



Call for Analysts and Investors

Transcript

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Speakers:

Carlos Rodríguez-Ugarte

Beatriz Izard

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Head of Investor Relations, Linea Directa

Good morning to all of you, and thank you for joining the call today. Welcome to Linea Directa's third quarter results conference call. My name is Beatriz Izard, I'm head of Investor Relations. 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, Linea Directa

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

I will start, as always, on the first slide by commenting on the financial highlights for the quarter.

- We are reporting premiums of 844 million euro, which is an exceptional growth of 11.4%.
- By line of business, Motor grew 11.8%, Home 7.3% and Health 13.9%
- The portfolio of customers recorded an outstanding growth of 8.1%, reaching 3.65 million clients as of September 2025.
- Despite a few high severity claims experienced in the quarter, combined ratio was a solid 93.4%
- Our highly efficient capital model translated into a Return on Equity of 22.3% and,
- Solvency stood at 189%, which is supportive, of course, of future capital distributions.

Moving to page number 6

Here the message I would like to convey is consistent with what we said in previous quarters: 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 accelerated commercial digital initiatives, aiming at improving top line development and efficiency in the coming years. It's always important to remember that growth can easily be achieved in our industry, but disciplined growth is a different story, and we only seek the latter.

We posted a worse underwriting result in the third quarter from a few high severity claims, and still, combined ratio was sound at 93.4% for the first nine months of the year. Expense ratio posted a further improvement.

Financial result was up 18.9% with higher income from the bond and equity portfolio and the revaluation of investment funds.

And all this led us to a profit after tax of 60 million euro, up 46% over the nine months of 2024.

As with regards business volumes and clients, all lines of business reported significant growth, particularly the Motor line of business, with more than 53 thousand new clients in the quarter. We are very pleased with this progress. In Health, we resumed growth, even

considering the extraordinary dental campaigns of 2024. Excluding this effect, clients would have grown by 9.8%.

Moving to page number 8, the evolution on the combined ratio was solid, despite a seasonally adverse quarter with a handful of high severity claims.

We continue to invest in data and tech capabilities that will improve efficiency and customer experience. We consider the expense ratio to be a key competitive advantage and remain very focused on this.

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

In Motor, we further accelerated growth, with premiums up 11.8% year-on-year and 13.3% in the quarter. We were able to exceed the market growth by more than 3 percentage points. The combined ratio stood at a solid 93.4% for the nine months. For the quarter standalone, a handful of high severity claims in the summer months added 2.3 percentage points. Excluding this effect, the underlying combined ratio stands at 94%, and this is the level we also forecast for year-end.

For its part, the Home line of business posted significant growth, with premiums up 7.3%. Profitability for the year continues to be remarkable with combined ratios below 90s. The quarter standalone stood at 87%.

Moving to page number 11, Health posted growth of 13.9%. The figures are benefiting from more comprehensive products. Specialists and complete products now account for more than 65% of the portfolio. Very importantly, we were also resuming customer growth.

On the technical side, combined ratio posted a further improvement

Moving to the financial result, we posted higher income on bonds and equity instruments. The mark-to-market of investment funds was very positive in the year, particularly in the first half and less in the third quarter.

The investment property result declined due to the temporary loss of rental income from a building under renovation at the city centre. Completion is expected by the end of 2026, after which an updated rental income will resume.

As with regards the investment portfolio, its composition remained pretty much stable in the third quarter, with the portfolio excluding cash increasing to 1.2 billion on the back of business growth.

The underlying return stood at 313 basis points. Average reinvestment yield for the fixed income portfolio was 249 basis points. Its duration is currently 4 years.

On our solvency position, solvency margin stood at 189%. As we anticipated last quarter, a more consistent calculation has been performed in parallel with the development of our internal model for premium risk. Given the quarterly volatility while we calibrate the tool it is more appropriate to look at it on a yearly basis.

Moving to the next page, SCR is mainly driven by underwriting risk, increasing as a result of business growth, and market risk, on the back of interest and spread risk and the significant increase in the year of the symmetrical adjustment.

The second dividend, if the Board decides to do so, is expected to be announced before year-end.

To conclude, September results posted exceptional growth. Underwriting remains prudent. Combined ratio was also solid in the quarter despite headwinds from a few severe accidents.

We continue developing the necessary basis for our future ambitions and remain very focused on efficiency.

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 David Barma from Bank of America.

David Barma

Analyst, Bank of America

Firstly, on the Motor profitability in the quarter, the 94% underlying you flagged is still deteriorating a bit compared to the last several quarters. Can you talk about that level and what you're seeing in terms of underlying frequency and severity? And then secondly, on the reserve adjustments and solvency that you talked about. Can you please come back on what you did there? And whether that's mostly a model change one-off, taking back part of what you had done in the previous quarter? And then lastly, on average premium growth. It seems like it's starting to slow a little bit in Q3, both in Motor and in Property. So if you could give us an update on pricing trends.

Carlos Rodríguez-Ugarte

Chief Financial Officer, Linea Directa

Thank you very much, David. In terms of the Motor business profitability, which is very much linked to the combined ratio, it is true that our combined ratio on the stand-alone quarter is in the neighbourhood of 96.2%, I think. But we need to look at the picture on the entire year, which is very close to 94%. What happened on the third quarter, which is something that happens usually historically, if you take a look at the history of our combined ratio, I think in almost all of the third quarters, our combined ratio is worse than the second quarter. What happened on this 3Q, frequency was more or less in line with what we expected. Average cost was also very much in line, although average cost has been increased by a handful of severe claims, especially bodily injury claims, which I must say is sometimes they come, sometimes they go. What we did is we took a look at these claims, whether they are very much impacted by the new business or not. And we see that basically those severe claims,

most of them are on the portfolio, so very comfortable in terms of how we are gathering clients in terms of risk profiling.

But again, I mean, when you have a handful of severe claims in the neighbourhood of EUR 5 million, it has an impact of 2 points on our combined ratio. Looking forward, our expectation is still that we are doing things on the track we wanted, gathering clients with good risk profile. Frequency is still very much in line with our expectations. And if the last quarter of the year performs well in terms of severity, we should be shooting for a combined ratio, which is more close to low mid-95s than above 95%. That's my expectations. In terms of solvency, it is true that we've been calibrating a new platform, which is not a change in the model. I mean, it's basically calibrating the model. I think it's a one-off. Of course, you also have to take a look at the premium provision, which has a lot of seasonality throughout the year. It's very positive on the second quarter, and then it's a little bit worse on the third quarter. Looking forward on the year-to-date picture, I mean, that premium provision is very positive for the capital, and it should be that the case for the end of the year. And again, we are talking about a company which still has 190% solvency ratio, which is very good. And third quarter solvency has a little bit of a seasonal effect. And I think we need to look at solvency on a yearly basis.

And on the average premium, there is not a change on the strategy. I think the evolution of the company in terms of pricing is very much linked to the risk premium, and we focus on that. So we adjust premiums based on that. If we take a look at the year, our average premium for the new business and for the portfolio are very much in line. In the core business, which is the bulk of our business, individuals is very much into the 2% to 2.2% increase and it's adjusted on an individual basis. So it's not a strategy that we will start to lower average premiums. Indeed, if you take a look at the CPI increase in Spain, it's picking up a little bit, now it's in the neighbourhood of 3%, 2.3% on the underlying CPI. And we will adjust premiums on that ground looking forward next year, again, on an individual basis. But still, I think we need to keep on adjusting our premiums to CPI increases.

Francisco Riquel

Analyst, Alantra Equities

My first one is a follow-up on this Motor combined ratio. So you printed 92% combined ratio in the first half of the year in Motor. So excluding the large loss claims that you mentioned and also the adverse seasonality in the Q3 due to the summer season, shall we expect a combined ratio in Motor back down to 92% in the Q4? If not, how can you reassure us that the fast growth in Motor policies is not coming at the expense of underwriting risk? And my second question is, I wonder if you can also share the weight of digital in the Motor business, both in terms of the total revenues and in the new business. I understand you are not using the sector database for claims in the digital business. So I wonder if that is having an impact in the risk that you are taking through the digital channels and if you plan any change at all in the digital strategy?

Carlos Rodríguez-Ugarte

Chief Financial Officer, Linea Directa

Thank you very much, Paco. Since you follow our numbers on a quarterly basis, probably you can go back to my script on June, and I was saying that 92% on a quarterly basis was too good to be true. We are a company that should be more in line to that 94% or something

like that. My expectations looking forward for the year is that we should stand in that level. It's kind of difficult to give you a number, but I always said that 92% was very good, and we are very happy to be on 92%, but I think the company should maneuver in the neighbourhood of 94%, especially in an industry that, as you know, combined ratio is still on 99% as of June, 98.7%. So our positive gap is still there. And looking at the third quarter, well, I tried to explain that, we have 2.3 points on the combined ratio on the third quarter that are basically due to severe claims that are very difficult to manage. Again, it's very important to say that we do look at the short frequency of the new business. We look at the 30-day, 60-day and 90-day frequency of the business, and that is performing quite well.

Second of all, the main severe claims that we had on the third quarter are assigned to the portfolio and not the new business. So the combination of those two things tell us that we are gathering clients with the risk profiling that we like. We will keep on monitoring that, but there's no concern on the company on those grounds. So looking forward, fourth quarter, things should perform quite well on the portfolio. Things should perform quite well on the new business. My aim is that we should be in the neighbourhood of those mid-90s that I always said should be the target for this year for the company. The second question, I think, was on the digital side of the business. Well, the digital side, the pure digital side, and when I say pure digital side, I mean the online real-time digital business, which is opening the interaction with the company and closing the deal without human interaction is still small.

We are talking about 10% of the gathering of new clients, in the neighbourhood of 70,000 clients. So the impact of and not using SINCO, which is what you are saying, is not very important. I must say that, of course, we follow very much if there are any impacts for not using that database. And really – surprisingly –, the risk profiling of the pure online clients is better than the risk profiling of the clients that use our call center. So we are very happy on that. I don't think that is an area to be worried about. We will keep on fostering our digital proposition to clients. We have more than 3 million digital transactions on a monthly basis from our clients. Almost 100% of our clients are direct. And I think for us, this is key and it's non-negotiable. Of course, we do look at the risk profiling, and we are very happy on the profile of those 70,000 clients that we have gathered on the year through our digital proposition.

Carlos Peixoto

Analyst, CaixaBank

A follow-up actually from my side. So you mentioned an expectation of combined ratio around 94% for 2025, if I understood correctly. I was just wondering if you could clarify whether this is for the Motor business standalone for the company? And then on the second part of the question, looking into 2026 and beyond, do you see the 94% as a combined ratio as a normalized level for Línea Directa? Or where do you see it over the coming years basically?

Carlos Rodríguez-Ugarte

Chief Financial Officer, Línea Directa

On the combined ratio by the end of the year, again, our expectation is to be in those mid-90s, below mid-90s. Of course, I don't have a crystal ball. It depends on a lot of many things. What we have to do is to manage our risk profile as we do, and that should put the company in those rounds. In terms of the overall company combined ratio, it's very much still driven by

the motor business. Indeed, our combined ratio year-to-date is very similar, 93.4% in both Motor and the overall company should – the company is still driven by the motor business. Of course, if we take a look at the other 2 main business that we have. Home insurance performed superb throughout the year with a combined ratio below 90%. Of course, we are very happy about that, and we look forward to maintaining those levels by the end of the year. We will see what happened with the atmospheric events. Atmospherics this year have been kind of mild, and we'll see what happens, but very happy with that business, growing almost 8% in gross written premiums, and we have a very good combined ratio.

Health business, also the combined ratio keeps on improving. Again, it is still a loss-making business, but we are very happy with the growth on the top line, growing above the market quarter-on-quarter. So very happy with that.

So overall combined ratio should be very much in line with the motor business, if we take a look at the company. And looking forward to 2026, I don't have a target on the combined ratio. We are currently involved in the budget for next year, so I still don't have numbers for that. I think we have always said that we should be a company with the best combined ratio in the sector and one of the best in the Pan-European picture. And that means that we should be on those grounds, around 94-95. This being said, combined ratio evolution depends very much on how our expense ratio behaves. Our expense ratio has improved, again, almost 100 basis points, which is a very good number for the quarter, and it should keep on improving with our digital proposition. And that, in the medium term, should keep pressuring the combined ratio downwards for the company.

Maksym Mishyn
Analyst, JB Capital

I have two questions. Specifically on the new production, given the strong numbers you are posting in Motor, I was wondering, what's your ambition for the market share in the segment in the long term? And then the second question is, if you could share a bit of more colour on what kind of customers you are adding? Are there mainly first-time buyers that come from other companies? And what type of coverage do you sell the most? That would be super helpful.

Carlos Rodríguez-Ugarte
Chief Financial Officer, Linea Directa

Thank you very much. Starting from the last question, our new business mix is very much similar to what we already have in our portfolio. I mean, we are a company that is more focused on third party liabilities than in fully comprehensive. And that is more or less the trend with the new gathering of clients. What type of clients are we gathering? Well, we are very strong on the new business, on new car buyers and also on second-hand cars. We have always been very powerful on those grounds. Our market share there is well above our natural market share, which is in the neighbourhood of 7%. So I think our share on new business (new cars) is in the neighbourhood of 10%. So we are there, and we are gathering clients from there. But then we are also gathering clients from competition. If you take a look at competition, they are losing portfolio and some of those clients are coming into Linea Directa.

In terms of gathering of clients, no targets on that. Our ambition is to grow more than the market, and it's something that we are achieving in terms of gross written premiums. Our gross written premiums are well above 11% and the market is in the neighbourhood of 8.58%, and that is a trend. What we want is to be a company that is able to grow more than the market, and that growth will be achieved in gathering a good number of clients. We have been gathering 50,000 clients more or less on a quarterly basis, and it's something that you should expect by the end of the year.

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 help you should you have any further needs.

Carlos Rodríguez-Ugarte

Chief Financial Officer, Linea Directa

Thank you very much and have a nice day.