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SANTIAGO MONROY

Good morning and thank you for joining Qualitas first quarter 2023 earnings call. I'm Santiago Monroy, Qualitas IRO. Joining us today are Jose Antonio Correa and Bernardo Risoul. As always, discussions in this event may include forward-looking statements. These statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during today's call.

Let's turn it over to Jose Antonio, our CEO, for his remarks.

JOSE ANTONIO CORREA

Thank you, Santiago. Good morning everyone and thank you for joining us today.

During March, we celebrated Qualitas 29th anniversary; throughout these years we have had one goal in mind: to become the best auto insurance company by providing a service that exceeds expectations while creating value to all our stakeholders. By delivering on that promise, we reached market leadership in Mexico 16 years ago and have maintained that position thanks to the trust of agents and policyholders. Industry figures for 2022 continue to reflect the discipline and passion of Qualitas people and the relevance of a DNA focused on service and cost control; we closed the year with a strong momentum, with a 32% market share and, most importantly, profitability well above the industry average.

As part of this year kick off, I travelled around Mexico visiting around 10 states to meet and talk with our office directors and over 1,500 agents; I participated in our claims' officers training workshop as well as in our annual ODQ´s forum. Conversations face to face with all of them provide a direct and unbiased sensibility of the market and actionable feedback of the things that are going well and those that we can do better, and also, identify unmet needs of the market that evolves continuously. Those ideas will continue to set our path and confirm that agents and policyholders will keep seeking best-in-class customer experience and personalized service, where technology complements, but never substitutes the possibility to talk to someone who is capable, willing, and empowered to understand and provide solutions.

Doing so has always paid off, and what a better proof of that than this quarter results where our top line came in ahead of our expectations, growing 25%, and a bottom line that is within the outlined range. Managing cost in this high inflation environment continues to be work in progress, but we have and will keep on taking the right actions, expecting to see an inflection point in the underwriting part of the business by the second half of the year. Net income has been supported by the financial side, where there is no luck, but the result of the actions taken to set our portfolio in a way that will capitalize the benefit from the current high interest rates environment.

One thing that I am pleased to see and certainly helped a strong top line is new car sales performance, making sequential progress towards getting to that point in which supply meets demand, up 24% in the quarter and just shy of 2019 volumes. There are interesting shifts in brands and car types, we are taking proactive actions to set Qualitas as the insurance of choice for all brands, including hybrid and electric vehicles. While we are encouraged with the recovery seen, we are still cautious on stating this as a steep and permanent comeback, given the high interest rates that will eventually impact consumption.

This quarter insurance industry inflation stood at 12% which has a direct correlation with our total loss costs; mainly through our material damages expenses and labor costs, which account for more than 50% of our costs. While we cannot fully absorb this increases and pricing is required, we are seeking efficiencies to mitigate the hit, such as technology developments and vertical integration maximization; on pricing, we have increased them 5.2% when compared to October last year, while additional increases have also taken place during April.

All in, net income posted a 22% grow vs same year ago, and a 12-month ROE stood at 11.5%. We will continue fostering actions to recover our sustainable ranges and increase our underwriting profitability. On this matter, we remain focused on executing on our strategy and as you know, last week we successfully concluded a major share acquisition of a technology company, related to telematics, business intelligence and IoT. This reinforces our commitment to further expand our competitive advantages, specifically targeting a successful and unparallel risk prevention and data analysis focus.

Before we share the financial specifics, let me remind everyone that later this week, we will be holding our annual General Shareholders' Meeting where we are proposing a $5 pesos per share dividend payment, in the high-end range of our policy; this will be the 8th consecutive year Qualitas has paid cash dividends.

In addition, as part of our efforts to strengthen our corporate governance, upon approval, David Coppel Calvo will become an independent member of our Board and Investment Committee. David is currently commercial director and member of the Board in Grupo Coppel, and I am sure that his broad experience in financial markets, retail, and investments, will contribute towards the sustainability of our results.

Furthermore, I am glad to report that yesterday we also communicated that Bernardo Risoul has been appointed by our Board as Deputy CEO of Qualitas Controladora as a recognition to his track record and potential. His appointment will be key to strengthen our leadership position in Mexico as well as to support and consolidate our international auto insurance operations, the beginning of the accidents & health insurance segment and the strengthening of our vertical integration. I am pleased to have Bernardo in this new role and confident on his impact to further accelerate the business through developing and enhancing our organization.

We continue to navigate through the industry cycle, and challenges remain; all Qualitas leadership team is focused on strengthening our unique DNA while taking advantage of those challenges.

And now, I'll pass it to Bernardo for a deep dive in the quarter performance.

BERNARDO RISOUL

Thank you, Jose Antonio and good morning everyone. We have faced a complex environment over the past 18 months, and we continue to deliver industry leading results. Let me provide you more color on this first quarter performance:

Written premiums were up 25%, with the traditional and financial institutions segment accounting for most of the growth, being 31 and 29% above year ago respectively. As eluded before, in addition of having a low comparable base in first quarter 2022, premiums growth was benefited by the tariffs increases over the past year, which accounts for around 60% of this quarter growth; the balance comes from organic volume, where just this quarter we added 191 thousand units taking us to reach 5 million insured units. Hitting this milestone is no small achievement, there are only a few insurance companies that have done so across all emerging markets and also worth noting that it took us 13 years to reach our first million, and only 4 years for this last one.

As you recall, we highlighted strong and aggressive pricing from competition during last year, which combined with the industry inflation, resulted in weak underlying results for the industry as a whole during 2022. Based on AMIS figures, Qualitas Mexico was the only top 5 auto insurance company to post a combined ratio below 100%, standing 8 percentage points below the rest of our peer's average. Being true to pricing and cost control has been and will continue to be fundamental for Qualitas. We understand we are not yet through the high inflation cycle and therefore will continue to adjust prices, always ensuring that our value equations remain attractive to customers. As José Antonio mentioned, just this April we had one more round of increases, especially in the car segment we have set an increase of around 8%.

Regarding our international operation, starting with our US subsidiary, whereas you recall, is in a turnround process with a redefined strategy that seeks to go back to the cross-border segment, where we have a better right to win and where we know we can be profitable; domestic business will be limited to specific niches. Written premiums of this subsidiary decreased 28% during the quarter with cross border premiums growth of 24% did not fully offset the decrease of 55% of our domestic business.

This is fully in line with our expectations and, after our recent reviews, I can tell you that the right actions are being taken: tough decisions are being executed – including pricing and underwriting, the right team with the right focus is now in place, we are regaining proximity to border agents, and while never as quickly as we would like, we are confident we are on the right path.

While it is hard to quantify the potential growth of the cross-border business behind the nearshoring momentum, we know it can be very significant. During this quarter, dozens of companies announced important investments and expansions in the border states, we have 45% market share of the trucks and heavy equipment in Mexico but less than one third of the cross border. The opportunity is clear to be the insurer of choice, the one company that can provide one policy across both countries in each of the 50 border crossing points between Mexico and the US.

Staying on the international arena, but now on Latin America, these subsidiaries kept on its positive performance with 42% average top line growth in dollars; we continue executing on our strategy to accelerate growth and become an engine of profitability was well.

Today, I would like to briefly touch on one of them, Costa Rica where we just crossed 100 thousand insured units. We entered that market 12 years ago, being one of the first private company in what was, up the then, state-owned segment. It was a challenging start, but by truly replicating Qualitas' business model and creating long-term relationship with agents and policyholders, we are currently the solid private leader, only second to the state-owned company, with an 18% market share. Last year we grew +46 this year we are accelerating over 55% growth. ROE now stands at 20% and we have what it takes to continue on that path.

As part of our commitment and the country´s potential, we are making a real estate investment that will also be the home of our San Jose office. Project is not only financially attractive, but also in line with our sustainability commitments aiming to become a Net Zero holding group, the building will have a LEED Silver certification to reduce environmental impact. It hasn't been easy nor fast, but Costa Rica is already a successful story in our international expansion journey, creating value and also being a source of ideas for other markets.

Moving back to our total holding results, our earned premiums are up 20% for the quarter standing at $11.1 bn by March-end. As you recall, earned pace of growth is directly correlated with our technical reserves' behavior; we constituted reserves for ~$1.1 bn pesos, $774 million pesos more of what we constituted in 1Q22. This behavior reflects our strong top line performance in addition to a higher frequency and the continued pressure in our claim's costs.

Now, entering into our costs and ratios, as Jose Antonio explained, we continue to be affected by industry inflation as well as spare parts availability, especially of new brands from Asia that are becoming more relevant in the Mexican auto industry; beyond those two, which we have been dealing with for over a year, we are also seeing a slight increase in frequency standing at 28% for the quarter and also an uplift in robberies. All of this resulted in a 69.4% loss ratio by the end of March, which despite being above our long term 62-65% target, is within our expected trend that was also shared with you all earlier this year.

In addition to constant and gradual tariff adjustments, we recently cancelled 12 months interest free installments, valid since 2020, just leaving 3 and 6 months, which will also translate into a benefit to our underwriting profitability.

Related to spare parts and repairments costs, despite the strong peso as well as an ease in supply chain constraints, we have not yet seen a full stabilization of our costs. We are under an ongoing assessment to try to mitigate some of the increases as well as to find efficiencies with suppliers; while we have early signs of progress, we recognize this will not be immediate. In this quest, our vertical integration continues to become more relevant as we know we have relative advantaged vs balance of the market; that subsidiary grew 54% when excluding intercompany operations versus 1Q22 with non Qualitas customers representing 25% and growing above 50%.

Another trend we´ve been carefully following is robbery and recovery; robberies increased 4% for Qualitas and the industry overall, but still 28% down vs same period 2019. Nevertheless, this quarter thefts represented 16% of Qualitas total claim costs, an increase of 2 percentage points vs same period year ago; this increase was driven by absolute car prices as the average cost of a stolen vehicle was up 35%; as new car sales availability keeps on improving, we could expect used car prices to start decreasing as we are seeing in the US and other markets.

As for the recovery, Qualitas recovered 46% of its stolen units, which is 6 percentage points higher than the rest of the industry average. We are working towards increasing this recovery rate, while reducing risks and frauds.

We continue to expect progress on claims cost during the next quarters and remain confident that the actions taken, coupled with an ease of inflation, will lead us to the expected inflection point towards the second half of the year. As shared in previous quarters, our expectation is that 2023 will still be above the 62%-65% range, but with improvements towards the end of the year setting the base for 2024.

Moving to other metrics; our quarterly acquisition ratio stood at 23.5%. Commissions paid to our agents and financial institutions remain unchanged. In addition, we are making sure agents and brokers bonuses are aligned with our incentives, which include not only premiums growth but also claims ratio.

Operating ratio for the quarter was 2.7%, in line with our expectations and historical average. In this quarter operating costs, we are including employee profit sharing provisions, salary increases reflecting last year's inflation as well as new labor regulation costs in Mexico, related to vacations for employees. As a reference, we distributed a 7% payroll increase based on performance, which recognize with double digit those who outstand against KPIs. Meritocracy and variable compensation are two key components in ensuring full alignment with company´s objective. Our employees are a key element of our organization, so we will make sure to attract, retain and develop top talent and continue to align compensation to this purpose.

All the above, resulted in a combined ratio of 95.7% for the quarter. In current worldwide cycle of the industry, posting a combined ratio below 100% reflects how Qualitas does not only outperforms Mexican peers, but many global peers as well.

Now, on the financial side of the business, I am happy to share that comprehensive financial income stood at $981 million, meaning a 9.8% ROI. As a result of last year's strategy and actions, our portfolio is nicely positioned to benefit from this high interest rate cycle; fixed income investments currently represent 91% of our portfolio from which 57% is allocated in Mexican government bonds, and the rest in local corporate bonds and liquid assets.

Duration of our portfolio currently stands at 1.1 years that compares with the 0.6 years by last year end; this reflects the locking strategy we had anticipated and should expect this to continue in the next months as we will aim to position our portfolio on what are unseen rates in past 3 decades. Yield to maturity stands at 9.2% by March end.

Regarding our equity investments, they closed the quarter representing 9% of our portfolio, a low point in several years but also consistent to shifting funds to the fixed income at high rates. During JFM, we took advantage of the Mexican stock market rally, and we sold some positions. We expect to once again, increase equity exposure during the balance of the year, with an important strategic change decided by the investment committee which is to move away from stock picking towards a more ETF based strategy in which we will also have higher US stock market exposure. This will be gradual transition but have already started.

Bottom-line, we close the quarter with $897 million net income, representing a 7% net margin and an increase of 22% versus first quarter 2022; tax rate for the quarter was 24% more align with our historical average.

In addition to what we previously shared, as part of our capital allocation strategy we successfully concluded a majority share acquisition in a technology and software company based in the US, with operations in Mexico, Costa Rica and Colombia. Valuation of the Company is in around $15 million dollars, it has more than 15 years of experience focusing on telemetry for fleets, data analysis and business intelligence. This transaction pursues to increase the use of telematics in individual units, and by improving our data analysis, translate information into value creation actions and tangible results by which we will further increase our value proposition.

Lastly, additional color on the proposals to be discussed in next General Assembly; a $600 million pesos new share buyback fund with the main objective of improving liquidity for all investors, highlighting that during the 1Q23 we traded above 7 million us dollars on average per day. We are not proposing any share cancellation for this year, as we are carefully assessing the use of Qualitas' shares under treasury without affecting free float in the long run.

All in, first quarter was in line with expectations, with a strong start for Qualitas reaching record high number of insured units. Although too early to tell, actions implemented and an ease in external factors impacting the industry, should allow us to reach a stabilization and then an inflection point in our loss ratio for a recovery in the underwriting performance of the business. Financial income will continue to pay-out in the next quarters, boosting our total net result. All Qualitas' leadership team is committed and working towards unlocking a better service standard, deepen our trusted relationship with agents and clients and create stronger brand preference. We will seize opportunities to achieve growth expectations and to strengthen our business to transcend the industry with leadership position, delivering financial outcomes that create significant long-term value for our stakeholders.

And with that said, more than happy to address your questions.