Call for Analysts and Investors

Transcript

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Speakers:

Carlos Rodríguez-Ugarte

Beatriz Izard

Presentation

Beatriz Izard
Investor Relations

Good morning, everyone, my name is Beatriz Izard, Head of Investor relations at Linea Directa.

We published our Q1 figures earlier on this morning, and I have here with me Carlos Rodriguez Ugarte, our CFO.

And with these words, over to you Carlos.

Carlos Rodríguez Ugarte
Chief Financial Officer

Thanks a lot, Beatriz, and good morning to everybody on the call from me as well.

We are very pleased to deliver an excellent set of results for the first quarter.

I would like to start by commenting the key figures on page number 5:

- Business growth accelerated to an increase of 9.5%, with Motor at 9.1%, Home at 8.0% and Health at 14.4%.
- The portfolio grew more than 184 thousand policies, to 3.5 million.
- Combined ratio was excellent and stood at 92.3%, down 5 percentage points.
- Net income doubled that of 1Q 2024.
- Return on average equity rose to an exceptional 21.8%, and
- Solvency increased to 187%.

Moving to page number 6

Here I would like to highlight, once again, the acceleration in the top line, driven by the Motor line of business. We expect this high single digit growth to continue throughout the year together with sound retention levels

We posted an excellent combined ratio, with outstanding improvement in the claims' ratio and very contained expenses.

The evolution of the financial result was also remarkable, up 10.6% with higher income from the bond portfolio.

And all this led us to a profit after tax of 20.8 million, which compared to 10.1 million euro over the same period of last year is a twofold increase.

As with regards business volumes and clients, all lines of business reported significant growth, both in premiums and policyholders in all lines of business. Customer retention improved very significantly. In Health, our core products, complete, specialist and essential, grew 15.8%.

Moving to page number 8, the progression of combined ratio was remarkable: from 97.3% in the first quarter of 2024 to 92.3% as of March 2025, down 5 percentage points:

- Loss ratio was the main driver, down 3.8 points as the actions carried out have been earned in the income statement.
- Expense ratio is supported by tight cost control. We do run a very efficient business, characterized by a low expense ratio and low distribution cost, and we are continuously working towards automatic processing, streamline the business in general, as well as improve our digital setup. We consider the expense ratio to be a key competitive advantage.

Now I would like to move to a more detailed explanation by line of business

In Motor, we further accelerated growth in the 1Q, with premiums up 9.1% on the back of improved sales and retention. The combined ratio stood at an excellent 91.9%, down 4.6 percentage points as compared to the first quarter of 2024 and down 1.1 percentage points as compared to the fourth quarter of last year.

Also, the Home line of business posted significant growth, with premiums up 8% in the first quarter. Despite the March rainfalls, January and February had excellent claims behaviour, so the Home combined ratio was exceptional at 89.9%.

Moving to page 11, Health posted growth of 14.4%. These figures have also benefited from more comprehensive products.

This growth was not at the expense of risk appetite, where we keep a very cautious stance.

Moving to page 12, the financial result was up 10.6%, driven mainly by higher income from the fixed income portfolio and the mark-to-market of mutual funds.

As usual, we show the credited interest in a separate item. Remember that this reflects the financial unwinding of the claims provision for the prior year. The decrease is explained by the lower financial discounting in 2024 as compared to 2023

As with regards the investment portfolio, government bonds gained weight in the quarter, taking advantage of a higher yield window of opportunity, also at a higher duration.

The return of the portfolio stands at 324 basis points and average reinvestment yield stood at 295 basis points in the quarter.

Moving on to our solvency position, Solvency margin rose to 187%.

Owned funds were mainly a function of operating earnings in the quarter.

SCR increase was driven by market risk, due to the worsening of symmetrical adjustment provided by EIOPA and interest rate risk. Underwriting risks grew on the back of business growth.

To conclude, March results were strong. We delivered a very solid set of numbers.

We're really excited by the next few years. We've worked our way through and managed turbulent times in the last few years. Starting 2025, we are delivering, we think, great customer outcomes, great growth in premiums and in profit.

Having said that, we keep on working for the Company's long-term benefit - rather than a purely short-term approach.

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

Q&A

Moderator: Ladies and gentlemen, we will now begin the Q&A session. If you'd like to ask a question, please press star five on your telephone keypad. If you change your mind, please press star five again. Please ensure that your device is unmuted locally before proceeding with your question.

Our first question comes from Francisco Riquel from Alantra. Please go ahead.

Francisco Riquel: Yes, hello. Can you hear me?

Carlos Rodríguez Ugarte: We can, Paco.

Francisco Riquel: Yes. Hi. Thank you for taking my questions. So, two technical questions first and then another one separate.

So, the first one, I wonder if there is any impact of the Easter calendar in motor combined ratio this first quarter at all or not, if you think this impact will reverse in the second quarter or if you think you could sustain the motor combined ratio in the low 90s. And then the other technical is, I mean, gross incomes in motor are up 9%, but net premium are up just half of it, 4.5%. So, I wonder if you can explain this gap in the quarter and how this gap should evolve during the year.

And then my separate question is the acquisition expense ratio, which is down 1.5 percentage points year-on-year, if you can please explain what have you changed to grow the business more with lower acquisition expenses. Thank you.

Carlos Rodríguez Ugarte: Thank you very much, Paco, on the first question. Well, I mean, we are very confident that the combined ratio that we posted in the quarter is more or less stable. I mean, of course, the first quarter in terms of claim cost has been quite good, especially on the frequency side of the business, more than on the severity. So, maybe there is something there, but looking forward to the year, I think the company will be on low 90s in terms of combined ratio. We'll see what happens throughout the year. But I think the objective of the company is to be on those grounds of combined ratio and we should target that towards the end of the year. We'll see what happens with frequency. We'll see what happens with severity. But again, I mean, we should be in those numbers.

In terms of growth in the gross written premium versus average premium rise. I mean, that is the way we look. We don't look at the numbers in that way. I mean, we adjust average premiums on an individual basis to our portfolio and to our new clients gathering. I mean, I think the good thing and the good number of the Company at we have been able to grow very close to market. Market grew by 9.2% gross written premium and we were in 9.1%. We were coming on the last quarter standalone 2024 in 8%, in the third quarter, close to 5%. And I think that's a positive evolution more than looking at the average premiums. The beauty of Linea Directa is that we manage clients on an individual basis. We don't mutualise prices and

I think that is clearly shown on the growth of the gross return premium. And as I said in the call throughout my presentation, I think we should be able to maintain those levels of growth.

And in terms of acquisition expenses, well, I think it's a matter of also doing things more focused on our digital proposition to clients. I mean, as you know, we look at the expense ratio of the company as a whole. We think we need to keep on improving that expense ratio. I think we improved the expense ratio by more than 100 business points as compared to the last quarter.

Well, on the acquisition side of the business is that, again, we are fostering and promoting very much the digital proposition to our clients. The gathering of clients throughout our digital proposition is increasing month after month. And, of course, that in terms of acquisition cost, lowers the average cost per client of acquisition.

Francisco Riquel: Okay. Thank you.

Moderator: The next question comes from Max Mishyn from JB Capital. Please go ahead.

Max Mishyn: Hi, good morning. Thanks very much for the presentation and taking our questions. I have two.

So, the first one is on growth in new customers. It has accelerated notably. And I was wondering if you could explain to us what you are doing differently to capture new customers.

And then within the 200,000 growth target advanced by your CEO, how much should come in motor? And ideally, what kind of split between full coverage and third-party coverage are you aiming at?

And then the second question is on recent changes that will be potentially introduced by Spanish government. I was just wondering if they lowered the threshold for the acceptable alcohol levels. Do you think this can create a short-to-medium-term tailwind to your profitability because of lower frequencies? Thank you.

Carlos Rodríguez Ugarte: Well, in terms of what we are doing in the growth of new customers, I think we grew in the first quarter standalone in motor very close to 50,000 clients, 50,000 clients.

Well, we are, of course, trying to manage the market situation as well. I mean, I have to keep in mind that the market is in a situation where I think they are doing the homework that we did two years ago in terms of average premiums, in terms of managing their portfolio, and I think the company is taking advantage of that. I think we do have a competitive advantage clearly in terms of combined ratio, and we are trying to use that in order to gather clients.

But don't forget, I mean, the combination of the portfolio is gathering clients, but the bulk of this is the managing of the portfolio. And I think we did a big, big, big effort in the first quarter in terms of retention. Our retention has improved quite, quite a lot as compared to first quarter of last year, and I think the combination of that makes that our portfolio keeps on increasing.

In terms of the second question,…

Beatriz Izard: is about the 200,000 goal that Patricia was stating in the AGM. How is it split between motor and other lines of business?

Carlos Rodríguez Ugarte: Well, I don't know. I don't know if we have a split goal here, you know, in terms of motor and other businesses. I think the weight of motor in the P&L nowadays is more close to 76% than 81% that was by the end of the year, and I think that is the number to focus on. I mean more than if we are going to be 75 motor or 25 home and other businesses. I think the strategy of the company, as Patricia said in the AGM, is launching different products every year. Now we have gone into this retail insurance, and you should expect that the company keeps on launching different products.

Having a goal of how much our motor business should weight, we don't have that. But, again, it comes from 83% two years ago, 81% last year, and 75% this year. So I think that's the trend we should focus on.

Beatriz Izard: The third question regards the new acceptable alcohol levels in Spain and whether they are going to lower our frequencies.

Carlos Rodríguez Ugarte: Well, everything that makes drivers be more cautious and everything that helps be more disciplined in terms of driving helps frequency. So, again, if the norm becomes more strict, probably we will see some frequency going down.

We are very, very happy with the frequency of our portfolio. I think the risk profile of our portfolio is very sound. I mean we haven't decreased or deteriorated our risk profile in order to increase clients. We are on the same grounds. Loss ratio is in 75, I think, which is a great number. So everything that comes on top of that is good for us.

So if the government decides to do that, probably the frequency of the sector will help and probably Linea Directa being the company with the most cautious risk profiling will be the most benefited on that.

Max Mishyn: Thank you very much.

Moderator: The next question comes from Carlos Peixoto from CaixaBank BPI.

Carlos Peixoto: Yes, hi, good morning. Thank you for taking my questions.

Just a couple of questions on my side as well. So on motor insurance, we don't know if you can give some colour on your expectations for premium growth for the year as a whole, whether this 9% growth in gross premiums is something we could see throughout the year. Should this accelerate or decelerate?

And then on the home insurance, combined ratio has been, well, picked up a bit versus the first quarter, but it's still at relatively low levels. You mentioned it in the presentation. I was wondering what levels you see as more sustainable towards the medium term and what would be the pace that you expect that conversions to these more sustainable levels to take place? Thank you very much.

Carlos Rodríguez Ugarte: Thank you, Carlos. Well, on the motor… First of all, I would like to take a look back, I mean, on the evolution of the motor gross premium growth. I mean, we are coming from a third quarter of a growth of 4.5%, I think, something like that. Third quarter, fourth quarter, standalone, 8%. First quarter of this year, 9.1%. I think that is the number, really. I mean, the evolution of the company is now very much in line with market growth. You know, remember, market is increasing average premiums by more than 7% and we are there in a 9.1% growth.

I think we need to maintain these levels of growth. I mean, when I did the presentation, I explained that our intention is to be in a high single digit and that's the intention of the company throughout the year 2025.

In terms of home, it is true that the combined ratio has been very good. It is true that March rainfalls, they were high, but the two first months of the year, they were very good. I remember in the call on the 2024 set of results, I said that the 88% that we posted was very good and probably was very difficult to maintain. We did that, however, in the first quarter. But again, I mean, this is a business that should be in the low 90s. We are in 89. We are very happy. We'll see what happens sector-wise. I think sector-wise it's going to be a little bit worse than ours, but we should be in the low 90s. If it's 89, great. If it's low 90s, I think it's a good business. Remember that we were coming a couple of years ago from 96.

Carlos Peixoto: Thank you.

Modertator: The next question comes from Juan Pablo López Cobo from Santander. Please go ahead.

Juan Pablo López Cobo: Yes, thank you. Good morning and congratulations for the results. I've got two questions.

First one is a follow-up on the customer acquisition. I don't know if you could give us a bit more detail on this higher retention rate that you mentioned just to see if the gross customer acquisition increases or where are the merits in gross customer or retention rate. So that's the first one.

Related to this, I don't know if you could also give us some more colour on theoretical combined ratio, if that's possible, on these new customers or the margins that you expect to make on them. I know this is tricky.

And lastly, if these new customers, if they can explain part of the lower trends, as we saw in the past, probably they reported claims in their former insurance company, and they are coming, let's say, a bit cleaner here at least at the beginning. I don't know if that's clear. So that would be useful to understand a bit better all this customer acquisition growth going on.

And lastly, in expenses, you did a great job. I don't know if you got any target on this one or you think you are close to the bone. Thank you.

Carlos Rodríguez Ugarte: Thank you, Juan Pablo. Thank you very much. In terms of customer acquisition, well, I mean, the level of investment on marketing is very much in line with every year. Some years it's a little bit more, it's a little bit less. But in terms of customer acquisition cost, I think we don't have any changes, important changes. That means that we have not increased the customer gathering because we are spending much more on customer acquisition. Indeed, the digital channel, which is less costly in terms of customer acquisition cost, has evolved quite well since the fourth quarter of 2024. And the number of clients that we are gathering in that channel is much better than it used to be. So I would say that it's not a matter of spending more. It's a matter of doing things in a different way and trying to promote other channels.

In terms of combined ratio looking forward. Well, again, I mean, we are a company that we feel very comfortable in low 90s. I'm talking about motor insurance business, but generally as a whole of the company, because motor still is a driver of the combined ratio of the company. We posted a very, very good number. The most important thing is that we posted a number which compares to the market, which is still lagging a little bit in combined ratio, and I think we have improved our competitive advantage over the sector, and that is key to Linea Directa in terms of growth.

And the third question that you have was on expenses. No, we don't have a target. The target that I have on expenses every year is that improve the prior quarter or the prior year. I think I always said that efficiency is the name of the game for this business, and we have that clear in the culture of the company. Again, we are not a company that would have an expense strategy, we have an efficiency culture in the company, and you should expect the company to keep on improving that expense ratio. Sometimes in a quarter it will be more difficult than in another because you have some seasonality issues. But again, no objective. The only objective is to keep on improving that.

Moderator: The last question comes from Max Mishyn from JB Capital. Please go ahead.

Max Mishyn: Yes, thanks very much. Just a follow-up. One quick question on health insurance. I mean, you've lost 5,000 customers, and I was wondering if it's just a one-off or it's related to some changes in the strategy you're making. Thanks very much.

Carlos Rodríguez Ugarte: Two questions in the same call. Max, I'm going to charge you for this one.

No, well, I tried to explain that on the call, on the presentation. I think we need to look at the health business in perspective. You know, two years ago or one year and a half ago, we decided to change the brand that we were using. We integrated the health insurance under Linea Directa. Second of all, at the same time, we decided to integrate the business within the rest of the business, within the rest of the portfolio to try to do cross-selling. And the third thing that we have done is try to go more to a different mix of products. I mean, we try to foster more complete products to our clients. More difficult to sell those products, I must say, at the beginning, especially because our call centre people, they need to learn and they need to evolve their selling capabilities.

But at the end, with higher margins, and that's the short-term effect that we have. We lost a little bit of products that were more easy to sell, less profitability, such as dental and things like that, and we were into more comprehensive products. I think looking forward, you should expect, you know, that the evolution of clients will keep on improving. I think it's a short-term issue more than a long-term objective of the company.

Max Mishyn: Thank you very much. That's super clear.

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

Beatriz Izard: Thank you. I believe we have no further questions through the platform. So thanks a lot for joining us today and for your questions. As always, the Investor Relations team is here to help you if you have any further queries. Thank you very much, Carlos.

Carlos Rodríguez Ugarte: Thank you. Thank you very much to you all. Have a nice day.