Trupanion Reports Fourth Quarter and Full Year 2020 Results

SEATTLE, WA. February 10, 2021--Trupanion, Inc. (Nasdaq: TRUP), the leading provider of medical insurance for cats and dogs, today announced financial results for the fourth quarter and full year ended December 31, 2020.

“The fourth quarter capped off a strong year for Trupanion. We’re set up well to capture the growing opportunities within our large, underpenetrated market,” said Darryl Rawlings, founder and chief executive officer of Trupanion.

Full Year 2020 Financial and Business Highlights

- Total revenue was $502.0 million, an increase of 31% compared to 2019.
- Total enrolled pets (including pets from our other business segment) was 862,928 at December 31, 2020, an increase of 33% over 2019.
- Subscription business revenue was $387.7 million, an increase of 21% compared to 2019.
- Subscription enrolled pets was 577,957 at December 31, 2020, an increase of 17% over 2019.
- Net loss was $(5.8) million, or $(0.16) per basic and diluted share, compared to a net loss of $(1.8) million, or $(0.05) per basic and diluted share, in 2019.
- Adjusted EBITDA was $11.5 million, compared to adjusted EBITDA of $10.6 million in 2019.
- Operating cash flow was $21.5 million and free cash flow was $14.1 million in 2020. This compared to operating cash flow of $16.2 million and free cash flow of $10.8 million in 2019.
- In the fourth quarter of 2020, the Company issued 3,636,364 shares of common stock through a private placement, for net proceeds of $192.3 million. The shares were issued subject to a minimum holding period of 3 years.

Fourth Quarter 2020 Financial and Business Highlights

- Total revenue was $142.7 million, an increase of 35% compared to the fourth quarter of 2019.
- Subscription business revenue was $106.4 million, an increase of 23% compared to the fourth quarter of 2019.
- Net loss was $(3.5) million, or $(0.09) per basic and diluted share, compared to net income of $0.6 million, or $0.02 per basic and diluted share, in the fourth quarter of 2019.
- Adjusted EBITDA was $2.2 million, compared to adjusted EBITDA of $3.7 million in the fourth quarter of 2019.
- Operating cash flow was $4.0 million and free cash flow was $1.0 million in the fourth quarter of 2020. This compared to operating cash flow of $4.5 million and free cash flow of $2.7 million in the fourth quarter of 2019.
Revenue by Quarter

Conference Call
Trupanion’s management will host a conference call today to review its fourth quarter and full year 2020 results. The call is scheduled to begin shortly after 1:30 p.m. PT/ 4:30 p.m. ET. A live webcast will be accessible through the Investor Relations section of Trupanion’s website at http://investors.trupanion.com and will be archived online for 3 months upon completion of the conference call. Participants can access the conference call by dialing 1-877-407-0784 (United States) or 1-201-689-8560 (International). A telephonic replay of the call will also be available after the completion of the call, by dialing 1-844-512-2921 (United States) or 1-412-317-6671 (International) and entering the replay pin number: 13715194.

About Trupanion
Trupanion is a leader in medical insurance for cats and dogs throughout the United States and Canada. For over two decades, Trupanion has given pet owners peace of mind so they can focus on their pet's recovery, not financial stress. Trupanion is committed to providing pet owners with the highest value in pet medical insurance with unlimited payouts for the life of their pets. Trupanion is listed on NASDAQ under the symbol "TRUP". The company was founded in 2000 and is headquartered in Seattle, WA. Trupanion policies are issued, in the United States, by its wholly-owned insurance entity American Pet Insurance Company and, in Canada, by Omega General Insurance Company. For more information, please visit trupanion.com.

Forward-Looking Statements
This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 relating to, among other things, expectations, plans, prospects and financial results for Trupanion, including, but not limited to, its expectations regarding its ability to continue to grow its enrollments and revenue, implement its alliance with Aflac and otherwise execute its business plan. These forward-looking statements are based upon the current expectations and beliefs of Trupanion’s management as of the date of this press release, and are subject to certain risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. All forward-looking statements made in this press release are based on information available to Trupanion as of the date hereof, and Trupanion has no obligation to update these forward-looking statements.
In particular, the following factors, among others, could cause results to differ materially from those expressed or implied by such forward-looking statements: the ability to achieve or maintain profitability and/or appropriate levels of cash flow in future periods; the ability to keep growing our membership base and revenue; the accuracy of assumptions used in determining appropriate member acquisition expenditures; the severity and frequency of claims; the ability to maintain high retention rates; the accuracy of assumptions used in pricing medical plan subscriptions and the ability to accurately estimate the impact of new products or offerings on claims frequency; actual claims expense exceeding estimates; regulatory and other constraints on the ability to institute, or the decision to otherwise delay, pricing modifications in response to changes in actual or estimated claims expense; the effectiveness and statutory or regulatory compliance of our Territory Partner model and of our Territory Partners, veterinarians and other third parties in recommending medical plan subscriptions to potential members; the ability to retain existing Territory Partners and increase the number of Territory Partners and active hospitals; compliance by us and those referring us members with laws and regulations that apply to our business, including the sale of a pet medical plan; the ability to maintain the security of our data; fluctuations in the Canadian currency exchange rate; the ability to protect our proprietary and member information; the ability to maintain our culture and team; the ability to maintain the requisite amount of risk-based capital; our ability to implement and maintain effective controls, including over financial reporting; the ability to protect and enforce Trupanion’s intellectual property rights; the ability to successfully implement our alliance with Aflac; the ability to continue key contractual relationships with third parties; third-party claims including litigation and regulatory actions; the ability to recognize benefits from investments in new solutions and enhancements to Trupanion’s technology platform and website; and our ability to retain key personnel.

For a detailed discussion of these and other cautionary statements, please refer to the risk factors discussed in filings with the Securities and Exchange Commission (SEC), including but not limited to, Trupanion’s Annual Report on Form 10-K for the year ended December 31, 2019 and any subsequently filed reports on Forms 10-Q and 8-K. All documents are available through the SEC’s Electronic Data Gathering Analysis and Retrieval system at www.sec.gov or the Investor Relations section of Trupanion’s website at http://investors.trupanion.com.

Non-GAAP Financial Measures
Trupanion’s stated results may include certain non-GAAP financial measures. These non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in its industry as other companies in its industry may calculate or use non-GAAP financial measures differently. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies 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 below and 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.
### Trupanion, Inc.

#### Consolidated Statements of Operations

*(in thousands, except share data)*

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31, 2020</th>
<th>Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
<td>(audited)</td>
</tr>
<tr>
<td><strong>Revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription business</td>
<td>$106,416 $86,592</td>
<td>$387,732 $321,163</td>
</tr>
<tr>
<td>Other business</td>
<td>36,271 18,891</td>
<td>114,296 62,773</td>
</tr>
<tr>
<td><strong>Total revenue</strong></td>
<td>142,687 105,483</td>
<td>502,028 383,936</td>
</tr>
<tr>
<td><strong>Cost of revenue:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscription business</td>
<td>(1) 85,761</td>
<td>(1) 70,718</td>
</tr>
<tr>
<td>Other business</td>
<td>(2) 33,333</td>
<td>(2) 17,031</td>
</tr>
<tr>
<td><strong>Total cost of revenue</strong></td>
<td>(2) 119,094</td>
<td>(2) 87,749</td>
</tr>
<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology and development</td>
<td>(1) 3,108</td>
<td>(1) 1,928</td>
</tr>
<tr>
<td>General and administrative</td>
<td>(1) 6,502</td>
<td>(1) 4,665</td>
</tr>
<tr>
<td>Sales and marketing</td>
<td>(1) 14,809</td>
<td>(1) 9,212</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>(3) 2,301</td>
<td>(3) 1,275</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>(2) 26,720</td>
<td>(2) 17,080</td>
</tr>
<tr>
<td><strong>Gain (loss) from investment in joint venture</strong></td>
<td>(42)</td>
<td>(21)</td>
</tr>
<tr>
<td><strong>Operating income (loss)</strong></td>
<td>(3,169)</td>
<td>633</td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
<td>337</td>
<td>375</td>
</tr>
<tr>
<td><strong>Other income, net</strong></td>
<td>(48)</td>
<td>(535)</td>
</tr>
<tr>
<td><strong>Gain (loss) before income taxes</strong></td>
<td>(3,458)</td>
<td>793</td>
</tr>
<tr>
<td><strong>Income tax expense (benefit)</strong></td>
<td>44</td>
<td>157</td>
</tr>
<tr>
<td><strong>Net income (loss)</strong></td>
<td>(3,502)</td>
<td>(636)</td>
</tr>
<tr>
<td><strong>Net income (loss) per share:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>(0.09)</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Diluted</td>
<td>(0.09)</td>
<td>(0.02)</td>
</tr>
<tr>
<td><strong>Weighted average shares of common stock outstanding:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>37,841,055</td>
<td>34,876,438</td>
</tr>
<tr>
<td>Diluted</td>
<td>37,841,055</td>
<td>36,354,620</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31, 2020</th>
<th>Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost of revenue</strong></td>
<td>$526 $267</td>
<td>$1,586 $1,050</td>
</tr>
<tr>
<td>Technology and development</td>
<td>392 97</td>
<td>758 364</td>
</tr>
<tr>
<td>General and administrative</td>
<td>883 860</td>
<td>3,795 3,312</td>
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<tr>
<td>Sales and marketing</td>
<td>801 547</td>
<td>2,773 2,120</td>
</tr>
<tr>
<td><strong>Total stock-based compensation expense</strong></td>
<td>$2,602 $1,771</td>
<td>$8,912 $6,846</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31, 2020</th>
<th>Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Veterinary invoice expense</td>
<td>$98,169 $74,646</td>
<td>$351,124 $270,947</td>
</tr>
<tr>
<td>Other cost of revenue</td>
<td>20,225 13,103</td>
<td>69,003 48,065</td>
</tr>
<tr>
<td><strong>Total cost of revenue</strong></td>
<td>$119,094 $87,749</td>
<td>$420,127 $319,012</td>
</tr>
</tbody>
</table>

*(3) Depreciation and amortization expenses have been reclassified as a separate line item and prior period amounts have been reclassified from their original presentation to conform to the current period presentation. The Company has elected to present depreciation and amortization expenses as a separate line to better align with management's view of the Company's operating results.*
Trupanion, Inc.
Consolidated Balance Sheets
(in thousands, except share data)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$139,878</td>
<td>$29,168</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>89,862</td>
<td>69,732</td>
</tr>
<tr>
<td>Accounts and other receivables</td>
<td>99,065</td>
<td>54,408</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>8,222</td>
<td>5,513</td>
</tr>
<tr>
<td>Total current assets</td>
<td>337,027</td>
<td>158,821</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>6,319</td>
<td>1,400</td>
</tr>
<tr>
<td>Long-term investments, at fair value</td>
<td>5,566</td>
<td>4,323</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>72,602</td>
<td>70,372</td>
</tr>
<tr>
<td>Intangible assets, net</td>
<td>27,134</td>
<td>7,731</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>16,557</td>
<td>14,553</td>
</tr>
<tr>
<td>Goodwill</td>
<td>33,045</td>
<td>—</td>
</tr>
<tr>
<td>Total assets</td>
<td>$498,250</td>
<td>$257,200</td>
</tr>
<tr>
<td><strong>Liabilities and stockholders’ equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$6,059</td>
<td>$4,087</td>
</tr>
<tr>
<td>Accrued liabilities and other current liabilities</td>
<td>22,864</td>
<td>13,798</td>
</tr>
<tr>
<td>Reserve for veterinary invoices</td>
<td>28,929</td>
<td>21,194</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>92,547</td>
<td>52,546</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>150,399</td>
<td>91,625</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>—</td>
<td>26,086</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>4,705</td>
<td>1,118</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>3,207</td>
<td>1,611</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>158,311</td>
<td>120,440</td>
</tr>
<tr>
<td>Stockholders’ equity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock: $0.000001 par value per share, 100,000,000 shares authorized at December 31, 2020 and December 31, 2019; 40,383,972 and 39,450,807 shares issued and outstanding at December 31, 2020; 35,876,882 and 34,947,017 shares issued and outstanding at December 31, 2019</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Preferred stock: $0.000001 par value per share, 10,000,000 shares authorized at December 31, 2020 and December 31, 2019, and 0 shares issued and outstanding at December 31, 2020 and December 31, 2019</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>439,007</td>
<td>232,731</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>3,071</td>
<td>250</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(91,360)</td>
<td>(85,520)</td>
</tr>
<tr>
<td>Treasury stock, at cost: 933,165 shares at December 31, 2020 and 929,865 shares at December 31, 2019</td>
<td>(10,779)</td>
<td>(10,701)</td>
</tr>
<tr>
<td>Total stockholders’ equity</td>
<td>$339,939</td>
<td>$136,760</td>
</tr>
<tr>
<td>Total liabilities and stockholders’ equity</td>
<td>$498,250</td>
<td>$257,200</td>
</tr>
<tr>
<td>Description</td>
<td>Three Months Ended December 31, 2020</td>
<td>2019</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td></td>
<td>(unaudited)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$ (3,502)</td>
<td>$ 636</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>2,301</td>
<td>1,274</td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>2,602</td>
<td>1,771</td>
</tr>
<tr>
<td>Other, net</td>
<td>35</td>
<td></td>
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<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts and other receivables</td>
<td>(5,204)</td>
<td>(4,190)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>(860)</td>
<td>(707)</td>
</tr>
<tr>
<td>Accounts payable, accrued liabilities, and other liabilities</td>
<td>3,349</td>
<td>1,304</td>
</tr>
<tr>
<td>Reserve for veterinary invoices</td>
<td>(30)</td>
<td>1,872</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>5,273</td>
<td>2,610</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>3,964</td>
<td>4,532</td>
</tr>
<tr>
<td><strong>Investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investment securities</td>
<td>(21,314)</td>
<td>(20,014)</td>
</tr>
<tr>
<td>Maturities of investment securities</td>
<td>14,249</td>
<td>21,538</td>
</tr>
<tr>
<td>Cash paid in business acquisition, net of cash acquired</td>
<td>(48,133)</td>
<td></td>
</tr>
<tr>
<td>Purchases of other investments</td>
<td>(4,000)</td>
<td></td>
</tr>
<tr>
<td>Purchases of property, equipment and intangible assets</td>
<td>(2,939)</td>
<td>(1,787)</td>
</tr>
<tr>
<td>Other</td>
<td>(31)</td>
<td>(954)</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(58,168)</td>
<td>(5,217)</td>
</tr>
<tr>
<td><strong>Financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from issuance of common stock, net of issuance costs</td>
<td>192,265</td>
<td></td>
</tr>
<tr>
<td>Proceeds from exercise of stock options</td>
<td>1,717</td>
<td>727</td>
</tr>
<tr>
<td>Shares withheld to satisfy tax withholding</td>
<td>(459)</td>
<td>(57)</td>
</tr>
<tr>
<td>Borrowings from line of credit, net of financing fees</td>
<td>(4,000)</td>
<td></td>
</tr>
<tr>
<td>Repayments to line of credit</td>
<td>(29,950)</td>
<td></td>
</tr>
<tr>
<td>Other financing</td>
<td>(78)</td>
<td></td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>163,573</td>
<td>4,670</td>
</tr>
<tr>
<td>Effect of foreign exchange rate changes on cash, cash equivalents, and restricted cash, net</td>
<td>198</td>
<td>156</td>
</tr>
<tr>
<td>Net change in cash, cash equivalents, and restricted cash</td>
<td>109,567</td>
<td>4,141</td>
</tr>
<tr>
<td>Cash, cash equivalents, and restricted cash at beginning of period</td>
<td>36,630</td>
<td>26,427</td>
</tr>
<tr>
<td>Cash, cash equivalents, and restricted cash at end of period</td>
<td>$ 146,197</td>
<td>$ 30,568</td>
</tr>
</tbody>
</table>
The following tables set forth our key operating metrics:

### Year Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Business:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total pets enrolled (at period end)</td>
<td>862,928</td>
<td>646,728</td>
</tr>
<tr>
<td><strong>Subscription Business:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total subscription pets enrolled (at period end)</td>
<td>577,957</td>
<td>494,026</td>
</tr>
<tr>
<td>Monthly average revenue per pet</td>
<td>$60.37</td>
<td>$57.52</td>
</tr>
<tr>
<td>Lifetime value of a pet, including fixed expenses</td>
<td>$653</td>
<td>$523</td>
</tr>
<tr>
<td>Average pet acquisition cost (PAC)</td>
<td>$247</td>
<td>$212</td>
</tr>
<tr>
<td>Average monthly retention</td>
<td>98.71 %</td>
<td>98.58 %</td>
</tr>
</tbody>
</table>

### Three Months Ended Dec. 31,

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Business:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total pets enrolled (at period end)</td>
<td>862,928</td>
<td>804,251</td>
<td>744,727</td>
<td>687,435</td>
<td>646,728</td>
<td>613,694</td>
<td>577,686</td>
<td>548,002</td>
</tr>
<tr>
<td><strong>Subscription Business:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total subscription pets enrolled (at period end)</td>
<td>577,957</td>
<td>552,909</td>
<td>529,400</td>
<td>508,480</td>
<td>494,026</td>
<td>479,427</td>
<td>461,314</td>
<td>445,148</td>
</tr>
<tr>
<td>Monthly average revenue per pet</td>
<td>$62.03</td>
<td>$60.87</td>
<td>$59.40</td>
<td>$58.96</td>
<td>$58.58</td>
<td>$58.12</td>
<td>$57.11</td>
<td>$56.13</td>
</tr>
<tr>
<td>Lifetime value of a pet, including fixed expenses</td>
<td>$653</td>
<td>$615</td>
<td>$597</td>
<td>$535</td>
<td>$523</td>
<td>$511</td>
<td>$482</td>
<td>$471</td>
</tr>
<tr>
<td>Average pet acquisition cost (PAC)</td>
<td>$272</td>
<td>$261</td>
<td>$199</td>
<td>$247</td>
<td>$222</td>
<td>$208</td>
<td>$213</td>
<td>$205</td>
</tr>
<tr>
<td>Average monthly retention</td>
<td>98.71 %</td>
<td>98.69 %</td>
<td>98.66 %</td>
<td>98.59 %</td>
<td>98.58 %</td>
<td>98.59 %</td>
<td>98.57 %</td>
<td>98.58 %</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended December 31, 2020</th>
<th>Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2020</td>
<td>2019</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>$3,964</td>
<td>$4,532</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>(2,939)</td>
<td>(1,787)</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>$1,025</td>
<td>$2,745</td>
</tr>
</tbody>
</table>
The following tables reflect the reconciliation of acquisition cost and net acquisition cost to sales and marketing expense (in thousands):

**Year Ended December 31,**

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and marketing expenses</td>
<td>$47,837</td>
<td>$35,451</td>
</tr>
<tr>
<td>Excluding:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>(2,773)</td>
<td>(2,120)</td>
</tr>
<tr>
<td>Acquisition cost</td>
<td>45,064</td>
<td>33,331</td>
</tr>
<tr>
<td>Net of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sign-up fee revenue</td>
<td>(3,292)</td>
<td>(2,957)</td>
</tr>
<tr>
<td>Other business segment sales and marketing expense</td>
<td>(820)</td>
<td>(414)</td>
</tr>
<tr>
<td>Net acquisition cost</td>
<td>$40,952</td>
<td>$29,960</td>
</tr>
</tbody>
</table>

**Three Months Ended**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and marketing expenses</td>
<td>$14,809</td>
<td>$13,344</td>
<td>$9,242</td>
<td>$10,442</td>
<td>$9,212</td>
<td>$9,255</td>
<td>$8,757</td>
<td>$8,227</td>
</tr>
<tr>
<td>Excluding:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>(801)</td>
<td>(741)</td>
<td>(675)</td>
<td>(556)</td>
<td>(547)</td>
<td>(577)</td>
<td>(567)</td>
<td>(429)</td>
</tr>
<tr>
<td>Acquisition cost</td>
<td>14,008</td>
<td>12,603</td>
<td>8,567</td>
<td>9,886</td>
<td>8,665</td>
<td>8,678</td>
<td>8,190</td>
<td>7,798</td>
</tr>
<tr>
<td>Net of:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sign-up fee revenue</td>
<td>(919)</td>
<td>(827)</td>
<td>(781)</td>
<td>(765)</td>
<td>(730)</td>
<td>(790)</td>
<td>(734)</td>
<td>(703)</td>
</tr>
<tr>
<td>Other business segment sales and marketing expense</td>
<td>(201)</td>
<td>(265)</td>
<td>(191)</td>
<td>(163)</td>
<td>(152)</td>
<td>(94)</td>
<td>(38)</td>
<td>(130)</td>
</tr>
<tr>
<td>Net acquisition cost</td>
<td>$12,888</td>
<td>$11,511</td>
<td>$7,595</td>
<td>$8,958</td>
<td>$7,783</td>
<td>$7,794</td>
<td>$7,418</td>
<td>$6,965</td>
</tr>
</tbody>
</table>
The following tables reflect the reconciliation of adjusted EBITDA to net income (loss) (in thousands):

### Year Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>(5,840)</td>
<td>(1,809)</td>
</tr>
<tr>
<td>Excluding:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>8,912</td>
<td>6,846</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>7,071</td>
<td>5,632</td>
</tr>
<tr>
<td>Interest income</td>
<td>(628)</td>
<td>(1,681)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>1,381</td>
<td>1,349</td>
</tr>
<tr>
<td>Other non-operating expenses</td>
<td>99</td>
<td>201</td>
</tr>
<tr>
<td>Income tax expense (benefit)</td>
<td>113</td>
<td>169</td>
</tr>
<tr>
<td>Business combination transaction costs</td>
<td>522</td>
<td>—</td>
</tr>
<tr>
<td>Gain from equity method investment</td>
<td>(117)</td>
<td>(125)</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>11,513</td>
<td>10,582</td>
</tr>
</tbody>
</table>

### Three Months Ended

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (loss)</td>
<td>(3,502)</td>
<td>(2,558)</td>
<td>(1,133)</td>
<td>636</td>
<td>782</td>
<td>(1,931)</td>
<td>(1,296)</td>
<td></td>
</tr>
<tr>
<td>Excluding:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock-based compensation expense</td>
<td>2,602</td>
<td>2,430</td>
<td>2,227</td>
<td>1,653</td>
<td>1,771</td>
<td>1,845</td>
<td>1,873</td>
<td>1,357</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>2,301</td>
<td>1,666</td>
<td>1,723</td>
<td>1,381</td>
<td>1,274</td>
<td>1,181</td>
<td>1,564</td>
<td>1,613</td>
</tr>
<tr>
<td>Interest income</td>
<td>(83)</td>
<td>(74)</td>
<td>(134)</td>
<td>(337)</td>
<td>(516)</td>
<td>(411)</td>
<td>(412)</td>
<td>(342)</td>
</tr>
<tr>
<td>Interest expense</td>
<td>337</td>
<td>324</td>
<td>341</td>
<td>379</td>
<td>375</td>
<td>340</td>
<td>317</td>
<td>317</td>
</tr>
<tr>
<td>Other non-operating expenses</td>
<td>1</td>
<td>2</td>
<td>44</td>
<td>52</td>
<td>(22)</td>
<td>122</td>
<td>101</td>
<td>—</td>
</tr>
<tr>
<td>Income tax expense (benefit)</td>
<td>44</td>
<td>26</td>
<td>17</td>
<td>26</td>
<td>157</td>
<td>18</td>
<td>(46)</td>
<td>40</td>
</tr>
<tr>
<td>Business combination transaction costs</td>
<td>522</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(Gain) loss from equity method investment</td>
<td>—</td>
<td>—</td>
<td>(117)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(125)</td>
</tr>
<tr>
<td>Adjusted EBITDA</td>
<td>2,222</td>
<td>1,816</td>
<td>5,454</td>
<td>2,021</td>
<td>3,675</td>
<td>3,877</td>
<td>1,341</td>
<td>1,689</td>
</tr>
</tbody>
</table>
Contacts:

Investors:
Laura Bainbridge, Head of Corporate Communications
206.607.1929
InvestorRelations@trupanion.com