Call for Analysts and Investors

Transcript

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Speakers:

Carlos Rodríguez-Ugarte

Beatriz Izard

Beatriz Izard
Head of Investor Relations, Linea Directa

Good morning to all of you and thank you for joining us today. Welcome to Línea Directa's full-year 2025 results conference call. My name is Beatriz Izard, and I am the Head of Investor Relations. Presenting today will be our CFO, Carlos Rodríguez Ugarte. After the presentation, we will open the call for a Q&A session.

I will now hand the floor over to Carlos.

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

Thanks a lot, Beatriz, and good morning to all of you.

2025 has been an exceptional year for Línea Directa.

Please let me guide you through the financial highlights, presented on the first slide of the deck:

- Net income increased by 33.5%, reaching 86 million euros. This strong result reflects a combination of growth and profitability.
- We delivered top-line growth of 11.3%, an improvement of 2.1 percentage points in the combined ratio compared with last year, that is, a combined ratio of 92.6%
- Our customer portfolio increased by a superb 8.5%, reaching 3.73 million clients. We added more than 290,000 new clients to our portfolio, making the highest annual growth in our history
- Return on equity rose to 22.9%, underscoring the efficiency of our business model.

Finally, the strong results and solid solvency position have led the Board to propose a complementary dividend of €15 million to the upcoming AGM. After accounting for this dividend, the solvency ratio stands at 182.6%.

Now, if we move to the next slide, we consistently emphasize the importance of efficiency in our business model. It enables us to offer more competitive prices to our customers, tooperate with healthy combined ratios, and lastly, efficiency is a critical driver of service quality.

- The digitalization of services continues to deliver outstanding results, with all indicators surpassing the levels achieved at the end of last year. This includes strong growth in digital roadside assistance requests, online claims submissions in both Motor and Home, and the use of digital supplements.

- Another key KPI is the traffic generated through our App and website, which increased by 17%. Digital interactions now represent 2.7 times more contacts than traditional telephone calls.
- The digital chat launched in 2024 has grown by 68%, and AI now resolves more than 64% of incoming inquiries.
- Digital sales have grown exponentially, reaching 9% of all new business at the end of 2025. It is important to highlight that these sales are fully digital and completed without any human intervention. These results differ from digital origination, which represents more than two-thirds of our overall portfolio.
- Finally, 91% of our customers interacted with us digitally at least once a year.

This journey is also driving a broader transformation to unlock the full potential of our direct model. We continue to strengthen our multiproduct offering while keeping the customer firmly at the centre: delivering quality service, transparency, and competitive pricing. Through simple, user friendly, and comprehensive new digital assets, we aim to make our customers' lives easier and to reinforce Línea Directa as the brand people choose and want to stay with.

Now, let's move on to a more detailed review of the 2025 results.

On Page 9, the message remains fully aligned with what we have been highlighting in previous quarters: we continue to deliver excellent top-line growth complemented by strong retention levels. This performance reflects our increased customer loyalty and our ability to attract new clients to the brand.

The combined ratio was very solid for the full year at 92.6%, and exceptionally strong in the fourth quarter at 90.4%.

Financial result was up 5.4% with higher income from the bond portfolio and the revaluation of investment funds.

And all of this resulted in a profit after tax of €85.7 million, an increase of 33.5% compared with 2024.

In terms of business volumes and customers, all lines of business reported significant growth, with Motor standing out by adding more than 215,000 new clients during the year. Growth was solid across the board, and our newer products also expanded considerably.

Moving to Page 11, the evolution of the combined ratio remained solid. The loss ratio improved by 1 point, supported by prudent risk underwriting. At the same time, we continued to enhance operational efficiency through digitalization, leading to a further 1.1 point reduction in the expense ratio.

We continue to invest in data and technology capabilities that enhance both efficiency and customer experience. We view the expense ratio as a key competitive advantage, and it remains a central focus of our operational strategy.

Now, I would like to move on to a more detailed breakdown by line of business.

In Motor, the year delivered excellent results, with premiums increasing 11.8% year-on-year and 12.0% in the quarter. We outperformed the market by 3.5 percentage points.

The combined ratio improved by 2 points, supported by a notable correction in the fourth quarter. The sector, however, deteriorated its combined ratio to 98.2% (99.3% on a standalone basis in the fourth quarter).

For its part, the Home line of business delivered steady growth, with premiums increasing by 6.3%. In 2025, this line achieved an all-time high in profitability, posting combined ratios below 90% in every quarter, including an exceptional 84.0% in the last quarter of the year.

Moving to Page 14, the Health line delivered strong growth of 14.7%. We continued to make steady progress in improving the product mix, with Specialist and Comprehensive products now accounting for 67% of the business, compared with 62% in December 2024.

On the technical side, we saw a very strong improvement in the combined ratio, down 14.6 percentage points, bringing it closer to target levels. Underwriting remains prudent, with claims frequency well contained. Loss ratio for the year was 79.6%, broadly in line with the sector average of 79.7%.

The financial result increased by 5.4%, supported, as I mentioned before, by higher income from bonds and a positive mark-to-market performance of our investment funds.

Regarding the investment portfolio, its composition remained largely stable throughout the year, with the portfolio (excluding cash) increasing to €1.2 billion, supported by business growth.
Average return stood at 312 basis points, while the average reinvestment yield of the fixed-income portfolio reached 241 basis points. Portfolio duration is 3.86 years.

On our solvency position, the solvency margin stood at 183%, taking into account the complementary dividend that the Board will propose to the upcomingAGM.

Moving to the next page, the SCR is mainly driven by underwriting risk, which increased in line with business growth, by market risk, reflecting interest-rate and spread movements, and finally, by the significant rise in the symmetrical adjustment during the year.

To conclude, the 2025 results reflect exceptional growth and strong profitability. We enter 2026 from a very robust position, fully focused on driving future growth in a profitable and sustainable manner.

I will now hand the call over to Beatriz to begin the Q&A session.

Q&A

Beatriz Izard
Head of Investor Relations, Linea Directa

Thank you, Carlos. We'll begin with the questions received from the conference call.

Moderator

[Operator Instructions] The first question comes from Maksym Mishyn from JB Capital.

Maksym Mishyn
Analyst, JB Capital

Hello, good morning. Two questions from me. The first is on motor insurance. We observe a slowdown in average premium growth for the sector. Do you think this means companies are back to the levels of profitability they want to be? What do you expect for 2026 in terms of competition? Do you think you can keep the growth momentum into the next couple of years?

The second question is on health insurance. I'm surprised with the growth of new customers. I was wondering if you have changed something in your commercial approach, and do you still think we can reach a break-even soon in this segment? Thank you.

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

If we look at the market in the motor business, the market is still adjusting its combined ratio. The last numbers we have from the market on the last quarter, the combined ratio was close to 99%. So, they still need to do some homework on their average premiums. Average premiums for the sector for the full year were in the neighbourhood of a 6% increase. My expectations looking forward is that for 2026 they will need to keep on increasing average premiums to adjust the profitability of their portfolio. For Línea Directa, my expectation for this year is that we should keep on growing. It's difficult to give you numbers, but we have an opportunity to grow, and we think the company should keep on growing. We have a very competitive combined ratio and a very competitive business proposal to our clients. So, you should expect growth for 2026.

Regarding the health business, I think it's an evolution of the many things we have been doing throughout the years. We have focused very much on cross-selling the health business to our clients, and on changing the portfolio mix of the products that we were selling, trying to sell products with much more stickiness. We keep on being very prudent on underwriting, and all things together have put the health business in the pipeline to break-even. The question on when, it's difficult to say, but my perception is that we are very close to it.

Francisco Riquel
Analyst, Alantra Equities

Good morning. My first question is about digital sales, you have increased to 9% of the total in 2025. If you can comment on the loss experience with digital-only clients, and how does it compare to the group average?

My second question is on the expense ratio in motor, which has fallen to 16% in 2025, under IFRS4. My question is, how low can it go in 2026 and over the medium term? And related to all these digital issues, just a follow-up on the artificial intelligence that you have been mentioning during your presentation, your views. You have commented about the opportunities, but also about the potential threat, if you see any.

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

On the digital front, I think it's too soon to give a message on the behaviour of our pure digital clients. So far so good, in terms of profitability, in terms of risk profiling, they are very similar to the clients that come through the telephone. We are very happy about the evolution. But I think it's too soon to give numbers on that. We are talking about 9% of customers purely digital with no human interaction, which translates into 80,000-90,000 clients. But again, too soon to give a profile of those clients. Some surprises we have seen from this approach is that the risk profile of some of these clients is even better than some of the clients that we have on the portfolio, which is good.

Another learning that we have is that average premium is very similar to the telephone clients. So, I think so far so good.

The second question was on the expense ratio. Well, the expense ratio has reached almost 16% (IFRS4) in the motor business. I tried to explain this through the call, our focus on efficiency and our focus on being the most efficient company in terms of operations is there. It's always a target, and I think it's key for a company like Línea Directa, and I think it's key for the sector. I think the winners in the sector in the long term will be those that are most efficient, and that is the way we do it. Of course, the business model that we have, being direct, being digital, and so on, helps very much. So, where do I see the expense ratio looking forward? I don't have a number, but if I were to improve my combined ratio, probably it will be more on the expense side of the combined ratio than on the claims side.

Finally, in terms of artificial intelligence, which is a $1 million question nowadays. Well, I think it's an opportunity for Línea Directa. Clearly, using this technology in a direct business model as Línea Directa is an opportunity. We are working on that. We want to be prudent on that as well. I think it's too soon to give numbers on the evolution of artificial intelligence on the P&L of the company. But clearly, I think it's an opportunity for Línea Directa. We are already using artificial intelligence in chats and in the operation, but again, we are working on that. What I want to be very clear on is that I think it adjusts very well to the business proposal of Línea Directa being so direct.

David Barma
Analyst, Bank of America

Thanks for taking my questions. Firstly, coming back on the combined ratio. You published a combined ratio in Q4 that is at a level that not so long ago you were saying was too good to be true. Can you please give us some colour on the quarterly performance, and to what extent weather and frequency might have supported Q4, and how you see that developing in 2026, please?

Secondly, on solvency, I was expecting the solvency ratio to be supported in the quarter by a reversal of some of the premium reserving done early in the year, but it doesn't seem to have come through. Can you comment on that, please, and whether it's something we should expect in coming quarters?

Then lastly, on capital return, you've paid a little over 50% in 2025. Going forward, how should we think about your dividend-paying capacity, considering that new business strain is likely to remain high in 2026, as you were alluding to earlier?

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

Well, in terms of combined ratio, it is true that the combined ratio in the last quarter has been exceptional. It has been very good; as you know, in the 90s. That has been driven by the expense ratio, which has improved, as I explained before, but also because of the frequency in our business. Frequency was lower than the third quarter, which helped the combined ratio go into those 90s.

Where do I see the combined ratio of the company? Last year, I think we put a target of getting close to 94% by the end of the year. We've reached that, so we delivered the numbers, I would say. Looking forward, I'm not very much concerned about improving my combined ratio more. I think a combined ratio in the neighbourhood of 92% to 93% is a very good combined ratio. Again, if I were to improve my combined ratio, it would come from the expense ratio more than the loss ratio. At the levels we are nowadays, in terms of 92% to 93%, I think the company feels very comfortable.

Your second question was on solvency. Solvency is above 180%, which is very good. It is true that in the third quarter, we had this hike in the premium reserve. The problem is that we keep on growing very much, and when you grow very much, your SCR demands quite a bit of capital, and that's the thing with the solvency ratio at the end of the year. We are very comfortable if we are able to maintain that 180%, which is really the target of the company—to always meet around 180%.

Then on the dividend payout, we don't have a payout policy, as you know. We have a solvency policy, which is being around 180%. As long as we are there, the Board will decide. It is true that when you grow your revenue side by 11% or 12%, SCR demands quite a bit of capital, and that has some pressure on the dividend. But I think with this EUR 15 million complementary dividend, our payout is 53%, which is quite high.

Carlos Peixoto
Analyst, CaixaBank

Hi there. Morning. Just a quick follow-up from my side. Going back to the Q4 combined ratio, I was just wondering whether there was any release of provisions in the quarter. I'm not sure you answered to that before.

Then the second question would be on premium growth. For this year, how do you see it evolving? Should we expect to see any sort of slowdown or an acceleration in the pace of growth? Also, I saw that the inflation for the Baremo, the 2.7% increase. Do you expect to fully pass on that to clients through prices?

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

Regarding the combined ratio, Carlos, no, no reserve releases. The reserve releases that we put on the quarter are the ones with the managing on the claims. We don't do voluntary reserve releases. We manage the business, and more or less it's the same. Nothing extraordinary on the combined ratio of the Q4. Even though it's a very good combined ratio, it's business as usual.

Regarding premiums, we don't have a target for what should be the growth for the premiums in 2026. Probably the only target that we have is trying to grow more than the market. I think we have reached that goal in 2025, and that should be the goal for next year: growing more than the market. We are very confident in the opportunity that we have. We have pulled more than 200,000 new clients into the company on the motor business. We are looking at the market, and we still see that the market is having some trouble with the combined ratio. So, I think there's an opportunity for Línea Directa, and we will take that opportunity.

August Marcan
Analyst, UBS

Hi, good morning. Thanks for taking my questions. Just two for me. One, your home combined ratio seemed very strong throughout the whole of 2025. I was just wondering, if we normalize for weather and everything, what is your expected normalized level for that segment? Second, for the motor—you touched on it at the start of the call—but if you could expand a bit further, how do you see pricing and inflation trends in Spain year-to-date in 2026 so far? Thank you.

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

Thank you. Well, it is true that the home combined ratio has been superb this year; in the low 90s, even below 90s some quarters. It has also been very good for the market as a whole, so it's difficult to say where do I see the combined ratio of home insurance looking forward. I think it should be in the neighbourhood of 90% to 91%. I don't see the combined ratio staying below 90%. I think it has been a very, very good year.

It depends very much on atmospheric events. For example, the first two months of the year have been terrible in terms of rains in Spain. The evolution of the combined ratio depends so much on atmospheric events that it's very difficult to give you a target. Having said that, we are a company with very competitive combined ratios, and the home insurance should be a business with a very competitive combined ratio compared to the market. Maybe below 90% is too good to be true.

On the second question, on pricing and inflation, I think the market closed with an average increase of 6% in premiums; 5% is the increase in premiums, and the other part is on new cars. I think the market will keep rising average premiums above inflation. I think they should, because they are very close to a 100% combined ratio. In the case of Línea Directa, you should expect individual prices, and you should expect us to always adjust our average premiums to CPI increases.

Moderator

There are no further questions at this time. I will now hand back to Beatriz Izard, Head of Investor Relations. Beatriz, now your line is open.

Beatriz Izard
Head of Investor Relations, Linea Directa

Thank you, Carlos, and thank you all for joining us today and for your questions. As always, the Investor Relations team is here to support you should you need any additional information.

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

Thank you very much and have a nice day.