

trupanion™

Medical insurance for the life of your pet.

A photograph of a person with dark hair, wearing a bright pink long-sleeved shirt and blue jeans, crouching on a dirt path in a forest. They are hugging a large black and white speckled dog from behind. The dog is sitting on the grass. The background is a dense forest with tall trees and sunlight filtering through the leaves.

2017 Annual Report

To our shareholders,

In my opinion, our company continues to make incremental progress. In our marathon analogy, we have moved onto mile five.

In general, our 2017 results were consistent with 2015 and 2016. Our performance in 2017 was aided by a large, under-penetrated market, a business model based on monthly recurring revenue, and 17 years of incremental progress so that we can begin to benefit from scale. For me, the most interesting learnings occurred in the second half of the year, when we increased some pet acquisition testing and cautiously began to tap our foot on the accelerator.

As promised in last year's letter, our shareholder meeting on June 7, 2018 in Seattle will be the primary communications vehicle for the management team to provide specific details about individual initiatives. Once again, our first public shareholder letter is attached. The 2014 letter is meant to act as a reminder of how we at Trupanion operate and think.



NOW LET'S GET STARTED WITH OUR FINANCIAL PERFORMANCE

We ended 2017 with 423,194 enrolled pets and revenue of \$243 million. We spent 70% of our revenue paying our members' veterinary invoices, 12% in variable expenses supporting our members 24/7, and 8% on fixed expenses.¹ This left us with 9.6% or \$23.4 million as our adjusted operating income, which is the profit we generated from our existing pets before spending to acquire new pets during the year.

This year, at our discretion, we invested \$18.4 million of the \$23.4 million to acquire 105,180 Trupanion pets. We estimate the \$18.4 million we invested in acquiring new pets will produce an IRR* of 36% for the average pet.

*Internal Rate of Return (IRR) refers to our anticipated return on spend to acquire pets.

TABLE 1 – FINANCIAL PERFORMANCE 2012-2017

YEAR	ENROLLED PETS	REVENUE	YOY REVENUE GROWTH	ADJUSTED OPERATING INCOME	INVESTED CAPITAL TO ACQUIRE NEW PETS	IRR ON AN AVERAGE PET ²	CASH AND SHORT-TERM INVESTMENTS, 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	31%	\$48.8M	\$(6.9M)
2017	423,194	\$242.7M	29%	\$23.4M	\$18.4M	36%	\$54.4M	\$(1.5M)

A detailed look at how we calculate the IRR on the \$18.4M we spent to acquire 105,180 new pets is shown below.

TABLE 2 – 2017 IRR CALCULATION

MONTHS	73.0	LVP	\$727	AOM	9.6%
CHURN	1.37%	LVP:PAC	4.8x	ARPU	\$52.07

YEAR	0	1	2	3	4	5	6	
MONTHS	6	12	12	12	12	12	7.0	73.0
AOM	\$30	\$60	\$60	\$60	\$60	\$60	\$35	\$366
CAPITAL CHARGE	\$(3)	\$(5)	\$(5)	\$(5)	\$(5)	\$(5)	\$(3)	\$(32)
PAC	\$(152)							IRR
FCP	\$(125)	\$55	\$55	\$55	\$55	\$55	\$32	36%

LVP = Lifetime Value of a Pet AOM = Adjusted Operating Margin ARPU = Average Revenue Per Pet (Unit)
PAC = Pet Acquisition Cost FCP = Free Cash Flow Per Pet

On a fully diluted per share basis, our revenue grew 27%, while our adjusted operating income per share benefited from the scaling of our fixed expenses and increased by 57% in 2017. The year-over-year improvements in our adjusted operating income and our IRR on acquisition spend are two metrics that I am both proud of and that I believe are representative of our achievements during the year. I do not feel the same about our revenue growth and feel compelled to temper some enthusiasm.



To a casual observer, our revenue grew 29%, which is on the high end of our previously stated 20% to 30% revenue growth target. To level set:

- As shown the table below, revenue grew 27% on a per-share basis, not 29%. It is important that we provide visibility into our stock-based compensation, plus any other dilution if it were to occur.
- Our “other business,” which is made up of pets that roll-on and roll-off in groups, grew by 63% in 2017. This is unusual growth. Typically, we expect growth in this segment to be approximately 10% -12% per year, which is similar to the performance of the overall category in North America.
- When you back out the unusual growth of our “other business” segment, our revenue growth was 25% per share.
- ARPU grew by 9% in 2017 — this is higher than normal. It was the result of our focus on providing the same value proposition to each sub-category of pets. 17% of our sub-categories needed a larger increase than what we believe is normal. Typical annual inflationary growth of our average monthly revenue per pet (ARPU) is 5% to 6%.
- When you back out the extra 3% ARPU growth, our “steady state” growth per share reduces from 25% to 22%.

For me, 22% is more representative of our underlying revenue growth per share, and while this is still within our 20% to 30% revenue growth target, it moves from the high end to the lower end of that range.

TABLE 3 – GROWTH PER SHARE

YEAR	TOTAL SHARE COUNT PLUS OPTIONS & WARRANTS GRANTED*	REVENUE PER SHARE*	YOY GROWTH	ADJUSTED OPERATING INCOME PER SHARE*	YOY GROWTH	CASH AND SHORT-TERM INVESTMENTS MINUS DEBT PER SHARE*	YOY GROWTH	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)

* 2016 includes 34,431,970 shares outstanding and granted as of 12/31/16, plus 447,640 options granted in May 2017, awarded for 2016 performance. 2017 includes 35,194,737 shares outstanding and granted as of 12/31/17, plus 249,723 restricted stock units granted in February 2018, awarded for 2017 performance.

** Earnings (loss) per share is calculated using the GAAP basis weighted-average shares as of 12/31/2017.

In the 2014 shareholder letter I stated, “discounted cash flow is how we internally view our long-term strategic choices. It is purely mathematical and although the inputs of terminal growth rates and weighted average cost of capital can move the valuation all over the chart, if you keep them constant, you can determine if your choices move the needle in the right direction.” For purposes of the Performance Stock Grant Program, we internally calculate the appreciation of the company’s intrinsic value by using a 15-year discounted cash flow method. We lock down the terminal growth rates and weighted average cost of capital, we eliminate



any impacts of changes to interest rates as we believe our team (all of the employees) should not benefit or suffer from such impacts, and most importantly, we use past performance to model future results. This way we are measuring execution achieved versus execution modeled. For this methodology, we are not concerned with the dollar value calculated on an annual basis, only the year-over-year percentage change.

As we described in the 2016 shareholder letter, "I believe that sharing a small percentage of the net value creation with the team will continue to drive the correct alignment between the company's team members and shareholders."

In 2017, we calculated the increase in Trupanion's intrinsic value to be 22% before performance stock grants. Based on the Performance Stock Grant Program chart found on Table 3 of the 2016 shareholder letter, dilution should be 1.3% when achieving a 22% increase in our intrinsic value. After this dilution, the increase to intrinsic value on a per share basis is 20.7%.

At 1.3%, the total size of the grant pool in 2017 was 352,849 shares. 103,126 were allocated during the year for new hire grants, individual performance awards and board compensation, leaving 249,723 shares that were issued in Q1 2018 for our Performance Stock Grant Program.

STOCK PRICE

Warren Buffett stated in his 1996 Owner's Manual, principal 14:

"To the extent possible, we would like each Berkshire shareholder to record a gain or loss in market value during his period of ownership that is proportional to the gain or loss in per-share intrinsic value recorded by the company during that holding period. For this to come about, the relationship between the intrinsic value and the market price of a Berkshire share would need to remain constant, and by our preferences at 1-to-1. As that implies, we would rather see Berkshire's stock price at a fair level than a high level. Obviously, Charlie and I can't control Berkshire's price. But by our policies and communications, we can encourage informed, rational behavior by owners that, in turn, will tend to produce a stock price that is also rational. Our it's-as-bad-to-be-overvalued-as-to-be-undervalued approach may disappoint some shareholders. We believe, however, that it affords Berkshire the best prospect of attracting long-term investors who seek to profit from the progress of the company rather than from the investment mistakes of their partners."

If everything were linear (it is not), and with a very large under-penetrated market (which we think we have), we believe we have the opportunity to compound growth for decades. We, like Mr. Buffett, desire that our long-term shareholders, who are getting on or getting off our train, earn fair and appropriate returns reflecting our actual execution and performance over their holding period.

In 2016, we shared that the Performance Grant pool was 447,640. This represented 1.7% dilution, indicating we believed the intrinsic value of the company increased 23.3% post-dilution from 2015 to 2016 (for reference, see table 3 in the 2016 shareholder letter). This year's dilution was 1.3%, indicating we believe the intrinsic value increased an additional 20.7% post-dilution between 2016 and 2017. If our methodologies are correct, over the last two years the appreciation per share should have been 44% ($23.3\% + 20.7\% = 44\%$). If for some reason the starting stock price was 10% lower, one might expect a 54% change ($44\% + 10\% = 54\%$) or



alternatively if the starting stock price was 10% higher, then a 34% change ($44\% - 10\% = 34\%$) would make sense. Over the passage of years, we can only hope that our shares trade within a narrow band of our intrinsic value most of the time.

We are certainly not obsessed with our stock price, but on a quarterly basis we do compare it to what we believe is our intrinsic value. If the stock price is trading by more than 20% discount to what we believe is our intrinsic value and we have excess cash, we might consider a stock repurchase. If the stock price is trading at more than a 20% premium to what we believe is our intrinsic value, I would prefer that people not buy our shares during that time. Since going public we have only raised equity once, on July 18, 2014 when we IPO'd. I believed at the time, and continue to believe today, that the shares were priced within +/- 20% of our intrinsic value. Since being public, there have been sustained periods of time when we felt that our share price was trading at a discount larger than 20% to our intrinsic value. During these times, we engaged in an increased level of investor relations activities based on our belief that it was a good entry point for long-term shareholders to acquire or increase a position in us (as we were not in a cash position to repurchase shares). For a brief period in 2017, before the corporate income taxes in the United States were lowered, our stock was trading greater than 20% above our intrinsic value estimate. That made me uncomfortable.

This year, a month after I finished the first draft of this letter, I smiled when I saw in Berkshire's 2017 Annual Shareholder letter that Mr. Buffett had inserted a chart showing that over four separate time periods, Berkshire's stock price had dropped between 37% - 59%. No, markets are not always efficient.

In a fickle market, a short-term stock price at a specific point in time is not our motivator, driver or barometer. The scorecard that motivates and drives our team is the number of loving, responsible pet owners we are helping budget for the veterinary care their pet deserves if/when their pet becomes sick or injured. The number of veterinarians and their staff who have the confidence to initiate conversations about Trupanion, and ultimately the success of our Territory Partners, is the barometer we use to gauge our progress and success.

A REMINDER OF THE PROBLEM WE ARE SOLVING, AND WHY WE EXIST

At our core, the problem we are solving is simple. It is very difficult for pet owners to budget for veterinary expenses if/when their pets become sick or injured. What complicates this problem is the following (taken from "Top Investors Questions" at www.investors.trupanion.com):

- a. Pet owners do not know how to budget for the "average" cost of medical care for their pets, which varies dramatically by geography and pet breed.

Our cost-plus model is designed to spread the risk evenly within each category of pets. Our goal is to charge each pet the appropriate amount for their specific circumstances (e.g., breed, age at enrollment, geography, etc.) so that, in aggregate, the extra amount paid by lucky pets covers the veterinary costs incurred by unlucky pets. Some categories of pets tend to be more expensive, on average, than others, and our goal is to adjust pricing within each category to reflect those differences.

Once we understand the "average" cost for each sub-category, we add 30%, which results in Trupanion spending 70% of a pet owner's monthly costs paying veterinary invoices for pets that have become sick or injured. A Trupanion member should have



the same value proposition if one of their pets is \$20 per month (e.g., a domestic shorthair cat in Boise, Idaho) and the other is \$200 per month (e.g., an English Bulldog in Manhattan, NY).

I liken our value proposition to the Costco model, where Costco members inherently understand that whether they are purchasing a large flat screen TV, a bottle of Bordeaux, a can of tuna, or a roll of toilet paper, they are always getting the best value.

Compared to Costco, our product is less tangible. This makes it more difficult for the pet owners to distinguish our value proposition. This is why we work with veterinarians and their staff.

- b. Pet owners don't know whether their pet will be "average," "lucky" or "unlucky," so being able to budget for the "average" is not an effective solution for an individual pet owner.

As noted above, we spread the risk among thousands of pet owners so that, in aggregate, the extra amount paid by lucky pets covers the veterinary costs incurred by unlucky pets.

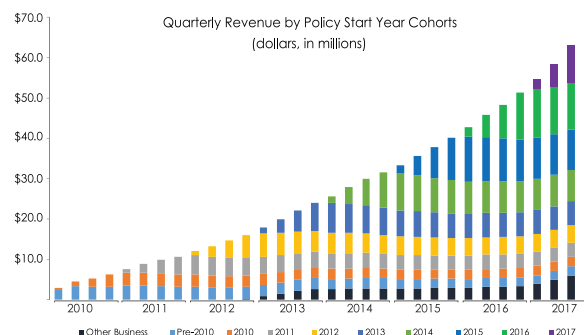
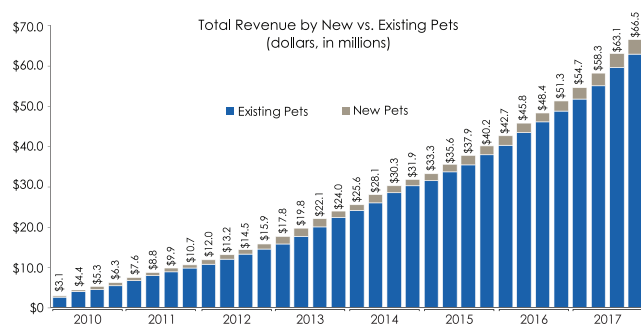
Said another way — any pet owner could get a quote for their specific breed or location and multiply their monthly quote by 70% to determine the average monthly veterinary costs for accidents and illness. They could put this money in a piggy bank every month, revisit it annually to understand the impact of inflation and utilization in their geographical area, and follow this pattern for their pet's entire life. If their pet ends up being "average," they will have zero money in their piggy bank at the end of their pet's life.

The problem with this piggy bank approach is that nobody knows whether their pet will be "average," "lucky" or "unlucky."

- c. Even if a pet ends up being "average" over its life, the timing of its accidents and illnesses may not align with its owner's budgeting approach.

To an informed, responsible and loving pet owner, Trupanion is a hedge (that costs them 30%, if their pet ends up being "average" over its entire life) that helps them budget for the unexpected cost of veterinary care if/when their pet becomes sick or injured.

Aided by the problem we are solving, our large under-penetrated market, and a business model based on direct-to-consumer, monthly-recurring revenue, we achieved the growth depicted below:



In the 2015 shareholder letter, I discussed an area that needed improvement: “While we are excited about the new additions to our team in 2015, we could have done a better job training them. Our company is unique, and it takes time to understand what we do. We can serve our new colleagues better if we spend more time up front educating them on our business as a whole.”

I am happy to inform our shareholders that 2017 was a year of education at Trupanion. We invested \$3.1 million or 1.3% of revenue in what we call TruUniversity, our training program. What this team has accomplished, building it from scratch, with little resources and no playbook, is impressive. In 2017, every new and existing employee and Territory Partner attended TruUniversity. Yes, like anything that is new, with hindsight we could have done some things better, but in the culture of WD40 we will iterate and keep improving. There is no doubt that we are making progress.

Last year at the annual shareholder meeting we introduced our 5 key long-term initiatives. They remain unchanged. Here is my scorecard on our progress in 2017:

I. AOM EXPANSION	Decent progress, was hoping for a little more	B+
II. INCREASE CONVERSION RATES	Phone conversion rates were a definite A! Very cool. Unfortunately, our web conversions did not make enough progress early in the year and fell short of our goals.	B
III. AUTOMATED CLAIMS	Very close to going live in 2017. We will take it because it is an important part of our future and really, really hard to accomplish!	A-
IV. SAME-STORE SALES	A total grind, testing all year BUT with massive rays of sunshine at the end of the year, giving us confidence that we are learning some new skills.	B+
V. NIRVANA	Some progress on retention, but we won't be celebrating with margaritas on the beach this year.	C+

We ended 2017 with 107 Territory Partners visiting approximately 20,000 unique veterinary clinics. In total, we estimate that we made an additional 85,000 face-to-face visits during the year, and in aggregate have made over half a million such visits since we entered the US market in 2008. By the end of 2017, we had Trupanion Express™ in more than 2,000 clinics, and \$40.4 million dollars of veterinary invoices were paid directly to veterinarians — an increase of 34% over the prior year. We will provide more insights into these metrics at the annual shareholder meeting on June 7th, 2018 in Seattle.

EVERY YEAR THERE ARE THINGS WE SCREW UP AND THINGS WE LEARN THE HARD WAY. HERE IS MY LIST THIS YEAR:

- I slow down the team and hurt our alignment when I poorly describe why something is important to the organization.
- We made some progress on Nirvana, but we need more.

In short, 2017 was better than 2016 but only had us return to 2015 levels. As a reminder, our Nirvana goal is to have our existing members add pets or refer friends at a level that equals, and thus counteracts, our monthly churn rate. Our monthly churn rate for the last 10 years was approximately 1.5% per month. For the last few years, our churn has been 1.4%. Our referral and add a pet, which we also measure as a percentage of our total members, was 0.7%, so our gap to Nirvana was 0.7%.



- c. I believe we are spending money on things that our members do not care about.

A simple example would be postage — we spend too much money on snail mail. In 2014, I stated, “The best subscription companies have a high cost of goods, an exceptional member experience, and the lowest frictional costs.” We must be focused on eliminating all frictional costs. This needs to be our version of frugality, and it is currently not a part of our collective DNA.

- d. We need to be better at trusting one another.

This is a prerequisite for innovation, nimbleness and ultimately, growth. Frequently, we agree on the “where” and the “what,” but we have too much cynicism on ideas around the “how.” More encouragement is needed.

- e. Some of our team members do not have a clear path to higher compensation if they stay in their same roles.

We actually made great progress around this issue across the organization this year, just not everywhere. We need to fix this!

In my opinion, the positive learnings and observations outnumbered the negative this year. Here are the ones that stick out in the positive column:

- a. I have sat in the call center for many years and it gives me the opportunity to feel and hear the voices of our customers and it is the intersection of our wins and failures. You can probably imagine that sitting close to me in the call center has its pros and cons. As a result, the team often moves around me. Over the years, this has provided me the opportunity to listen to tens of thousands of calls from dozens of team members. This year I received a new neighbor and had the honor and privilege of listening to the exceptional way she serves our members. It's one of the best parts of my day.

The call center has been under a lot of stress in 2017 with turnover that was too high! Through it all, my neighbor just rocked it. I could not be more proud. Near the end of the year, she began to train and help others, giving me confidence in improvements we will see in the coming years.

- b. Our expanding data team achieved further progress in accurately pricing our sub-categories.

The results could be seen in the growth of both our ARPU and Lifetime Value of a Pet (LVP). As stated previously, ARPU increased 9% year over year, which was a short-term 3% to 4% more than what we otherwise expect on an ongoing annual basis. But it is the LVP's growth that is the true long-term beneficiary of this accomplishment. Our LVP increased from \$631 to \$727, showcasing continued improvements and exceeding our stated goal of decreasing the number of sub-optimized categories from 17% to 8%. Remember, a higher LVP and the continued expansion in our Adjusted Operating Margin allows us to increase our target pet acquisition costs while maintaining or improving our expected IRR on acquisition spend.

At our core, accurately pricing by sub-category is one of our most important abilities, but it is only the first half of the story. The second half is lining up what we spend on



leads and conversions to ensure that we deploy our capital in line with our targeted IRR. The team really crushed it in 2017. As the marketing team began to tap their foot on the accelerator, the analytics team was sitting shotgun, acting as a great co-pilot. I believe the work and learnings from our analytics team in 2017 will pay dividends for the next 3-5 years as we learn how to deploy greater sums of our adjusted operating profits to enroll more pets.

- c. 2017 saw a change in the direction and name of our Human Resources team.

This team had always been tasked and funded as a recruitment arm of the company. We expanded the focus of this team to include many of the functions that our people deserve, and rechristened the team “People Operations” to better align with our culture.

- d. The finance team drove deeper understanding of how each department and its functions work together to drive positive growth in our intrinsic value.

Similar to the impact of the data team, I believe what the finance team accomplished by using our intrinsic value model to drive behavior, focus and investments will have a compounding impact over the decades ahead of us.

- e. I believe that we are beginning to do a better job selecting and aligning ourselves with long-term strategic partners.

We live in a world that crosses emotions, empathy, customer service, science, data, healthcare, regulations, and technology. The commonality is people. We are also learning that with stronger relationships with the individuals and personalities within our ecosystem (this could include business partners, vendors, fellow animal health companies, or individuals from the department of insurance), we are able to find common ground around our mission of helping pets receive the best veterinary care. This mission resonates with most of humanity — got to love the bond we all have with our pets!

- f. In writing this years' letter, I nearly forgot to highlight the efforts of our claims team. Reflecting on why the claims team was not on my radar, I have determined that it was because it just ran so smoothly.

The team paid over 700,000 veterinary invoices in 2017! They worked hard every day of the year, 24 hours a day, including New Year's day, Christmas day, and every snow day — all while paying faster and faster, driving us closer to our goal of paying 90% of invoices directly to the veterinarian within 5 minutes. The team rallied behind our efforts to learn more about automation, understanding how this will better the lives of pet owners and veterinarians. They accomplished all this while the department's annual turnover was less than 10%. A large locomotive running down the tracks is often overlooked, but its effectiveness is truly impressive. Well done team!

- g. In my opening comments, I mentioned that some of our most interesting learnings occurred in the back half of the year when our Pet Acquisition team (aka Sales & Marketing) began to tap their foot on the accelerator. I will let the shareholder meeting be a forum for most of our sharing in this area, but will summarize for you here.



In the back half of the year, we spent more aggressively in direct-to-consumer advertising in a few select markets. The second primary area of increased spend was focused on same-store sales, where we endeavor to learn how to have existing, active supportive hospitals more effectively and consistently introduce Trupanion to their loving, responsible pet owners. The results of these efforts showed little impact on the number of quality leads for the year, but did result in a modest 4% increase in conversion rates. Most of that increase showed up in the back half of the year with conversion rates up 7.5%. We were encouraged by these results.

In the 2015 shareholder letter I stated, "I remain committed to updating you on our progress toward our goals." One of our key goals since becoming a public company is achieving operational scale, which we define as having our adjusted operating profit margin at 15%. This is the profit we have from our existing clients before we spend more to add new pets. We said we would achieve this goal by spending 70% of revenue paying veterinary invoices (our cost of goods sold — COGS), 10% of variable expenses servicing our members and 5% on fixed expenses. In 2014, we said this might be ambitious, but we thought we could achieve this goal when we have between 650,000 and 750,000 pets. We also said we hoped to achieve this by the end of 2020. As we get nearer to the end of 2020, here is my update:

1. I remain confident we will hit our 15% target AOM when we have between 650,000 and 750,000 total enrolled pets.
2. I believe the expansion in our adjusted operating profit should be sufficient to pay for our desired growth in 2018, 2019, and 2020.
3. I am not yet confident in predicting our ability to cost-effectively add enough pets to have 650,000 pets by the end of 2020.

Before I can become confident about where our pet count will likely be by the end of 2020, we will need some more time for our Pet Acquisition team to fine-tune our ability to spend increasing amounts of available money. In a perfect world we would spend 70% of our PAC spend on reliable "core" lead and conversion methods that return us a 35% to 40% IRR. We would spend 20% of our PAC on "growth" areas where our IRR is between 5% and 25% as we are trying to optimize better leads or increase the conversion rates so we can hit our long-term IRR targets of 30% to 40%. The last 10% of our PAC spend will be on new "test" initiatives where we have no real idea what the results will be and therefore we will need to dynamically watch the results to determine if we move forward or stop the initiative.

In 2016, driven by our desire to be cash flow positive, and because our LVP was lower than we had previously anticipated, we spent approximately 95% of our PAC on core channels and conversion tools. In 2017, particularly in the back half of the year as our LVP and AOM both increased, we began to spend a higher percentage of our PAC dollars on "growth" and "test" initiatives. In 2017, our PAC spend was roughly broken-down as follows: 75% core, 15% growth, and 10% test. Please keep in mind that core and growth channels may have diminishing returns as we apply more volume, so we must continuously monitor the relationship of our target PAC spend to our LVP by each sub-category.

In the coming years, we expect that our adjusted operating income will continue to expand, giving us significantly more capital to spend on acquiring new pets while remaining cash-flow positive. Additionally, expansion in our adjusted operating margin, coupled with increasing



LVP would enable us to increase our allowable PAC spend, while maintaining our IRR hurdle rates and providing us with plenty of growth opportunities.

The table below is an illustrative example of what it may take to achieve 650,000 total enrolled pets by 2020, assuming ARPU growth of 5-6% and our current retention rates. We do not intend this to be a projection or guidance, but rather an illustrative example of a path to reaching this milestone. Our ability to spend increasing adjusted operating income each year at a higher PAC will determine how quickly we are actually able to reach 650,000 total enrolled pets. We are not able to predict the future, but this discussion and the table shown below highlight both our opportunity and our challenge. Can we deploy greater sums of capital and get the results we desire? My answer: I simply don't know yet; it will have to play itself out.

TABLE 4 – THIS IS INTENDED AS AN ILLUSTRATIVE EXAMPLE OF WHAT THE PATH TO 650,000 TOTAL ENROLLED PETS MIGHT LOOK LIKE. THIS IS NOT A FORECAST, PROJECTION, OR GUIDANCE, NOR IS IT MEANT TO SHOW THE ONLY POSSIBLE PATHWAY TO REACH 650,000 TOTAL ENROLLED PETS.

YEAR	2017	2018	2019	2020
AOM %	9.6%	11.5%	13%	14% (15% 12/20)
Approx AOI	\$23,400,000	\$30,000,000	\$40,000,000	\$50,000,000
IRR	36%	36%	36%	36%
PAC per pet target to hit the IRR of 36%	\$152	\$190	\$200	\$210
New Pets enrolled to end with 650,000	105,180	130,000	160,000	180,000
PAC spend if we hit IRR target and new pet target	\$18,400,000	\$24,700,000	\$32,000,000	\$37,800,000
Total enrolled pets	423,194	500,000	585,000	650,000

Several months ago I introduced to the team the Japanese term “Kuyashii.” For those doubters out there we say, “Thanks for inspiration; Kuyashii!”

OUR MISSION

We talk about being mission-driven, and that helping pets receive the best veterinary care is why we come to work.

We talk about our vision — being the world's authority in medical insurance for cats and dogs. We talk about culture and alignment. In short, we agree with Peter Drucker that culture eats strategy for breakfast. Human beings want to be connected to something bigger than themselves, and they want be a part of something that makes them feel good.

Pets provide us with unconditional love and we, as responsible, loving pet owners, want to take care of them the best way we can. This is what drives us!

The team was recently forwarded two correspondences from a Trupanion member. I think it captures these concepts better than I could ever articulate.





From: [REDACTED]
Sent: October 18, 2017
To: My TruStory
Subject: [REDACTED]

Good evening,

It has taken me a long time to send this email, and I have to apologize that I haven't sent it earlier... We are still reeling from losing Jake this summer, and I am always thinking about how much I need to thank you for everything that you have done for us.

Jake came into my life unwelcomed. I had been fortunate to have the experience of sharing 16 years of my life with the perfect dog — a Jack Russell; I got him when I was 18, and my entire adult life was with him by my side. Even at 16, he was unstoppable. And then he met his match and was diagnosed with an inoperable tumour in his chest. Within days, he was gone, and I was alone. I had decided that he was THE dog, MY dog, and there was no way I could ever consider having another. I had already had my dog.

Then, I learned of Jake. He had been surrendered to the vet to be euthanized because he was so difficult. He was desperate for a home. He had endured four homes in two years, and he was a chronic runaway, filled with anxiety. I said no. I had already had my dog. Months and months went by, and Jake entered my life again. Time was running out for him. I said no. Several months later, the offer came again. I decided that the best way to end it once and for all was to take him for a weekend trial, show that he wasn't a good fit for me, and then it would be resolved. I picked



him up for the weekend and put him through every test I could think of. He came to the barn so I could assess him around horses. We went for drives and walks and encountered other dogs. The final test was children. I brought him to meet my three year old niece. I will never forget the moment I looked out the window to see my niece pulling Jake behind her in a wagon. And he was wearing a bonnet. I remember thinking in that moment that I had never seen a dog try harder, and even my perfect little dog wouldn't have endured such embarrassment. And that was the moment that Jake became mine.

With that said, he was never truly mine. He was a free spirit, never really feeling like he had a home. He struggled with separation anxiety. He made his own rules. The honeymoon period wore off very quickly, and I learned that Jake believed in trying hard...to do the wrong thing. He lived by one rule, and one rule only: Look at every single situation and ask yourself, "How can I make this worse?" He ran away constantly. He once leapt out the car on Whyte Ave and ran through traffic. He pooped in my lunch box. When you called him, he would make eye contact to let you know he heard you, and then went the other way. He ate well placed holes in any piece of clothing accidentally left on the ground. He snored so unabashedly we nicknamed him "Darth Jaker." He peed on any bag, any piece of plastic, anything he could use as an excuse to break the rules. He would wait for you to finally sit down and put your feet up, and then immediately whine to go outside. My favourite Jake moments involved him stranded on the dining room table (after scrambling up to forage for food), and peeing down the heating vents in the house.

For years, I have described Jake as being hard to love. I work with teenagers, and we often say that those in need of love are often the hardest to love. The same applied to Jake, and in moments when my patience waned, I reminded myself how much of a deficit of love he had in his life, and he needed to know that no matter what he did, we would still love him. He was a source of endless stories with his attempts to be the worst dog ever.

It was difficult when Jake was diagnosed with diabetes. The veterinarian immediately started to describe the option of euthanizing him, as that is what most people do when faced with the endless bills associated with ongoing treatment. I can't thank you enough for supporting us in moving the opposite direction — towards daily needles and insulin and testing. We set off on our journey to treat Jake for the rest of his life. And we thought that we had it under control.

We went on vacation in August with our whole extended family, meaning that the dogs were going to a boarding facility. And while we were away, the worst case scenario occurred when Jake suffered several diabetes related complications. It was my worst nightmare to be in another country, and not be there for Jake. We had to make decisions without being there, but we knew that we could send him to Guardian Vet, seek treatment and support, because he had Trupanion. Guardian Vet was amazing as well, stabilizing Jake, and we flew home to see him.

I still struggle when I think about those days, and my poor Jake. He suffered significant irreparable neurological damage as a result of the diabetes, and I came home to a different dog. He was stable, but he lost his vision and did not recognize



us or our other dog. He lost all those infuriating personality traits and all of his idiosyncrasies. Worst of all, he no longer looked at every situation and asked himself, "How can I make this worse?" And it was at that moment that I realized he was never hard to love. He had stolen my heart. And when we lost him, we lost all of the good stories in our house, all of the ridiculous laughing and fun, and all of his crazy energy.

In the days and weeks and months that followed, he was on my mind constantly. I was seeking out anyone who wanted to think about him with me, share stories about him with me, and keep him in our lives as much as if he was still alive. I cried when I received his reimbursement cheque from Trupanion, with a kind note acknowledging our loss. And I was moved to receive an email letting me know that his policy had been terminated without me needing to initiate the process. That is an incredibly thoughtful service to provide for those of us who have lost a family member. But then, I opened a card from Trupanion, and I was blown away by the kind words and signatures of all the people who cared about Jake. This poor dog came from a place of having no one who loved him enough to stay by his side, and throughout his entire life he tested people as if to prove that they would give up on him and pass him along to someone else.

Thank you for sticking by his side and loving him,

██████████

This email was shared with the claims department, and most were in tears. They asked a claims team member (and aspiring artist) to paint a picture of Jake from one of the photos She sent along in her thank you note. He captured Jake brilliantly. She received the painting, along with a card signed by the team. She then sent the following message:



I came home from work today to find a package on my doorstep. I was surprised and confused to see it was from Trupanion, and more confused to open it to see bubble wrap!

There are no words for how incredibly overwhelmed I am right now. My mind was racing ahead of my hands as I opened it, realizing it was a frame and wondering what strange gift Trupanion sends out to people who get two puppies at the same time (that's right...I will explain in a moment). I immediately burst into tears to see Jake looking back at me.

I am speechless, overwhelmed with awe and gratitude and thankfulness. It might sound crazy...but overwhelmed with love for each person who had a part in this incredible gift. Please please pass on my love to Andre for bringing Jakey back to life for us... and for the kind words of Gina, Kathryn, Rei, Main, Emily, Kortney, Stella, Marissa, and Heather. (And my apologies for misspelling any names!).



I feel like you all exist in an exhausting, stressful, and thankless job, and that many of us have taken you for granted as we submit claims with fingers crossed. But I can tell you, without a doubt, that you all have had a profound impact on our lives. Like I mentioned before, Jake was hard to love at times, and he could count his allies on one paw. But man...we are feeling the love. Grief is a wily foe, laying low and then coming back with a vengeance. But it is so powerful to know we are not alone. Thank you for that.

MacGyver and I really struggled in the months following losing Jake, his loss felt 2000 times his actual size. Poor Mac was depressed and we struggled to get him to do anything, and we struggled to determine the right course of action. He's an odd duck as well, and we weren't sure whether a new dog would be welcomed. He missed his Jake. Eventually we decided that a new dog was the best route, but after several months of searching for a new rescue dog with no success, we decided to look for a puppy. And that might have been when we lost our minds...I found the right puppy for the job — to be Mac's friend and be chill, but upon visiting them, Brendon fell in love with another. It is all Jake's fault, of course, because just one puppy can not possibly fill the void left by Jake. So, we got two.

Life is once again filled with the chaos that we were missing. Emerson and Khali each remind us of Jake in different ways, and we can once again shake our heads at the bizarre choices being made...like jumping into the shower, opening the back door to let themselves outside, carrying socks and shoes outside, and of course...there is A LOT of pee.

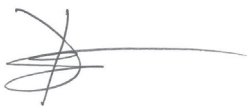
We didn't hesitate for a moment when it came to starting policies for each one of these babies, and that is because of the care, and love, we received from the Trupanion team.

Thank you, from the bottom of my heart, for the most incredible surprise today, for Andre's incredible talents, for Stella's suggestion that Jake becomes a children's book, and for Emily sharing that Jake's story is printed out on her desk. Please pass on my condolences to Stella for her loss of Moses, and to Emily for losing her dog as well. I wish I could do something...like you all have done for me.

Thank you for your big heart and kind words. I would love to meet you in person some time and give you a hug to thank you for all that you have done. There just aren't enough words.

Love, [REDACTED]

I believe that over the long run, doing things the right way, for the right reasons, will outperform all other motivations. We hope to see you at the shareholder meeting in Seattle, June 7, 2018.



— Darryl Rawlings, CEO & Founder



END NOTES

¹ In this letter and our other publicly available reports, we present certain non-GAAP measures, including adjusted EBITDA, variable expenses, fixed expenses, adjusted operating income, adjusted operating margin, and acquisition cost. These non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry as other companies in our industry may calculate or use non-GAAP financial measures differently. In addition, there are limitations in using non-GAAP financial measures because they are not prepared in accordance with GAAP 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 with the Q4 earnings release 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 sales and marketing 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 sales and marketing expenses. Trupanion believes this allows it to calculate and present financial measures in a consistent manner across periods. 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.

² The IRR was calculated assuming the new pets we enrolled during the year will behave as an average pet with the same \$727 LVP and 9.6% adjusted operating margin (AOM) as our overall subscription pets achieved in 2017.

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, future results of operations and financial position (including ARPU, AOM, AOI, IRR, PAC, and new pets enrolled), our business strategy and plans and our objectives for future operations, are 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 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 may 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 of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. We undertake no obligation to update publicly any forward-looking statements for any reason, except as required by law.



A close-up photograph of a person's face and hands holding a small beagle puppy. The person is wearing a blue denim shirt and is looking down at the puppy. The puppy is looking up at the person's face. The puppy has a white chest and paws, with tan and black markings on its face and ears. It is wearing a blue and purple patterned collar. The background is a soft, out-of-focus green, suggesting an outdoor setting.

trupanion™

Medical insurance for the life of your pet.

2014 Shareholder Letter

2014

TO OUR SHAREHOLDERS

2014 ended with our 1,000,000th veterinary invoice being paid after a member's pet, a mixed breed dog named Marlee, became sick. We enrolled our first pet in 2000, and a lot has changed since then, yet it is humbling to recognize that our mission is as applicable today as it was when I started the company – arguably more. In Marlee's case, she required only \$13.18 of medication to solve her problem, but over the years we have seen other members' pets pass \$30,000 and \$40,000 in paid veterinary invoices. No claim is too big or too small for Trupanion!

As this is our first shareholder letter as a public company, I would like to take this opportunity to provide a better understanding of how we at Trupanion operate and think.

By the end of this letter, I hope you will understand that not only do we care about creating shareholder wealth, but we truly care about our shareholders as integral team members. Our plan now includes achieving free cash flow positive by the end of Q2 2016. In the next five years, we plan to achieve scale, which we define as 650,000-750,000 pets. At scale, our target is to have 5% fixed expenses and a 15% discretionary margin from our subscription business (before sales and marketing), with our discretionary income funding all our growth, including our capital requirements. This may be aggressive, but I commit to updating you on our progress toward these goals every year. If you are already an investor, I hope you feel comfortable with your decision. If you are not yet a shareholder, I hope you consider adding us to your long-term portfolio.

In our view, the role of a publicly-traded company is to create shareholder wealth by solving a large problem with a unique and defensible solution while aligning the interests of all of our constituents. Our constituents include responsible, loving pet owners; veterinarians and their co-workers; Trupanion Territory Partners; Trupanion employees; and Trupanion shareholders.

“...RESPONSIBLE, LOVING PET OWNERS —
DO NOT WANT A RETURN ON INVESTMENT.
NOBODY IN THEIR RIGHT MIND WANTS THEIR
PET TO BE ‘UNLUCKY’ OR EVEN ‘AVERAGE.’”

The problem Trupanion is solving

Pet owners in North America spent \$55 billion caring for the 180 million dogs and cats last year, and that number is expected to increase in 2015. Responsible, loving pet owners understand how to take care of their dogs and cats. We exercise them, play with them, feed them high-quality food, and make sure they receive preventive health care like flea control, dental cleanings, and annual checkups. They sleep in our bed and on our couches, we use them as our screen savers — and we spent \$500 million dressing them up for Halloween last year. But, most of all, we love them as they love us... unconditionally.

Where we as responsible pet owners struggle is when they become sick or injured. We know where to go for help - our trusted local veterinarian. But we stress over budgeting and planning for the cost of that veterinary care.

Why is this such a challenge? A few reasons:

1. We have no idea if our pet is going to be “lucky,” “unlucky,” or “average.”
2. Accidents and illnesses do not occur at convenient or predictable times.
3. The local cost of veterinary care varies by a wide margin by hospital and an even wider margin if you include referral, specialty and 24-hour emergency hospitals.
4. The risk profile of each cat and dog is very different.
5. Large veterinary invoices now can cost \$10,000, \$20,000, \$30,000 — up to \$40,000; therefore scrambling for a credit card is no longer a viable option.

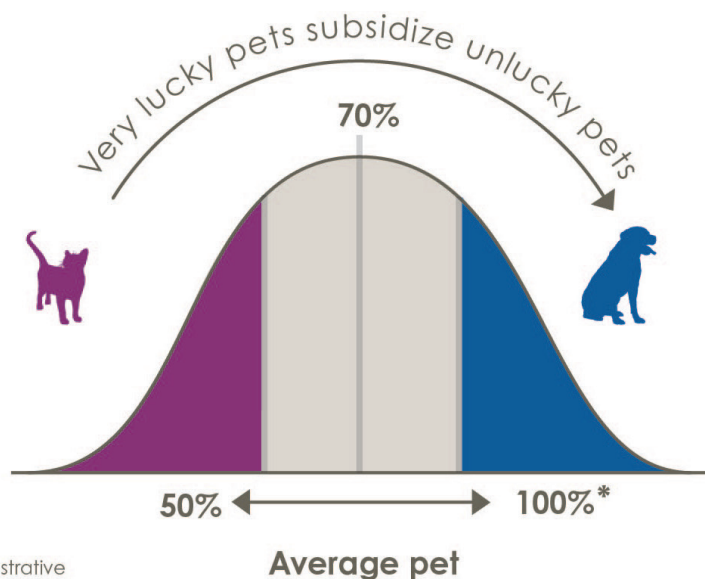
Trupanion solves these problems by sharing the risk equally between the “lucky,” “unlucky,” and “average” dog or cat, taking into account the local cost of veterinary care, and the risk profile of the pet.

These factors allow us to create “price” categories - over 1.2 million price categories last year. These categories are designed to let us share risks equally and fairly among the “lucky,” “unlucky,” or “average” dog or cat. For example, one category is “Golden Retrievers,” another is “dog residing in Santa Barbara,” and a third is “cats enrolling at the age of six.”

We do not try to predict the future. Our responsibility is to understand the costs associated with each category and its underlying trend, and then add a 30% margin. This “cost plus” approach allows us to pay 70 cents on the dollar to the “average” pet owner over the life of their pet (see graph A).

It is important to note that our members - responsible, loving pet owners - do not want a return on investment. Nobody in their right mind wants their pet to be “unlucky” or even “average.” Our members say, “I hope we never need to use Trupanion, but I feel better knowing that if we do, Trupanion will do what they say.” Stop and think about this for a minute... maybe three minutes if you are not a pet owner.

A



*Illustrative

Defensible solution

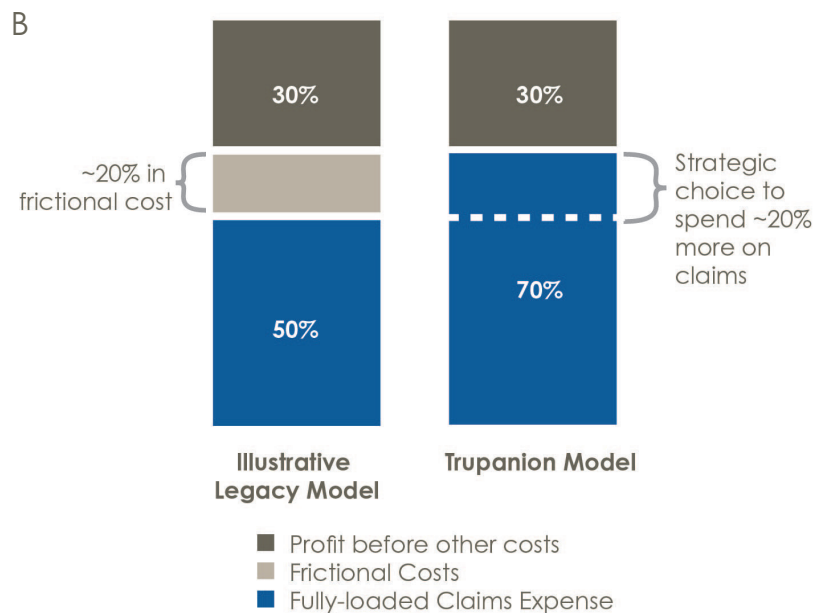
We believe that we have a unique long-term defensible solution. It starts and ends with being the low-cost operator, meaning that our cost to administer and the cost to acquire new members are lowest in North America and very difficult for any existing or new company to emulate. This does not mean that our product will be cheapest in the market; it means that we have the ability to consistently use a higher percentage of our members’ monthly subscription fees toward paying veterinary invoices (see graph B on next page).

To be completely fair and transparent, it is our underlying costs that are low today. Similar to OpenTable when they went public, our costs in an existing, established market are low. In new

“OUR PROPRIETARY DATABASE HAS BEEN BUILT OVER 15 YEARS USING OVER 7.5 MILLION PET MONTHS OF INFORMATION AND INCLUDES OVER 1 MILLION CLAIMS.”

markets, until we reach scale, the cost of acquiring new pets will be higher. Likewise, our fixed expenses, which include our G&A and our technology investments, will run higher for the short term as we invest ahead of scale to be the long-term category leader.

Trupanion’s proprietary data has given us a unique advantage in the marketplace. We have a central team of analysts of varying backgrounds (actuary, finance, math, engineering) who serve as the “truth department” and support all areas of the business. They provide transparency into company data for better decision-making and use advanced techniques to extract insights from this data. Our proprietary database has been built over 15 years using over 7.5 million pet months of information and includes over 1 million claims. Pricing accurately allows us to share our high value proposition with each pet owner. We are confident that we lead the industry with our data analytics. Knowing what I know today, it would take me over 13 years to replicate our 15 years of data.



One of the biggest differentiators for Trupanion is our unique approach to the market 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 by using Territory Partners to educate veterinarians, and encouraging them to actively recommend Trupanion in their hospitals. Territory Partners build relationships and trust with veterinarians as the local face of Trupanion. In 2014, we estimate that we made over 80,000 face-to-face visits. Over the last 15 years we’ve made hundreds of thousands of visits with veterinarians.

At the end of 2014, we had 70 people in the field and we expect to have 85 by the end of 2015. We ended 2014 with over 6,000 active hospitals, compared to over 5,000 active hospitals at the

C

Trupanion's Territory Partner Model



end of 2013. An active hospital is not a hospital that displays our brochures, but a hospital that has had a pet enrolled over the previous three months.

This approach is effective at creating members and efficient from a pet acquisition cost perspective (see graph C).

In order to maintain these important veterinary relationships, we are consistently looking for ways to enhance the Trupanion experience in the hospital. Trupanion Express™ is our no-cost software solution that revolutionizes the member experience and removes a major barrier — the reimbursement model — that has historically existed between “pet insurance” providers and veterinarians. For pet owners, their 90% coverage through Trupanion is paid directly to the veterinarian at the time of invoice — dramatically reducing out-of-pocket costs. For veterinarians, Trupanion coverage enables them to move forward with “plan A” care for any sick or injured pet while growing their top and bottom lines. In the process,

Trupanion collects additional proprietary data to further improve our pricing accuracy, while maintaining a strong relationship with supportive hospitals. At the end of 2014, we had approximately 175 of our 6,000 active hospitals using Trupanion Express™. These hospitals are among our most active, representing over 20% of our claims dollars. While still early, following implementation, we’re seeing improved referral and conversion rates. Longer term, we also expect this to aid retention rates (see graph D on next page).

Data analytics, expansion of our Territory Partner sales force, and focus on Trupanion Express™ are all strategic investments aimed at scaling our business and driving the penetration of medical insurance for pets north of the approximately 1% it is today in the United States and Canada.

Aligning the interests of all of our constituents

Responsible, loving pet owners want a solution to their underlying problem of budgeting for the costs of veterinary care if their pet becomes sick or injured. They demand coverage for the medical issues most likely to occur to their pets. They want to use their veterinarian of choice and to have 90% of the actual invoice paid directly to their veterinarian so they do

not have to come out of pocket and suffer through a cumbersome reimbursement model. They do not want to be penalized if their pet becomes “unlucky.” Most importantly, they want value. Unfortunately, pet owners were not seeing these things offered in the traditional products available on the market.

From day one, I have been dedicated to meeting these needs and today we offer a superior product that is inherently different than what

D



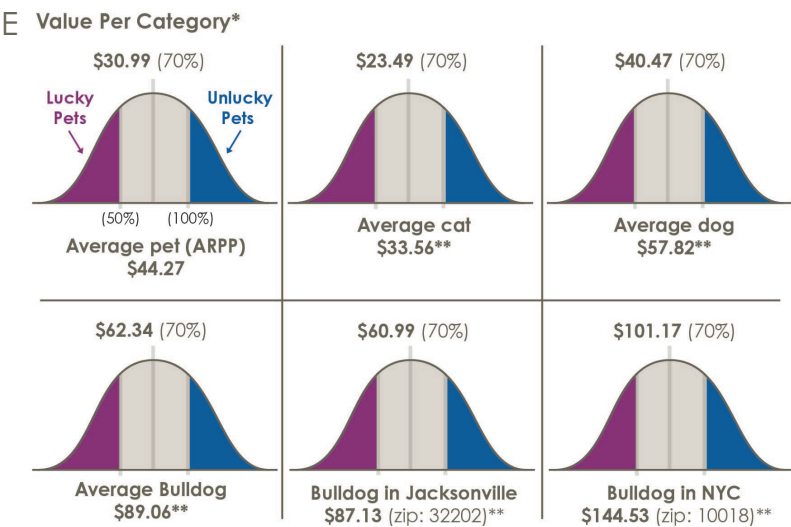
“THE VALUE OF THE TRUPANION SOLUTION COMES IN THE FORM OF PAYING THE INDUSTRY’S HIGHEST SUSTAINABLE PERCENTAGE BETWEEN WHAT PET OWNERS PAY IN THE WAY OF MONTHLY COST AND WHAT WE PAY IN VETERINARY INVOICES FOR THE ‘AVERAGE PET.’”

pet owners perceive as pet insurance in North America. In fact, we do not describe ourselves as “pet insurance” — we are medical insurance for cats and dogs. Why is that? Each pet owner you meet will have a different perception of what “pet insurance” is — wellness-only coverage, accident-only coverage, an HMO-like product that restricts where you can get care, fee schedules that restrict how much care you can receive, and unequivocally all reimbursement-based.

We clearly solve all of these problems — and more. We cover hereditary and congenital conditions (those things most likely to happen to a pet), we don’t raise rates because a pet has claims, we have no payout limits, and we’re eliminating the reimbursement model with Trupanion Express™. The value of the Trupanion solution comes in the form of paying the industry’s highest sustainable percentage between what pet owners pay in the way of monthly cost and what we pay in veterinary invoices

for the “average pet.” This is a strong value not only for the pet owner — but for the veterinarian and the pet as well. We’re aligning the interests of the pet owner and the veterinarian, allowing both parties to focus on providing the best care, rather than the cost.

I would like to draw a comparison between Trupanion and another subscription membership company that I greatly admire. Costco members inherently understand if they are purchasing a 60” flat screen, a bottle of Bordeaux, a can of tuna, or a roll of toilet paper, that they are always getting the best deal. Trupanion members need to know that whether they are paying \$33/month for their cat or \$144/month for their Bulldog, they are getting the industry’s best deal, for a product that works, and from a company they can trust (see graph E).



*Illustrative.
**Assumes 2-year old pet selecting a \$100 deductible

Let's have a discussion about veterinarians, the cost of veterinary care and our philosophy around these items

Trupanion has been built from the ground-up based on our relationships with veterinarians and their staff. They are extremely loyal and consistent once we earn their trust. Veterinarians and their staff chose their occupation because they love pets. Getting into veterinary school can be more difficult than getting into medical school or dental school. Yet veterinarians earn considerably less than their counterparts on the human side.

The delivery of veterinary medicine is thriving. There are 28,000 veterinary hospitals across North America and approximately 26,000 are independently owned. They are extremely efficient, providing the same surgeries, medicine, diagnostics, and hospitalization as their human counterparts at a fraction of the cost. The costs of veterinary care are market-driven due to such a high percentage of independent hospitals serving the needs of their local pet owners in a way that sets their hospital apart from the competition down the street or around the corner. Veterinarians are also highly respected within their community, often rated among the highest professions alongside medical doctors and pharmacists.

Understanding the motivations, values and perspectives of veterinarians and their staff is critical to our long-term success. They do not want their industry screwed up like the human side. This means no to any HMO-like models. Having insurance companies drive the pricing of care or selection of hospital is not acceptable. They want to serve their clients' needs, not waste their time on filling out forms. They know the difference between a high-quality product and one that has limitations and exclusions. They understand what appropriate care is and are passionate about providing it. Compassionate euthanasia is a part of veterinary medicine, and will always be a part of veterinary medicine; but economic euthanasia is heartbreaking to all veterinarians and their staff. Finally, they agree that medical insurance for cats and dogs is for catastrophic issues, not wellness or routine care.

Trupanion's product pays 90% of the veterinarian's actual invoice for all diagnostics, surgeries, medications, and hospital care. We have no payout limits - period. We do not penalize pet owners if their pet becomes sick or is injured. We cover all medical conditions that arise after a pet owner gets Trupanion; this includes the things most likely to occur to their pet's breed, known as congenital or hereditary conditions. Trupanion has only one simple plan, so it is easy for veterinarians and their staff to understand and therefore explain to their clients. Trupanion has the ability to integrate with the veterinarian's practice management

"WE ARE NOT TRYING TO CONTROL THE COST OF VETERINARY CARE; WE ARE SIMPLY TRYING TO UNDERSTAND THE COSTS FOR THE AVERAGE PET IN EACH CATEGORY, AND ADD A 30% MARGIN."

software, so we replace cumbersome paperwork with a couple of clicks and the ability to pay the veterinarian directly.

We are not trying to control the cost of veterinary care; we are simply trying to understand the costs for the average pet in each category, and add a 30% margin. This makes the budgeting manageable to the responsible, loving pet owner.

Why our values are so important

Trupanion employees love pets. On an average day in our Seattle office we will have about 400 employees working alongside 200+ dogs and cats. This is an important part of our culture, as our four-legged friends constantly remind us why we come to work. To ensure the comfort of all the pets, we have full-time dog walkers. Our average employee has years of experience in veterinary hospitals, shelters, doggy day cares or other related fields. Similar to the demographics of a veterinary hospital, we have a high percentage of female employees between the ages of 24 and 40. In January, to supplement our dog walking services, we launched a child care center for our employees with two-legged children under the age of three.

Another Seattle company that we admire is Starbucks and in particular their values on "social conscience." We at Trupanion believe

that our environment and values are critical to our long-term success. We feel strongly that everyone at Trupanion is equally important; we all have the same size desk and the same benefits regardless of whether we are hourly or salaried or our tenure with the company. We want everyone to be fulfilled and comfortable being themselves. We have a sign on our wall that shows the Oscar Wilde quote, "Be yourself, everyone else is taken" and we take that motto seriously.

Our values are not something we put on marketing materials - they are beliefs or traits that are shared by our community and define our culture. We believe that the values of a company are similar to the characteristics of an individual. If you were to describe a friend to a co-worker you may use words like smart, funny, loyal, and crazy. The combination of these words would paint a picture to your co-worker about your friend. If a pet owner or veterinarian describes Trupanion in a way that lines up with our values, then we have the underpinning of a Brand. Our values are:

- We do what we say
- Simple is better
- We do not punish unlucky pets
- We're innovative and fair
- We love pets!

Our values are listed in the order of priority — if someone loves pets, but they do not do what they say? That individual does not belong at Trupanion.

Shareholders have been with us since the beginning

I started Trupanion 15 years ago in Vancouver, BC. From the beginning, I have had shareholders. For the first few years the company was bootstrapped with my personal proceeds earned from the sale of my cigar business, and from the trust of eight individuals who invested \$25,000 each. Several years later, and before taking on any institutional investors, we agreed to pay \$35,000 to each of the eight individuals and they kept 100% of their shares. It was very important then, as it is today, to repay shareholders and to do what we say.

Our commitment to our institutional investors was to take our learnings from our first seven years in Canada and to create and build a category for medical insurance for cats and dogs in the United States & Canada. In 2008, we said that we would build relationships with veterinarians, get the underpinnings of a consumer brand, expand upon our data, focus on the consumer experience, and take the company public in 2014.

On July 18, 2014 we took Trupanion (TRUP) public on the New York Stock Exchange and embarked life as a public company.

2014 performance

First, an overview. While becoming a public company was a major milestone, it was truly only one moment in time for us. We had a full year of hard work, accomplishments, and setbacks. I believe we did several things well and several things poorly in 2014, and I'll outline them here.

In the negative column, we disappointed ourselves and others by having a pricing miss in Q3 & Q4, which was outside of our allowable tolerance and affected our gross margin. For this miss I blame myself. For several years we had been extremely accurate at our pricing, so much so that I became overly confident and focused on weaker areas of our business.

Primarily, I focused on improving the quality, selection and training of our national sales force of Territory Partners (an area we began to fumble in 2012 and 2013), as well as preparing to take the company public. What I didn't account for during this time was the speed in which the company was able to execute change in processes. I had a flat organizational structure and unfortunately I was a critical component in disseminating information across departments. Said another way, the impact of the way we were changing our claims process was not clearly understood in our pricing department and we got surprised. The organizational structure was adjusted in the fourth quarter of 2014 and we now have five clear owners of every key metric and line item

on our profit and loss and cash flow statements. These owners meet weekly and I am no longer a barrier to the dissemination of information.

The second area where we let ourselves down was holding on to some people longer than we should have, specifically some Territory Partners who we had previously on-boarded too quickly and, to be fair to them, without enough training and tools to increase their odds of being successful. When talking about having the right people in the right seat on the bus, my experience tells me this will not be the last time we acknowledge this failure.

A third area that disappointed me was our focus on increasing enrollments and same-store sales ahead of a more foundational goal of increasing enrollments by adding more active hospitals. It would be lovely to do both well, but we mixed up the priorities last year.

In the positive column, we believe we raised more than enough money to carry us through to cash flow positive. We have no intention of going back to the markets to raise additional capital.

To set appropriate expectations clearly, I should caveat that if we miraculously discover a new lever that will dramatically and cost-effectively change our growth projection curve, and it requires additional capital, we will do what's best for the company and shareholders long-term. I put this miraculous new lever probability somewhere between very low and extremely low. After 15 years, we are not expecting to find a silver bullet.

Second, we have improved the hiring, training and selection of our Territory Partners. In 2014, we launched a program we call "Trupanion University" where current and prospective Territory Partners participate in an extensive three-week training on Trupanion.

Third, we have significantly advanced our knowledge, product and processes to allow us to improve our member experience, facilitating our long-term goal of paying veterinarians directly and eliminating the cumbersome reimbursement model. Trupanion Express™ is very important to our long-term ambitions and in 2015 we intend to learn much more to ensure we get the full impact when we are eventually deployed throughout North America.

Let's move on to the numbers

We are not at the stage where I can start talking about earnings per share. What I can go over is the top line, bottom line, and some of our key metrics. But first, it's important to understand how we think about our business metrics internally. We use the old-fashioned cash flow method.

We collect cash at the beginning of the month, and then pay veterinary invoices, variable expenses to support member service, taxes and fees, and fixed expenses in the way of technology and general and administrative expense (G&A). The remaining cash, before sales and marketing, is what we term our "discretionary income." We can choose to

spend this discretionary income to acquire new members, invest in foundational one-time initiatives, re-purchase shares, or one day, distribute to our shareholders.

Please note our discretionary income is not recognized by GAAP accounting or the SEC, but we certainly are not the first direct-to-consumer subscription company that thinks about their business this way. John Malone and TCI (the cable company) in the late seventies introduced the investment community to the term EBITDA when they needed to describe cash flow in their business in lieu of earnings per share. TCI shareholders were well rewarded when they educated themselves in how they managed their business based on cash.

It should also be noted that the discrepancy between our actual cash flow and GAAP accounting for revenue is approximately 200 basis points in the positive direction. The two-point swing is related to the requirement to defer approximately half of a month's revenue forward one month as our members pay on differing days during the month and receive a month of coverage.

Back to the GAAP accounting and other key metrics in 2014:

- Revenue was \$116M
- AEBIDTA was a loss of (-\$10M)
- Free cash flow was (-\$16M)
- Adjusted Revenue Per Pet (our version of ARPU) was \$44 per month

- PAC was \$119 (pet acquisition cost)
- LVP was \$590 (lifetime value of a pet)
- LVP/PAC was 5.0X
- Discretionary income was \$3M

All the above key metrics, excluding fluctuations in foreign exchange rates, were at or slightly ahead of analyst consensus.

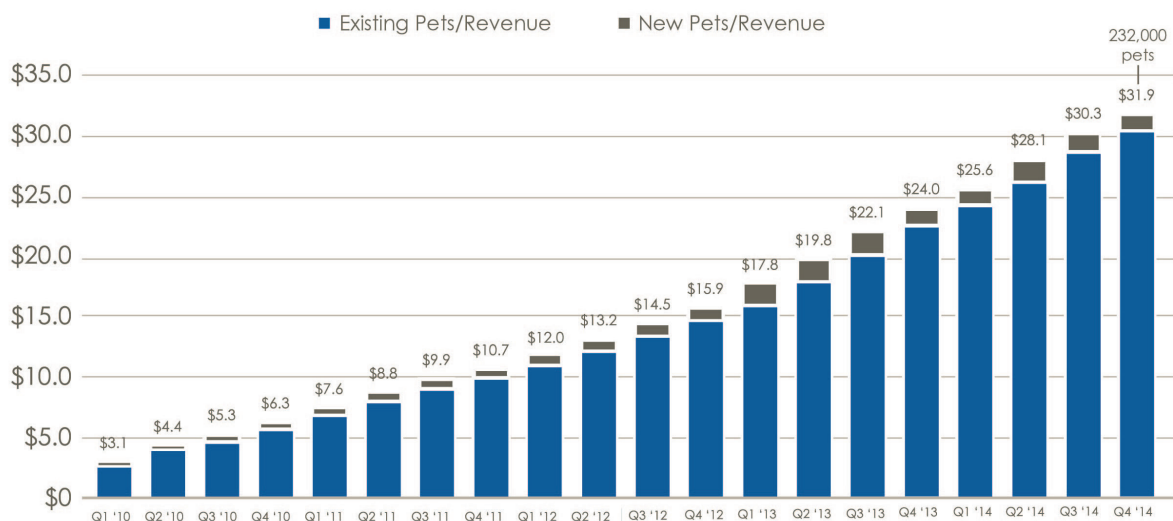
Notable milestones in 2014

- 2014 showed continued revenue and pet growth (see graph F on page 14).
- We added 213 people to our home office team — that is 44% growth over 2013. We also welcomed 67 new pets to the office, making our Trupanion family now a total of 227 pets and 413 employees— a 1:2 pet to human ratio.
- We launched the US Veterans Service Dog Program, working with the US Department of Veterans Affairs. Through this program, approved veterans' service dogs receive quality veterinary care and Trupanion covers 100% of all coverable expenses — this includes treatment for pre-existing conditions and wellness and preventive exams, as well as everything covered for Trupanion's members. This program shows up in our "Other Business" section of our P&L.

- Our Member Care team initiated a new partnership with Aspect, a workforce management solution, to help deliver exceptional service. Aspect allows Trupanion members to move from channel to channel and connect to the same team member. Almost overnight, Trupanion shaved 30 seconds off average wait times by leveraging skills-based routing. Aspect technology has also helped Trupanion improve timeliness of email responses and stay within service level goals.
- We made our stock market debut on the New York Stock Exchange. Several team members traveled to New York City to ring the closing bell. The traditional celebratory dinner was held picnic-style in Central Park while we dined on Shake Shack burgers. The rest of the office partied at home with champagne and cupcakes. Our stock opened at \$10 per share, and we raised \$82 million.
- We launched our new website — a robust, fully responsive, world-class web platform and what we believe is the best possible ‘front door’ for Trupanion. After its launch, The Interactive Media Council named Trupanion.com the winner of the 2014 Interactive Media Award for Best in Class Website.
- We hosted a three-day conference in downtown Seattle for our Territory Partner sales force. The conference featured keynote speakers Richard Galanti, Costco CFO; Howard Schultz, Starbucks CEO; David Loewe, Seattle Humane Society CEO; and Kristin Hamilton, Koru CEO.
- Our Chief Technology Officer, Craig Susen, was awarded the CTO of the Year Innovator Award.
- Through our Member Donation Program, our members donated over \$104,000 to charities across the United States and Canada. These charities include The American Humane Association, National Canine Cancer Foundation, The Farley Foundation, and the BC SPCA Biscuit Fund. We also donated 9,107 pounds of pet food to the Seattle Humane Society in our annual pet food drive and sponsored 19 children in need for the holidays.
- Our Child Care Center hosted its open house. The center is available to Trupanion employees at no cost, and serves children aged 6 weeks to 2.5 years. The Child Care Center was officially opened January 5.
- We ended the year with 232,000 enrolled pets, 70 regional sales people in the field and 6,073 active hospitals.

F

Total Revenue by New vs. Existing Pets*



*All revenue amounts reflect adjusted revenue, in millions. For a description of how we calculate adjusted revenue, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations — Non-GAAP Financial Measures." Existing Pets/Revenue reflects adjusted revenue from subscription pets who had active subscriptions at the beginning of the quarter and recurring adjusted revenue from our other business segment. New pets/revenue reflects adjusted revenue from subscription pets enrolling during the quarter and adjusted revenue added during the quarter from our other business segment.

Our business model

Our business model is simple. But the execution of our business model is challenging. It requires focus, years of data, and a great team.

Our business model is similar to the cable industry in the 1960's, the cellular industry in the 1980's, and more recently, two companies we admire - Netflix and Pandora. Purely, we are a direct-to-consumer monthly subscription service.

Subscription service companies rely on a high value proposition for their members, something they feel and value. The best subscription companies have a high cost of goods, an exceptional member experience, and the lowest frictional costs.

The model is to spend X to acquire a new member and to have the discretionary income return substantially more than X over the life of the subscription. Margin percentages are less important than the amount of free cash generated over the life of the subscription. One

"OUR BUSINESS MODEL IS SIMPLE. BUT THE EXECUTION OF OUR BUSINESS MODEL IS CHALLENGING."

of our key metrics is our PAC/LVP ratio, which all quality subscription companies understand. Internally, we think the PAC/LVP ratio is a little overstated as it uses the average contribution dollar and omits the cost of our fixed overhead. It is useful to show the potential before we are fully at scale and that is why we report it, BUT it is flawed because it does not account for the cash required to operate our fixed expenses.

For these reasons, we are most concerned with the internal rate of return (IRR) for incrementally adding an average pet. We calculate the IRR by understanding our cost to acquire an average new pet and the free cash flows that we anticipate will be generated over the average pet's life. We have previously stated that, at operational scale (650,000 to 750,000 pets), our target fixed expenses should equal 5%-6% of revenues. If we are able to achieve a consistent 70% gross margin, 10% variable expenses and 5%-6% for fixed expenses, our discretionary margin would be 14%-15%. In the

next few years and before hitting scale if we can achieve 7%-8%, our IRR should be in the neighborhood of 40%-50% (see graph G).

Unfortunately, we do not have a 40%-50% IRR for the average incremental pet today. Candidly, we have taken a temporary step backward in the last two quarters with our inadequate pricing and our currently outsized fixed expenses. That being said, we believe that these results are achievable based on our performance in more mature markets. Lots of execution ahead!

Please remember we have over 1.2 million price categories where we monitor our PAC/LVP and therefore our IRR by category. They will not have the same results. As we try to accelerate some channels and categories, some will scale well for a long time, others will have diminishing returns. It is our responsibility to understand when to put our foot on the accelerator, when to coast, and when to slam on the brakes.

G

Months	68	Next few years									
Churn	1.47%	year	0	1	2	3	4	5	6		
LVP	570	Months	6	12	12	12	12	12	2	68	
LVP/PAC	5X	DM	\$24.35	\$48.71	\$48.71	\$48.71	\$48.71	\$48.71	\$8.12		
DM	8.1%	PAC	-\$114								IRR
ARPU	\$50.11	FCF	-\$89.65	\$48.71	\$48.71	\$48.71	\$48.71	\$48.71	\$8.12		47%

LVP = Lifetime Value of a Pet
DM = Discretionary Margin

PAC = Pet Acquisition Cost
ARPU = Average Revenue Per Pet (Unit)

Market comparables

Prior to and since going public we have been asked a set of questions, all with a similar theme: Why are you being covered by internet analysts? Why are you being covered by animal health analysts? Are you not just an insurance company? What are the market comparables to Trupanion?

The answer to all of these questions is that we are not easily put into a box. Our product is a catastrophic health insurance product. For this, we internally believe our challenges are not similar to a typical health insurance company and the complexity of offering our product is just another barrier to entry. We live in the animal health world, this is where 70% of the team comes from and it is necessary that we understand the needs of veterinarians and pet owners, but we are not a pharmaceutical, laboratory or distribution company. We also are not a SAAS company with a high gross margin. 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.

I have mentioned several companies in this letter that I admire, but I don't mention them to drive valuation comparisons. They inspire me, and as a business, we aspire to some parts of their business model but I am not trying to suggest they are market comparables.

Our business model is a direct-to-consumer monthly subscription service and this is how we manage the business.

Methods of valuation

It would be disingenuous for us to talk about comparables without talking about valuation methods. My opinion on these topics probably isn't relevant to the marketplace, but I'm going to give it anyway:

- Multiple of earnings is not very relevant when a company is losing money. If investors are currently expecting/requiring dividends, we are not the right investment right now. However, as I mentioned earlier, we expect to achieve cash flow positive in the next 12 months and achieve scale in the next five years.
- Multiple of EBITDA is applicable for many growth companies if the capitalized portion of the P&L is similar to other comparable investments. We do not capitalize our growth; in fact, we capitalize only a small portion of our technology spend today and we expect this will be reducing as we scale our fixed expenses, G&A and technology to 5%-6% of revenues.
- EBITDA and GAAP puzzle me at times. If we purchased a book of business from a competitor, the purchase would be capitalized. For example, if we purchased a competitor with 50,000 pets at a price of \$300 per pet, the purchase price would be \$15 million. With GAAP accounting, the purchase would have little effect on our EBITDA and income in the year we purchased

the business, and the following year, the casual observer would only see our increased revenue from the additional 50,000 pets and the corresponding profits. Hold with me... this is where it gets interesting. If in the same year, we chose not to purchase the competitor's pets for \$300 per pet, but instead grew organically by 50,000 pets at \$150 per pet, our EBIDTA or income would have a -\$7.5M hit. EBIDTA is supposed to be a proxy on cash and GAAP accounting... well-intended as it is, it does not always lead us to the best investment decisions. The cash decision is obvious, it is better to grow organically at \$150 a pet vs. paying \$300 per pet. Needless to say, we like to manage our business based on cash.

- We are cash-in/cash-out every month. We are not a company that makes money on the float. There are insurance companies that do that very well if you are looking for a return on equity type of investment in your portfolio.
- Discounted cash flow is how we internally view our long-term strategic choices. It is purely mathematical and although the inputs of terminal growth rates and weighted average cost of capital can move the valuation all over the chart, if you keep them constant, you can determine if your choices move the needle in the right direction.

Deployment of your capital short-term

Over the next few years we will be deploying your capital in our foundation, member experience, growth and scale. Specifically, we intend to invest in:

- Our Territory Partner program to increase the number of active hospitals recommending Trupanion. We have a long way to go to earn the trust of the 28,000 veterinary hospitals throughout North America.
- Building and deploying technologies that will improve our member experience and lower our operating costs.
- Data to improve our ability to price accurately and fairly among all of our categories. This is at the core of what sets us apart. Our members need to know that they are always getting the best deal.
- Cost-effectively adding more pets.

"WITH THE NORTH AMERICAN MARKET PENETRATION AT APPROXIMATELY 1%, WHILE WESTERN EUROPE RANGES BETWEEN 5% AND 25%, WE HAVE DECADES OF RUNWAY AHEAD."

Deployment of your capital long-term

As mentioned previously, we use our IRR to determine if adding an incremental pet is the best use of our shareholders' money. With the North American market penetration at approximately 1%, while Western Europe ranges between 5% and 25%, we have decades of runway ahead. Remember, at our average revenue per pet, every 1% of penetration equals about \$1 billion in revenue. If at scale we cannot get a consistent return healthier than the average shareholder, we could return the cash in the way of dividends. If we have extra capital and our share value is significantly below our discounted cash flow value, we could re-purchase shares. These are theoretical scenarios; however, I expect we will continue to see growth opportunities for years to come and continue to re-invest to capture more of the available market.

The team

Every CEO says they have a great team. Instead of me saying it to you, I invite you to visit our Seattle office so you can meet them yourself, experience our environment, and hang out with our 200+ dogs and a few fearless cats.

Our progress to date would not have been possible without the support and cooperation from our Board. For years, Chairman Murray

Low has set the tone, leading by example with incredible character, self-awareness and drive to help build something great.

It's also important to me to call out Dan Levitan. Dan is the co-founder of Maveron, the preeminent consumer-focused venture capital firm. Partnering with Dan and Maveron has proven to be one of the best decisions that I have ever made.

I would like to take this opportunity to say thank you to:

- The amazing companies that I named in this letter: Costco, Netflix, Pandora, OpenTable, TCI, and Starbucks - thank you for being an inspiration.
- Veterinarians and your staff: thank you for believing and trusting that we could be different.
- Our employees who live and breathe our values, passionately serve our members, and have the confidence to be themselves at work.
- Our Territory Partners who day after day walk through the doors of veterinary hospitals, trying to earn their trust.
- Existing shareholders: we thank you for entrusting us with your investment.
- To those responsible, loving pet owners that have Trupanion: thank you for taking care of your buddy and choosing us. We hope you are lucky enough to never need to call us, but if you do, we will be there for you.

For those truly long-term investors who have not purchased TRUP, I encourage you to educate yourself on our company and visit our team in Seattle.

I will leave you with an excerpt of a letter a fellow board member gave to me recently:

"I have always been attracted to the low cost operator in any business and when you can find a combination of (1) an extremely large business, (2) a more or less homogeneous product, and (3) a very large gap in operating costs between the low cost operator and all of the other companies in the industry, you have a really attractive investment situation. That situation prevailed twenty five years ago when I first became interested in the company, and it still prevails."

Letter to Mr. George D. Young
From Warren Buffett
July 22nd, 1976

Thank you,

Darryl Rawlings, Founder & Chief Executive Officer

A handwritten signature in dark ink, consisting of a stylized, cursive 'D' followed by a long horizontal line extending to the right.