Call for Analysts and Investors

Transcript

23 July 2025 | 10:00 AM CET

Speakers:

Carlos Rodríguez-Ugarte

Beatriz Izard

Presentation

Beatriz Izard
Investor Relations

Good morning to all of you, and thank you for joining the call today. Welcome to Linea Directa's first half results conference call. Presenting today is Carlos Rodriguez Ugarte, our CFO. After the presentation, we'll open up the call to Q&A.

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 half of the year.

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

In a nutshell, we are delivering high organic growth and profitability, excellent return on equity and strong balance sheet:

- Business growth accelerated to 10.8%, with Motor at 11%, Home at 7.5% and Health at 13.6%.
- The portfolio of customers grew in more than 241 thousand policies, to 3.58 million.
- Combined ratio stood at 92.3%, down 3.2 percentage points.
- Net income rose to 43.8 million euros.
- Return on average equity rose to 23%, and, finally,
- Solvency increased to 193.2%.

Moving to page number 6

Here the message I would like to convey is consistent with what we said in 2024: further acceleration in the top line and sound retention levels, by increasing the loyalty of our customers and attracting new ones to our brand.

We posted a better underwriting result from strong revenue growth and sound six-months combined ratio, with further improvement in claims and expenses.

The evolution of the financial result was remarkable, up 33.9% with higher income from the bond and equity portfolio and the significant revaluation of investment funds

And all this led us to a profit after tax of 43.8 million euros, up 72% over the six months of 2024.

As with regards business volumes and clients, all lines of business reported significant growth. Worthwhile to mention the Motor segment, with 62 thousand new clients in the second quarter. In Health, our more comprehensive products grew 13.6%

Moving to page number 8, the positive evolution on the combined ratio was very solid: from 95.5% in the first half of 2024 to 92.3% as of June 2025, down 3.2 percentage points.

Once again, I will like to reinforce key messages: careful subscription and tight cost control. 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 second quarter, with premiums up 11% on the back of improved sales and retention. We were able to exceed the market growth in more than 2 percentage points. The combined ratio stood at an excellent 92%, down 3.6 percentage points as compared to the first half of 2024.

Also, the Home line of business posted significant growth, with premiums up 7.5% in the first half of the year. The combined ratio continues to be exceptional at 88.9%.

Moving to page number 11, Health posted growth of 13.6%. The figures are benefiting from more comprehensive products. Specialists and complete products now account for more than 64% of the portfolio, which compares to 57% as of last year.

On the technical side, loss ratio was driven by the increase in hospital scales. Conversely, frequencies are declining.

Moving to page number 12, financial result was up 33.9%, driven mainly by the increase in the mark-to market of mutual funds. We also posted an increase in income in the bond and equity portfolios.

Also, let's remind last year we had an impairment of 1.3 million euro in the Atos bond.

As with regards the composition of the investment portfolio, government bonds gained further weight in the second quarter, with longer duration, which rose to 4 years.

The underlying return of the portfolio stands at 322 basis points and average reinvestment yield stood at 261 basis points in the quarter.

On our solvency position, solvency margin rose to 193.2%, which compares to 180.2% in the first three months of the year. The latter has been already adjusted for the first interim dividend of 2025 of 15 million euros.

Owned funds were driven by the result of the quarter, the positive development in the available for sale portfolio and the best estimate for premiums. A more consistent calculation has been performed in parallel with the development of our internal model for premium risk.

SCR increase was a function of market risk, on the back of the deterioration of the symmetrical adjustment and spread risk. Underwriting risk grew reflecting business growth.

To conclude, June results were strong. We delivered very consistent results.

We are also developing the necessary basis for our future ambitions, and much is expected from us in the upcoming years.

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

Q&A

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

Moderator: Ladies and gentlemen, we will now begin the Q&A session. If you would like to ask a question, please press *5 on your telephone keypad.

If you change your mind, please press *5 again. Please ensure that your device is unmuted locally before proceeding with your question. The first question comes from Max Mishyn from JB Capital.

Now your line is open.

Max Mishyn: Hi. Good morning, Carlos and Bea. Thanks for the presentation and taking our questions. I have two. The first one is on the motor insurance.

You're capturing new customers strongly, and I was wondering if you could share more colour on what type of coverage the new customers choose. Also, are they mainly new car buyers or customers coming from other companies?

And then the second question is on home insurance. Any chance you could walk us through the combined ratio in the quarter? Were there any extraordinary impacts, and what are your expectations for the rest of the year? Thank you.

Carlos Rodríguez Ugarte: Thank you very much, Max. Regarding the motor insurance, I mean, those 62,000 clients that we gathered in the second quarter, and the almost 50,000 that we got in the first quarter, I mean, they come from competition and from new car sales. Linea Directa is a player in the new car sales, but it's a player in any transaction. So we are gathering from the market and we are also gathering from the new business.

And regarding the type of clients that we are gathering in terms of portfolio mix, it's very similar to what we have. I mean, we are a company very much focused on third party insurance. We also have some fully comprehensive, but basically, it's very similar to the mix of products that we have.

So, gathering from the market, getting new clients so that are buying new cars. As you know, car sales are increasing in Spain in the neighborhood of 800,000 to 900,000 per year. So, we are gathering there. And then in terms of mix of the portfolio, very similar to what we have.

Regarding the home business and the combined ratio, combined ratio is good and very healthy in the neighborhood of 89%. Nothing weird there, very much in line with what we have been posting in the last quarters since the end of last year. So, well, we'll see the latest rains and how they impact the business. We'll see what happens in autumn where rain comes into place. Very confident that our levels of combined ratio will be in those grounds throughout the year, in the neighborhood of those 90%.

Moderator: The next question comes from David Barma from Bank of America. Now your line is open.

David Barma: Good morning. Two questions on motor, please. To start with, it seems the average premium growth accelerated a bit in Q2, which is a bit at odds with what we discussed last quarter. Can you talk about new business pricing, please, and how it has evolved since Q1?

And then staying on motor, the loss ratio ticked up a little bit by two percentage points compared to Q1. Can you explain what's going on there? Is it frequency or a little bit more weather? Can you just discuss that, please? Thank you.

Carlos Rodríguez Ugarte: Thank you very much. Regarding the average premium on the motor insurance, it is true that probably in the last quarter we have increased our average premium on the new business a little bit. Well, in the end, as I always say, we try to individualize prices on our clients and try to adjust pricing to risk premiums. So, in the end, it's a matter of risk premiums and adjusting prices.

The market is increasing average premiums above 7%. In our case, I think our new business is still below that. So, we are taking advantage of that and we are taking advantage of the homework we did in the past.

And regarding the loss ratio in the combined ratio of the motor insurance, well, I think it's very similar. There are no major changes. I mean, there could be some seasonable impacts, but in the end, I am very, very happy with the loss ratio of the motor insurance, especially since having recently gathered more than 100,000 new clients to the business.

David Barma: Thank you. Can you just share from your view what the new business pricing was on average in Q1 and Q2, please?

Carlos Rodríguez Ugarte: Well, I don't know what you mean by the average. You mean the average pricing of that? I think the average price for the new business is increasing in the neighborhood of 5-6%, something like that.

David Barma: And that was lower in Q1, right?

Carlos Rodriguez Ugarte: Yeah, it was lower in Q1.

But I mean, we don't have a yearly strategy on average premiums. we tend to adjust pricing according to how we see the situation and according to the risk premium of each client.

I think one of the beauties of Linea Directa is our capacity to change strategies in terms of pricing and in terms of gathering clients much faster than traditional companies, they have more difficulties with that. So basically, it's a strategy that is always ongoing.

David Barma: Thank you.

Moderator: Next question comes from Carlos Peixoto from CaixaBank. Now, your line is open.

Carlos Peixoto: Yes. Hi. Good morning.

A couple of questions from my side as well. On the motor segment, maybe if you could discuss a bit how you expect the evolution of gross premiums throughout the year, what type of growth should we see at year-end? Should we expect it to be at double digit and how does that break down into policy growth and price increases? Still within the motor segment, what is your expectations on the combined ratio evolution for the second half of the year, do you expect it to remain at low 90s in the year as a whole?

And then if I may, just a third question on the home insurance business. We've seen an improvement of two percentage points in the combined ratio in the quarter.

I just wanted to see whether there was here any specific item driving this improvement, whether you see these levels as sustainable or perhaps if you could give us some range on where you think the combined ratio will be throughout the year. Thank you.

Carlos Rodriguez Ugarte: Thank you very much, Carlos.

On the motor segment, the evolution of the gross written premiums has been excellent since last year. Almost one year and a half ago, our growth was in the neighborhood of 2-3%, and now we are on a standalone basis around 12%. Our evolution of sales and especially the evolution of retention has been very, very positive throughout the year.

My expectation is that we will be able to maintain those levels of extraordinary retention and those levels of sales. So I hope that we will be able to be at those levels of double digit growth. The most important thing is that we have been able to overcome the market growth by far.

Market growth as of June was in the neighborhood of 9% and standalone on the Q2 was 8.7%, whereas in our case, standalone, Q2 growth is 12%. So very, very good news there.

In terms of the combined ratio, we posted 92%, which is basically the same as we did on Q1. We feel very comfortable on those grounds. Of course, it depends very much on frequency and also average cost.

We'll see what happens throughout the year. We have summertime now that people go out with a car. We'll see what happens with frequency and severity.

But again, I mean, being on those levels close to 90 where the company feels comfortable, we should be there in the medium to long term.

And regarding the home insurance business, well, it's a matter of more than frequency than average cost. Average cost is more difficult to manage in the home business. Evolution of the frequency has been good. It is true that we have some rain throughout the semester. But again, frequency is performing quite well and also the earned premium is performing quite well, which is the other part of the equation.

So again, as I said in the previous question, my expectation is that we should be in those grounds, low 90s combined ratio.

Moderator: The next question comes from Francisco Riquel from Alantra. Now your line is open.

Francisco Riquel: Yes, hello. Thank you for taking my questions. My first one is if you can please elaborate on the BEL for premiums and claims in the second quarter, what is driving the increase in 15 million euros during the quarter? And connected to this, how can you reassure on the underwriting risk of the new business that you are taking?

And then my second question is the growth in policies is remarkable, but it comes mainly from the motor business, which is the growth engine. You mentioned in the budget you were trying to focus on cross-selling, but home and health insurance, the growth in policies is lagging behind. So if you have any plans to reverse this trend and improve cross-selling. Thank you.

Carlos Rodriguez Ugarte: Thank you very much, Paco. Well, the evolution of the best estimate of premiums in the solvency ratio is very similar to other years. It has some seasonality sometimes, but it is true that it added 15 million in funds available for solvency. We’ll see the evolution of that, but no concerns in terms of the risk-profiling of customers that we are gathering. We are following very closely the evolution of these 115,000 new clients that we put into the company. We look at the frequencies in the short term (3 months, 6 months) and so far the evolution of risk profiling is very good.

So, in the end, it's not a matter that we are gathering clients with a worse risk profile than the rest of the portfolio. We'll see what happens on the best estimate of premiums because it has some seasonality, but again, no concerns.

And on the growth in policies, I think we put 20,000 new clients on the home insurance, which of course, is not the 115,000 clients that we have put on motor insurance. But we are happy. We are gathering clients, which I think is a good sign. We have to keep on working on the home insurance.

And then on the health insurance. We came from a 1Q where we lost around 5,000 clients and now we are more or less on break-even. What we decided last year after making all the organisational changes in terms of selling distribution was to focus more on sticky products, such as “Specialist” and “Complete”. I think it's working. The growth there is 13.6%, which is very good.

But we need a little bit more time to see that in the total number of clients of health. So, again, very happy with the motor insurance business. Happy with the home insurance business, we need a little bit more, but 20,000 clients gathered is a good number.

And in the health insurance business, you should expect on the last part of the year that the portfolio will keep on improving.

Beatriz Izard: And just to add about how can we reassure about the underwriting risk regarding the best estimate for premiums. This is a very positive message. It's on the contrary. In solvency II, this provision is a margin of future premiums, of premiums that you haven't earned on the P&L. So precisely we are reassuring about the subscription that we are doing and the pricing that we are doing. So, this is, on the contrary, very reassuring.

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: Thank you. We will now proceed with the questions received through the webcast. We have one question coming from Marisa Mazo from GVC Gaesco.

Buenos días, Marisa. She's asking about other insurance businesses. What is the key driver of specific insurance businesses that is driving growth? Why are the acquisition costs so high in the 2Q?

Carlos Rodriguez Ugarte: Well, thank you very much, Marisa.

Starting from the last part of your question, acquisition cost is higher than on the previous quarter because we have launched our commercial/retail line of business. We put some effort into acquisition costs there. I think the evolution of the new products is performing quite well. Keep in mind that in the last few years, we launched anti-occupancy insurance. We launched pet insurance; we have launched the retail/commercial insurance since April. And all things together, our technical result is already in breakeven or almost in breakeven, so very happy.

Acquisition costs, well, basically making some effort in terms of marketing, brand awareness, and so on in the new type of process that we have.

Beatriz Izard: Thank you Carlos, and thanks a lot for joining us today and for your questions. As always, the Investor Relations team is here to help you should you have any further queries.

Carlos Rodríguez Ugarte: Thank you very much and have a nice summer.