Call for Analysts and Investors

Transcript

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Speakers:

Carlos Rodríguez-Ugarte

Beatriz Izard

Presentation

Beatriz Izard
Investor Relations

Good morning everyone, and welcome to our December 2024 results. I am Beatriz Izard, Head of Investor relations here at Linea Directa.

As usual, we will first walk you through the slides and then we'll be happy to take any questions you may have.

Now let me turn the call over to our CFO, Carlos Rodriguez-Ugarte.

Carlos Rodríguez Ugarte
Chief Financial Officer

Thanks a lot, Beatriz, good morning and thank you for joining us

Before I kick off there are a few things I would like to highlight.

One is taking a more holistic view on who we are at Linea Directa. Almost 4 years have passed since the listing and I would like to remember the context of what we've been through in these years.

And I just wanted to take you through some of the macroeconomic headwinds we have experienced. One of them is the inflationary environment. In Spain it was very benign and stable and then overnight it skyrocketed. For any insurance operator, inflation is the worst enemy, especially when it comes suddenly and abrupt. This is something we had to tackle.

In addition, we have seen geopolitical uncertainties, COVID and war in Ukraine. Besides, the value chain was impacted globally. All things together, there's been a lot of uncertainty around us.

At Linea Directa we had to manage all this context but, at the same time and, most importantly, we have kept working on the projects and initiatives that we'll take us into the future.

So here we are:

First, a leading brand which is the Company's largest asset. Our strong franchise is a key Company asset and is crucial in driving Company's growth. Linea Directa is the number 1 insurance brand searched in google and leader in advertising awareness. We also count with a dynamic media strategy ensuring ROI.

We are committed to be the reference company in transparency, simplicity and delivering always good prices. Priority for the next period is to further accelerate the customer experience to earn customer loyalty and drive financial impact.

Second, as you can see, Linea Directa is not just the brand. We are committed to bring the direct model to excellence and, moreover, to bring digitalisation wherever our clients prefer to interact with us in this way.

90% of our clients are already digital, and they demand best in class digital assets. Efficiency and digitalisation are an intrinsic part of the culture at Linea Directa. All this translate into our extraordinary expense ratios. We will continue to deliver.

Two pillars sustain our ambition: growth and transformation

- Our ambition must generate growth and resilient development in our insurance margin, expanding our product offering with less dependence on Motor. And, notably, obtaining outstanding returns on capital.
- We must deliver in productivity and reduction in administration cost. We continue to make massive steps in digitalisation.
- We've improved our pricing models, alongside with continuous improvement in risk selection.
- Our technological capabilities are constantly being optimised. We also intend to further leverage the data model to enable better decision making.
- I would like to stress our robust solvency and prudent investment portfolio, and
- Finally, nothing of this would be possible without a strong corporate culture and people highly responsive to changing work environment, as recently demonstrated.

To close this section, sustainability and ESG are embedded in our day-to-day operations, as shown by the continuous improvement in our commitments, marks and ratios.

Without further delay I would like to move to section 2 on results.

In page 12 you will find the usual snapshot.

We are very happy to deliver an excellent set of results which are very much in line with our guidance along the year:

- Business growth accelerated in the last quarter: premiums grew 4.8 and 8.6% for the 12 and fourth quarter, respectively. The portfolio of clients multiplied by 1.5 times as compared to the third quarter.
- Combined ratio was excellent and stood at 94.7% for the entire year and 92.6% in the quarter.
- Return on average equity rose to a more than remarkable 19.6%, and
- We are pleased to propose to the AGM a complementary dividend of 15 million euro. Solvency ratio maintains its strength at 185% considering for that.

Turning to page number 13

Here I would like to highlight, once again, the acceleration in the top line. We expect this trend to continue in 2025.

We had 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 16% with higher income from the bond portfolio.

All this led us to a profit after tax of 64.2 million, which compares to the loss of 4.4 million euro over the same period of last year, a turnaround of more than 68 million euro.

As with regards business volumes and clients, all lines of business reported significant growth, both in premiums and policyholders. Growth sped up in the 4Q.

Moving to page number 15, the progression of combined ratio was remarkable: from 104.1% in 2023 to 94.7% for the twelve months of the year, down 9.4 percentage points:

- Loss ratio was the main driver of this important improvement, as the actions carried out have been earned in the income statement
- The ongoing effort on administration expenses also paid off with a progressive improvement; and
- We also achieved greater efficiency in customer acquisition.

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

In Motor, we further accelerated growth in the 4Q on the back of improved sales and retention. Premium grew 8.2% in the fourth quarter.

The combined ratio stood at an excellent 94.8% and 93% in the quarter standalone

Also the Home line of business accelerated its growth in the fourth quarter: clients multiplied by 2.5 times versus the third quarter and premiums rose by 8% year on year.

Combined ratio was extraordinary for the year and for the quarter, and stood at 88.3% and 84.1%, respectively.

Moving to page 18, In the Health line of business: it has been a success to sell under the Linea Directa brand and incorporate the Health operations under the same Company umbrella. We were also able to cross sell significantly to our portfolio. Health posted an outstanding growth of more than 17% in the fourth quarter and the mix benefited from more comprehensive products.

This growth was not at the expense of risk appetite, we have cemented our underwriting discipline and risk selection, and frequencies were lower than those of last year.

Moving to page 19, financial result was up 16.6%, driven mainly by higher income from the fixed income portfolio.

As usual, we show the credited interest in a separate item. Remember that this reflects financial unwinding of the claims provision for the prior year. The increase is explained as 2023 was a year of higher interest rates.

As with regards the investment portfolio, no major changes. Only to mention corporate bonds have gained some weight in the portfolio, we were seeking for higher yields.

The return of the portfolio stands at 325 basis points and average reinvestment yield stood at 355 basis points for the year.

Moving on to our solvency position, Solvency margin stood at 185.4%. This is taking into consideration the proposal of a complementary dividend for an amount of 15 million euro. If this additional dividend is approved by the AGM, pay out ratio would stand at 70%.

The bridge of own funds basically shows the positive contribution of earnings and the subtraction of both the 15 million dividend paid on December 19th and the proposal of the complementary dividend for another 15 million euro.

Then, SCR remained stable in the quarter.

On the one hand we recorded lower market risk on the back of reduced equity exposure and the decline of the symmetrical adjustment provided by EIOPA.

On the other hand, Nonlife risk was steady with two opposite effects: as of year-end we updated the specific parameter. The USP improved due to lower volatility and improved combined ratios in the Motor line of business. The increase of SCR due to increased business volumes was more than offset by improved USP.

To conclude, December results were strong. The Company was able to accelerate further client and revenue growth, whilst improving considerably its combined ratio.

As I commented at the beginning of my presentation, we had to tackle in the past with inflation and plenty of uncertainties but, most important of all, we didn't overlooked projects that will take us into the future. Our customer centric strategy and the capabilities to further accelerate growth and transformation have been built.

I think the Company is better prepared for 2025 and the following years. We have now a better Company to succeed in our growth ambitions.

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

Q&A

Beatriz: Thank you for the presentation, Carlos. First, 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.

Our first question comes from the line of Max Mishyn from JB Capital.

Max Mishyn: Hi, good morning. Thank you very much for the presentation and taking our questions.

I have 3. The first one is regarding outlook for motor. Congratulations on the improvement in the results, but I was wondering what should we expect for 2025? If you could guide us for your expectations on growth in the number of clients, average premiums and combined ratio, that would be very helpful. The second is on home portfolio. What kind of normalized combined ratio should we expect going forward after the strong first quarter? And then the last question is on financial income. It picked up quarter-on-quarter to EUR 13 million, excluding expenses. And I was wondering if this is a result of increase in the investment portfolio, and should we assume it is the run rate for the next quarters? Thank you

Carlos Rodriguez Ugarte: Muchas gracias, Max. Thank you very much, Max.

Well, the first question on the outlook for motor. Well, I think the evolution of motor throughout the years has been very much in line with what we said at the beginning of the year, I mean, from less to more, and I think you should expect that evolution looking forward on 2025.

In terms of volume of clients, we have increased the gathering of clients in the third quarter. We have increased the gathering of clients in the fourth quarter, and you should expect 2025 to be a year of even more gathering in terms of clients. So the outlook there, I think it's going to be quite good.

We'll see what happens with the market. We need to see what the market is going to do in terms of pricing and so on, but my expectation is that market will keep on rising average premiums.

In our case, average premiums, again, in an individual case-by-case, we will adjust average premiums accordingly to the risk premiums of the clients, so you should expect increases close to CPI.

And then in terms of combined ratio, I always say the same thing. Our intention is to keep on improving our combined ratio. I think the combined ratio in 2024 has been more than positive. I think it has been extraordinary, the comeback on the combined ratio, and we'll see what happens in 2025, but I expect improvement on that.

Home insurance, great year in home insurance. Combined ratio in the neighbourhood of 88%, which I think is very, very positive. I think the market as a whole is going to post a good combined ratio on the home business.

But again, as we get scale on the home business, and the growth for the last quarter has been very, very strong in terms of 8% growth in gross written premium, that will help us on the combined ratio, so combined ratio should be in the neighbourhood of low 90s.

And in terms of the portfolio, the reason of the portfolio and evolution of the portfolio is because we have taken advantage of the yields, especially on the corporate side of the fixed income portfolio. We also have a lot of liquidity to invest because the growth in volumes allow us to have much more volume to invest.

But we didn't change much the mix of the investment portfolio, very oriented to fixed income instruments, more than equity. Equity more or less on the same grounds as last year, and the venture capital and so on, very much in line with last year. So the increase in the investment income is more due to the increased capacity to invest than to a change in the portfolio mix.

Max Mishyn: Thank you very much, very clear.

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

Francisco Riquel: Yes, good morning. Thank you for taking my questions. The first one is on the digital strategy that you mentioned in the presentation.

If you can elaborate a bit more on the shift towards digital, how much of the sales are fully originated through digital channels? Where do you want to reach and when? Or if the digital strategy is more towards improving efficiency or new business, if you can please elaborate a bit more on this new strategy.

The second question is on the combined ratio evolution. You mentioned that you plan to increase tariffs closer to inflation. So, the question is how do you plan to improve the combined ratio from the Q4 levels? On loss ratio, do you expect to improve the risk underwriting further? How can you reassure on this? Or in the expense ratio, any efficiency measures that you can share with us? Thank you.

Carlos Rodriguez Ugarte: Thank you very much, Paco.

Well, I think the second question is very much related as well with the first question. I suppose you are talking about the motor business.

I think the combined ratio should improve by improving our expense ratio more than improving our risk profiling. The company is very comfortable in terms of the risk profile that we have on the book and it is not going to be something that we will change.

On the other hand, I think expense ratio should keep on improving. I think we have improved the expense ratio basically 100 basis points throughout the year and I think we should keep on doing that.

How? By being more efficient, by being more digital and, therefore, lowering our expense ratio. For our digital proposition, the goal is not only to reduce our expenses, it's also to provide a much better customer experience. We really, in the company, are believers that digital propositions, alternative channels provide much better customer service to our clients and they provide more opportunities of selling. As of today, more than 60% of the selling origination by clients are done throughout digital channels, even though, still today, most of them are closed over the phone and the idea is to close the loop. The idea is that clients begin their interaction with the company throughout our digital channels and they close the loop through our digital channels.

In terms of goals, we don't have goals in terms of numbers or volumes. We have goals is in terms of directing the company into that digital proposition, which I think is an opportunity since the market is lagging on those grounds. Linea Directa, being almost always a digital company, we should go into those levels.

What we have done is create specific teams with employees from different areas that can focus on manoeuvring the company through our digital proposition and that should pay off in 2025 and ongoing.

Francisco Riquel: Thank you.

Carlos Rodriguez Ugarte: And one of the last things Beatriz was telling me, of course on the combined ratio on motor and on home insurance is that we have to keep an eye on frequency.

Frequency has been quite good throughout the year. Severity has also been quite good throughout the year. My expectation is that next year nothing should change on those grounds.

We'll see what happens with severity, which sometimes is a matter of luck, but frequency should be more or less stable and that will help us also to keep on improving our combined ratio.

Moderator: The next question comes from Carlos Peixoto from CaixaBank. Now your line is open.

Carlos Peixoto: Yes, hi, good morning.

So, a follow-up on combined ratio on the motor business – you mentioned the combined ratio to improve during 2025, are you referring to improvements versus 2024 levels as a whole or regarding the Q4 on a standalone basis? So, just to have the reference on the basis on which you will be improving upon.

And the second question was on shareholder remuneration. If you could give us some guidelines on how do you expect payout to evolve or levels to be at going forward.

Thank you very much.

Carlos Rodriguez Ugarte: Thank you, Carlos. When I'm talking about the combined ratio evolution I'm talking more on a yearly basis than on a quarterly basis.

In the end you have some seasonality in all these numbers. I think we closed on 94.8% on combined ratio, IFRS 17, and the idea here is to improve that.

Where are we going? I really don't have a number to give you. Well, it's something that depends on many things. It depends on frequency, it depends on volumes, and it depends on how the market evolves in terms of pricing.

Again, the idea of the company is to keep on improving the combined ratio. I think there is room for that, especially on the expense ratio. I think we are not happy with that 20.1% in expense ratio. We need to improve that, and the way to do it is to become much more efficient in all we do with clients. So, again, that 95% in which we closed the year should improve in 2025.

And in terms of payout and shareholder remuneration, well, 2023 was a year in which we didn't pay any dividends because we didn't make money. Now that 2024 has been a year of going back to black numbers in the P&L, what we have explained to the market is that this was going to be a year where our Board was going to be very prudent in terms of payout. So, we have paid 30 million euros on 2024 results, and we have a complementary dividend proposition to the AGM which will bring the total dividend payment to 45 million euros for the year, which means a 70% payout.

I think it is clear. The message is that this is a company that, if things go in the right way, should have a high dividend payout ratio. But I don't have a number because, as you know, we distribute dividends based on our solvency ratio levels, which as of today is at 185%, which I think is a good number.

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. Now we will move to the questions received through the platform.

The first question comes from Marisa Mazo from GVC Gaesco. She is asking how much is the increase of Baremo for 2025?

Carlos Rodriguez Ugarte: Hola, Marisa. Thank you very much for your question.

Baremo increased, since pension increases are in 2.8%, the Baremo increase will be 2.8% for new claims, both for new bodily injury claims and for claims that are still on development. Having said that, in the last three or four years, I think the increase in the Baremo has been very close to 20%, so we are quite happy with this 2.8% increase.

Beatriz Izard: Thank you all for your questions. We have no further questions, and thank you very much, Carlos. Thank you all for joining us today. And as always, the Investor Relations team is here to help if you have any further queries.

Carlos Rodriguez Ugarte: Thank you very much and drive carefully. Bye.