased contribution to the Trupanion Inc. growth curve.

We may also move forward with international partners and use our expertise to grow non-Trupanion brand products as well, should an appropriate and meaningful opportunity arise.

BUILDING BLOCK 4—FOOD-LANDSPATH

Our wellness food initiative is based on the theory that pets who are fed portion-controlled, high-quality food will live longer, healthier, and happier lives. We have a hypothesis based on third-party health and nutritional studies that these pets could have up to 2 years extended life. We are very excited to launch this new product—named Landspath—which will be sold directly through the veterinary channel.

In 2021, after over two years of research, we anticipate launching this venture in partnership with leading therapeutic food company, Rayne Clinical Nutrition. We will initially launch to our member-base and expect to begin working with partner hospitals across North America within the first 6 months of the year.

If our hypothesis is true, members with pets eating Landspath will enjoy the benefits of savings on our insurance products because we will have data to demonstrate that they are less prone to illnesses. This integrated product approach will be a fantastic member benefit and experience.

Landspath creates a much-needed source of recurring revenue that supports the veterinary channel and creates additional value for our members.

The market for pet owners who want to invest in their pet's health via high quality food is substantial: We aim to be selling **$100m in revenue of food** each year by the end of 2025.

BUILDING BLOCK 5—PET CARE-GPS TRACKER

There are around 180 million cats and dogs in North America. About one third will go missing at some point in their lives. Eighty percent will not be recovered. Rather than anxiously waiting and hoping someone takes a lost pet to a shelter or veterinarian to scan a microchip that may or may not be there, our solution is to enable pet owners to instantly locate their pet using an app on their phone through a self-charging, patented GPS unit which attaches to the pet's collar.

We will create a GPS team that will operate as a start-up business unit, separate to the core Trupanion business. We feel we can leverage our operating scale to support this business to accelerate growth, but acknowledge that it is equally important for the GPS owner to be able to move with pace outside of the core business.

BUILDING BLOCK 6—TECHNOLOGY SOLUTIONS

To help the growth of Trupanion and associated brands we will be making investments to significantly bolster our internal—and external-facing technology systems in direct support of our ever-expanding IT team. The value of this incremental technology investment will be a key advantage to drive support, efficiencies and a smarter way of working for the entire business.

We anticipate that through acquisitions of leading pet health technology companies such as Aquarium and BabelBark, we will be able to rapidly increase our pace of technology growth across Trupanion Inc.

In addition to adding value internally, we will also consider how technologies can be shared and re-sold to others in the pet space—building on the infrastructure and expertise we have already developed through our patented software while also ensuring the technology that we consider a competitive moat is maintained. As with all opportunities, the revenue target will be $100m with an AOM of 15% or $15m of adjusted operating income.

Much like GPS, the technology support for the Trupanion brand and associated products is our biggest motivation and the main value-driver for this initiative.

TRUPANION INC. & OUR BRAND FAMILY

The next 5 years will open up a whole new approach to the way we think about 'Trupanion', our much loved brand.

Historically, the vast majority of our company has been focused on the growth of one product and because of this we have referred to our entire business as Trupanion. Through the hard work and strong execution of our team, we have earned the right to represent far more of the brands in the insurance market and the broader pet space. The core Trupanion product will continue to be the largest and biggest revenue generator for the next 5 years. However, as we grow we have the opportunity to extend that reach and to help more pets.

We believe Trupanion Inc. (our parent company[5]) can drive the growth of products outside of insurance such as GPS, Food and Technology. As experts in the pet world, we are confident in our ability to help support our mission in more ways than just insurance and we're excited to do so!

OUR BRAND & PRODUCT ECOSYSTEM

With the introduction of so many brands into our family, it's important to be clear when we are talking about our core Trupanion product versus things the **Trupanion Inc.** team might be involved in. The visual below demonstrates the consumer facing brands that will exist in our ecosystem between 2021 and 2025.

"Powered by Trupanion"

A brand mark applied to products that carry the following features:

- Payment, direct to the veterinarian at the time of check-out
- 24/7 customer support
- TP Nation support

"Trupanion" 1.2, 2.0, 3.0...

We should expect our core product, referred to as "Trupanion" to always be the best possible product avilable. We will continue to iterate on the features and coverage and allow our product to evolve and grow as the pet, pet owner and veterinarian needs adjust.

It will have the highest Lifetime Value and the highest allowable Pet Acquisition Cost.

5 All brands and entities roll into Trupanion, Inc. overall and our stock and shareholders are in the parent company.

POWERED BY TRUPANION

As our brand grows and our referral rates increase, we are becoming more widely recognized as providing pet owners and veterinarians with a quality and unrivalled member experience. As this positive brand association gains momentum we will begin to allow use of our brand in support of new entrants to the insurance market—brands looking for the best possible association with an expert partner. This approach unlocks the **power of Trupanion** for many other products. The tagline "Powered by Trupanion" will sit proudly alongside brands in the future—starting with Aflac in 2021.

"Powered by Trupanion" will become a brand reference serving as a hallmark of quality indicating to pet owners and veterinarians that whenever Trupanion is involved, the pet owner should expect a best-in-class experience. This will include:

- Payment direct to the hospital at the time of invoice and access to our world-class claims team
- 24/7/365 customer care and support
- Retention support from TP Nation to help drive greater retention at the hospital level *(This is for retention only. Brands will not be leveraging TP Nation as a sales team but as an ongoing resource of support. TPs help to create the brand assurance for which Trupanion has become known).*

Some brands may also look to us to offer services in addition to the core "Powered by" elements, such as sales, marketing and communications. Unlike the three core elements, other support services can be provided on an individual basis and decided on by the brand. Think of it like a continuum where our brand partners can choose the level of involvement they have to suit their needs.

Third-party Partners Service Level Spectrum

"Powered by Trupanion"

Light Service	Custom Service	Full Service
−		+
"Powered by Trupanion" Core attributes: Vet Direct Pay 24/7 Customer Care* Claims processing TP Nation (Retention)	Other support services can be provided on an individual basis and decided on by the Partner	**"Powered by Trupanion" Core attributes plus:** All Sales All Marketing All Communications

*24/7 Customer Care must be avilable for all brands carrying "Powered by Trupanion" but it does not mean it needs to be conducted by Trupanion.

We are looking forward to expanding the reach of the Trupanion brand into new product lines to help provide assurance to more pets, pet owners, and veterinarians around the world.

HOW WE MAKE GROWTH DECISIONS

Aside from reinforcing our moats and working on creating our building blocks to growth, there will continue to be many opportunities to grow our current business or to expand into new areas. To ensure we remain focused and committed to our strategic plan, we have outlined key decision criteria that will be applied ahead of moving forward with an opportunity:

- We will not move forward with an initiative unless it benefits all of our key stakeholder groups:
  - Pets
  - Pet Owners
  - Veterinarians
  - Team Members, Territory Partners, and Associates
  - Strategic Partners
  - Investors
- The opportunity must be worth our time and investment. Specifically, after 5 years we want it to be able to generate $100m + in annual revenue with Adjusted Operating Income of at least $15m. (These financial results could be generated directly from the opportunity or indirectly by benefitting an existing brand).
- We have and are willing to invest the resources (people, funds) in order to be successful. If something is worth doing, we will do it the right way.
- We have alignment with a potential partner regarding their approach to diversity, equity and inclusion.
- We will consider the impact to our current business and create a clear roadmap and prioritization framework to help our teams to understand the "why." We want people to enjoy these opportunities and to feel ready and able to execute on them.
- We won't move forward with an opportunity if it's going to negatively impact one of our moats.
- We won't move forward with an opportunity if we believe it will negatively impact one of our brand tenents or core beliefs (such as selling our data or adding wellness to the core Trupanion product).

To set ourselves up to handle new products, new geographies, and new distribution channels our core operational teams will receive significant investments in systems, people, infrastructure, and training. Some of these investments will be made in enterprise technologies such as accounting and human resource information system (HRIS), policy administration, BI platforms, digital asset management, training and communication platforms, remote working advancements, financial reporting, and many more.

OUR PEOPLE AND OUR CULTURE

Our 5-Year Plan would not be complete without talking about our best asset: our people. A lot will determine whether we achieve the goals in this Plan, none more so than whether we have the right people in the right roles, whether we help them be the best they can be, and whether we offer an environment that makes Trupanion *the* destination to build a career.

We are committed to establishing a company-wide diversity, equity, and inclusion strategy to create an increasingly fulfilling and engaging workplace for everyone. We believe that diversity, equity, and inclusion are critical to supporting our team members and improving our ability to achieve our mission. We will define key corporate goals to ensure these ideals become fully embedded in who we are.

For our team members, the work reflected in this 5-year Plan should mean many career growth opportunities and the benefits that come from being a part-owner of a successful growth company. To help so many more pets with more products in more places, we know our organization will **look very different** at the end of 2025. We will be a lot bigger and we will need to develop more leaders to keep us moving forward. Doing this well will be the single biggest driver of our success.

Finally, while this Plan is devoted to looking forward, we also want to preserve the great parts of how we got to this place where we can even contemplate these ambitious goals. We want everyone who joins us in the future to know the first pet we insured, about how the conference rooms got their names, about why we ring the bell, and all the other things that make us who we are.

We look forward to sharing your energy and enthusiasm for this next generation of Trupanion and your commitment to bringing this plan to life.

Thank you for being with us.

trupanion™

Medical insurance for the life of your pet.

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