



AN INTRODUCTION TO TRUPANION INC

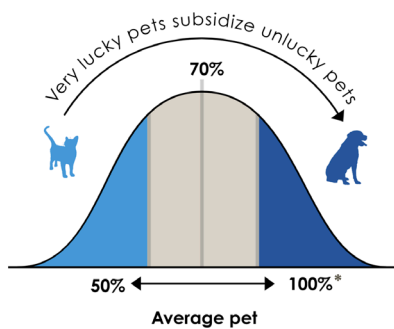
INTRODUCING TRUPANION INC

Trupanion Inc. [TRUP.US]- Market Capitalisation US\$1.2 Billion - is a pet insurance provider which is a monthly subscription that eliminates uncertainty around the cost of pet care. The company has grown revenues at over 40% per annum from 2010 to 2018 and is well positioned to continue benefiting from the favourable tailwinds in the Petcare Industry. Trupanion provides medical insurance for cats and dogs in the US (80% of revenue) where it is on course to become the largest player, and Canada (20% of revenue) where it is comfortably in the lead by market share. Trupanion's data-driven, vertically integrated approach enables the company to provide pet owners with a higher relative value proposition to incumbent pet insurance options.

TRUPANION ELIMINATES UNCERTAINTY AROUND COST OF CARE

- Trupanion eliminates the unknown:
• Will your pet get sick or injured?
• How much will it cost?
• Will costs be front or back-end loaded?

Trupanion provides pet owners the flexibility to choose the best course of treatment



Trupanion's business model relies on predicting the expected monthly cost of claims for pet breed and zip codes, then applying a cost-plus price. In the event of a claim Trupanion pays 90% of the healthcare costs incurred, excluding regular wellness and preventative care costs, for the pet's entire life from the date of enrolment (in contrast to the industry standard 70%). Notably this includes hereditary and congenital illnesses which are the biggest costs on average to pet owners and often not covered by other insurers.

SECULAR GROWTH IN PETCARE INDUSTRY

As spoken to in Elevation Capital's Introduction to the Petcare Industry (available on our blog), the Petcare Industry is experiencing strong secular growth. This is driven in large part by "pet humanisation," the phenomena of considering pets and their medical and other needs as on par in importance with the human members of a family. The American Pet Products Association estimates expenditure on veterinary care and pet supplies (incl. medicine) have both grown at a compound annual growth rate (CAGR) of +6% since 2001. Notably growth was uninterrupted during the Global Financial Crisis (GFC).

UNDERPENETRATED MARKET

Trupanion's primary competitor is the non-insured pet owner. There are over 180million cats and dogs in the US. At Trupanion's average revenue per pet of \$50, a fully penetrated market would work over ~\$100billion. Total market penetration, however, is between 1-2% compared to much higher rates in Europe; 25% in the UK and 40% in Sweden.

trupanion™
Medical insurance for the life of your pet.

PET NUMBERS ACROSS THE USA & EU



169 MILLION HOUSEHOLDS WITH A PET



155 MILLION DOGS



170 MILLION CATS



56 MILLION BIRDS



150 MILLION FISH



16 MILLION REPTILES

1 As at 21/11/2019, when Share Price was \$34.39.

2 Elevation Capital's "An Introduction to the Petcare Industry" available here: https://www.elevationcapital.co.nz/blog/2019/12/11/an-introduction-to-the-petcare-industry

3 According to a 2015 Harris poll, nearly all American pet owners (95%, up 4 points from 2012 and 7 points since the question was first asked in 2007) consider their pets to be members of the family.

The Harris Poll, More than ever, Pets are Members of the Family, available here: https://theharrispoll.com/whether-furry-feathered-or-flippers-a-flapping-americans-continue-to-display-close-relationships-with-their-pets-2015-is-expected-to-continue-the-pet-industrys-more-than-two-decades-strong/

4 American Pet Products Association market research is available here: https://www.americanpetproducts.org/press-industrytrends.asp



MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2017, NEW ZEALAND



NOMINEE - MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2012, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2012, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2013, NEW ZEALAND

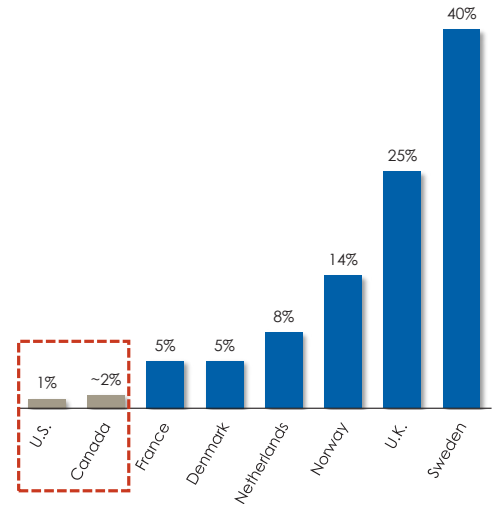


The salient differences in these other markets are not demographic or economic but rather the longer time pet insurance has been available in those markets, direct-to-consumer distribution models, and the higher value proposition of pet insurance in Europe compared to the US. Pet insurance companies in the US typically do not cover hereditary and congenital conditions (which are the forms of illness most likely to be suffered by cats and dogs), they increase rates when claims are made, they impose payout limits, and pay claims according to an estimated cost schedule rather than actual vet invoices. Trupanion is the only US player different in all these respects and as such is growing penetration of the North American addressable market.

LEADING MARKET GROWTH

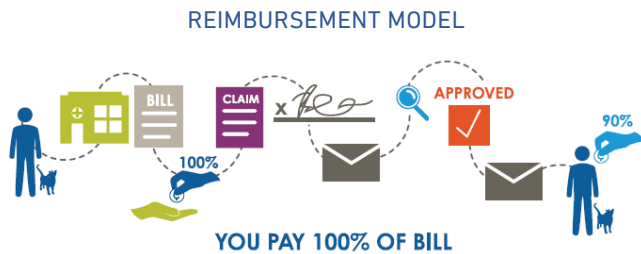
In 2018, the top 3 players in North America provided 75% of the pet insurance market growth, with Trupanion leading the market by providing 28% of industry revenue growth. If Trupanion continues to occupy a top three position in the market there is a strong chance that it will be the number one player in terms of market share and distribution in the country by the end of next year giving it a huge presence and competitive advantage in the long-run.

UNDERPENETRATED MARKET



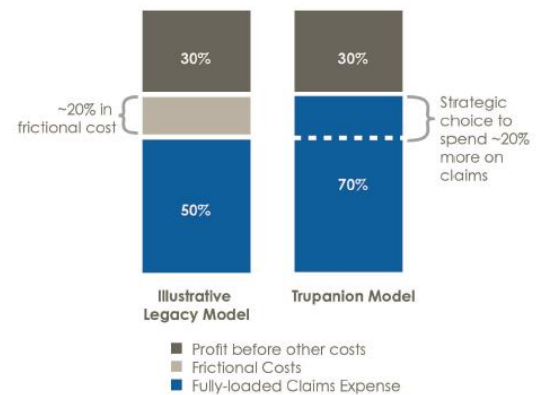
EXPRESS CUSTOMER SERVICE

Trupanion Express is software that was developed by Trupanion and integrates with vets' practice management systems. Through Trupanion Express, Trupanion pays vets directly, within five minutes of a vet invoice being submitted, disrupting the traditional insurance reimbursement model and obviating the need for customers to pay out of pocket and then submit a claim for the expense. This is clearly a superior solution to the reimbursement model in solving customers' cash flow problem associated with unexpected pet healthcare costs.



COST ADVANTAGE

Vertical integration of customer acquisition, distribution, and risk management have saved the company ~20% compared with the cost structure of typical pet insurance competitors. Rather than lowering their prices Trupanion passes this cost saving to policy holders in the form of higher claims payout ratios. Trupanion's strategy is to provide a higher relative value proposition to pet owners in the pursuit of a larger and stickier subscription revenue pool.



UNDERWRITING WITH DATA ANALYTICS

Trupanion's ability to estimate the pet healthcare costs by granular sub-categories more accurately than competition is crucial to its leading value proposition. Using its database the company has segmented the market into 1.2million price categories in order to more accurately underwrite insurance costs for a given pet. Although currently Trupanion's competitor Nationwide is larger by number of pets enrolled, its data is less comprehensive for two reasons: (1) a lack of data for conditions not covered by policies, such as hereditary and congenital diseases, and (2) pricing categories by state rather than zip code, even though the cost of vet care can vary widely within states.

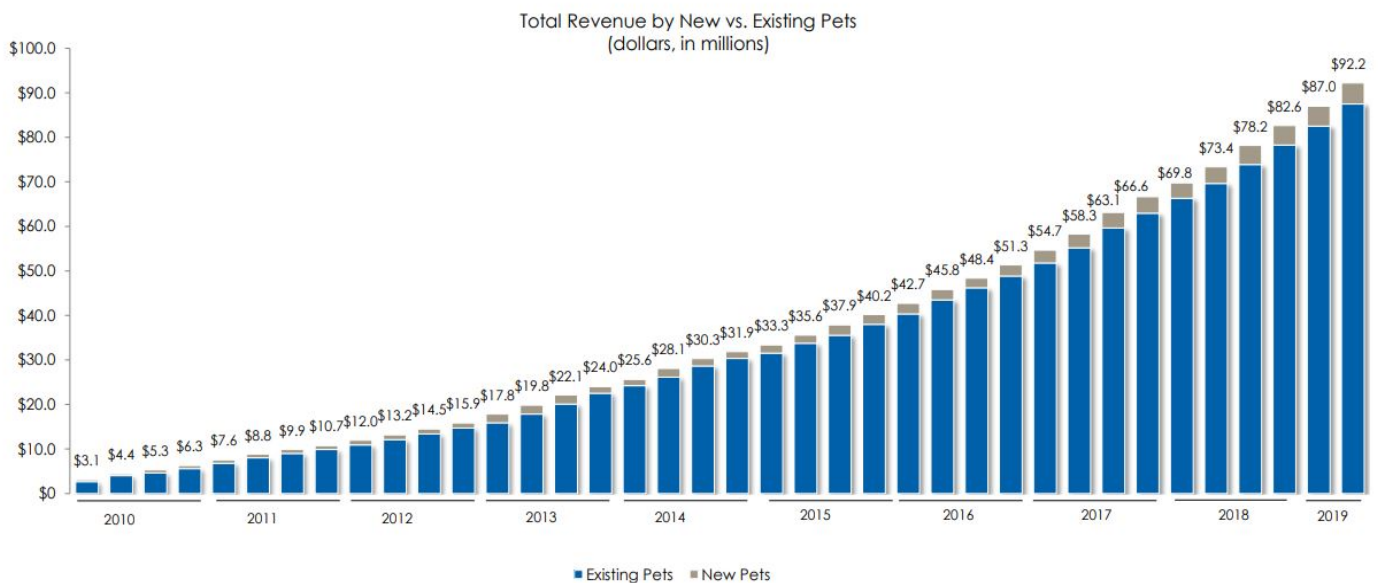
³ The Motley Fool interview with Trupanion Founder and CEO Darryl Rawlings: <https://www.fool.com/investing/2017/12/06/the-motley-fool-interviews-trupanion-founder-and-c.aspx>



STICKY REVENUE

Trupanion's advantages are reflected by its growing and loyal customer base which provides the company with highly predictable and recurring revenues. Trupanion boasts a 98% retention rate, with ~90% of subscriptions coming from existing members and customer referrals being the largest driver of new subscribers. Notably, although pet insurance is a discretionary purchase and Trupanion's subscriptions are monthly Trupanion's churn remained steady at 1.5% monthly through the financial crisis.

We are a monthly recurring revenue business that requires us to be a low-cost operator, with a high value proposition, and a focus on delivering a positive member experience with a low acquisition cost. – Darryl Rawlings, CEO



LONG-TERM ORIENTATION

Finally, a strong founder presence, with the founder and CEO Darryl Rawlings owning approximately 6% of the company, and an incentive structure in which all employees are owners, provides Trupanion the stability needed to ensure it maintains focus on building long-term, lasting value for all shareholders.

SUMMARY

The Pet Industry has strong systemic tailwinds which will continue to drive growth in the sector for years to come. The phenomenon of pet humanisation is only becoming more prevalent with consumers increasingly willing to spend on their pets' medical needs to keep them healthy and prolong their lifetimes. Trupanion's unique business model and higher relative value proposition renders the company well positioned to seize the opportunity presented by the dissonance between Pet Industry trends and the low penetration of pet insurance in North America.

This summary report was written in November 2019.

DISCLAIMER

Elevation Capital Management Limited is a Registered Financial Service Provider in New Zealand in accordance with the Financial Service Providers (Registration and Disputes Resolution) Act 2008 -- FSP # 9601. Elevation Capital Management Limited is licensed under the Financial Markets Conduct Act 2013 as a manager of registered schemes. Elevation Capital Management Limited does not provide personalised investment advisory services to the public. Nothing herein should be construed as a general advertisement of investment advisory services or a solicitation of prospective clients for investment advisory services. The information herein is intended solely to provide certain background information about Elevation Capital's investments on behalf of the Fund/s or Separate Accounts it manages or advises on. Elevation Capital Management Limited, its directors, employees and agents believe that the information herein is correct at the time of compilation; however, they do not warrant the accuracy of the information. Save for any statutory liability which cannot be excluded, Elevation Capital Management Limited further disclaims all responsibility or liability for any loss or damage which may be suffered by any person relying on any information or any opinions, conclusions or recommendations contained herein whether that loss or damage is caused by any fault or negligence on the part of Elevation Capital Management Limited, or otherwise. Past performance is not an indication of future results.



ELEVATION CAPITAL®

INDEPENDENT THINKING DISCIPLINED INVESTING

[In-de-pend-ent Think-ing] **ində'pendənt THiNkiNG** *verb*

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] **disciplinəd inves'ting** *verb*

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.