Trupanion, Inc.

Second Quarter 2026 Earnings Conference Call

August 5, 2026

CORPORATE PARTICIPANTS

Gil Melchior, *Director, Investor Relations*

Margi Tooth, *Chief Executive Officer and President*

Fawwad Qureshi, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Wilma Burdis, *Raymond James*

Josh Shanker, *Bank of America.*

Brandon Vazquez, *William Blair*

PRESENTATION

Operator

Hello, and welcome to the Trupanion Second Quarter 2026 Earnings Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero on your telephone keypad. After today's presentation, there will be an opportunity to ask questions. To ask a question, you can press the star, then one on your telephone keypad. To withdraw your question, please press the star, then two.

Please note, this event is being recorded.

I now turn the conference over to Gil Melchior. Please go ahead.

Gil Melchior

Good afternoon and welcome to Trupanion's Second Quarter 2026 Financial Results Conference Call.

Participating on today's call are Margi Tooth, Chief Executive Officer and President; and Fawwad Qureshi, Chief Financial Officer.

Before we begin, please be advised that remarks today will contain forward-looking statements. All statements other than statements of historical facts are forward-looking statements. These include, but are not limited to statements regarding our future operations, key operating metrics, opportunities and financial performance, pricing, and veterinary industry inflation. These statements involve a high degree of known and unknown risks and uncertainties that could cause actual results to differ materially from those discussed. A detailed discussion of these and other risks and uncertainties are included in today's earnings release, as well as the Company's most recent reports, including Forms 10-K, 10-Q, and 8-K, filed with the Securities and Exchange Commission.

Today's presentation contains references to non-GAAP financial measures that Management uses to evaluate the Company's performance, including, without limitation, cost of paying veterinary invoices, variable expenses, fixed expenses, adjusted operating income, acquisition costs, internal rate of return, Adjusted EBITDA, and free cash flow. When we use the term adjusted operating income or margin, it is intended to refer to a non-GAAP operating income or margin before new pet acquisition and development expenses. Unless otherwise noted, all margins and expenses will be presented on a non-GAAP basis and excluding stock-based compensation expense and depreciation expense.

These non-GAAP measures are in addition to and not a substitute for measures of financial performance prepared in accordance with the U.S. GAAP. Investors are encouraged to review the reconciliations of these non-GAAP financial measures to the most directly comparable GAAP results, which can be found in today's press release.

Lastly, I would like to remind everyone that today's conference call is also available via webcast on Trupanion's Investor Relations' website. A replay will also be available on the site.

I will now hand over the call to Margi.

Margi Tooth

Good afternoon everyone and thank you for joining us.

We delivered another strong quarter. Subscription adjusted operating income grew 24% year-over-year, and we remain on track to generate $180 million of total adjusted operating income this year. One of the advantages of our compounding AOI is that it creates additional capacity to invest in our business. This provides the flexibility to thoughtfully deploy capital across the opportunities we believe will create the greatest long-term value, whether that's adding new pets, enhancing our products and member experience, investing in new capabilities and technology, or strengthening the underlying systems that support our business.

In the quarter, returns on our pet acquisition investment contributed to an acceleration in gross pet adds, up 9% year-over-year. Together with stable retention, we added approximately 18,800 net subscription pets in the quarter, growth of 39% over the prior year period. This progress reflects a number of initiatives being rolled out across the business to improve the Trupanion experience, from the moment someone first learns about the Company through to enrollment and retention.

As pet parents progress through the enrollment experience, we continue to refine and optimize that journey, making it easier to understand our value proposition to enroll with confidence. Those investments contributed to improved web conversion in the quarter, while phone conversion remained consistently strong, operating near record levels. In addition, we're pleased with the early results from the enhancements we've made to our core Trupanion product. Expanded deductible and coinsurance options are improving accessibility by providing more affordable monthly choices, and we're well on track to expand this rollout across North America as planned.

More importantly, through disciplined execution, we're improving the long-term economics of new enrollments with pricing that's better aligned to the value of our coverage. The results of this discipline show up in a 25% increase in the lifetime value of an enrolled pet during the quarter, meaning every dollar we invest in pet acquisition today has the potential to create significantly more long-term value than it did just a year ago. These stronger unit economics reinforce our confidence to invest across core acquisition channels.

In our large and underpenetrated market, a substantial opportunity exists to reach more pet parents, in spite of a downturn in new visits to veterinarians reported across the industry. Even with the recent pullback, there are still millions of uninsured puppies and kittens entering hospitals each year and the addressable market remains vast. We believe our differentiated model built on decades of veterinary relationships, proprietary data, and deep insurance expertise position us very well to continue strengthening our core offering while thoughtfully expanding our portfolio to serve more pet parents.

Consistent with that strategy, we remain on track to launch our new digital offering in the first half of our current strategic plan. We believe this will further extend access to medical insurance for cats and dogs, reach new customer segments and help grow the overall market.

As we scale, technology will remain a key enabler of growth, helping us to better serve our member base, making every interaction simpler, faster and more personal. Our investments in AI and automation are designed to increase operating leverage through the removal of friction, improve operational efficiencies and free up our teams to focus on the moments that matter, the human touch.

Today, the benefits of this approach are evidenced with our increasing operational scale and solid retention. Over time, we expect these capabilities to support long-term growth while preserving the experience our members and partners have come to expect from Trupanion.

Overall, we're encouraged by the progress we made during the quarter and remain confident in the opportunity ahead. We will continue investing with a disciplined focus on growing adjusted operating income and creating durable shareholder value. Our confidence in our long-term outlook remains high, which is reflected in today's announcement of a share repurchase program.

I will hand the call over to Fawwad to provide additional details related to this and to add more color to our quarterly results.

Fawwad Qureshi

Thanks, Margi, and good afternoon everyone.

Today I will share additional details around our second quarter performance as well as provide our outlook for the third quarter and full year 2026.

Total revenue for the quarter was $392.9 million, up 11% year-over-year. Within our subscription business, revenue was $276.7 million, up 14% year-over-year. Total monthly average revenue per pet for the quarter was $87.44, up 9% over the prior year period. Total subscription pets increased 5% year-over-year to 1,125,000 pets as of June 30. This includes approximately 66,000 pets in Europe.

Average monthly retention for the trailing 12 months was 98.37%, up versus the second quarter last year which was 98.29%. The subscription business cost of paying veterinary invoices was $194.3 million, resulting in a value proposition of 70.2% versus 71.1% in the prior year period. The quarter included favorable prior period development of $1.2 million, or approximately 40 basis points of subscription revenue.

As a percentage of subscription revenue, variable expenses were 9%, down from 9.1% in the second quarter of last year. Fixed expenses as a percentage of revenue were 5.8%, down from 6% in the prior year period. Combined, we saw fixed and variable spending at 14.8% of subscription revenue in Q2, an improvement from 15.1% in the prior year period. Our subscription business delivered adjusted operating income of $41.4 million, an increase of 24% from last year, and contributed 96% of our total AOI for the quarter. Subscription adjusted operating margin was 15%, up from 13.8% in the prior year.

Now I'll turn to our other business segment.

Other business revenue was $116.2 million for the quarter, an increase of 4% year-over-year. Adjusted operating income for this segment was $1.9 million, or 1.6% of revenue. We also wanted to share that we have agreed with Pets Best to conclude our relationship following the third quarter of 2028.

In total, adjusted operating income was $43.3 million in Q2, up 24% from Q2 last year and ahead of our expectations. We deployed $21.6 million of this AOI to acquire approximately 68,100 new subscription pets. Excluding the pets that are underwritten through an MGA structure, this translated into an average pet acquisition cost of $299 per pet in the quarter, up from $276 in the prior year period.

We invested $1.8 million in the quarter in development costs. Stock-based compensation expense was $9.9 million. As a result, net income for the quarter was $6.8 million, or $0.16 per basic and diluted share compared to net income of $9.4 million, or $0.22 per basic and diluted share in the prior year period. As a reminder, last year's net income included a one-time gain of $7.8 million on the exchange of preferred stock related to our pet food initiative. The results of this quarter mark our fifth consecutive quarter of positive net income.

In terms of cash flow, operating cash flow was $21 million in the quarter compared to $15 million in the prior year period. Capital expenditures totaled $1.8 million, down from $3 million in Q2 of last year. As a result, free cash flow was $19.2 million, up from $12 million last year. Over the last four quarters, free cash flow reached $82.2 million.

Turning to the balance sheet, we ended the quarter with $398.5 million in cash and short-term investments and a total debt balance of $106.9 million, a reduction of $7.6 million versus Q2 last year. Subsequent to quarter end, we received approval from the New York Department of Financial Services to dividend $44 million of capital from our largest insurance entity, APIC, to our operating company. This approval brings the total amount of excess capital we have unlocked from our insurance entities to approximately $130 million over the past three years, reflecting the strength of our financial position and our ability to invest in growth opportunities.

In conjunction with the dividend, we are pleased to announce the authorization of a $100 million share repurchase program, with repurchases expected to occur opportunistically. We view the new share repurchase program as an additional lever to create long-term shareholder value, complementing our continued investment in organic growth and the disciplined capital allocation approach that has guided our strategy.

Now I'll turn to our outlook.

For the full year of 2026, we now expect total revenue in the range of $1.584 billion to $1.601 billion. We are narrowing the range for subscription revenue, which is now expected to be between $1.124 billion and $1.133 billion. The midpoint of the range is increasing slightly and continues to represent approximately 14% year-over-year growth. We're also narrowing the range on total adjusted operating income to be between $176 million and $184 million, or 19% year-over-year growth at the midpoint.

For the third quarter of 2026, total revenue is expected to be in the range of $399 million to $405 million. Subscription revenue is expected to be between $284 million and $287 million, representing approximately 13% year-over-year growth at the midpoint. Total adjusted operating income is expected to be in the range of $44 million to $47 million. This represents approximately 11% growth year-over-year at the midpoint. As a reminder, our revenue projections are subject to conversion rate movements predominantly between the U.S. and Canadian currencies. For our third quarter and full year guidance, we used a 71% conversion rate in our projections.

Let me now pass it back to Margi.

Margi Tooth

Thank you, Fawwad.

As we reach the midpoint of the year, we're encouraged by our execution and the strength of the business we continue to build. In the first half of 2026, we generated more than $83 million of adjusted operating income, up 27% year-over-year, demonstrating the earnings power of our business. We delivered adjusted operating margins at our long-term target while continuing to invest with discipline. We generated strong free cash flow, providing additional flexibility to invest where we see the most attractive returns. We accelerated net pet growth, strengthened the economics of new enrollments, enhanced the experience for members and veterinarians, and expanded our product portfolio. These results position us well for the second half of the year. We remain focused on disciplined execution, investing in our highest-return opportunities, and building on the momentum we've established to create lasting shareholder value.

With that, let's open the line for questions.

Operator

Thank you. We will now begin the question-and-answer session. To ask a question, you may press star, then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, you may press star, then two to remove yourself from the list. At this time, we will pause momentarily to assemble the roster.

Today's first question comes from Wilma Burdis with Raymond James.

Wilma Burdis

Hey, good evening. Could you talk a little bit about what you're seeing in terms of continued pet inflation, how you're thinking about that as you continue to seek rate increases? Thanks.

Margi Tooth

Yes, thanks for the question, Wilma. We're seeing veterinary inflation is still higher than we historically would have expected going back three, four years ago, so still at the double-digit level. It has come down and we expect that that will normalize over time, but those assumptions are flowing through our pricing, which is why we're still seeing higher-than-average pricing coming through the book of business and they can reflect the impact we see from veterinarians where wellness visits are down and revenue is going up as they push their prices to maintain revenue strength.

Wilma Burdis

Thank you. Then can you talk a little bit about what you used your credit facility for this quarter? Thanks.

Fawwad Qureshi

Yes, thanks for the question, Wilma. Yes, overall the credit facility we have in the debt refinance area with PNC is two parts, just the $100 million, which is the term loan and then there's a $20 million revolver. We'll disclose in the 10-Q more specifics about it, but we've drawn most of the revolver. Yes, we can provide details in the 10-Q.

I would say from a debt perspective, overall our debt continues to come down as part of our agreement. We make regular principal payments. You can see the year-over-year decrease in debt and even from the beginning of the year.

The other thing that's worth noting is just from an interest perspective, we're again generating more interest income than paying interest expens, so we feel good about the overall financing, where we are from a debt-to-equity ratio standpoint continues to be strong and very happy with the relationship with PNC.

Wilma Burdis

Okay. Thank you.

Operator

Thank you. The next question comes from Josh Shanker with Bank of America.

Josh Shanker

Thank you for taking my question. Good afternoon, everybody. Share repurchase authorization, obviously, it has no expiration on it. But when making the announcement, investors would like to know that it's planned to be used. Can you give a little detail on the thoughts behind it and whether investors should be confident that it'll be exercised?

Fawwad Qureshi

Yes, Josh, I'll say a couple of things about it. I think it goes back to what we previously emphasized, that there's really two components when we think about our financial strength. Certainly, the strength of the balance sheet being one of them and the ability to monetize our surplus.

First and foremost, we're very pleased to get the extraordinary dividend that we announced, the $44 million. That's our third extraordinary dividend, so when you look at the $26 million we received in May of last year, approximately $15 million in Q1 and then the most recent one, that's about $85 million that we've taken out.

In total, through ordinary extraordinary dividends and efficiency, we've taken $130 million out. It's a meaningful amount that we've successfully and responsibly taken out of the insurance entity.

When you take the $44 million, which is not included in our financials, and add that to our available cash, it gets you to just under $100 million of available operating cash. Again, we feel very good about our ability to not just fund share buyback, but really take the record margins that we have, growing AOI and be able to deploy that along with the surplus from the balance sheet, whether it's in pet counts in PAC, which we spend more in the first half of this year than any first half in our history, that's going to continue to be the majority of our focus, but also in Landspath International. Then I spoke last quarter about some of the technology and AI investments we've made, so we look to accelerate those. Then finally, financial investments. First came the debt principal repayments on debt that we did last year. Then now we're adding share buyback.

I would say given the record AOI, given our free cash flow, given the strength of the balance sheet, we feel very good about our ability to invest meaningfully across that. Now we're still going to look at it from an IRR perspective to make sure that we're maximizing the return, but we feel good about our ability to make investments that are accretive to the business.

Josh Shanker

Then touching on the IRR question, can you say with confidence or do you know whether a dollar put to use in the share repurchase is higher or lower than the dollar used in PAC at this point in time?

Fawwad Qureshi

Yes, I can't give you a point of view because obviously it's dependent on the share price. We have run that analysis, as you'd expect and we're confident in our ability to deploy capital in the right places. First is to have the means to do it and have the capacity, and we feel confident based on the work over the last couple of years that we now have those choices. Of course, we are going to look at the difference in return between investing in PAC, investing in other internal investments, Landspath as a for instance, as well as making financial investments.

Josh Shanker

Is there any detail you can give investors about in terms of the gross adds in the quarter, how much was flagship Trupanion subscription pets and how much were through your partners who are selling a different product, similar but not necessarily the flagship product?

Margi Tooth

Yes, the strength of the gross adds came through the core product. That was up around 10% year-over-year. We saw some nice movement across the board, but that was particularly exciting to see from a core point of view. It is where the majority of our focus is, both from an acquisition and retention perspective, and the efforts of the team over the last, I would say, three to four quarters. The number of tests that we were putting together have culminated and come together. Sometimes tests work, sometimes they don't. I would say we've had a really, really good execution quarter in Q2. We've seen some solid performance, not only with the changes made through the website, which I mentioned in my earlier opening remarks have improved web conversion nicely, the good step-up there. We've also seen really lovely improvement with the new expanded coinsurance and deductible, which is the first iteration on that product really for 20 years. So, seeing that come to the market, I think it's filling a gap that we weren't previously able to fill, and it's giving people flexibility with the affordability point at the entry point of our product. We're pleased to see that momentum.

The second half of the year is off to a solid start and importantly for us, we have the financial flexibility to continue to invest and test and learn, and we expect the opportunity in front of us that we'll be looking to execute into.

Josh Shanker

Thank you for all the answers.

Margi Tooth

Thank you.

Operator

Thank you. The next question comes from Brandon Vazquez with William Blair.

Brandon Vazquez

Hey guys, thanks for taking the question. Margi, you started to hit on this, but can you spend a little bit more time talking about the changes to the enrollment services that you guys are making? That seems like it's having a pretty tangible impact in terms of the net new adds. Trying to understand maybe what the timeline is to roll that out to the broader population in all of North America, since it's already seemingly having some benefits. I want to understand the cadence of how we should expect total net new pets and how impactful those can be over the coming quarters.

Margi Tooth

Yes, sure. As I mentioned, there have been a number of tactics that we started doing some things over the course of Q4/Q1, where we were really building towards not only the launch of the expanded coinsurance and deductible, but also some tests. Some of them are brand, some of them are upper funnel, and I think they're coming together to tell a better story to pet parents who are coming to the market for the first time. That's showing up through more engagement, greater engagement within the website, and just helping to pull people through the funnel to convert.

The timeline for the rollout of coinsurance and deductible is throughout the rest of this year. The teams—and thank you to the teams, anyone that's listening to this, they've done an absolutely fantastic job working together across the board to roll this out in a very short space of time. We had an accelerated timeline through this year, and we're really pleased that we're well on track for that.

I would say the product changes are being embraced by the market as we'd expect because it's giving people the ability to moderate and play with their premium, play with their monthly costs so they can find something that suits them, which was not as much flexibility embedded beforehand.

We're pleased with what they're doing. I think we're around 50% of the way through that journey right now and expect by the end of this year, we'll have that across North America. Early signs are that it's looking really good and we're continuing to not only deploy that but also other tactics that we believe will be accretive to conversion rate as well online.

Lots still to do, a good nice quarter behind us and momentum in front of us.

Brandon Vazquez

Great. Maybe a follow-up to that and a slightly different question I'll throw on both of you guys at once. We're talking about changing deductibles a little bit. That might help with the premium price that the user pays. Fawwad, maybe can you talk to us a little bit about how should we think about the P&L impact of these either from margins or from an ARPU level?

Then a slightly different question, Margi. In the past, we've talked a little bit about new products coming, maybe totally new insurance products or maybe things like food. Any meaningful updates to give us on that front at this point? Thank you.

Fawwad Qureshi

Yes, I'd say a couple of things. I think, one, we're very pleased with the coinsurance and deductible offerings and also our ability to bring them to market as quickly as we have. Those are in market and beginning to contribute. I think it's still early, given that some of the states have not yet launched, but we're making progress and adding every month.

I think it'll be more clear over time. The initial reaction we're getting is positive. I'm sure Margi will give some context on feedback that we've had. I would say it's early days, but we're pleased with overall performance so far.

Margi Tooth

Yes. Just to add to that, I would say that the volume increase we've seen kind of deductible changes, ARPU changes, it's accretive. We feel really good about the fact that we've been able to unlock, I think, a bit of a consumer segment that we weren't able to reach beforehand. We're definitely encouraged, and I think there's a lot more to do there, and a lot of testing and learning because as we mentioned, we're only 50% of the way through, and that's a recent stat. Encouraging signs.

Just in terms of new products, we have shared before that we expect this to launch around the midpoint of our—or by the midpoint of our strategic plan, our current strategic plan, which is the midway through next year. We're nicely on track for that. Teams are working together again to put together a very different approach to pet insurance, a gap that Trupanion doesn't currently really target. I think it's an exciting way for us to open the category. It's something that I think in spirit of being veterinary partners to the entire animal health industry, we need to find ways to unlock the financial support that pet parents are looking for and I think this is another avenue that Trupanion has competitive strength in. Excited to bring that to market.

In terms of food, making really good progress. I would say we're nearing completion in some of our manufacturing development that we're doing there. Just in terms of building out the factory, we shared that last quarter. That will continue through the rest of this quarter, and then we'll start doing some more robust testing. We don't anticipate any meaningful revenue contribution in this strategic plan, but this is definitely a long-term play for us to not only kind of gradually increase our investment in the space but to do so in a manner that I think will set us up very well for the long term with the future of animal health being such a huge market and a huge category that we can be part of.

Operator

Very good. We've reached the end of our Q&A session. I would like to turn the call back over to Margi Tooth for any closing remarks.

Margi Tooth

Yes, thank you. Today we're demonstrating the earnings power of our model. Our business generated more adjusted operating income and cash. We're funding our own growth and we're thoughtfully investing in opportunities that we believe will create real long-term value.

As veterinary medicine continues to advance, we believe Trupanion is uniquely positioned to help more pet families access the care they need while creating enduring value for our shareholders. Thank you very much for joining us today.

Operator

Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines.