Quálitas 2Q25 Earnings Call Script

RAQUEL LEETOY

Good morning and thank you for joining Quálitas second quarter and six months 2025 earnings call. I'm Raquel Leetoy, Quálitas IR Coordinator. Our CEO & Chairman of the Board is joining us today, Jose Antonio Correa, as well as our CFO, Roberto Araujo.

As a reminder, information discussed on today's call 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. Quálitas undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise.

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

JOSE ANTONIO CORREA

Thank you, Raquel, and **good morning**, everyone. It's great to be with you once again.

We are pleased to **share strong second-quarter and first half of the year results**, setting a strong base for the remainder of the year, and supporting the execution of our strategy. Top-line growth was within our expectations at 12.9%; with a sustainable loss ratio, resulting in a 92.8% combined ratio for the quarter, right on our long-term target; and a 90.5% combined ratio when considering the first 6 months of the year. On the investment side, we posted strong financial income, even as interest rates began easing at a faster-than-expected pace. Thus, Quálitas delivered a 36% net income growth for the first half of the year, with a 12-month ROE of 26.5% above our long-term target.

A key highlight for this quarter is that we **surpassed** the **6 million** insured units' mark. Reaching this milestone took us only half the time it took to go from 4 to 5 million, a clear reflection of the quality of our service and our unwavering commitment to our customers.

According to latest industry **AMIS figures**, in terms of written premiums, Quálitas holds 31.7% of the total market and 41.9% in the heavy equipment segment. In terms of earned premiums, we maintain a 35.8% market share. Additionally, our combined ratio in Mexico is 224 basis points better than the rest of the industry (excluding Quálitas), and we represent ~46% of the entire sector's underwriting result. These indicators reaffirm our market leadership in both scale and profitability even when facing a challenging market environment.

Before Roberto dives into the financial results, I would like to address some of the **current dynamics and challenges in the market**, including pricing downward pressures, macroeconomic volatility, early rain seasonality, as well as regulatory changes. These factors are reshaping the industry and pushing all players to adapt. At Quálitas, we are well-positioned to respond through our excellence in customer service, innovation, underwriting discipline, and a clear strategy focused on sustainable value creation to our stakeholders.

Customer service remains at the heart of what we do. In the first half of the year, we received 1.6 million calls at our contact center, with an average response time of 5 seconds, what means one second faster than the same period last year. This improvement reflects our commitment to delivering best-in-class service when it matters most. Our satisfaction rate of 96% confirms that we are striking the right balance between speed and quality.

Our **business model** is evolving alongside **technology and customer expectations** — and it's stronger than ever. Today, approximately 20%

of our customer calls are handled through Artificial Intelligence (AI) and ~40% of our clients are managed through Robotic Process Automation (RPA). Additionally, 33% of claims are handled remotely using digital technology, reaching a satisfaction rate of 95%. These changes have led to operational efficiencies that allow us to serve more customers while optimizing costs.

Looking ahead, we remain cautiously optimistic for the **rest of 2025**. We are conscious that Mexico economic slowdown will continue affecting new car sales and disposable income, but we have navigated through these cycles and we know what we need to do. As we enter the **second half**, typically characterized by higher claims volumes, we are committed to executing our defined strategic priorities, continuing to invest in key areas and proactively adjusting our operations to remain agile and ready to respond.

Let me now get into **our three-pillar strategy:**

We continue to strive in winning in our core business **- Mexico auto insurance**, which continues to be the main driver of our growth, making it our foremost focus. We firmly believe that Mexico is our key growth engine, and in these volatile times, it is essential to continue strengthening our leadership position.

The **Mexican insurance industry** is currently **experiencing** an intense price competition, particularly in the auto segment due to insurers' aggressively going after volume to maintain or increase market share; a strategy that is proving to be unsustainable as claims severity increases. This is driven by the country's low insurance penetration, macroeconomic pressures, and growing competition. Factors such as inflation, currency volatility, and rising repair and medical costs, have squeezed profit margins. At Quálitas, we remain focused on sustainable growth and profitability, without compromising competitiveness and long-term financial health.

From a **market standpoint,** new vehicle sales (including light vehicles and heavy equipment) have declined by 2.8% YTD. Notably, heavy equipment sales (vehicles over 3.5 tons) dropped by 37.4%, consistent with broader economic trends and anticipated consumption slowdowns. This reflects the persistent volatility that has marked recent periods.

As we turn to our subsidiaries, strong performance and progress across **Latinamerica,** including our recent entry into Colombia, **has been more than offset by our US business**, where prior year claims development continues to impact. As Roberto will elaborate, progress made on the runoff of domestic business and in building a new book of healthier bi-national product, it not yet seen in our financials due to litigations coming to closure at a much higher and perhaps unreasonable amounts, confirming that our exit of those businesses was the right decision.

Despite this challenging environment, we remain confident in Quálitas' ability to manage these headwinds effectively, while pursuing sustainable and balanced growth. **We reaffirm our expectations** for full-year top-line growth in the high single digits to low teens, and we expect our key performance indicators to remain within target levels.

In summary, the **first half of the year** showed robust commercial momentum. We saw strong growth in written premiums, continued expansion in insured units, and a sustainable loss ratio, still below our target range. Financial income has remained solid, and perhaps most importantly, we have achieved meaningful progress across all service metrics. Our organization is structurally prepared for a healthy growth and remains resilient as we move forward.

With that, **I'll pass it to Roberto** for a deeper dive into our quarter and year-to-date performance.

ROBERTO ARAUJO

Thank you, Jose Antonio, and good morning, everyone.

Our **first half 2025 results** reflect the strength of our strategy and our ability to deliver value considering an evolving industry landscape. We achieved solid top-line growth, maintained a combined ratio within our long-term target range and delivered a resilient investment portfolio.

Starting with top-line performance:

Written premiums grew 12.9% in the second quarter and 12.4% for the first half of the year.

In Mexico, the **traditional segment** accounted for approximately 65% of total written premiums, growing 5.4% in the quarter and 7.2% YTD. From this segment, the **individual business** stood out with 8.1% quarterly growth and 12.6% YTD; **while, fleet business** grew 1.3% in the quarter and remained flat YTD, mostly due to the impact of large multi-year contracts from last year, as we mentioned on the previous call; as well as the effect from adjusting pricing downwards to be more in line with our ongoing long term profitability objectives.

The **financial institutions** segment represented around 30% of total written premiums, with significant growth of 28% in the quarter and 25% YTD. While this segment has traditionally been driven by new car sales (which declined 2.8% YTD), the growth also reflects the benefits from shifting in consumer preference toward larger vehicles, mainly SUVs, translating into higher average premium value; the increased effect from multiannual vs annual mix.; and the increased of Qualitas market share in key financial institutions.

As reported, our **international subsidiaries** contributed 5.3% of total written premiums year to date.

Across LATAM, subsidiaries posted excellent growth: up 59.6% in the quarter and 41.3% YTD.

Each quarter, we continue to achieve **key milestones**:

Costa Rica grew nearly 60% in the quarter and 31% in the semester. During this quarter, it also paid a dividend to the parent company for the second consecutive year. From a market share perspective, the latest results have Quálitas at 22.1%

El Salvador reported 59% quarterly growth and 67.4% YTD, with ROE close to 30%; **while Peru** achieved 44.9% growth in the quarter, and 42.5% YTD growth. Reaching a market share of 7.4%.

In **Colombia**, our newest subsidiary is performing in line with expectations. As we adapt to the market's unique characteristics, we are building a solid foundation with the same excellence service DNA that defines our group, committed to reach sustainable growth following through the same discipline and vision that have proven our success path. While the financial contribution will be limited in the short term, we are laying the groundwork for long-term value creation. **For example,** we opened our 12th office, solidifying our presence in key cities, and expanded our agent network to over 550. These developments bring us closer to policyholders and mark an exciting new chapter for our regional expansion.

In the U.S., our subsidiary continues realigning its portfolio and focusing on cross-border and bi-national products. As of June-end, premiums declined 15.6% for the quarter and 20.3% YTD. We have redefined our value proposition, presenting ourselves as a specialized bi-national auto insurance company. Our organizational setup has been optimized to capture opportunities in this niche market, and we remain vigilant regarding the US market opportunities.

Altogether, as José Antonio just mentioned before, we closed the quarter with over 6 million insured units: a new all-time high for Quálitas; with **over 400 thousand additional units** during the year or **+7.4%** unit growth.

Looking at the **earned premiums,** we posted 10.6% growth in the quarter and 14.1% YTD, in line with expectations.

As you know, earned growth pace is directly correlated to **reserves' behavior**. In 2Q25, we constituted $730 million in reserves, $401 million more than in the same quarter last year. **For the first semester**, reserve constitution totaled $2.6 billion, 7% below the same period last year. As a reminder, the technical reserves constitution is based on approved regulatory models and speaks to the corresponding premiums' growth. Consistent with our expectations, earned premiums are growing at a faster rate than written premiums, being able to capitalize accelerated growth from past periods as well as the benefits from lower claim costs.

Moving down to our cost, our **loss ratio stood at 63.1%** in the **quarter** well within our target range and improving 2.6 percentage points vs PY. Furthermore, on a **YTD basis, our Loss ratio** closed at **61.4%** improving 3.5 percentage points compared to last year.

To better understand **progress** and **challenges,** I will provide some specifics from our main markets:

In Mexico, the loss ratio was 60.4% for the quarter and 59.3% for the first half well below our desired and sustainable Loss Ratio target range of 62- 65%. It is worth mentioning that frequency for the quarter was 6.9%, 40 bps below the same period of last year.

As for thefts, YTD decreased -7% for Quálitas versus -10% for the overall market. Remember that these stats reflect our higher unit's growth vs industry and leading market share, especially when considering insured motorcycles which have a lower insured value but high volume. Quálitas' **recovery rate** stands at 42.5%, in line with the rest of the industry. We continue enhancing our technological tools and coordination with suppliers and authorities to reduce costs and improve efficiency.

So, let me now move to our US business, where we continue focusing on our turn-around as a corporate priority. The journey continues to be challenging, recognizing it is not as fast, simple nor cheap, as we need to bring to closure the claims that trace back to 5 or even 8 years ago.

To illustrate progress on our exit of domestic business, at the beginning of 2023 we had close to 300 **open litigations** which are now down to 112; the fact that we have zero 18-wheeler exposure as of February 2025 would indicate that new claims should also tend to none in the next months. All of this, however, is **not being enough to turn around claim ratio** as adverse developments of historic claims and verdicts have led to higher reserves constitution; this quarter in particular, we have closed a couple of claims in the bus program, one that was in place for 15 months – from May 2020 to September 2021 and where policy limits were up to $5 million USD.

In addition, due to our external audit recommendations, we **continue building a DTA** (Deferred Tax Asset) - Valuation Allowance (reserve) as a conservative and unlikely case if we were not able to turnaround the business in a way that we credit this taxes. As of the end of this quarter we have **$18.9 millions** dollars accumulated on this allowance.

The **US business** turnaround is within our **top** corporate **priorities**, and we will **continue to assess all possible paths** to ensure our business is managed at the least possible cost, while maintaining cross-border products to serve our customers and where we know we can create value.

The acquisition ratio stood at 24.1% in the quarter and 23.1% YTD, about 1 percentage point higher than last year driven by stronger growth in the financial institutions segment, which carries higher commissions. This ratio remains within our expectations and aligned with cost control metrics.

The operating ratio was 5.6% in the quarter and 6.0% YTD, **including employee profit sharing**, given the positive performance of our company. We also had an **increase in fees paid to service offices and corporate bonuses** linked as well to their successful performance during the period aligning productivity and cost control efficiencies towards positive results of the company. **If we were to exclude** employees' profit sharing from this provision that by law must be incorporated into our operating expenses ratio would have stood at 4.4% in the quarter and 4.6% for the first half.

Altogether, this resulted in a **combined ratio of 92.8% in the quarter** and **90.5% YTD,** below our ongoing target range of 92–94%. These figures confirm the strength of our underwriting and cost discipline.

On the **financial side** of our business, **comprehensive financial income** grew 7.3% in the quarter and 25.4% YTD. Our portfolio, totaling $49.5 billion pesos, remains 86.1% in fixed income, with an average duration of 2.2 years and an 8.8% yield to maturity. For the Mexican subsidiary, yield stands at 9.5%.

The **rest of our portfolio allocated in equities** has remained resilient from the market performance during the first half of the year. For example, the S&P 500 stumbled in the first quarter of the year, still a +5.5% return was observed on a YTD basis, setting a relatively more confident tone as markets headed into the second half. All our investment assets are classified as **"available for sale,"** meaning their unrealized gains or losses are reflected in the balance sheet until realized.

Our **investment strategy** has not had any relevant changes in 2025, we have strived to bring our fixed income duration up to 2 years as reference rates remain in the mid to high single digits in Mexico; following the guidelines, advisory and strategy decided by our Investment Committee as part of our institutionalized corporate governance.

Total **comprehensive financial income** was $1.2 billion in the quarter and $2.8 billion YTD, delivering **8.4% and 9.7% ROI,** respectively. **Unrealized gains** for the first half of the year are in the magnitude of ~$400 million, including FX effects. When considering all mark-to-market positions, ROI would be 11% for the quarter and 11.3% for the year.

Approximately 23% of our **portfolio is invested in U.S. dollars** given our international presence. For every peso that appreciates or depreciates the estimated annual impact is around ~$650 million, serving as a natural hedge.

Our **effective tax rate was 31% YTD**, in line with historical levels.

Net income reached $1.4 billion for the quarter and $3.6 billion YTD, with net margins of 8.1% and 9.8%, respectively. Our 12-month ROE stands at 26.5% above our long-term target. However, as claims normalize and frequency increases in 2H, we expect ROE to moderate toward our long-term target of 20–25%.

Our **regulatory capital** stood at $5.7 billion, with a solvency margin of $16.2 billion pesos; equivalent to a **solvency ratio** of 385%. Our 12-month earned premium to capital ratio is 2.7x.

We maintain a **strong capital position** that allows us to invest strategically to continue improving customer service and experience, through innovation and technology, while reinforcing our core capabilities. Our approach remains disciplined and selective, always with the goal of delivering long-term, sustainable value to our shareholders.

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 the authorities will reach a reasonable resolution. As mentioned before, we will timely communicate any relevant progress to the market.

In closing, we are proud of our solid first-half performance. We delivered strong profitable growth, paving the way for the future, reaching key milestones despite external pressures. Our capital position is robust, and our strategy remains clearly defined. While the second half may present new challenges, we are fully prepared to navigate them and continue delivering long-term, sustainable value.

Now, operator, **please open the line for questions**. Thank you.