# SCRIPT – 3Q24

**Andrea González**

Good morning and thank you for joining Qualitas third quarter and nine months 2024 earnings call. Jose Antonio Correa our CEO and Roberto Araujo, our CFO are joining us today. As a reminder, discussions in this event may include forward-looking statements. These statements are based on management's current expectations. They 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 Correa, our CEO, for his remarks.

**Jose Antonio Correa**

Thank you, Andrea, and good morning everyone. As mentioned in prior calls, this year we are celebrating our 30-year anniversary, of which we have been leaders for the past 18 years by maintaining our focus, agility and flexibility, while continuing to provide the best-in-class service and actively listening to our agents and policyholders. Our company has shown exceptional resilience over the past three decades, successfully navigating a range of economic and political climates while thriving in highly competitive environments.

A true example of this are latest auto insurance industry figures, which reflect that Qualitas is not only the leader in terms of written premium market share with a record high of 33.1% participation but also show that Qualitas represents 83% of the total underwriting industry results and 44% of the industry net result, posting the best combined ratio within the Top 5 companies; we still believe in the potential of more profitable growth to come.

These remarkable stats reflect Qualitas' commitment to create value, and I would highlight the importance of the unique and close relationship we have with our more than 22 thousand non-exclusive agents, who represent two-thirds of YTD written premiums. In September, Qualitas México was awarded for the fifth consecutive year with the title of "*La Aseguradora Ideal*" or "Ideal Insurance Company" by a specialized magazine where agents themselves are the voters. Honored and motivated by this distinction throughout this quarter, Qualitas' C-Suite, me included, held several seminars with agents across Mexico. We covered multiple regions, including the central zone, the north and Bajío, with over 4,000 agents participating and getting important information about new tools, products and changes in processes to become better and faster. We are grateful to each one of them for their presence, unwavering commitment and most of all, for their transparent feedback on opportunities where we can further develop as a company and improve our service and products.

Now, let me dive into our nine months performance, and as mentioned throughout this year, we see 2024 as a year of two tales: A first half that has reflected a strong momentum in terms of underwriting and, a second half where we recognize will have a more cautious consumer behavior with lower benefit from pricing. Quarterly speaking we achieved 24% growth, ahead of our expectations, taking YTD to a 30% growth.

With that in mind, the nine months of new car sales resulted in a 10.5% increase vs the same period of last year, with September posting a slowdown in the pace for the first time in 28 months with an -1.4% decrease in growth vs. same month 2023. As of today, AMDA adjusted its annual growth estimates to around 11%. Despite these early signs of change in growth pace, which will continue to be positive but not as steep as prior years, with our current network of more than 578 service offices and ODQ's, plus Qualitas cost efficiency efforts, we foresee significant opportunities to keep on delivering positive margins and ROE levels within targets.

Before I handed it over to Roberto, we communicated to the market in early August, a cybersecurity incident for which we activated our information technology protocol and implemented our protection and response controls. Qualitas operation and service to policyholders remained uninterrupted through backup procedures and maintained underwriting activity. Thanks to our preventive measures the company avoided any material impact, proof of that is the solid quarterly results already being discussed. Recognizing this is a risk that will prevail across industries and countries, we have strengthened our team including external advisors.

Furthermore, we will continue to leverage our ability to create value, enabling us to anticipate challenges and seizing opportunities by positioning Qualitas capabilities to deliver strong returns for our shareholders and establish a solid long-term investment opportunity. Our enduring spirit of resilience not only shapes our history but also empowers us to navigate the present landscape with confidence and to move toward a prosperous future. And with that, I pass it over to Roberto.

**Roberto Araujo**

Thank you, Jose Antonio, and good morning everyone. Our results continue to reflect a solid top-line performance and a combined ratio within our long-term range, underscoring the company's ability to deliver results. Our primary focus remains and will continue to be on providing short- and long-term value.

Let me provide you with more details about our performance:

Written premiums were up +23.9% for the quarter and +29.6% YTD, with the traditional segment accounting for 67% of total written premiums - growing at a rate of +23% for the quarter and +33% YTD; from this segment, our fleet business stands out with a quarterly increase of +26% and YTD of +41%. Lastly, financial institutions, which accounted for 28% of total written premiums on cumulative terms – portray consistent growth rates of 27% for both the quarter and for the first nine months of the year.

As Jose Antonio alluded earlier, we have seen early signs of a turn towards an easing in topline trend; thus, 3Q underwriting growth has started to deaccelerate vs. the 28% growth experienced in the previous quarter, given the sequential slowdown from the 2023 pricing benefits. We do expect to see more deacceleration in the months to come; and while we continue to adjust prices, our increases will be more in line with local and industry inflation expected to be at mid-single digits. Still, the current growth trend makes us believe we will be able to reach a 20% to 25% growth for the full year, which is a remarkable growth pace within the current macro landscape.

Year-to-date, written premiums from our international subsidiaries represented 5.4% of the total holding company underwriting. As reported, LATAM subsidiaries were up +25.5% and, in line with our strategy, the US subsidiary is focusing on reshaping the mix towards being profitable, resulting in premiums diminishing -9.3% YTD as well.

As a reference, our international subsidiaries each quarter reach positive milestones.

For example, our Peruvian subsidiary is a true case of growth and value creation, our written premiums grew +63% and +30% quarterly and YTD respectively. We inaugurated our sixth service office in Ciudad Trujillo, the third most relevant city in that country. We now have more than 700 agents working with Qualitas in the region, which is a +12% increase vs. same period of last year, enhancing market presence and proving Qualitas has been capable of identifying areas for development and capitalizing on opportunities.

Also, worth celebrating the credit rating improvement for both our Costa Rican and Salvador subsidiaries.

In the US, our refocus strategy is on track: our portfolio composition by September-end was only 6.6% domestic, cross border portfolio has shown a +63% increase during this 3Q compared to same period 2023. This quarter, we made an additional reserves' composition based on our external actuarial team recommendation. As mentioned before, we expect to reach a break-even performance by 2026. Having knowledge of the business's profitability and low penetration, we believe in the opportunity to continue operating the cross-border niche, in which we have no more than 25% of market share at the moment and we consider it is a tactical growth opportunity for our company. We are making a cross sales effort looking to create synergies between clients we have in Mexico that may require, have or need this cross-border product and currently are not attended by us; knowing shifting gears will take time but we are confident on our capacity to deliver a positive outcome from this.

Including all subsidiaries, we closed the quarter with almost 5.7 million insured units, which represents a new record high for the company, +356 thousand additional units during the first nine months of the year.

Back to our financials', earned premiums were up +20.1% for the quarter and +25.6% in cumulative terms, reflecting a reserves' constitution in line with our solid top-line growth pace. During third quarter, we constituted $814 million reserve that represents $548 million pesos more than the third quarter of last year, closing the first nine months of the year with a constitution of $3.6 billion reserve that represents $2 billion pesos more than the same period of last year. Technical Reserves constitution' is based on approved regulatory models and speak to the high premium's growth; they have helped our investment portfolio size and should expect to see earned premiums grow at a higher pace once the growth stabilizes.

Moving now to our costs, the claims ratio stood at 69.2% for the quarter and at 66.4% YTD. This quarterly ratio posted a 3.5pp increase vs. 2Q. This increase is aligned to our expectations considering the heavy rains seasonality and extraordinary hurricanes taking place every year in Q3, which was particularly evident during late September when Mexican coasts experienced three hurricanes; for which claims attendance related to weather events increased 50% vs 3Q23. At this point cumulative hurricanes represent up to 600 claims cases for the company, from which we have composed reserves accordingly, but it is important to read its magnitude, in terms of claims they represent only ~20% of Hurricane OTIS from last year.

An additional factor still impacting our loss costs is spare parts and repairments prices. Our average claim cost for the quarter increased 6% vs. same period of last year, and YTD we have seen average cost of spare parts increase of ~7% reflecting supply chain constraints and freights costs still hitting prices given the supply and demand and reflecting prices to behave above inflation rate.

Our Mexican subsidiary posted a quarterly 67.6% loss ratio, a 1.7pp decrease vs same period a year ago, and a 64.9% YTD ratio, a 5pp noticeable improvement vs last year; which is quite consistent to our Loss Ratio target range.

Throughout this year we have witnessed a 16% Mexican peso depreciation, leading to many inquiries regarding its impact on our costs. As mentioned before, FX does not immediately distress our costs. The correlation between currency depreciation and our costs is not linear; prices for spare parts are determined by supply and demand, commodity prices, and shipping costs. Therefore, despite recognizing that from our total claim costs, ~50% are related to material damages and from those, 20% to 25% are related to imports of spare parts and others; it is still too early to assess the true impact of FX volatility on our overall costs, but we remain diligent for any rate adjustments.

Regarding thefts, YTD robberies have increased +3% for Qualitas and have remained almost neutral for the industry. Remember that these stats reflect our higher unit's growth vs industry and leading market share, especially in the heavy equipment segment where we have ~45% market share, and they also reflect our insured motorcycles that increase number of units but have a lower insured value. Nevertheless, we are not only market leaders in terms of share but also in terms of risk management and prevention, Qualitas recovery rate stands at 41.4%, outperforming the rest of the industry.

Moving to our acquisition ratio, it stands at 22.7% for the quarter and at 22.3% in cumulative terms, in line with our historical range. Commissions remained unchanged, by September-end our portfolio composition was 81% annual and 19% multi-year policies.

Then, our operating ratio for the quarter stood at 3.8% and 4.2% in cumulative terms; year-to-date, employee profit sharing provision has doubled itself given the positive performance of our company; however, if we were to exclude this provision that by law must be incorporated into our operating expenses, the ratio would have stood at 3.3% for the quarter and 3.1% in cumulative terms in line with our historical range.

All of the above resulted in a combined ratio of 95.6% for the quarter and 92.9% in cumulative terms. When incorporating this quarter's Loss Ratio seasonality, our YTD combined ratio is entirely within our 92-94% target, which speaks to the underwriting discipline and our ability to continue growing profitably.

Now, moving to the financial side of our business, comprehensive financial income grew 16% for the quarter and 18% year to date. We continue to be mainly invested in fixed income representing 87% of our $49 billion pesos total portfolio with an average duration of 1.6 years and a 9.3% yield to maturity; in the case of our Mexican subsidiary the yield to maturity stands at 10.2%. We expect to close the year with a duration of around 1.7 years.

With the current portfolio composition for each 25 bp that rates decrease, the impact on our portfolio valuation is around $178 million pesos on an annual basis.

The remaining of our portfolio is invested in equities, mostly placed on ETFs following the US market and other global markets; only ~3% of our equity portfolio is invested in Mexican REITs given we believe they create value through their attractive dividend distribution. All our investment assets follow accounting guidelines classified as "available for sale" so their performance, whether gains or losses, is considered on our Balance sheet until they are realized.

We delivered an investment income of $1.0 billion pesos during the quarter and $2.9 billion YTD, implying an 8.7% and 8.8% quarterly and YTD ROI respectively. YTD unrealized gains are in the magnitude of $1.3 billion pesos including FX benefit. When considering all positions as mark to market, ROI would stand at 12.6% YTD.

~22% of our portfolio is invested in US dollars given our international presence, for every peso that the FX appreciates or depreciates the estimated annual impact is $560 million pesos playing as a natural hedge for FX depreciation.

Third quarter effective tax rate stood at 30% and 32.8% in cumulative terms, which show more normalized levels reached throughout the year given we are no longer experiencing inflation benefits. We should expect normal levels to be around 30%.

All in all, Qualitas posted a $1.1 billion net income for the quarter and a $3.7 billion net income YTD, with a 7% and 7.8% net margin respectively. Our 12-month ROE stood at 22.4%, already within our long-term target. We are proud of the performance that our team has delivered driving industry-leading profitability, we are executing against the strategy with earnings durability and capital efficiency. Qualitas is well positioned to maintain industry leadership operationally and financially.

Our regulatory capital stood at $5.3 billion, with a solvency margin of $15.8 billion pesos, equivalent to 398% solvency ratio. Recent capital allocation determines our 12 months earned premium to capital ratio at 2.5x.

Now, as an update from Qualitas' capital allocation and corporate development plan last week we announced the acquisition of a glass, spare parts and automotive paint distribution company, a transaction of ~$500 million pesos. This acquisition strengthens our unique vertical integration, complementing the potential of our subsidiary Flekk by:

- Expanding our national coverage network of branches with inventory and systems to provide the highest levels of distribution and logistics,
- Increasing our e-commerce sales,
- Adding automotive painting services to our portfolio; and,
- By increasing our client portfolio for glass distribution and repairments

Regarding geographical expansion, Qualitas Colombia is moving in the right direction making progress on final legal authorization with the expectation to start operations in the next three to four months. The team is currently working on many initiatives to strive assertively the Colombian market, which represents a new avenue to access more than +17 million units and a growing industry. As of 2023, the market had a notable increase of 12% year-on-year growth on written premiums. We believe Qualitas business models represent the perfect fit for a market such as Colombia.

Before entering into our Q&A session, it is worth mentioning there is no news from the fiscal authority regarding the audit procedures and the VAT interpretation. This matter continues under assessment in the corresponding instances, and we have not received any conclusive or final resolution. Qualitas' position stands firm with the corresponding legal arguments to support the industry criteria and thus, we trust authorities will reach a reasonable resolution. As mentioned before, we will timely communicate any relevant progress to the market.

In summary, we had another record setting quarter in many different fronts, and we are well positioned to continue producing outstanding results going forward; underwriting conditions overall continue to be favorable; thus, we are confident in our ability to continue delivering on target earnings through our topline growth, underwriting margins and investment income.

I would like to conclude my remarks by recognizing the resilience and daily adaptability demonstrated by Qualitas' people. It is simply stunning; and as I start my journey with Qualitas, being already three months into the role, I am proud and honored to be part of the senior leadership team that is fully committed to pursuing true value creation for the company's stakeholders, including our customers, our workforce, shareholders, and the communities we serve.

And now operator please open the line for questions. Thank you