

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.

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.

“...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.’”

Why is this such a challenge? A few reasons:

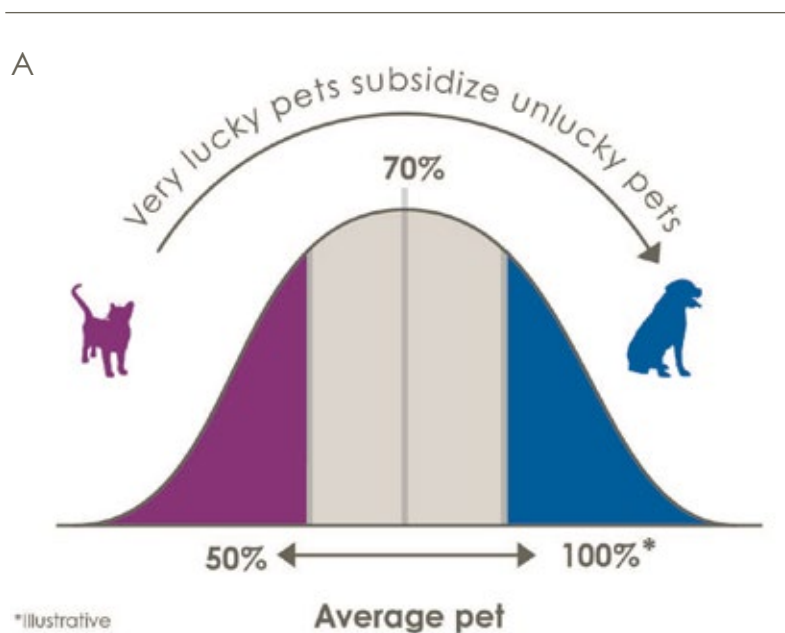
1. We have no idea if our pet is going to be “lucky,” “unlucky,” or “average.”
2. Accidents and illnesses do not occur at convenient or predictable times.
3. The local cost of veterinary care varies by a wide margin by hospital and an even wider margin if you include referral, specialty and 24-hour emergency 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.



Defensible solution

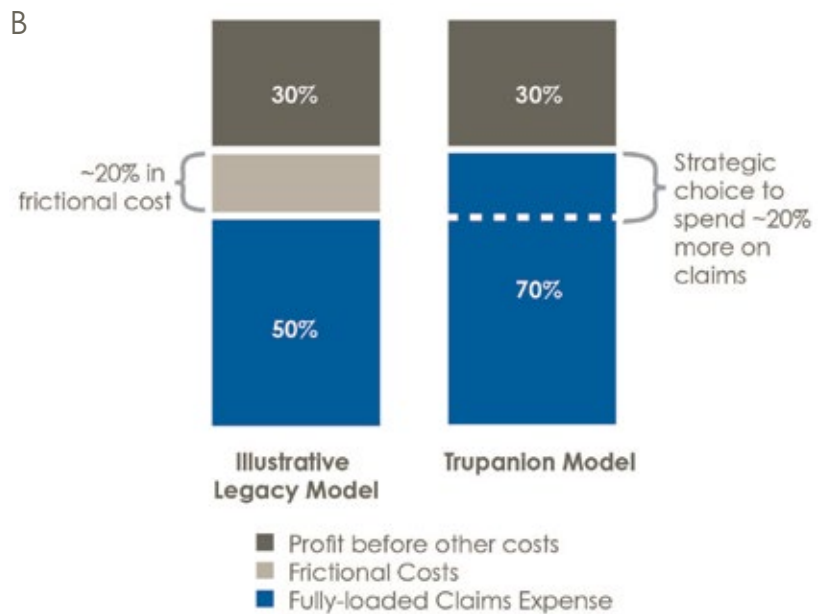
We believe that we have a unique long-term defensible solution. It starts and ends with being the low-cost operator, meaning that our cost to administer and the cost to acquire new members are lowest in North America and very difficult for any existing or new company to emulate. This does not mean that 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

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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

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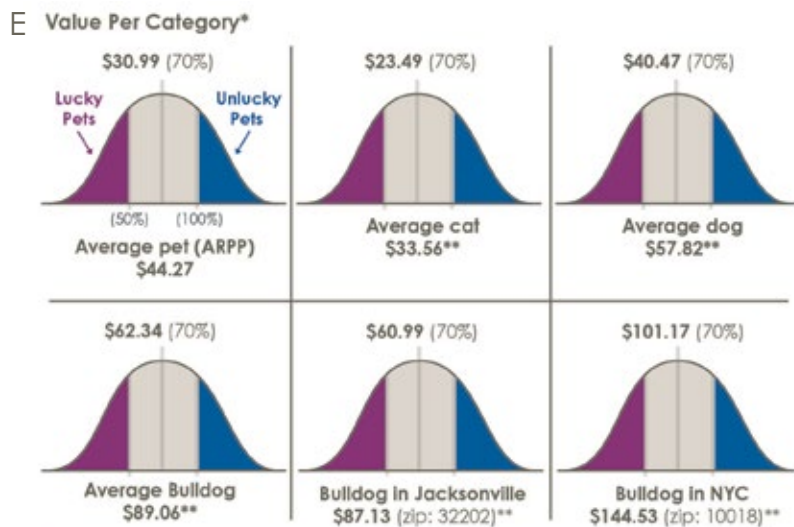
“THE VALUE OF THE TRUPANION SOLUTION COMES IN THE FORM OF PAYING THE INDUSTRY’S HIGHEST SUSTAINABLE PERCENTAGE BETWEEN WHAT PET OWNERS PAY IN THE WAY OF MONTHLY COST AND WHAT WE PAY IN VETERINARY INVOICES FOR THE ‘AVERAGE PET.’”

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.

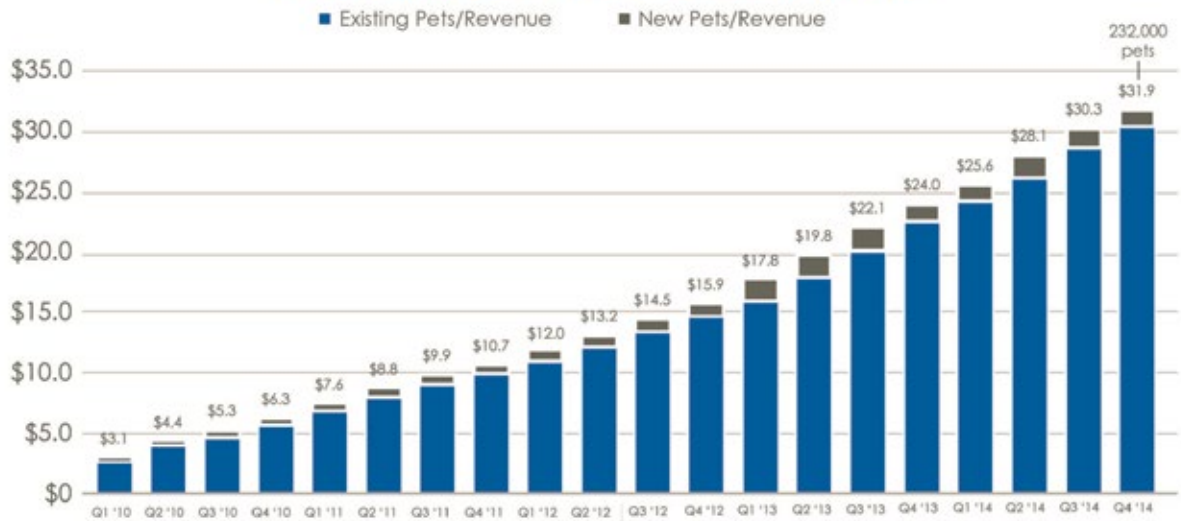
Notable milestones in 2014

- 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.

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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.

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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 PAC = Pet Acquisition Cost
 DM = Discretionary Margin 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 black ink, consisting of a stylized, cursive 'D' followed by a long horizontal line extending to the right.