



Three Months and Year Ended December 31, 2017
Supplementary Information

Trupanion, Inc.
Consolidated Balance Sheets
(in thousands, except per share data)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 25,706	\$ 23,637
Short-term investments	37,590	29,570
Accounts and other receivables	20,367	10,118
Prepaid expenses and other assets	2,895	2,062
Total current assets	86,558	65,387
Restricted cash	600	600
Long-term investments, at fair value	3,237	2,579
Equity method investment	-	271
Property and equipment, net	7,868	8,464
Intangible assets, net	4,972	4,910
Other long-term assets	2,624	134
Total assets	\$ 105,859	\$ 82,345
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 2,716	\$ 2,006
Accrued liabilities and other current liabilities	7,660	5,416
Reserve for veterinary invoices	12,756	9,521
Deferred revenue	22,734	13,463
Total current liabilities	45,866	30,406
Long-term debt	9,324	4,767
Deferred tax liabilities	1,002	1,623
Other liabilities	1,233	834
Total liabilities	57,425	37,630
Stockholders' equity:		
Common stock, \$0.00001 par value per share, 100,000,000 shares authorized at December 31, 2017 and December 31, 2016, 30,778,796 and 30,121,496 shares issued and outstanding at December 31, 2017; 30,156,247 and 29,498,947 shares issued and outstanding at December 31, 2016.	-	-
Preferred stock: \$0.00001 par value per share, 10,000,000 shares authorized at December 31, 2017 and December 31, 2016, and 0 shares issued and outstanding at December 31, 2017 and December 31, 2016.	-	-
Additional paid-in capital	134,511	129,574
Accumulated other comprehensive loss	(92)	(377)
Accumulated deficit	(82,784)	(81,281)
Treasury stock, at cost: 657,300 shares at December 31, 2017 and December 31, 2016.	(3,201)	(3,201)
Total stockholders' equity	48,434	44,715
Total liabilities and stockholders' equity	\$ 105,859	\$ 82,345

Trupanion, Inc.
Consolidated Statements of Operations
(in thousands, except per share data)

	Three Months Ended December 31,		Years Ended December 31,	
	2017	2016	2017	2016
	<i>(unaudited)</i>			
Revenue:				
Subscription business	\$ 58,991	\$ 47,422	\$ 218,354	\$ 173,356
Other business	7,554	3,918	24,313	14,874
Total revenue	<u>66,545</u>	<u>51,340</u>	<u>242,667</u>	<u>188,230</u>
Cost of revenue:				
Subscription business ⁽¹⁾	47,831	38,528	176,883	141,321
Other business	6,977	3,594	22,734	13,621
Total cost of revenue ⁽²⁾	<u>54,808</u>	<u>42,122</u>	<u>199,617</u>	<u>154,942</u>
Gross profit:				
Subscription business	11,160	8,894	41,471	32,035
Other business	577	324	1,579	1,253
Total gross profit	<u>11,737</u>	<u>9,218</u>	<u>43,050</u>	<u>33,288</u>
Operating expenses:				
Technology and development ⁽¹⁾	2,572	2,744	9,768	9,534
General and administrative ⁽¹⁾	4,546	4,177	16,820	15,205
Sales and marketing ⁽¹⁾	5,781	3,951	19,104	15,247
Total operating expenses	<u>12,899</u>	<u>10,872</u>	<u>45,692</u>	<u>39,986</u>
Operating loss	(1,162)	(1,654)	(2,642)	(6,698)
Interest expense	163	81	533	218
Other (income) expense, net	(5)	(19)	(1,244)	(58)
Loss before income taxes	(1,320)	(1,716)	(1,931)	(6,858)
Income tax (benefit) expense	(482)	7	(428)	38
Net loss	<u>\$ (838)</u>	<u>\$ (1,723)</u>	<u>\$ (1,503)</u>	<u>\$ (6,896)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.24)</u>
Weighted-average common shares outstanding:				
Basic and diluted	<u>29,847,574</u>	<u>29,020,559</u>	<u>29,588,324</u>	<u>28,527,602</u>

⁽¹⁾ Includes stock-based compensation expense as follows:

	Three Months Ended December 31,		Years Ended December 31,	
	2017	2016	2017	2016
Cost of revenue	\$ 162	\$ 60	\$ 594	\$ 275
Technology and development	50	88	216	246
General and administrative	471	470	1,887	1,893
Sales and marketing	172	113	722	532
Total stock-based compensation expense	<u>\$ 855</u>	<u>\$ 731</u>	<u>\$ 3,419</u>	<u>\$ 2,946</u>

⁽²⁾The breakout of cost of revenue between veterinary invoice expense and other cost of revenue is as follows:

	Three Months Ended December 31,		Years Ended December 31,	
	2017	2016	2017	2016
Veterinary invoice expense	\$ 46,473	\$ 36,211	\$ 170,122	\$ 133,534
Other cost of revenue	8,335	5,911	29,495	21,408
Total cost of revenue	<u>\$ 54,808</u>	<u>\$ 42,122</u>	<u>\$ 199,617</u>	<u>\$ 154,942</u>

Trupanion, Inc.
Consolidated Statements of Cash Flows
(in thousands)

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
	<i>(unaudited)</i>			
Operating activities				
Net loss	\$ (838)	\$ (1,723)	\$ (1,503)	\$ (6,896)
Adjustments to reconcile net loss to cash provided by operating activities:				
Depreciation and amortization	1,024	1,229	4,232	3,846
Stock-based compensation expense	855	731	3,419	2,946
Gain on sale of equity method investment	-	-	(1,036)	-
Other, net	(626)	(114)	(383)	104
Changes in operating assets and liabilities:				
Accounts and other receivables	(55)	193	(10,219)	(1,830)
Prepaid expenses and other assets	118	(169)	(179)	48
Accounts payable, accrued liabilities, and other liabilities	897	1,789	3,019	1,164
Reserve for veterinary invoices	1,510	1,183	3,149	3,226
Deferred revenue	92	319	9,167	2,398
Net cash provided by operating activities	<u>2,977</u>	<u>3,438</u>	<u>9,666</u>	<u>5,006</u>
Investing activities				
Purchases of investment securities	(11,216)	(15,624)	(31,920)	(31,616)
Maturities of investment securities	7,494	14,670	23,372	27,247
Proceeds from sale of equity method investment	-	-	1,402	-
Purchases of property and equipment	(884)	(395)	(3,131)	(1,941)
Other investments	(17)	(68)	(2,779)	(198)
Net cash used in investing activities	<u>(4,623)</u>	<u>(1,417)</u>	<u>(13,056)</u>	<u>(6,508)</u>
Financing activities				
Proceeds from exercise of stock options	463	1,009	2,545	3,745
Taxes paid related to net share settlement of equity awards	-	-	(1,170)	(662)
Proceeds from debt financing, net financing fees	1,980	1,000	4,400	4,988
Other financing	(282)	(289)	(694)	(399)
Net cash provided by financing activities	<u>2,161</u>	<u>1,720</u>	<u>5,081</u>	<u>7,672</u>
Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash, net	(58)	(130)	378	111
Net increase in cash, cash equivalents, and restricted cash	457	3,611	2,069	6,281
Cash, cash equivalents, and restricted cash at beginning of period	25,849	20,626	24,237	17,956
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 26,306</u>	<u>\$ 24,237</u>	<u>\$ 26,306</u>	<u>\$ 24,237</u>

The following tables set forth our key operating metrics:

	Years Ended	
	December 31,	
	2017	2016
Total subscription pets enrolled (at period end)	371,683	323,233
Total pets enrolled (at period end)	423,194	343,649
Monthly average revenue per pet	\$ 52.07	\$ 47.82
Lifetime value of a pet (LVP)	\$ 727	\$ 631
Average pet acquisition cost (PAC)	\$ 152	\$ 123
Average monthly retention	98.63%	98.60%

	Three Months Ended							
	Dec. 31,	Sep. 30,	Jun. 30,	Mar. 31,	Dec. 31,	Sep. 30,	Jun. 30,	Mar. 31,
	2017	2017	2017	2017	2016	2016	2016	2016
Total subscription pets enrolled (at period end)	371,683	359,102	346,409	334,909	323,233	312,282	299,856	287,123
Total pets enrolled (at period end)	423,194	404,069	383,293	364,259	343,649	334,070	320,896	307,298
Monthly average revenue per pet	\$ 53.17	\$ 52.95	\$ 51.47	\$ 50.50	\$ 49.17	\$ 48.37	\$ 47.39	\$ 46.12
Lifetime value of a pet (LVP)	\$ 727	\$ 701	\$ 654	\$ 637	\$ 631	\$ 624	\$ 622	\$ 603
Average pet acquisition cost (PAC)	\$ 184	\$ 151	\$ 143	\$ 128	\$ 133	\$ 120	\$ 118	\$ 123
Average monthly retention	98.63%	98.61%	98.57%	98.58%	98.60%	98.61%	98.64%	98.65%

The following table reflects the reconciliation of cash provided by operating activities to free cash flow (in thousands):

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Net cash provided by operating activities	\$ 2,977	\$ 3,438	\$ 9,666	\$ 5,006
Purchases of property and equipment	(884)	(395)	(3,131)	(1,941)
Free cash flow	<u>\$ 2,093</u>	<u>\$ 3,043</u>	<u>\$ 6,535</u>	<u>\$ 3,065</u>

The following table reflects the reconciliation of GAAP measures to non-GAAP measures (in thousands, except percentages):

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Veterinary invoice expense	\$ 46,473	\$ 36,211	\$ 170,122	\$ 133,534
Stock-based compensation expense	(95)	(45)	(355)	(234)
Cost of goods	\$ 46,378	\$ 36,166	\$ 169,767	\$ 133,300
<i>% of revenue</i>	<i>69.7%</i>	<i>70.4%</i>	<i>70.0%</i>	<i>70.8%</i>
Other cost of revenue	\$ 8,335	\$ 5,911	\$ 29,495	\$ 21,408
Stock-based compensation expense	(67)	(15)	(239)	(41)
Variable expenses	\$ 8,268	\$ 5,896	\$ 29,256	\$ 21,367
<i>% of revenue</i>	<i>12.4%</i>	<i>11.5%</i>	<i>12.1%</i>	<i>11.4%</i>
Subscription gross profit	\$ 11,160	\$ 8,894	\$ 41,471	\$ 32,035
Stock-based compensation expense	162	60	594	275
Non-GAAP subscription gross profit	\$ 11,322	\$ 8,954	\$ 42,065	\$ 32,310
<i>% of subscription revenue</i>	<i>19.2%</i>	<i>18.9%</i>	<i>19.3%</i>	<i>18.6%</i>
Gross profit	\$ 11,737	\$ 9,218	\$ 43,050	\$ 33,288
Stock-based compensation expense	162	60	594	275
Non-GAAP gross profit	\$ 11,899	\$ 9,278	\$ 43,644	\$ 33,563
<i>% of revenue</i>	<i>17.9%</i>	<i>18.1%</i>	<i>18.0%</i>	<i>17.8%</i>
Technology and development expense	\$ 2,572	\$ 2,744	\$ 9,768	\$ 9,534
General and administrative expense	4,546	4,177	16,820	15,205
Depreciation and amortization expense	(1,024)	(1,229)	(4,232)	(3,846)
Stock-based compensation expense	(521)	(558)	(2,103)	(2,139)
Fixed expenses	\$ 5,573	\$ 5,134	\$ 20,253	\$ 18,754
<i>% of revenue</i>	<i>8.4%</i>	<i>10.0%</i>	<i>8.3%</i>	<i>10.0%</i>
Sales and marketing expense	\$ 5,781	\$ 3,951	\$ 19,104	\$ 15,247
Stock-based compensation expense	(172)	(113)	(722)	(532)
Acquisition cost	\$ 5,609	\$ 3,838	\$ 18,382	\$ 14,715
<i>% of revenue</i>	<i>8.4%</i>	<i>7.5%</i>	<i>7.6%</i>	<i>7.8%</i>

The following tables reflect the reconciliation of adjusted EBITDA to net (loss) income (in thousands):

	Years Ended	
	December 31,	
	2017	2016
Net loss	\$ (1,503)	\$ (6,896)
Excluding:		
Stock-based compensation expense	3,419	2,946
Depreciation and amortization expense	4,232	3,846
Interest income	(227)	(119)
Interest expense	533	218
Income tax (benefit) expense	(428)	38
(Gain) loss from equity method investment	(1,029)	29
Adjusted EBITDA	<u>\$ 4,997</u>	<u>\$ 62</u>

	Three Months Ended							
	Dec. 31,	Sep. 30,	Jun. 30,	Mar. 31,	Dec. 31,	Sep. 30,	Jun. 30,	Mar. 31,
	2017	2017	2017	2017	2016	2016	2016	2016
Net (loss) income	\$ (838)	\$ 406	\$ 411	\$ (1,482)	\$ (1,723)	\$ (1,637)	\$ (964)	\$ (2,572)
Excluding:								
Stock-based compensation expense	855	895	888	781	731	776	743	696
Depreciation and amortization expense	1,024	1,095	1,077	1,036	1,229	1,093	739	785
Interest income	(3)	(97)	(76)	(51)	(41)	(29)	(26)	(23)
Interest expense	163	124	109	137	81	66	41	30
Income tax (benefit) expense	(482)	26	4	24	7	13	4	14
(Gain) loss from equity method investment	-	-	(1,036)	7	18	22	(15)	4
Adjusted EBITDA	<u>\$ 719</u>	<u>\$ 2,449</u>	<u>\$ 1,377</u>	<u>\$ 452</u>	<u>\$ 302</u>	<u>\$ 304</u>	<u>\$ 522</u>	<u>\$ (1,066)</u>

The following tables reflect the reconciliation of GAAP measures to non-GAAP measures (in thousands, except percentages):

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Revenue	\$ 66,545	\$ 51,340	\$ 242,667	\$ 188,230
Cost of goods	46,378	36,166	169,767	133,300
Variable expenses	8,268	5,896	29,256	21,367
Non-GAAP gross profit	11,899	9,278	43,644	33,563
Fixed expenses	5,573	5,134	20,253	18,754
Adjusted operating income	6,326	4,144	23,391	14,809
Acquisition cost	5,609	3,838	18,382	14,715
Stock-based compensation expense	855	731	3,419	2,946
Depreciation and amortization	1,024	1,229	4,232	3,846
Operating loss	(1,162)	(1,654)	(2,642)	(6,698)
Interest expense	163	81	533	218
Other (income) expense, net	(5)	(19)	(1,244)	(58)
Loss before income taxes	(1,320)	(1,716)	(1,931)	(6,858)
Income tax (benefit) expense	(482)	7	(428)	38
Net loss	\$ (838)	\$ (1,723)	\$ (1,503)	\$ (6,896)

As a percentage of revenue:

	Three Months Ended		Years Ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of goods	69.7%	70.4%	70.0%	70.8%
Variable expenses	12.4%	11.5%	12.1%	11.4%
Non-GAAP gross profit	17.9%	18.1%	18.0%	17.8%
Fixed expenses	8.4%	10.0%	8.3%	10.0%
Adjusted operating income	9.5%	8.1%	9.6%	7.9%
Acquisition cost	8.4%	7.5%	7.6%	7.8%
Stock-based compensation expense	1.3%	1.4%	1.4%	1.6%
Depreciation and amortization	1.5%	2.4%	1.7%	2.0%
Operating loss	-1.7%	-3.2%	-1.1%	-3.6%
Interest expense	0.2%	0.2%	0.2%	0.1%
Other (income) expense, net	0.0%	0.0%	-0.5%	0.0%
Loss before income taxes	-2.0%	-3.3%	-0.8%	-3.6%
Income tax (benefit) expense	-0.7%	0.0%	-0.2%	0.0%
Net loss	-1.3%	-3.4%	-0.6%	-3.7%

Adjusted operating income is a non-GAAP financial measure that adjusts operating loss to remove the effect of acquisition costs and the related non-cash items, stock-based compensation and depreciation. Acquisition costs, stock-based compensation expense, and depreciation expense have been and are expected to remain recurring expenses for the foreseeable future, but are excluded from this metric to measure scale in other areas of the business. Management believes acquisition costs primarily represent the cost to acquire new subscribers and are driven by the amount of growth we choose to pursue based primarily on the amount of our adjusted operating income period over period. Accordingly, this measure is not indicative of our core operating income performance. We exclude stock-based compensation and depreciation because some investors may not view those items as reflective of our core operating income performance as they are non-cash expenses.

Management uses adjusted operating income and the margin on adjusted operating income to understand the effects of scale in its non-acquisition cost expenses and to plan future advertising expenditures, which are designed to acquire new pets. Management uses this measure as a principal way of understanding the operating performance of its business exclusive of acquisition cost initiatives. Management believes disclosure of this metric provides investors with the same data that the Company employs in assessing its overall operations and that disclosure of this measure may provide useful information regarding the efficiency of our utilization of revenues, return on advertising dollars in the form of new subscribers and future use of available cash to support the continued growth of our business.

The following tables reflect the reconciliation of acquisition cost and net acquisition cost to sales and marketing expense (in thousands):

	Years Ended	
	December 31,	
	2017	2016
Sales and marketing expenses	\$ 19,104	\$ 15,247
Excluding:		
Stock-based compensation expense	(722)	(532)
Acquisition cost	<u>18,382</u>	<u>14,715</u>
Net of:		
Sign-up fee revenue	(2,169)	(2,073)
Other business segment sales and marketing expense	(218)	(218)
Net acquisition cost	<u>\$ 15,995</u>	<u>\$ 12,424</u>

	Three Months Ended							
	Dec. 31,	Sep. 30,	Jun. 30,	Mar. 31,	Dec. 31,	Sep. 30,	Jun. 30,	Mar. 31,
	2017	2017	2017	2017	2016	2016	2016	2016
Sales and marketing expenses	\$ 5,781	\$ 4,862	\$ 4,372	\$ 4,089	\$ 3,951	\$ 3,892	\$ 3,564	\$ 3,840
Excluding:								
Stock-based compensation expense	(172)	(165)	(198)	(187)	(113)	(172)	(165)	(82)
Acquisition cost	<u>5,609</u>	<u>4,697</u>	<u>4,174</u>	<u>3,902</u>	<u>3,838</u>	<u>3,720</u>	<u>3,399</u>	<u>3,758</u>
Net of:								
Sign-up fee revenue	(550)	(558)	(517)	(544)	(526)	(525)	(495)	(527)
Other business segment sales and marketing expense	(56)	(51)	(63)	(48)	(62)	(63)	(55)	(38)
Net acquisition cost	<u>\$ 5,003</u>	<u>\$ 4,088</u>	<u>\$ 3,594</u>	<u>\$ 3,310</u>	<u>\$ 3,250</u>	<u>\$ 3,132</u>	<u>\$ 2,849</u>	<u>\$ 3,193</u>

