Artem Fokin of Caro-Kann Capital presented his in-depth investment thesis on Trupanion (Nasdaq: TRUP) at Wide-Moat Investing Summit 2018.

Artem is a returning instructor. The MOI Global community enjoyed Artem's two prior thoughtful and well-researched presentations on CommerceHub (June 2017), which was taken private less than a year later at a ~34% premium compared to the price when he presented it, and TripAdvisor (December 2017), which has returned 60%+ since then.

Here is how Artem summarizes his investment thesis on Trupanion:

Let's start with a quote:

"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

Of course, Warrant Buffett was writing about GEICO.

Trupanion has these all three characteristics, and we think it can become a multi-year or even multi-decade compounder.

In addition, Trupanion has all these features:

- A founder – CEO who is an intelligent fanatic Founder.
- Strong alignment of management with shareholders: CEO's equity stake is worth more than 160x (not a typo!) than his executive compensation in 2017.
- Moat based on proprietary data and virtuous cycle flywheels.
- Massive under-penetrated market with a multi-year or even multi-decade growth runway.
- Product with the best customer value proposition.
- Mission-driven culture.

The following transcript has been edited for space and clarity.

A few words about Caro-Kann Capital and what we do. I look for mispriced securities where the mispricings occur due to lack of sellside coverage and buyside attention. I generally prefer companies with up to $1 billion market cap even though I can be flexible. The favorite investment patterns for special situations include spin-offs, a high-growth business segment hidden by a larger struggling segment, and sum of the parts.

Favorite business models for compounding machines include platform businesses with network effect and a flywheel business model. We're typically long bias, 80% to 100% net long.

I presented CommerceHub at the Wide-Moat Investing Summit in 2017. Since then,

CommerceHub was taken private (in late May 2018) by two private equity firms at about 34% premium compared to the day when I presented it at MOI Global.

Late in December 2017, I had the pleasure to present our thesis on TripAdvisor, which has done well since then. Return is up about 63%, and we continue to be long.

Allow me to begin my new presentation with a quote: “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 large gap in operating costs between the low-cost operator and all of the other companies in the industry, you have a attractive investment situation. That situation prevailed 25 years ago when I first became interested in the company, and it still prevails.”

Those among us who are Buffettologists will recognize this quote as coming from Warren Buffett. It’s from his famous letter to Mr. George Young, who was the CEO of National Indemnity, and Buffett talks about GEICO.

This quote leads into the introduction of my new idea: Trupanion, a company that sells medical insurance for dogs and cats. We’ve been long for about 18 months and have followed the company even longer.

We have become investors because Trupanion is led by an intelligent fanatic in the person of its founder and CEO, Darryl Rawlings The company has a strong alignment of management with shareholders: the CEO’s equity stake is worth more than 160x his executive compensation package in 2017!

The company has a mission-driven culture, while its moat is based on a proprietary data flywheel and a virtuous cycle flywheel. Trupanion is in a massive underpenetrated market with a multi-year or even multi-decade growth runway. It has a product with the best customer value proposition.

Trupanion has come a long way from its humble beginnings. It was founded in 2000 in Canada, and that same year it enrolled the first pet, which happened to be the founder’s own dog. In 2008, the company entered the US market. In 2013 and 2014, it developed a revolutionary software called Trupanion Express, which enables direct payments from the insurance company to veterinarians.

In July 18, 2014, Trupanion IPOd on the New York Stock Exchange. In the second quarter of 2016, it became cash flow-positive, and in the third quarter of 2017, it reached 400,000 insured pets.

Let’s examine the overall market. In 2017, pet owners in North America (the United States and Canada) spent $70 billion on their pets. , those expenses have been growing for years. Here’s another interesting figure: according to anecdotal data, people spend around $500 million on Halloween costumes for their loved pets! The propensity to spend on pets is definitely there; it exists – at the end of the day, we love our pets.

However, the penetration of medical pet insurance in North America is extraordinarily low, currently between 1.5% and 2%. A comparison with other developed countries makes it all the more clear: in France and Denmark, it is 5%; the Netherlands is at 8%; Norway at 14%; the UK at 25%; and Sweden at 40%.

Why isn't medical pet insurance more common in North America? There is no reason to believe pet owners in North America love their pets less than Europeans – the numbers I cited prove it. It is unlikely to be a money issue because these are countries with similar GDP per capita. Also, it can't be a love issue – we all love our cats and dogs. What is the answer then?

The answer is somewhat surprising. The United States is ahead of almost any country on the planet when we speak about financial, technological, or consumer product innovation, but it is quite behind many European countries when it comes to comprehensive medical insurance for pets as a product. For example, comprehensive medical insurance for pets came to the UK in the 1970s. However, there were no comprehensive pet medical insurance offerings until Trupanion launched its product in Canada in 2000 and the US in 2008.

What is comprehensive medical insurance for pets? It is exactly what Trupanion offers. It solves an important pain point by allowing pet owners to avoid massive medical bills if their beloved pets get sick or injured. Healthcare costs can be massive, and bills running at $20,000 to $30,000 are not that unusual. This is a shocking amount for an average American family.

Trupanion covers hereditary and congenital conditions, which means conditions most likely to happen to a pet of a certain breed. The company does not raise rates because a pet has claims. In other words, if someone has a pet who is unlucky, that is, gets sick more often than an average pet, Trupanion would not raise prices for that specific dog or cat, and there are no payout limits. This type of insurance did not exist in the US for many years. This is exactly what we mean by a comprehensive insurance product. The lack of a compelling offer and customer value proposition for so many years has led to low medical pet insurance penetration.

When it comes to customer value proposition, Trupanion has the following to say: "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.'"

Let's decode what the founder of Trupanion is talking about here. The company pays in claims $0.70 out of every dollar it collects as insurance premiums versus 50% in a typical legacy model.

The Trupanion customer value proposition is analogous to what Costco offers its customer. Allow me to quote what the CEO said in Trupanion's 2014 shareholder letter: "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…they are always

getting the best deal. Trupanion members need to know that whether they are paying $33 a month for their cat or $144 a month for their bulldog, they are getting the industry's best deal for a product that works and from a company they can trust."

This is, in many ways, an inspirational statement in terms of earning that consumer trust. Trupanion is indeed working hard to earn it and is already providing a Costco-style deal to its members.

The company offers pooling of risk among owners of pets and charges a fee for doing so. In other words, Trupanion does what economists call solving a coordination problem, and it does it for a modest fee. Somewhat simplistically, we can describe Trupanion as a risk-pooling mechanism. All pets fall into one of three broad categories: lucky ones (meaning those who don't get sick or injured often), average, and unlucky. Trupanion charges its members healthcare costs for an average pet plus its mark-up of roughly 43% – it collects $1 and pays $0.70 in claims.

Trupanion offers pooling of risk for all these owners. It means owners of average pets will "overpay" for healthcare by 43% compared to paying out of pocket, and those who have lucky pets will overpay by even more. Only owners of unlucky pets are getting an attractive deal here.

Some buyside peers criticize Trupanion's value proposition because it lacks ROI. Their argument goes like this: "Gee! If you own an average pet, why would you buy Trupanion? You can just save a certain amount of money every month, put it into bank account, earn 1%, and be better off." Indeed, statistically, you are better off putting money aside and not buying Trupanion.

However, there are a lot of limitations to this theoretical statistical approach. First of all, you have one or few pets (I have friends who own two or three dogs), and you are not playing a repeated game 100x or 1000x, where the low of large numbers will make the average outcome happen. Also, you love your pet unconditionally. Then, most people may not be able to afford a $30,000 healthcare bill, and economic euthanasia is heart-breaking for anybody.

The 2014 shareholder letter also says: "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." And it notes further: "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."

Trupanion achieves a low-cost advantage through more accurate pricing driven by proprietary data, and these data are the basis of its moat.

Over the years since Trupanion was founded, its proprietary database has grown tremendously and now covers more than eight million pet months of information. The company has paid over one million claims, which is a massive amount, and currently has over 1.2 million price categories.

Categories are defined along different dimensions. For example, dog is a category. Golden retriever that is four years old is another category, and bulldog in Manhattan is yet another. We are talking about breed, age, gender, and location. This proprietary data allows Trupanion to predict the cost of healthcare more accurately.

The company chooses to share the benefits of its cost advantage pricing with customers and their pets. Pricing accurately allows Trupanion to create a high-value proposition for each pet owner. This reminds me a lot of Nick Sleep of Nomad Investment Partnership and his concept of sharing scale economies with customers. The concept means that once a business becomes a low-cost provider due to scale, it has a choice between keeping prices and making more money that way or choosing to share some of the cost advantage achieved with its customers. The latter is likely to lead to even more customers and even bigger scale, as a result of which its moat widens. Nick Sleep thought that in some cases, it's a smart business decision for a company to pursue such a path rather than just keep milking its customers by collecting more and more money.

There is another advantage to this. A business choosing to share these benefits with customers will see consequences critical for its long-term success. First, customers would like or even love the business and will have strongly positive associations with it. Think about Costco: those of us who are members feel pretty good about this company because it has been sharing those scale economies with us for decades. It could probably charge us more money but is not doing so.

Another company which comes to mind is Amazon, to a certain extent. It aspires to provide low prices to get bigger and bigger scale in order to be able to pass more of those savings to customers. Customer loyalty and a positive attitude are also essential to Amazon. The second advantage is that it's extremely difficult to compete with companies which choose to share the scale benefits with their consumers due to the virtuous cycle.

Trupanion has built a proprietary data flywheel plus a virtuous cycle flywheel, and they intertwine. It works like this: after Trupanion gets pets, it can get more data and because it has more data, its predictive algorithm will be more accurate and allow the company to provide more accurate pricing. The savings will be passed to end-consumers or their pets, which will lead to even more pets and thus more data and more accurate pricing, and the flywheel keeps turning.

Another source of moat here is time. In his 2014 shareholder letter, the founder and CEO put it best: "Knowing what I know today, it would take me over 13 years to replicate our 15 years of data."

My point here is this: even if someone chooses to replicate Trupanion's model with the same philosophical foundation and results, they will not be able to get that data quickly simply because it takes time – it takes 15 years to get 15 years of data.

Trupanion inherently has the philosophy of a low-cost provider, as this quote illustrates: "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 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 vet invoices."

Trupanion has a unique go-to-market strategy, and Territory Partners are at the center of it. Effectively, there are two ways to go to market. One, you can try to go direct to consumers and try to educate them about the benefits of buying insurance. Given the low penetration of medical pet insurance in the US and Canada, this is a difficult route. For one thing, when someone wants to reach customers, it's expensive, whether they go through TV, radio, or newspaper. Performance marketing channels are expensive, but more importantly, that's not how you will get consumer's trust. Do you think we would feel attracted if someone starts running 30-second ads on Saturday night about buying our pet medical insurance? We are probably not going to believe it much. That's not an attractive route, so how do you grow? You need to find a thought partner. In this case, the thought partners are the vets, who love pets and take care of them. Besides, vets are trusted by pet owners. That's how Trupanion goes to market.

There are about 28,000 hospitals in the United States and Canada, so how do you go and reach them? This is what Territory Partners do. The model is based on the early Coca-Cola distributor model. A typical territory includes roughly three million people, 1.8 million cats and dogs, and about 200 vet hospitals. Approximately 150,000 new puppies and kittens are purchased in each territory every year.

Trupanion currently has 107 Territory Partners, who in 2017 visited 20,000 hospitals out of the 28,000 found in the US and Canada. Territory Partners are not employees; they are more of an independent contractor. Their main goal is to build long-term relationships with those 250 vet hospitals in their territory.

This is what the CEO wrote about the Territory Partners model in the 2016 shareholder letter: "We believe that Trupanion remains the only company with a national footprint throughout the United States and Canada. 80% of hospitals are located within Territory Partners territories, with a target of visiting them every two months."

Because of the unique go-to-market strategy, vets account for about 49% of leads, direct-to-consumer is about 7%, and point of sale and all other channels are 17%. One figure deserves a special note: either adding a pet or referring a friend constitutes 27%. Such a high percentage of new pets coming from either an addition within a family or a friend or neighbor referral means that customers like Trupanion's product and trust the company.

Another important distinction with Trupanion is the way claims are paid. The old legacy reimbursement model is slow, inefficient, and customer-unfriendly. It looks like this: a pet owner has a dog or a cat that got sick. They go to a hospital, the hospital draws a bill, and the owner pays it 100%. Then they fill a paper claim form and send it to the insurance company, which should approve it (provided the bill is not lost in the mail), then take the money and pay the claim. That's more or less how it works in general.

The problem is that it's time-consuming, and there is a gap between paying the bill and getting money from the insurance. It's a bad model, and,, this is how Trupanion started. But being a visionary and an intelligent fanatic, Darryl recognized this is not a good customer experience. If a typical American household gets hit with a $20,000 bill, guess what? That's a huge break in the working capital of a family. Not everybody will have $20,000 to pay and then wait for several weeks to get reimbursed by the insurance company. It's customer-unfriendly.

Enter Trupanion Express – the new, better model. This is a no-cost software solution enabling direct payment by Trupanion to veterinarians. The entire ecosystem benefits – win-win-win for all parties involved. Pet owners benefit because out-of-pocket expenses are dramatically reduced as 90% of expenses are paid by Trupanion directly to a hospital. Vets can move forward with Plan A for any sick pet. Here is what I mean by Plan A: a vet would talk to the owner of a sick dog and say, "I believe X, Y, Z is the best course of care." Then the pet owner would ask about the cost, and the doctor would say a certain amount of money, to which the owner would reply, "Oh, that's steep. Can we do something else in the meantime? Maybe it works, and if it doesn't, we will go back to that more expensive plan." Every single vet says this is extremely emotional, difficult to hear and to deal with. When vets cannot apply their knowledge, skills, and experience to cure pets, it breaks their hearts.

With Trupanion Express, vets can go with the best course of action, and they also reduce non-paid accounts receivable. This is also something I found surprising through my diligence, especially in smaller hospitals – they often may not get paid.

Trupanion also benefits. It collects additional proprietary data which further improves its pricing accuracy while also maintaining a strong relationship with supportive hospitals. It also gets improved referral and conversion rates. Trupanion invested a lot in this technology – it spent about $17 million on developing the software because it views Trupanion Express as the future, as a critical component for its success and an essential element for creating a truly compelling customer value proposition.

The Trupanion Express direct payment removes friction and eliminates pain points – you go to a hospital, get the bill, pay 10%, and the rest is paid by Trupanion directly to the hospital within 5 to 10 minutes.

The Trupanion business model is simple but not easy. As the CEO puts it, "Our business model is simple. But the execution of our business model is challenging. It requires focus, years of data, and a great team."

The business model is a direct-to-consumer monthly subscription service. The vast majority of revenue comes from the existing pets. The beauty of any subscription revenue business is that it's easier to manage, budget for, and plan. This is simply because you have significant visibility over the next 12 or more months.

Another important point is retention, which is a critical metric for any subscription-driven business. When we look at retention by cohort, the Trupanion customer value proposition clearly resonates with customers – the retention rate has generally been getting better and

better over the years.

There are certain key operating and financial metrics we need to understand about Trupanion as a subscription business. These include lifetime value of a pet (LVP) and pet acquisition costs (PAC), which are similar to lifetime value of a customer and customer acquisition cost in other subscription businesses. Then we look at the ratio, LVP to PAC, and the internal rate of return (IRR) on marketing spend.

IRR is the most critical metric. “We are most concerned with the internal rate of return (IRR) for incrementally adding an average pet, “according to the CEO.

As of Q1 2018, LVP is $727, PAC is $165, and LVP/PAC ratio is 4.41. IRR is around 36%, and I must point out this is the annual figure – it is based on 2017 numbers because it’s almost impossible to calculate on a quarterly basis While the LVP/PAC and IRR numbers are pretty impressive, they don’t tell the full story because Trupanion is not even at optimal scale.

How will Trupanion’s financial model look at scale and what are the company’s aspirations? It defines scale as 650,000 to 750,000 enrolled pets. To put this into perspective, there were 446,500 pets enrolled as of Q1 2018. It already has a 70% payout ratio (70 cents paid out as claims) and aims for 10% in variable expenses and 20% gross profit margin.

The target fixed expense is 5% or 6% of revenue. Discretionary margin, meaning income before sales and marketing expense to acquire new pets, is 14% to 15%. The discretionary income can be used for anything – to acquire more pets and continue growing, to pay dividends, to do share buybacks, or whatever the company chooses at that point in time.

How will Trupanion get from where it is today, which is about 446,500 insured pets, to 650,000 to 750,000 at scale? Another big question is how long it will take to bridge this gap of 200,000 to 300,000 enrolled pets.

Trupanion has three key growth drivers: active hospital growth, same-store sales growth, and direct-to-consumer channel.

Let’s start with active hospitals. The company defines these in the following way: “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.”

In 2017, Trupanion had over 8,100 active hospitals, with the current penetration at roughly 29%. In more established markets – meaning markets which have been around for over five years – about 50% of hospitals are active, and the percentage is growing. Territory Partners visit around 20,000 hospitals, and at some point, all of those hospitals will get five years of visits. It means we should be looking then at minimum 10,000 active hospitals, and that number will be growing. Long-term, I see no reason why Trupanion should not get to 20,000 active hospitals in North America given its strong customer value proposition It may take 5, 10, or even 15 years, but Trupanion is well-positioned to achieve that goal.

Growth driver number two is same-store sales, which is similar to retail restaurants. The

question here is whether the number of pets getting Trupanion insurance from hospitals is growing or is roughly flat. In other words, if a hospital had ten puppies in 2016 insured by Trupanion, did that number go up, stay flat, or go down in 2017?

Let me offer some quotes from company filings and shareholder letters on this topic. In the 2014 shareholder letter, we read the following: “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.” The second one, from the 2015 shareholder letter, goes: “In the coming year, we will focus on adding more active hospitals and then increasing same-store sales in those hospitals.” Then we have the CEO saying in the 2016 letter: “So far, Trupanion has not figured out a way to accelerate same-store sales growth beyond what happens naturally over time.”

At the same time, the company ran small tests and experiments whose results were encouraging. “These new initiatives are centered around providing partnering hospitals with more data and information previously unavailable to us and doing so with an increased frequency compared to our historical touchpoints,” according to the 2016 shareholder letter.

In 2017, Trupanion created an inside sales team to complement the Territory Partners. The latter are independent contractors; they are not based in Seattle, where the company has headquarters. The inside sales team are people employed by the company. They are typically in Seattle and touch base more often.

The main goal of this new team is apparently to grow same-store sales. According to recent management commentary, same-store sales would be getting an increasing focus while the number of active hospitals will be growing more slowly than historical for the next few years. In other words, the company is shifting priorities in terms of growth. Trupanion has not yet figured out how to increase both active hospital numbers and same-store sales at the same time.

Driver number three is the direct-to-consumer channel, which currently accounts for a tiny percent of new pets enrolled. While this channel has promise, Trupanion has not figured out how to grow it cost-effectively. The tests and experiments run show the direct-to-consumer channel can be effective in areas where Trupanion has density, meaning lots of active hospitals and a high number of enrolled pets. But the key point here is you need to get to the density first. While the company is not there yet, there is no reason to believe it will not achieve it in the next few years.

With regard to the company’s culture, Trupanion has a mission-driven one. Here I am reminded of something Peter Drucker said: “Culture eats strategy for breakfast.”

On the subject of values, Trupanion describes its own like this: We do what we say; simple is better; we do not punish unlucky pets; we are innovative and fun; and we love pets!

If you look at the company, talk to its people, or read shareholder letters, it becomes clear

there are certain role models influencing Trupanion and its CEO. Interestingly, some of them are based in Seattle, Costco, for example. Maybe there is something in the water there because things are happening in Seattle.

Why is Costco relevant to Trupanion and where does management find inspiration? I'd say because Costco customers are always getting the best deal regardless of what they are buying.

Another one is Starbucks, which values "social consciousness," and this is something Trupanion is also paying close attention to.

TCI, a company which was run by John Malone for years, is another subscription business and pioneered new valuation metrics, notably EBITDA instead of net income. Nobody used EBITDA before John Malone showed how it can serve to analyze businesses.

Netflix is another great subscription business, as are Pandora and OpenTable.

It is easy to say, "Hey, these companies are my role models," but action speaks louder than words. Let me tell you who spoke at the 2014 Territory Partners Conference organized by Trupanion for its Territory Partners: among those who came were Costco CFO Richard Galanti, Starbucks CEO Howard Schultz, Seattle Humane Society CEO David Loewe, and Koru CEO Kristin Hamilton.

It's quite clear Trupanion does what it says. Through our research, I identified other cultural elements. I spent a day at headquarters, meeting pretty much everybody on the executive team, as well as analyzing company public communications. One culture element is taking great care of employees. Number two, everybody is equally important. Number three, educational empowerment. Number four, owner mentality and aligned incentives. There's also frugality and getting the right shareholder base. I believe those to be important cultural elements for the company. They are not listed somewhere, but I came to believe they exist based on what I saw.

Let's start with taking care of employees. Trupanion has full-time dog walkers so that team members can bring their pets to the office. Remember, this is a company where many people come to work because they love pets – there are more than 400 employees and about 50% of them have pets. When you are at your desk and your dog wants to go for a walk, that's a challenge. The company says, "Bring your dogs, let's keep them entertained. We will have full-time dog walkers to take care of your four-legged friend if necessary."

In January 2015, Trupanion launched a care center for employee children aged up to three, and the service is available at no cost.

Everybody is equally important – let's look at that one. When I visited in Seattle, I saw that everybody has the same size desk and the same benefits regardless of whether they are hourly or salaried or tenured with Trupanion. I saw every top C level executive's desk, including the CEO's, and I can tell you they are indeed of the same size.

Trupanion also places a huge emphasis on the education and empowerment of its employees and Territory Partners. In 2014, the company launched Trupanion University, which has been renamed and is now called Tru-University.

Initially, it was open only to current and prospective Territory Partners and provided extensive three-week training on Trupanion. In 2016, the company extended it to new and existing team members; in other words, to employees, not just Territory Partners. It is now expanding its class offerings, with courses ranging from a one-week introduction to the company to classes on company culture and in-depth training on specific topics.

In 2016, Trupanion invested $2.9 million in training and education. I am intentionally using "invested" rather than "spent" or "expensed" even though from a GAAP perspective, those $2.9 million would flow through the income statement as a current expense. However, I do believe investing in employees, empowering and educating them, and setting them up for success is an investment.

2017 was a year of education at Trupanion – every new and existing employee and Territory Partner attended Tru-University. For me, that's actions speaking louder than words.

Let's talk about owner mentality and aligned incentives, which start at the top. Trupanion's founder and CEO owns 7.2% of the company. His current equity stake is worth roughly $88 million, which compares extremely favorably to his 2017 compensation package of about $556,000. In the case of Trupanion, however, owner mentality and aligned incentives do not stop at the top. Each member of Trupanion's team (full-time and part-time) receives stock options in the company, so everybody is a shareholder or will be when those options vest.

Here is something from the 2015 shareholder letter: "Team participation in our equity program is another key priority of ours, aligning us all in our objective to maximize future value creation with limited dilution." And one more: "Our intention is for each team member (full-time or part-time) to receive a new-hire stock grant."

Picture this: you're joining Trupanion. On your first day on the job or maybe right before you start, you get these stock option grants. You realize you are working for a company with a strong culture, a company trying to save the lives of pets and improve their wellbeing. This company operates in a massive market with penetration of roughly 1.5% and can grow forever. Guess what if it happens? If you execute, if the people sitting around you in the office execute, then your options can be extremely valuable. It's incredibly powerful. Not many companies have done that, but in those which have, the shareholders have benefitted tremendously from this approach.

Let's look at how stock-based compensation is tied to value creation. The concept is as follows: the company runs its own model, which the management has agreed on with the board of director. The company calculates its own intrinsic value and then looks at how much value has been created over the year, that is, how much the intrinsic value grew over this period – for example, 2018 versus 2017. Then, depending on how much the growth was, there is a certain percentage of options that will be given to employees. If the intrinsic value grows between 1% and 10%, it's 0%. But if it grows 11%, this becomes 0.3%, so the net

increase in intrinsic value per share for the stakeholders because of the dilution would be 0.3%.

You may ask, “What if the company keeps growing its intrinsic value at 28%, 29%, 30% a year?” In that case, the dilution will be higher – about 2.2% to 2.5% will be given to employees. In my view, this is pretty fair. My data is from 2016, and I have not seen their formula, but I like the fact that this performance grant program exists.

Another value is frugality. Here’s how the company celebrated its IPO on July 18, 2014: “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.” That’s not some expensive celebration, far from a pricey steak dinner in Manhattan with $200 bottles of wine.

Having the right shareholder base is important to the company and its CEO. After Darryl sold his cigar business, he started Trupanion. At that time, he took money from eight outside investors who provided $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,” we read in the 2014 shareholder letter It seems to have been important for him, as he notes himself: “It was important then, as it is today, to repay shareholders and to do what we say.”

Here’s another quote, this one from the 2015 letter: “We strive to find long-term focused shareholders who understand our business on a deeper level. We are confident that these shareholders will be aligned with our values and best positioned to benefit from our strategy.”

And this bit we find in the 2016 letter: “Our goal is to increase the in-person attendance to our annual shareholder meetings in Seattle. We would like these meetings to one day have attendance representing 80%+ of our outstanding shares. We would like to have the meeting become an avenue for a two-way, lengthy conversation where our long-term, well-educated shareholders not only learn additional specifics about the company but also build an understanding of our people and culture.”

This is not just lip service, and I’ll tell you why. First of all, you can reach out to the company and go and spend a day at its headquarters in Seattle, meeting pretty much every single top-level executive and learning about the business. You can find them, talk to them, and grasp what motivates them. That’s an incredible level of access, and I don’t know many companies which will do that.

Point number two, the CEO holds about one-hour presentations at Berkshire Hathaway’s annual meetings. After Warren Buffett and Charlie Munger are done, there are different receptions, events, and panels. Trupanion rents a room in a hotel and anyone interested in the company can come and listen to Darryl. If you think about it, the choice of venue is incredibly thoughtful. , not that many public company CEOs go to Berkshire Hathaway meetings to learn something. The CEO of Trupanion does, and he also wants to educate people who come, tell them what Trupanion is about. Think about it – those who invest in

Berkshire are typically people with a long-term investment outlook and mindset. The CEO of Trupanion is appealing to the right type of people, whom he tries to attract as shareholders for the long term. That's another data point.

Let's look at capital allocation. In 2014, the CEO wrote: "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."

Then, in the 2016 shareholder letter, he wrote: "Two abstract options we have considered are deploying capital toward a long-term, cost-effective new pet channel and paying upfront for assets that would sit on our balance sheet and help lower ongoing frictional costs. It is possible that it may involve an equity capital raise and therefore result in dilution."

This letter outlined two scenarios for a secondary offering by the company. On June 20, 2018, Trupanion announced it would be issuing roughly 1.8 million shares at $33 (compared to about $40 market price at that time). To be clear, this is not a massive dilution but a dilution nonetheless. Trupanion will use the proceeds to acquire the building it currently leases. The purchase price is about $65 million. The company is doing what CEO wrote in 2016: "Paying upfront for assets that would sit on our balance sheet and help lower ongoing frictional costs."

Purchasing the building will have certain benefit, such as eliminating rental expense (around $2 million). In addition, Trupanion will be able to lease the extra space and get rental income (probably $2.5 million to $3 million). Besides, its insurance subsidiary will be able to put the building on its balance sheet, which will allow it to release about $60 million of capital over the next 12 to 15 years. That capital now just sits in cash or cash equivalents, and since it generates negligible income, investing in buildings seems like a smart idea.

We do not like this capital allocation decision. Maybe we are missing something and can change our minds when we receive confirming evidence, but right now, I am not a fan of this decision. It is not in the best interest of shareholders. While this move alone is not enough to make us exit our position and lose faith in management, we will be watching further capital allocation decisions extremely carefully.

Let's now dig a bit more into the financial evaluation. The LVP/PAC ratio has gone from roughly 6 to 4.5 over the years, which is not a concern for me. Trupanion also grew its revenue at almost 33% CAGR over the past four years, while the total number of pets enrolled rose at 23% CAGR in the same period.

We are talking here about two types of pets. There are subscription pets, which means that if I had a dog and bought Trupanion insurance, my pet would be counted as a subscription pet. This segment grew at 21.5% CAGR.

There is also a segment called other pets enrolled. These typically come through some partnership. For example, the company has a partnership with the Military Vets Association, where many of the dogs are insured by Trupanion. This is more of a B2B business than B2C. It grew even faster although the numbers are still small – about 61,000 pets enrolled.

In terms of incremental pets enrolled (incremental meaning net additions quarter-over-quarter), Q1 2018 was at an all-time high for total number of pets. The figure for subscription pets only is not record-breaking although it has been trending higher and higher over the past eight quarters. If you look at incremental pets for other pets only, they grew up 10x, but don't expect another 10x growth – these started from a low base, which explains the huge increase.

When I talk about discretionary income, I mean EBITDA minus sales and marketing expenses. Our approach, I believe, is more conservative than what Trupanion does when it calculates its adjusted operating income, or what the company calls discretionary income. Margins have been scaling from negative up to positive, which is a massive swing. When you compare discretionary margin and incremental discretionary margin, you will see that while the discretionary margins have gone from -2.30% in 2014 to 7.70% in Q1 2018, the incremental margins have been expanding way faster because of the operating leverage built in the system.

Trupanion generated 36% IRR on its marketing spend in 2017. Here's the math: a typical pet will stay will Trupanion for 73 months, six months in the year when they join, then 12 months for five years, and then it will be seven months only. The revenue based on average revenue per pet per month is about $625 for 12 months. Then there is adjusted operating margin, the most current figure being 9.6%, and PAC of roughly $151. This is how we get to IRR of 36%, which is an incredible figure.

How sensitive is IRR to LVP/PAC and discretionary margin? The key message from data I've examined is that higher operating margins achieved because of operating leverage can allow Trupanion to pay more to acquire pets. In other words, as the discretionary margin goes up, LVP/PAC can go down, and the company will still achieve the same IRR.

This is important because lower LVP/PAC will open new marketing and pet acquisition channels for Trupanion. While those channels may be cost-prohibitive at the current 9.8% adjusted operating margin, they will still have a highly compelling IRR once the company scales and gets to a higher operating margin. Let's keep in mind that the building acquisition will increase operating margins because it will remove rent and bring some rental income. It would likely mean that Trupanion will achieve its scale at probably even fewer than 650,000 to 750,000 enrolled pets.

This brings us to valuation, which we'll do at scale and assume it takes three years to reach. How do we get to three years? Currently, Trupanion has slightly less than 450,000 pets enrolled; it seems fairly reasonable to expect that the company will get to 650,000- 750,000 pets enrolled within three years.

Average revenue for pets has been growing about 6% to 6.5% a year, so we assume here 5.5% growth. This is how we get to roughly $53 monthly revenue per pet three years from now. It means that annual revenue will be between almost $500 million and $570 million. We are using different adjusted operating margins – between 14%, 14.5%, and 15% – and this is how we got to adjusted operating income. When we put multiple on that – 20x, 25x, 30x – we get to enterprise value.

The company has certain excess cash today, about $30 million or a bit higher. For this reason, it's difficult to say what exactly represents excess cash and what is reserves Trupanion needs to have as an insurance company. Then, there will be a certain cash buildup – $3 million, $5 million, and $7 million are conservative. This is how we get to the value of the equity, anywhere between $1.4 billion and $2.5 billion.

We take shares outstanding and add dilution from options, which is how we get to diluted shares outstanding. However, we have to account for the secondary offering, and an over-allotment option because the shares are being sold at $33 versus a market price of over $39. Then, I add a 2.2% dilution. (According to the company's internal math, a 2.2% dilution means it will be growing its intrinsic value at 28% a year.) That's how I get to the fully diluted share count a few years from now. This brings me to the target price – anywhere from $36 to $66 – and how it compares to the spot price.

You'll probably ask me, "OK, Artem, you have presented at Manual of Ideas before, and you are a value investor. Don't you find 20%-30% multiple too high? Isn't it crazy?" Let me ask you this: how many successful businesses do we know that have such great customer value proposition and have been growing on such a simple concept and building their revenue base from zero to hundreds of millions of dollars? That will still continue on a massive growth runway for 5, 10, maybe 20, 25, or 30 years? We are talking here about a long growth runway given how underpenetrated the market is. That's one.

Number two – those multiples are totally justified because that will be the moment when the company gets to scale. It will just get through the proper financial condition.

Let's ask ourselves this question: what if Trupanion gets to two million enrolled pets? We are talking about 650,000 to 750,000 as the prerequisite for scale, but what if it can get to two million? Let's say the company gets there in 10 years. In that case, we will drop the multiple to 20x and still generate 14% IRR on our holdings. , ten years for something compounded at 14% plus a benefit of tax deferral because you don't have realized gains is a massive advantage.

Can Trupanion achieve two million pets in 10 years? Let's put things in perspective. There are currently 185 million to 190 million pets in North America. At 3% penetration in 10 years, there will be 5.7 million insured pets. The specified penetration rate is extremely low, and the number will be higher ten years from now.

At 35% market share, Trupanion will have two million enrolled pets. This market share is also conservative given the company already has 15% to 20% market share, and its incremental market share is 40%, perhaps even higher. By incremental marker share I mean the share Trupanion has in new insured pets whose owners choose Trupanion. That's why this math is likely to happen, maybe in 10 years, maybe in 8 or 12 years.

Turning to risks, I'd say execution, execution, execution! The market, the product, and the culture are all there. Now Trupanion needs to execute and has been doing so for many years. Does it have more challenges? Absolutely!. It needs to figure out how to make same-store sales work and grow fast. It also needs to crack the direct-to-consumer channel within

a few years, as well as make sure it doesn't mess up its own culture as it grows and brings more employees on board. These are all real challenges, and the company doesn't mean to present them as easy. They may be simple but are difficult to execute, which is why I'm putting execution as the key risk.

Capital allocation is another risk I see because I'm now alert after the secondary. I'll be watching this. However, I still do not view capital allocation as a major risk given the strong management and employee alignment with public shareholders, but I will be watching it more closely.

The following are excerpts of the Q&A session with Artem Fokin:

Q: The stock price doesn't say where the company is going, but it might give us a sense of what has happened in the past. There was some downward movement several months ago. Was there anything material or merely market emotions?

A: It was a little about market emotion, which we always have, but there was also someone who published a short note, saying Trupanion may be in violation of some insurance law in a certain state. The company does business in numerous states, and each has its own insurance regulator because that's a matter for state, not the federal government. Trupanion needs to comply with rules in many states, and that short piece was saying the company was possibly in violation of some of those. I don't see much evidence of a breach and don't think it was an adequately researched piece, but it could have contributed to the sudden price drop.

The reason would be difficult for me to pinpoint exactly, but it might have had something to do with the market. The big price down move started roughly in January 2018, when the SP/SPY began selling off in late January or February. A little later, there was the short piece, which probably contributed to the price action but not much, in my view.

I hate to try to read what the market is saying; I'd rather research the company and think about the business. While we were in Zurich doing a workshop for the Manual of Ideas, Trupanion held its annual shareholder meeting on June 7, 2018. It sounded fairly upbeat, as far as I know, and the different incremental data points we discussed were also positive, which probably caused the price run-up in recent weeks.

Q: It looks like something positive started happening in early 2016. The company became cash flow-positive, for one thing. Is that what seems to have changed?

A: There were probably a couple of things at play. The company IPOd in July 2014, so it's a relatively new IPO, and there is not that much sellside coverage even now, even less at that time. If you look at the company shares, you'll see it traded down from roughly $10 when the IPO took place to as low as $5 or $4 over the following year or so.

I don't know whether it was IPO or not, but what happened after that was the company slowly but surely started finding the right shareholder base. My thesis here is a long-term one; I don't know where the shares or the company will be a year from now, but I believe

they will be significantly higher than today five years from now.

The company started finding its right shareholder base in 2015-2016. Shareholders or potential shareholders went to Seattle and spent a day there. Enough of them learned about the business and did their diligence. Also, the company was getting cash flow-positive, and once a business gets there, it can control its destiny. Trupanion still has a lot of cash on its balance sheet, and it has time to figure out the market or another acquisition channel. It has time to improve and be more thoughtful about its marketing spend. It has the luxury to control its own destiny. That's point number one.

Point number two, the management and the founder/CEO have shown they can deliver on their promises. When the company went public, the CEO said he wanted the business to be cash flow-positive in the second or third quarter of 2016, and it happened in the second quarter of 2016. It shows the management understands the business, and it helped that there were no surprises and the leadership delivered.

Q: According to Yahoo Finance, which is of questionable accuracy, there seems to be short interest. Is there something, perhaps arbitrage or convertible debt, to explain this?

A: No, there is no convertible debt or arbitrage. I don't know where Yahoo Finance got its information, but it's possible someone was buying shares on one account and selling them on another during the secondary offering. Frankly, I'm not sure how it works; I have never done it, but it could be the explanation. If someone knows or thinks they will get allocation, and the share price is $33, then shorting shares is a sure profit. I don't know whether it will be legal. On a positive note, there will always be flippers, and they can create tremendous opportunities for long-term investors to build up their positions.

Q: In terms of country-by-country penetration rates, could you elaborate a bit if the economics across countries tend to be similar? How appropriate is it to make these comparisons of the US versus Sweden, the UK, and the others?

A: They are appropriate, good comparables. When I think about comparables, I have roughly two metrics in mind. Firstly, I was talking about countries with similar GDP per capita, so the US is fairly comparable to the Netherlands, France, or the UK. Secondly, it will be cost to insure pets, and this is again fairly comparable. Those two metrics are critical to me.

Q: Just out of sheer curiosity, is there a Trupanion-style company with a similar moat based in Sweden or the UK?

A: Yes. With all due respect to its management, Trupanion did not invent this business model. It looked at what was being done in Western European countries and saw the UK had this model that worked well. The UK company which comes to mind is called Petplan, but it's not independent – it was acquired some years ago by Allianz, a major German insurance company. You cannot get much data at a unit economics level and separate financials from that division of Allianz because it's now a tiny piece of a massive business. That makes public company analysis more complicated.

But from a consumer perspective, that's absolutely comparable. Incidentally, the chief operating officer of Trupanion, Ian Moffat, used to work for Petplan and then Allianz after the acquisition. It's how he gained the experience for an operational role in this business. When Darryl was looking to grow his company, he wanted people with the right industry experience, so he brought Ian to the US. Ian, whom I met in 2017, moved to Seattle with his family, bought a house there, and is now working as the COO of Trupanion.

But to answer your question – absolutely, there are similar products abroad, and the UK is a great example.

Q: Do you have any idea what the Canadian penetration rate might be?

A: The Canadian rate is higher than the US because it started early. The figure for Canada is between 5% and 7%.

Q: I believe Fairfax Financial has some involvement in the medical pet insurance space. To what degree might this be a peer or even a competitor?

A: Given the size of Fairfax, it will be quite difficult to get any glimpse into its financials. Its power of focus is tremendous. When Darryl and the current team are building Trupanion, they are essentially building one product, which is a simple product from a customer perspective. They are putting all their energy into it. If they think they need to spend more marketing dollars on channel Y, they will do it. If they think they should cut it and put more into channel X, they will do that too.

It will be more difficult to build something like this within a big corporate empire, something that will resonate deeply with customers and focus on care, both for people and pets. I say this with all due respect to Fairfax and its leader Prem Watsa, who is a fantastic investor.

Q: Do peers in more mature countries have something similar to Trupanion's $0.70 in claim economics?

A: That will be difficult for me to prove because I don't have their financials. Petplan in the UK may be operating with a similar philosophy, and their numbers could be fairly similar. Whether it's $0.70 or $0.68 or $0.72, it would be difficult for me to know. This is based on my own industry research and conversations, so I cannot point you to a public filing in the UK from 5, 7 or 10 years ago and say, "Hey, this is the number."

Q: Do any peers pose a particular threat to Trupanion's moat, and how do you think the moat could get narrower?

A: Right now, I don't see peers presenting a competitive threat given they haven't had as much data for as many years. Can someone pose a threat? Of course. If somebody decides to enter the market and is willing to spend tremendous amounts of cash by pricing their insurance policies inaccurately and at a significant loss, then yes, they will present a threat.

In other words, Trupanion prices its policies the way it does and gets solid profit for its underwriting product. Let’s say a giant insurance company decides to enter the space and starts offering the same or lower prices, but because it cannot underwrite, it might incur massive losses. If it can sustain them for a long time, that’s a risk, but it assumes irrational behavior on the part of the entrant. That’s point number one.

Point number two, this is still a small market, with 1% to 2% penetration, not to mention it still has a lot of bureaucracy and moves slowly. I would be shocked if a massive insurance company in the US decided to enter this market after it has matured and to burn lots of cash.

You’re asking an excellent question about how can we monitor whether the moat gets narrower or wider. One thing to keep an eye on is the gross profit margin. If it remains the way it is, this means the company continues to be highly accurate at pricing its insurance policies. Because it’s partially content and partially execution, you need to have a strong data team (which Trupanion has) to analyze the information, generate insights, and slice and dice it the right way so that you price insurance policies accurately. That’s one metric for me to follow.

Q: The Trupanion Express is eye-opening. What year was it launched and are there any data points that are more segment- or initiative-specific?

A: It was launched in the 2013-2014 timeframe, but the company started developing it even earlier. I heard an anecdote from the CEO’s executive assistant. She said Darryl sat down with the team and said, “Within three years, I want us to be able to pay claims in five minutes or less.” Everybody thought he was crazy because that simply could not be done. Nobody has done it in the US, but he insisted, “No, I want it. If the consumer comes first and we want to have products that resonate with consumers, we need to build it.” And they did. It took them a few years and $17 million, but they succeeded.

Let me give you some more data on Trupanion Express. Out of all 8,100 active hospitals, I believe around 2,300 to 2,400 use Trupanion Express. In addition, the hospitals using Trupanion Express tend to be more active, meaning they have more pets insured by Trupanion. There is a bit of a self-selection bias here because they install Trupanion Express on account of a lot of customers having Trupanion insurance, which makes sense. But the company also said hospitals using Trupanion Express tend to be more likely to recommend Trupanion to new pet owners and more likely to bring in new pets into Trupanion platform.

There’s another thing which I believe solidifies the competitive advantage and moat Trupanion enjoys. It’s not rocket science, but it takes some training and effort for employee or hospital administrative personnel to start operating Trupanion Express. It’s free, but you need to learn. If someone else comes three years from now and suggests installing their solution as well, the staff will likely be less inclined to learn using another one and will just keep recommending Trupanion’s. This again fuels the virtuous cycle that tremendously benefits Trupanion.

Q: I would guess the hospital probably prefers to have only one or two counter-parties to

deal with the billing. Have you seen indications of hospitals being more likely to exclusively engage or do they tend to have multiple platforms?

A:, there are no platforms of a similar nature right now. It’s just old-fashioned billing, with customers typically paying out of pocket. We are not dealing here with a market which has, say, five insurance companies and all of them have some similar software. There are not that many offerings of medical insurance and, on top of that, few customers have them.

The market is just so early stage that your question will be more relevant several years from now, when someone may try to replicate Trupanion. However, aspiring parties will face real challenges. One of them is persuading employees or hospitals to learn how to operate new software after they’ve been dealing with Trupanion Express for the past three or four years.

Q: To what degree does the combination of visibility and cash flow provide a foundation for incrementally greater share repurchases or possibly cash dividends?

A: That’s a great question. I believe management feels more or less the same based on everything I have heard from them and what I’ve read of company communications. Because of the secondary offering, I cannot say with absolute certainty the leaders will be great capital allocators. Still, I could be wrong, and the secondary could turn out to be the right decision.

Trupanion will get to scale in three or four years. It will be running, say, 750,000 insured pets on its platform and will keep generating healthy margins, which it can deploy anyway it wants – acquiring more pets, buying shares, or paying dividends. Debt is not an option because the company has zero debt.

It all boils down to what the highest return on incremental dollar of capital deployed is – sales and market expenses, share buybacks, or dividends? In 2017, the company had an incredible 36% IRR on its marketing spend. The business is still suboptimal in terms of scale, so the IRR may well be even higher once the company gets to that level.

One more thing: this 36% IRR is the average across all cats and dogs. But with adding more cats and dogs, incremental IRR will be even higher, likely approaching 90% or so. If that dynamic continues, I don’t think the company should be repurchasing shares. It should be investing at 30% or 40% IRR in sales and marketing.

If the company keeps increasing the marketing dollars, the efficiency of the marketing spend will be decreasing. In that case, it should probably slow down, which I think it will, and buying back shares or paying dividends may be an option.

There is a foundation for future share buybacks and dividends because of return in revenue, high visibility, strong cash flow generation, and massive operating leverage. I don’t know when it will happen. But let me say this: if Trupanion starts paying a dividend five years from now, I will be deeply disappointed because it would mean the company cannot deploy those dollars spent on dividend into their sales and marketing at a high IRR.

Q: I'm curious as to whether you've seen similar financial metrics for any US or overseas peers and how they were calculated. Did the company provide them?

A: As for the first part of the question – no, I have not seen such metrics elsewhere. The company provides some charts, just as any subscription business would. The LVP/PAC ratio is a simple division, and LVP you can calculate yourself. One input is the expected number of months a pet will remain on the system, and that's in inverse of the chart, meaning the data disclosed by the company. It's impossible to collate these numbers from financials; you rely on what the company discloses to you.

The second input is ARPI, or average revenue per pet insured, which is easy to calculate. Then you have adjusted operating margin, which the company tells you about, and I also make some adjustments. In short, it's a mix.

Q: Regarding the inside sales dynamic, it might be interesting to track the headcount of this division. Is that possible?

A: It would be interesting if the company tries, but I don't know if it's possible to know the number for sure.

Q: Have you tried looking at LinkedIn, for example?

A: You can find some of them there, but the problem is we don't know how many there were 12 months ago. We can perhaps find someone on LinkedIn, but then you have to wonder whether all of them have the proper title or whether all are on LinkedIn. I don't know how helpful it will be.

Besides, I'm not trying to predict when same-store sales will reach an inflection point. The company will figure out the way because hospitals and customers like Trupanion.

Q: Let's talk a bit more about the owner mentality and aligned incentives, the stock-based compensation arrangement. This is the first time I've seen a structure of this nature, and I wonder how Trupanion came up with the idea. Was this internally brainstormed or possibly proposed by a shareholder?

A: It's a great question to which I don't have the answer. I'm also intrigued and have never seen a similar compensation factor either. If any MOI Global Community members know other examples of companies with some similar structure, I'd love to hear from them and get the names of those companies, maybe find another investment idea as a result.

Q: It seems quite clear the company is rather transparent and communicative with shareholders. Does it explain how it calculates intrinsic value?

A: It's a DCF, and the company has explained it tries to hold constant metrics such as cost of equity, risk premium, and risk-free rate because it doesn't want to penalize or reward teammates for movement in the US 10-year Treasury rate, which I find fair. It is trying to remove external factors from calculating the intrinsic value, and then it uses some variation

of DCF but doesn't disclose its process. What I mean by "doesn't disclose" is that it doesn't put an Excel spreadsheet on its site, saying, "Hey, this is our model." But you can pick up certain things from company communications, especially the 2016 shareholder letter.

Q: What type of feedback might be most valuable for you to receive from the audience?

A: I always love hearing from members of the MOI Global community, and any feedback is welcome. If there happens to be a vet among them, they should definitely reach out to me. I would love to hear about their experience and what other products they see and if they see Trupanion gaining traction. Based on the current disclosures, it is gaining about 40% market share incremental at hospitals where it is active, so I would also like to hear from hospital professionals. But there may be vets in the community who can tell me more about why they believe Trupanion is better than any for now or why they like Trupanion Express as a first-time experience. The more data points, the better.

In addition, if people see flaws in my methodology, I would appreciate feedback from such members as well. Finally, as Trupanion is on the lookout for like-minded, long-term shareholders, Caro-Kann Capital is also open to conversations with LPs with whom our investment philosophy, research process, and ideas resonate. Please, feel free to reach out.

About the instructor:

Artem Fokin is the founder and portfolio manager of Caro-Kann Capital LLC, a hedge fund based in San Francisco. Prior to founding Caro-Kann, he was a principal at Outrider Management LLC. Before entering the investing industry, Artem was an attorney with Greenberg Traurig LLP in New York City. Artem earned an MBA from the Stanford GSB (Arjay Miller Scholar), a Master of Laws degree from NYU School of Law (Newman Scholar) and a bachelor of law from the Higher School of Economics (Presidential Scholar) in Russia. Artem is admitted to the practice of law in the State of New York and is a dual citizen of the United States and Russia. Caro-Kann Capital LLC is the general partner of an investment partnership based on the principles of value investing that focuses primarily on special situations and compounders. Caro-Kann Capital is named after a chess defense that emphasizes building safety and defensible position before contemplating an offensive strategy. The Founder's substantial legal experience brings a greater ability to analyze complex corporate documentation accompanying extraordinary corporate events. The Fund's core investment principles include: (1) concentration when properly compensated, (2) risk is not equivalent to volatility, (3) non-economic selling can lead to attractive opportunities; (4) capital allocation is often underappreciated by the market, and (5) incentives and insider ownership are paramount.