

Good morning Everyone! We thank you all for assembling here and best of luck to all the candidates on the ballot this morning, as well as to those who have served our wonderful organization in so many immeasurable ways! I am privileged in providing you with our unaudited financial results and performance report for the 2018 fiscal year.

A non-consolidated summary of AKC's Operating Revenues and Expenses through December 31, 2018 are comparatively presented here. We recorded \$76.8 million in Total Revenue and \$72.6 million in Total Expenses, for an Operating Income of just over \$4.2 million dollars. In comparison to the full audited 2017 year, where we reflected \$71.7 million in Revenue with \$65.6 million in Operating Expenses and a full year of \$6.1 million in Operating Income. Additionally, please note there were a few unbudgeted adjustments that were not a part of our standard AKC operations in 2018. We reflected a non-Cash rent expense in order to fully record our deferred rent through December 2018 totaling approximately \$4 million dollars as well as relocation related fixed asset and leasehold write-offs at year end. There was also a lease buyout payment of \$850,000, as well as an unrelated business income tax payment of \$350,000.

Our next exhibit presents AKC's Core Registration Volumes and year over year performance. Our litter volume increased by 5%, with a total annual volume of 251,000 in 2018. Our dog registrations also rose by 4% for the year, reaching 581,000. As was presented during our meeting in Orlando in December, we had a goal to surpass the milestones of 250,000 litters and 575,000 dogs. We did achieve our goal! We have now marked a full 5 consecutive years of increasing volumes. We are now at our peak volumes from nearly a decade ago! An overall Thanks to the dedicated efforts and purpose demonstrated throughout our Delegate Body, our Board of Directors, and Management and staff in each and every vital area of our organization! Congratulations and we strive for more triumphs ahead!

Let's briefly reflect upon the highlights in our Sports and Events area for 2018. There were just shy of 22,000 sanctioned licensed and Member events held throughout the year! Our total entries of 3.2 million for 2018 was an overall increase of more than 3% in comparison to 2017.

Congratulations are in order to our Management and staff and all involved who work so hard and are focused to assist all of our clubs and their future successes in AKC Sports and Events!

Let's drill down into the AKC 2018 Operating Statement, where our total revenues increased by 7%. We'll first assess our largest increases to revenue Year over Year! All Registration-related revenues correspond to 52% of AKC's total revenues. Registration related services increased by \$3.9 million dollars overall. This included the major components Litters by \$700,000, Dogs by \$1.5 million, Pedigrees by \$400,000, as well Good Dog! Helpline by just over \$200,000. All other Reg related revenue increased by an additional \$1 million dollars.

The positives continue in Sports and Events which rose by \$1,359,000 overall. Including the specific areas of Trick Dog which had an increase of \$160,000 and Canine Good Citizen which grew by \$400,000 and Recording and Event Service Fees which produced almost \$800,000 in additional gross revenue. Also, our Marketplace Revenues soared by about \$200,000 and our Affiliate Royalties grew by more than \$300,000 year over year. Thanks again to everyone involved with these positive efforts in succeeding to promote the services and programs of The American Kennel Club!

We'll next address an analysis of Expenses. Beginning at the top of the organization and as a requirement of the AKC bylaws, we can report that the total amount of Board of

Directors' related expenses in fiscal 2018 was \$333,341 dollars.

Moving forward, we'll next take a look at where AKC's operating expenses escalated in the 2018 year. Our total expenses increased by \$7.0 million dollars or 10% overall. The largest single component of this increase relates to our payroll and benefits. Our full time equivalent headcount at December 31 was 350. Payroll and benefits rose by \$2.8 million or 8% total. This is due to a combination of factors – including rising benefit costs, fulfilling open positions during the fiscal year, along with adding new budgeted positions, and our standard annual performance based increases. Our consulting costs grew by \$1.3 million in 2018, which related to a number of new areas and impactful programs, among which included our efforts with AKC.TV, digital marketing, research concepts for consumer demand of purebred dogs, our detection dog task force team, and upgrading our financial reporting systems. Our cloud and migration services fees increased by more than \$600,000 dollars as we continued to move our technology storage to the cloud and increased our telecommunications and database security services. This imperative increase helped us to achieve our current technology objectives while controlling any future

additional expenditures in hardware maintenance. Our ongoing Library digitization project resulted in an additional outlay of \$380,000 dollars. Our Education programs included an added \$90,000 dollars in expenditures supporting new software as well as information presenting summits.

Outside of AKC's operations, next we will take an overview of our investment performance. In 2018, AKC's investment activities reflected unrealized losses of \$6.4 million dollars, and an investment return of -4.76%. These results were most predominantly due to a poorly performing market through late November and all of December 2018. Now although this negative performance was not what we were expecting, we did outperform our benchmark by just about 1.5% percent. We do take a long term focus and vision in our portfolio's goals and allocations. Also of note, we are pleased to share that our portfolio has since successfully rebounded back and beyond into positive territory here in the opening months of 2019.

Taking a look at AKC's Total Assets, we ended the 2018 year, with \$162.7 million dollars in Total Assets. This is within \$1 million or less than 1% from 2017, despite the aforementioned challenging investment landscape of late 2018.

Next, on the other side of the balance sheet are Total Liabilities. Total Liabilities have increased fairly significantly from \$73 million at the end of 2017 to \$110 million at December 31, 2018. There was an increase to the total of accounts payable and accrued costs by \$5.7 million dollars. Next, an increase in our capital and deferred lease liabilities of just over \$7.6 million dollars, which relates to our relocation and newly leased space at 101 Park Avenue, along with our revitalization and renovation of our Raleigh, North Carolina Operations Center. We have incurred a short term line of credit for construction purposes of \$22.3 million dollars, which is entirely related to the build out of 101 Park Avenue including that of the 1st and 3rd floor for The AKC Museum of The Dog. It is our expectation to relieve the credit line as we progress throughout the balance of 2019 and forward into 2020 as well.

In review, overall 2018 was a good year for The American Kennel Club. We had pivotal, successful dealings and transactions take place during the year, while we continue to move forward with operations and fulfilling our mission statement. We are excited about more success in 2019 ahead. Thank you to all for the courtesy and considerations this morning. This full presentation deck will be posted to

the AKC Delegates' portal by the close of business tomorrow. Please feel free to contact me with any additional questions or concerns, as I would be pleased to discuss with you. May we all get home safely and have a great day.

2018 Unaudited Financial Results and Performance Report



March 2019 Delegates' Meeting

AKC OPERATING REVENUES & EXPENSES
YEAR ENDED DECEMBER 31, 2018

(in thousands)

	2018 Actual	2017 Actual
Revenues	\$76,845	\$71,775
Expenses	72,618	65,620
Operating Income	\$4,227	\$6,155

AKC CORE REGISTRATION VOLUMES

2018 to 2017

2018:

Litters	251,000	+5%
Dogs	581,000	+4%

2017:

Litters	240,000	
Dogs	561,000	

2018 AKC Event Highlights:

- **Nearly 22,000 Sanctioned / Licensed / Member Events**
- **3.2 million Entries +3%**

INCREASES IN AKC REVENUES

2018 FROM 2017

- **Registration related services** **+\$3,900,000**
 - **Litters** **+\$700,000**
 - **Dogs** **+\$1,500,000**
 - **Pedigrees** **+\$400,000**
 - **Good Dog! Helpline** **+\$210,000**
 - **All other Reg revenue** **+\$1,090,000**
- **Sports and Events** **+\$1,360,000**
 - **Trick Dog** **+\$160,000**
 - **Canine Good Citizen** **+\$400,000**
 - **Recording and Event Fees** **+\$800,000**
- **Marketplace** **+\$191,000**
- **Affiliate Royalty** **+\$307,000**

INCREASES IN AKC OPERATING EXPENSES **2018 FROM 2017**

- **Total Expenses** **+\$7,000,000** **10%**
- **Payroll and Benefits** **+\$2,800,000**
- **Consultants** **+\$1,300,000**
- **Cloud Service Fees** **+\$655,000**
- **Library digitization** **+\$380,000**
- **Education** **+\$90,000**

OVERVIEW OF 2018 INVESTMENT PERFORMANCE

- **Investment loss** **\$6.4 million**
- **Investment return** **-4.76%**
- **Investment benchmark** **-6.32%**

AKC TOTAL ASSETS

2018 vs. 2017

(in thousands)

	2018	2017
Cash and equivalents	\$526	\$333
Investments	101,226	114,821
Accounts Receivable	20,735	33,528
Prepaid Expenses	16,667	6,046
Fixed Assets	23,569	8,909
TOTAL ASSETS	\$162,723	\$163,637

AKC TOTAL LIABILITIES
2018 vs. 2017 *(in thousands)*

	2018	2017
Accounts Payable & Accrued Expenses	\$14,276	\$8,582
Deferred Revenue	1,702	1,895
Capital and Deferred Lease Liabilities	8,193	580
Short term line of credit - Construction	22,356	-
Postretirement Benefit Obligations	31,475	29,433
Pension Benefit Obligation	32,168	32,438
TOTAL LIABILITIES	\$110,170	\$72,928

2018



Thank You

joe.baffuto@akc.org

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