S1 2021 Earnings Call

Company Participants

- Cheryl Agius, Chief Executive of Insurance, Executive Director
- Euan Sutherland, Group Chief Executive Officer, Executive Director
- James B. Quin, Group Chief Financial Officer, Executive Director
- Stuart Beamish, Group Chief Customer Officer

Presentation

Euan Sutherland

Good morning, and welcome to the Saga Interim Results Presentation, which includes an update on our latest strategic plans and the details of the proposed capital raise.

Overall, we are pleased with progress in the first half of the financial year 2021 and have been consistently delivering against the plans outlined to shareholders.

We will demonstrate progress and growth in insurance, and we have limited the downside impacts from the pandemic on crews, while resetting our Tour Operations business to a higher quality and more efficient model.

Consistent with the actions completed in the first half of non-core disposals, agreeing a reset to our banking covenants and securing cost efficiencies, the proactive placing and open offer underpinned by Roger De Haan is another example of this planned approach to improving the financial strength of the company.

I plan to give you an overview of the first half and headline of the business unit performances before handing over to some of the executive team to take you through the details of our financials and business plan.

James Quin, our CFO, will outline the results for half one, the stress test focus we've adopted and the mechanics of the placing an open offer before I headline the strategy and approach we've agreed for the next stage of Saga.

Stuart Beamish, our Chief Customer Officer, will then outline the overriding platform for the group's development with our investments in data, digital and brand. And Cheryl Agius, our Insurance CEO, will take you through the priorities for that business unit. I will then highlight the significant work already completed in our Cruise and Holiday divisions to enable confident and profitable operation in a COVID world and then I'll summarize.

In headline terms, progress in the first half has been good, with insurance performing well, despite the impact on travel insurance from COVID-19. Our cruise operation has seen continued strong levels of customer retention and advanced bookings, while we have reduced the level of cash burn from the enforced lay-up and through a rapid response to lockdown, we were able to repatriate all of our crew, ensuring their safety and enabling an ongoing lower cost base.

In our Tour Operations business, the same comprehensive response saw over 3,000 passengers repatriated home without the help of the government, and a significant cost actions have lowered the ongoing cost base, while we have refocused that business over the summer.

In total, we've identified GBP20 million of ongoing cost savings and delivered GBP15 million of that already in half one, while at the same time, ensuring all colleagues are safe and productive working from home alongside disposing of non-core businesses to the value of GBP35 million.

In January, pre-COVID, we committed to updating the strategy of our business and reporting back in September and despite the pandemic, this has been achieved. While I will go into more detail on this in the second half of the presentation, we have found a business under-invested by private equity and missing its commitments in the early years of public ownership.

The principles of the reset in insurance last year still hold, and we've built out the strategy to align the business and harness a single Saga customer and financial plan based on 5 core priorities. We intend to return Saga to its core DNA of exceptional service and innovation set in a contemporary data and digital world.

In the next stage and strengthening our business, it was to look at further actions to improve the robustness of the balance sheet and lower our debt. Just to be clear and in line with our previous updates, we do not need to urgently raise money today, and this is a proactive capital plan to give the company more financial flexibility, taking into consideration a balanced view of trading and our risks while significantly reducing our short-term covenants debt.

During the preparations for this, I began conversations with Roger about our revitalized approach to Saga, focusing on our core customer, disposing of non-Saga branded non-core businesses and returning the core of the business to what made it successful, while setting this in the context of today's digital baby boomer customer.

I discussed how we had an ambition to rebuild Saga into a great British business. And we found common ground on the values and principles of that reset. We are very pleased that Roger stepped forward to underpin our placing an open offer with an investment of GBP100 million and has agreed to become our next Chairman. He clearly has a lifetime of experience at Saga and a deep understanding of our customers.

The funds raised by the placing an open offer will be used to pay down debt and critically, to invest in growth, principally in data, digital and brand. We plan to hold the EGM to gain final shareholder support for the placing an open offer later this month.

So moving on to the business unit performances. I'm pleased to report that the Insurance business has seen the first growth in policy numbers for 5 years, growing by 2.5% in the first half. Direct share is also up by 4 percentage points to 58%, with strong retention, up 6 percentage points, led by our 3-year fixed Motor and Home products, which now account for 30% of the book. And delivering retention of more than 10 points above our standard essentials products. Margins remained well within guidance at GBP71 and we have lowered our operating cost as part of the group-wide efficiency program, which was delivered and expensed in half one. A very solid first half trading despite the drag from travel insurance, and does not recognize any COVID-19 benefits.

In Travel, it's fair to say this was not the first half that we were expecting with our new cruise proposition performing well and to plan right up into the lockdown. Since then, however, we have minimized the financial impact of the crisis and maximized customer loyalty and retention through a set of clear and consistent actions.

All crew and customers repatriated, completion of the sale of the Saga Sapphire on plan in the midst of the lockdown, which was a major achievement by the team, reduced total burn cost to between GBP6 million and GBP8 million per month and maintained retention rates of over 65% in Cruise and 40% in Tour Operations.

While we are ready to cruise now and demand does not look like it's going to be an issue, we are waiting for the updated government advice, which is expected this month. We have worked closely with the government and public health agencies to agree new protocols for safe sailing. And our new and technologically advanced ships are in a good place to operate in a COVID world. Our newer ships Spirit of Adventure is due to arrive later this month.

So in summary, it's been a busy, productive and successful first half across Saga. Our aim was and is to emerge stronger from this crisis than we went in. And after 6 months, we are very much on plan, with a confident, capable and focused workforce operating well from home. Cost and capital plans are well underway, and we are seeing the early shoots of improvement in our insurance business. We have a clear strategy endorsed by a cornerstone investor in Roger, and we have confidence in our propositions and in the transformation we can deliver through the data, digital and brand reset that is also already underway.

Underpinning all of that, we have invested significantly in the people, leadership and cultural transformation needed at Saga, which I will talk to in the second half of this presentation.

Without the hearts and minds, focus and capability of our people, all we have of the strategy is a set of words. So we had to secure this first and I'm pleased to say this is in a good place. Saga feels like it is a business that is now playing to win, not a business that is playing to avoid losing.

I'll now hand over to James Quin, our CFO, to take you through the numbers.

James B. Quin {BIO 18345789 <GO>}

Good morning. My name is James Quin. I'm Group CFO for Saga. I'm going to spend a few minutes setting out our financial performance in the first half. I'll then explain in more detail the group's current financial position and the background to our proposed GBP150 million capital raise.

Group revenues and profit before tax have been significantly impacted by COVID-19 with travel revenues down 77% in comparison to the prior period. However, Insurance profitability has been very resilient and overall, underlying profit before tax remains positive at GBP15.9 million for the first half. This is in line with our expectations and the scenario testing that we ran in March.

In addition to the impact on underlying profit before tax, COVID is also a key influence on non-operating items in the first half. And this has led to the group reporting a loss of GBP55.5 million. The most significant item is a GBP60 million write-down of Travel goodwill. Given uncertainty regarding the Travel outlook and a significant increase in the travel industry's cost of capital. We've taken the decision to impair this balance in full.

Other COVID-19-related impacts outside of underlying PBT include provision for exit costs relating to non-core operations as well as restructuring charges from cost reduction initiatives. These adverse items were partially offset by a GBP10 million gain on the sale of the healthcare business and a GBP5 million gain on the sale of the Saga Sapphire in June. I don't expect that we will see further goodwill write-downs, all material additional restructuring costs, and all business exits have either been completed or prudently provided against.

As a result of the cash support provided to the Travel business, available operating cash for the first half was a cash outflow of GBP23 million, and net debt increased by around GBP50 million. However, we are well within our covenant tests, with net debt-to-EBITDA, excluding Cruise of 3.6x at 31 July, significantly below the covenant level of 4.75x.

On the next slide, I set out underlying profit before tax by division. The Insurance result for the first half is at the same level as in the prior year, with a GBP7 million increase in underwriting profits and a GBP7 million reduction in Retail Broking. Retail Broking earnings reflected a GBP13 million reduction in written profits, partly offset by a GBP6 million swing in the written to earned adjustment. The change in written profits is due to a combination of COVID impacts, pricing actions started in July last year and lower results from Bennetts, which has now been sold. Higher underwriting profits are a function of good experience on large bodily injury claims relating to prior years.

More broadly, in Insurance, the first half demonstrates the start of a recovery, following the stabilization in the second half of last year. Cheryl will talk more about this in detail later.

For the Travel business, the suspension of all Cruise and Tour Ops departures from mid-March, has had a significant impact on first half results, with the business reporting a GBP35 million loss for the period. The Travel result is within expectations and while, of course, it has been a very challenging few months. The group overall has still reported an underlying profit for the period. I'll go into more detail on the moving parts of Retail Broking results on the next slide.

Home and Motor written profits reduced by GBP4 million due to pricing actions implemented in July 2019, partially offset by increased new business profits as a result of lower advertising spending. The average margin per policy across Saga branded Home and Motor reduced from GBP78 per policy in the prior period to GBP71 in the first half. Excluding the pricing actions and a roughly GBP1 per policy COVID impact, the average margin per policy would have been at the same level as in the prior period. The absolute level in the first half was in line with expectations.

There are, of course, various moving parts in underlying margins and the competitive environment in motor has had some impact. This, however, was offset by a 4% increase in the number of Home and Motor renewals, which was the main reason for the overall growth in the policy count in the first half.

Other broking profits reduced by GBP7 million, mainly due to a significant impact from COVID-19, including a sharp reduction in sales of travel insurance as well as lower fee income in relation to motor vehicle repairs and claims handling. Overall, this was a very resilient performance from Retail Broking and we continue to make good progress against the strategy set out last year.

On the next slide, I set out the results of the Underwriting business. A core profit before tax increased in the first half of the year due to higher reserve releases, which were above expectations. This is a function of continued favorable experience on large bodily injury claims and settlement of specific open claims for less than they were reserved at.

For the current year, we have booked the loss ratio to plan assumptions. While we have seen a significant decline in claims frequency since the start of the lockdown, we have not, at this stage, reflected the potential benefit in our results. We are evaluating the size of any benefits, given various uncertainties in overall claims costs and actions we will take to return part of this upside to customers.

As previously indicated, reserve releases will be much lower in the future than in the recent past. And our expectation of a reported combined ratio of around 97% from next year is unchanged. Nonetheless, AICL has made good progress in enhancing core capabilities, all of which will be key in supporting the group's insurance strategy.

On the next slide, I set out the Travel results for the first half. This has been an exceptionally challenging period for all travel companies. We have now been operating for nearly 6 months with 0 revenues, and the travel team have had to adapt to a fast-changing environment.

Admin and marketing costs in the first half reduced by around GBP12 million compared to the prior period, mainly in relation to marketing costs, where we are able to turn the tap on or off quite quickly. While there is less flexibility in short-term admin costs, we took actions in June and July to prepare the business for ongoing disruption, specifically in Tour Ops, where we now expect 0 revenues until spring next year. This means that travel overhead costs in the second half will be significantly lower than in the first half.

At the time of the year-end results, I look to provide some guidance for the impact of COVID on travel profitability by reference to a drop-through rate. The drop-through rate is the forecast impact on profit as a percentage of the expected decline in revenues. Back in March, I signaled an impact on profit before tax of 15% to 20% of the reduction in Tour Ops revenues and a drop-through rate of 55% to 60% for Cruise.

In the first half, the actual drop-through rate was 19% for Tour Ops. So in line with expectations, albeit at the higher end, and 41% for Cruise. The Cruise results benefited from good cost control and profits generated in February and March. And for the full year, I would now expect the Cruise drop-through rate to be between 50% and 55%.

The other question I was asked at the time of the full year results was about the monthly burn rate, which is the cash cost of running the travel business in suspension mode. This excludes non-cash items such as depreciation, but also includes financing costs. It also excludes CapEx and changes in working capital. For the second half of the year, we expect a monthly cash burn rate of GBP6 million to GBP8 million a month, depending on whether we have 1 or 2 ships in operation, and the extent of our marketing activity for next year. There's no change to this from previous indications.

On the next slide, I set out the change in total group costs. Marketing and overhead costs were GBP20 million lower in the first half of the year in comparison to the prior period. A significant portion of this reduction was a response to COVID, specifically, a reduction in marketing costs in Travel and short-term actions to reduce discretionary spend. We have reduced headcount by 36% in total and 31% excluding disposals, with roughly half of this amount being due to short-term actions during the period of travel suspension.

While there is obviously a range of possible outcomes for the Travel business in the second half, broadly speaking, we would expect around a GBP35 million reduction in cost for the full year, excluding disposals, with second half savings more weighted to admin expenses and less to marketing. This reflects the need to support a reduced, but still active level of marketing activity for travel departures next year.

On an ongoing basis, we are targeting sustainable cost savings of around GBP20 million per annum, excluding disposals. Much of this, around 75%, has in effect already been achieved, with the balance relating to further initiatives in relation to property and procurement.

As Euan will explain later, we expect some level of reinvestment of these savings in the near-term in supporting strategic initiatives. This is expected to be around GBP5 million in the second half of the year and up to GBP10 million in the next financial year. Beyond that, we expect additional spend to be self-funding.

In the first half, we incurred a significant level of restructuring costs, mainly in relation to redundancies. While there may be some further costs incurred this year and next, I would not expect them to be at anything close to this level.

On the next slide, I set out the group's operating cash flows with a reconciliation from opening to closing net debt.

Excluding Travel, the group has continued to be highly cash generative, with free cash flow of GBP45 million in the first half, only slightly down on the prior period. Excluding the direct impact of COVID-19, Insurance operating cash generation would have been higher than in the prior year.

We've also taken a prudent approach to recognize any COVID upside in AICL, with the dividend paid by AICL in the first half, excluding any claims frequency upsides.

The Travel business, of course, has seen a significant cash outflow in the period, with nearly GBP70 million of liquidity provided to Cruise and Tour Ops to support payments to customers, colleagues and suppliers.

In terms of other movements, the finance cost included here is interest costs on all the group's debt. And the other figure mainly comprises proceeds from the sale of the healthcare business and restructuring costs paid. The net cash outflow for the period of around GBP50 million was funded by a net drawdown on the RCF of GBP40 million. We've not needed to draw down on the RCF since March. And since the end of July, we have repaid GBP10 million of the drawn balance from the Bennetts sales proceeds. I'll show you more information on the change in travel cash on the next slide.

On this slide, I set out a reconciliation of opening to closing cash within the Tour Operations ring-fenced fund and analysis of the cash support provided to Cruise. The reason for the difference in approach is because Tour Operations is fully ring-fenced, while the Cruise business is in part of the group for cash flow purposes.

For Tour Ops, cash outflows of GBP76.5 million were funded by utilization of GBP25 million of cash from within the ring-fenced and with GBP51.5 million provided by the group. The Tour Ops cash outflow includes supply payments of GBP23 million, mainly relating to the period when the business was still trading. Since all such suppliers have now been paid, we expect to see much lower cash outflows in the rest of the year.

As at July 31, advanced receipts in the ring-fenced funds were 88% covered by cash, which is well above the requirements set by the CAA. We are now in discussions with the CAA about moving to an alternative approach called trust accounting, whereby we would hold all cash in a separate fund and would not release any cash from this fund until after the customer has returned from holiday. If applied to both existing and new bookings, as is likely, we estimate that it would lead to around a GBP10 million near-term increase in the cash funding needs of the Tour Ops business. There would, however, be benefits here. And that's our additional bonding requirements as set by the CAA, and which are on top of the existing 70% covenant, would no longer be necessary.

In addition, we think that customers are likely to be increasingly discerning over how their cash is protected. And so this would give us a distinct marketing advantage.

The Cruise business operates in a different way and reflects the fact that we are not just an intermediary, but of course, we own the hardware.

In the first half, the Cruise business operating cash outflow was GBP23 million, mainly to support a modest level of customer refunds. On top of this, we provided an extra GBP6 million of cash to fund restructuring costs and finance costs relating to the Spirit of Discovery loan. We are very pleased with the level of cruise retentions, which is significantly better than in all modeled scenarios. And is a testament to the loyalty of our customers. In terms of restarting, we're confident that demand generation will not be an issue.

On the next few slides, I'll provide an update on the group's financial position. Once it became clear that COVID-19 was going to be a significant issue for the travel industry, we moved quickly to maintain our financial resilience. The focus was on protecting customers and colleagues, ensuring we had sufficient liquidity, reducing costs, agreeing amendments to our bank covenants and scenario stress testing to ensure we would be in a strong position in all reasonable scenarios. This planning has stood up well to the real-world stress test of the last 6 months. We're fully in compliance with all bank covenants at July 31, and we have not needed to draw down further on the RCF since March. Indeed, as mentioned, we repaid GBP10 million of this in August.

The travel cash burn rate has been reduced. We expect a lower level of customer refunds in the second half and the insurance business is performing well.

We also estimate that AICL solvency ratio at July 31, 2020, was over 200% and around 165%, excluding all COVID benefits. As a result, we expect to remain in compliance with our banking covenants at January 31, 2021 even with travel suspended until next year and before any further management actions. This is consistent with the outcomes we modeled in March.

That said, as we have formally announced today, we believe that the company now needs to take further actions to support the Travel business during a period of ongoing COVID disruption and to ensure that we remain in compliance with bank covenants beyond January next year.

We are also thinking ahead to the repayment of the bank facilities, which mature in 2023. Hence, our decision to raise an additional GBP150 million of equity capital, and to seek conditional amendments to our short-term bank facilities, as I explain on the next slide.

Following the completion of the proposed capital raise, we will reduce the term loan from around GBP134 million at the end of August to GBP70 million. This portion of the term loan will remain in place until May 2023, with no further amounts to be repaid until then. We will also repay the GBP40 million drawn amount of the RCF. The full GBP100 million facility will remain in place, also until May 2023.

Net of the cost of issue, this leaves us around GBP36 million, which will be used to provide further cash support to the business. Following the conclusion of the capital raise, our net short-term debt will be at low levels. We will have no debt repayments due until after March 31, 2021, when we expect to resume payments on the 2 cruise loans. And we will have a significantly higher level of headroom to our existing covenants.

Nonetheless, to provide further financial flexibility, we've also agreed with our banks to make some amendments to covenants in the short-term debt as shown on the next slide.

While we would have a headroom to our existing covenants upon completion of the capital raise, our desire here has been to further de-risk the outlook given the uncertain pace of recovery from COVID-19. This has been mainly focused on covenant testing at 31 July 2021, since it is possible that this will now be the most challenging point assuming further delays to the resumption of travel well into next year.

As a result, we have now agreed with our lending banks to increase the leverage covenant at this date from 4.25x to 4.75x. And we have reduced the interest covenant from a minimum 3x to 1.5x at the same point. We have also amended some of the quarterly tests either side of this. While we don't expect to be close to these covenants, this provides us more security over the outlook.

To be more specific in relation to the assumptions we're using, I set out an update of our planning scenarios on the next slide. Our core assumptions include a return to service of the Cruise business later in the current year. And we believe we are well placed to achieve this. As Euan will explain, our ships and our cruise proposition are as well suited to a COVID world as exists anywhere. And demand generation for next year is in line with plan assumptions, despite us having significantly reduced marketing spend in the first half.

For Tour Ops, our base case is for a small-scale return in March next year with the launch of the Spirit of the Rhine river cruise boat and then a broader but cautious revival from April onwards. We assume that all Tour Ops customer receipts are fully ring-fenced in the new trust accounting setup that we will move to in the next month.

For Insurance, the business is performing well, and our base case assumes continued solid performance and with much lower reserve releases, in line with our expectations for AICL. We have included zero benefits from reduced motor claims frequency.

In addition to our base case, we've continued to evolve our downside scenarios. In this outcome, we assume that the Cruise business starts at the end of the year, but is required to be put on pause from January until May. We then allow for lower load factors and higher costs in the next few years.

For Tour Ops, we assume a slower burn recovery and we then allow for several downside scenarios in relation to the Insurance business, including lower earnings in Retail Broking and lower dividends from AICL. An important point to make is that post the capital raise, we would have had headroom to our old leverage covenant at 31 July next year of 4.25x in the above scenarios. The covenant amendments agreed now, therefore, mean that we go into next year with a further strengthened position.

On the next slide, I'll provide an update on our debt outlook. This slide will be familiar to many of you and is an update of the debt trajectory we anticipate in the next few years. There are, of course, a wide range of outcomes for COVID-19, but we've looked to model these within the scenarios I discussed on the previous slide.

Following the capital raise, we expect a significant reduction in our net debt. As at the end of August, our net debt had increased by around GBP35 million since the end of January, and it will reduce by GBP140 million after the capital raise. Next year is likely to see a smaller reduction in net debt as a transitional year and dependence, of course, on the pace of recovery from COVID-19.

From '22, '23, we expect to be back towards run rate earnings and cash generation. Our goals here are fairly simple. We will continue to put a high priority on debt reduction and are targeting a ratio of total leverage to EBITDA including Cruise of less than 3.5x. We expect this to happen by the end of 2023, even in the more cautious scenario set out above.

While this remains the priority, the Board is unlikely to consider resuming dividend payments. This is not because of external constraints placed on the company, but reflects a desire to reduce leverage to materially lower levels post the delivery of the 2 ships.

Let me now summarize on my part of the presentation. Despite the challenges of COVID-19, we have shown good progress in the first half. The insurance business is performing well. And there are some encouraging green shoots. We completed 2 disposals and have taken actions decisively to exit non-core parts of the company and reduce costs. We amended our banking covenants, our scenario planning has withstood real-world stress tests, and we have managed our liquidity well.

With the additional capital we propose to raise now, we will have the headroom to navigate further COVID uncertainty and to support the execution of our strategic initiatives.

And with that, I'll hand back to Euan.

Euan Sutherland

Thank you, James. Before we outline our plans, I wanted to share with you my observations on what I found when I arrived at Saga to ground us and where we're building from. After the first 55 years of growth, innovation and development, the business was and still is recovering from a period of over 15 years of changing priorities from private equity to public ownership and having largely lost sight of the customer and the need to invest in brand and the proposition.

Despite clear signs of failing to adapt to changing customer needs and wants, the core brand dynamics remained surprisingly robust with sector-leading trust pilot scores and core loyalist supporters. Like most great brands, the brand will always be polarizing, but Saga had forgotten to serve their loyalists with a consistently good and contemporary offer.

The operating model had been allowed to grow and become complex with multiple silos and a lack of cohesion across the group. Customers of one business were served with a different set of values to the next and in a slow and costly way. Debt was high post the private equity regime and further added to with a 2 new ships, which have formed the basis of our cruise transformation, but were justified a forecast that were built on the issues identified above.

As we've all seen, this has led to a number of consistently difficult impacts for investors with falling customer numbers, increasing costs and the failure and closure or sale of the acquisitions that were not invested in adequately or lacked a true Saga point of difference. In short, there was a lot to do to put Saga back on the right path.

So having phased into these issues and making a series of tough, but clear choices, we are beginning to see early signs of recovery, but with a long way still to go. Retention in Insurance is improving by innovating our products and implementing new systems and processes. The transformation of Cruise was working well pre-COVID lockdown, and our customer satisfaction and feedback has taken a step change with our Net Promoter Score consistently moving positively as we remove customer pain points, and respond to issues.

To give you an example, throughout the COVID crisis, we have prioritized customer well-being through being flexible to their changing needs. Customer service agents in insurance and travel have served customers every day without an interruption from home, unlike many of our competitors, with extra time on the calls to help our older customer base and to actively help and relate to the challenges on our human level, often with pets and children in the background.

We have also been flexible to allow customers a full travel refund if they wanted it. Prioritizing long-term brand loyalty over short-term financials has not only paid back in the customer feedback, you can see on the top right of this chart, but also in the confidence of customers to leave their travel bookings with us for next year. This focus and these stats are shaping the new Saga as we aim to create exceptional experiences for our experienced customers every day and return the business to its DNA and to growth.

So having diagnosed the issues and begun to test solutions, we are focused on creating a new and more confident mindset across the business. We have researched our customers, providing insight and clarity as to why Saga exists and where it should focus. We start and end with the customer now. This is our primary focus and everything we do is in service of them. Age has always been a hot topic at Saga, but it's really not the point. And certainly, not how we win going forward. Let me explain by using this chart. We believe that people over 50 no longer and likely never did define themselves by age, but rather by attitude, aspiration and adventure.

Attitude, as we show from our research here is a far more accurate determination of consumer behavior than age and provides important insights into how we grow revenues and profit as well as become more efficient. The average 74 year old thinks they are 58, the average 50 year old, thinks they're 42. While outside our target consumer, the average 17-year-old thinks they're 21, certainly true in my house.

As a customer of Saga, I don't think about my age, but having had experience in life, I do have clear expectations, aspirations for me and my family and want to explore the world as soon as we are all allowed to do so again. Leading the business, I also believe that Saga is at its best when it's innovating, leading and shaping its products and services, specifically for its customers. And it is clear that when we do this, our customers love it and buy into it in volumes, such as 3-year fixed insurance, boutique cruises and most recently, COVID inclusive travel insurance.

So Saga is here to create exceptional experiences for its customers every day, whilst being a driver for positive change in our markets and our communities. This is our mantra, our purpose and is the common goal across every part of our business in service of our customers. Creating these exceptional experiences every day will set us apart from the competition and return the business to its core DNA.

So putting that in context and sizing the opportunity, it is an attractive place to operate. The 55- to 73-year old baby boomer generation have innovated throughout their lives and across the world and they are not about to stop today. Baby boomers have the greatest level of wealth in the UK today, 20% of them being millionaires. They are fitter, wealthier and have more confidence and are more digitally savvy than ever before. And at over 25% of the UK population today, this segment is forecast to grow at 22% for the next 10 years and only 8% are Saga customers, implying significant headroom for growth.

People aged 65 and over have experienced the greatest increase in household wealth in the last 10 years, up 96% and their disposable wealth is largely unaffected by COVID-19.

Our customers have gained life experience, have high standards and know what's good value. Saga will focus within these parameters. The Saga difference and DNA was always to serve our older people with innovative, high-quality and good value products and services, specifically designed for them.

Providing exceptional experiences was always at the heart of Saga. Our return to this DNA in a modern digital context underpins our strategy and we have captured how this feels for customers in a few of their quotes on the right hand side of this chart. Simply experience is everything for our customers, experience in adventure, traveling the world, experience in luxury on their cruises and on holiday, experience in service across all of our businesses. Experience is what our customers have gained in their lives.

So to deliver for this customer, we have focused on 5 key priorities: people and culture reset, simply a step change in performance, productivity and engagement. Data, digital and brand transformation, a bigger, bolder connected strategy. Optimizing our businesses, exceptional experiences for our customers every day, lowering our cost base, constant drive for efficiencies. And finally, debt reduction, further strengthening our balance sheet. And we'll take you through the highlights of these now.

Before Stuart and Cheryl take you through more of the detail, I wanted to start with the people, leadership and cultural foundations we have been establishing this year within the business. 2020 was always a year of reset and rebuild critically inside out, and we are already well underway with these plans. Our aim is simply to maximize performance and productivity and engagement with a happy and motivated team who will serve our customers with the same confident mindset.

So far this year, we have taken some tough decisions and reduced the headcount by 36%, to create a simpler and more effective organization, whilst lowering the management layers from an unbelievable 17 down to 5. Some of these headcount savings are a permanent reset and up to 500 roles are likely to return as we bring back our travel businesses into service.

The net ongoing reduction in heads will be around 23% from the 2019 levels. We have all of our 2,500 colleagues effectively working from home and have invested in communications, engagement and critically mental health support.

As we move into half two, we are further engaging on our purpose, cultural development and the reinforcement of the performance culture that will underpin our plans. Continued training and investment and capability will drive greater success as we build out the plan.

Let me now hand over to Stuart and Cheryl to talk you through more detail.

Stuart Beamish {BIO 20609682 <GO>}

Thank you, Euan. Good morning, everyone. Today, I'm going to talk through major changes we're undertaking in data, digital and brand and our progress so far, all designed to ensure we deliver exceptional experiences for our customers. These 3 areas are key growth drivers for our business, and together, generate greater value from the some of the parts of the group.

First, we're driving greater value from Saga's data assets, an unique insight into people over 50 in the UK, though we're significantly improving our digital services and experience to create a go-to destination for our audience. And finally, we're planning an ambitious relaunch of our brand, to attract new customers to Saga, and we're delivering these as one program of transformation because they work together to drive higher retention, grow multi-product holdings and drive a better return from spend on customer acquisition.

Turning first to data. We're already well underway with a major transformation focused on what we believe is Saga's crown jewel, a growing database of 9 million UK households and a rich view of our customers. As you can see on the left, we've delivered a single data platform to serve our whole business. We've also completed the rollout of the Adobe Marketing Cloud and built a new data analysis platform. These changes have sped up analytics queries from hours to minutes and driven efficiencies in marketing.

And as you can see on the right, we're now focused on further value generation as we migrate our data to these new platforms. Our immediate priority is insurance, driving benefits in pricing and marketing and then using our data to serve customers with relevant cross-sell propositions based on their preferences and interests.

Now our customers were very digitally savvy, but during lockdown, like everyone else, we've seen a bigger shift in digital usage. We already have 2 million unique visits a month across Saga's online platforms and 1 million customers signed up to our online membership proposition.

Now Euan touched on membership earlier. So I'd just like to pick up on that point. We've earned a significant amount from launching our membership program. But we're now moving on from this approach to improve our customer experience, remove complexity from the business and focus on improving our digital services for all customers. This means that from the end of this year, we'll remove the separate membership branding and sign up process.

Customers will still have access to their benefits, but instead of one experience for members and one for non-members, we're building a single digital hub for all customers to easily access everything Saga has to offer in one place. That's insurance and travel products, service, rewards, offers and content without requiring customers to sign up to a scheme. We believe this will be simpler for customers and colleagues and will be well placed to drive up retention and cross-sell through our digital platforms.

We're also launching a redesign of our website from early 2021, improving the look, speed and features of the site to improve sales conversion and cross-sell. And the reason we're focused on early 2021 is the next part of our transformation, our brand relaunch.

Now the Saga brand has very strong underpinnings. Over 69 years, we've built strong awareness and it is seen as a brand people can trust. But the relaunch will mark a major change in how we communicate the Saga brand. It's our chance to restate Saga's role and the benefits of choosing us. And it will also galvanize all of the transformation efforts that our colleagues across the business are working on to reinvigorate Saga.

We've gone right back to why Saga exists and spoken to many customers and our broader audience. We've drawn heavily and take inspiration from Saga's heritage, returning to the core brand DNA, which Sir Roger De Haan created. And we'll bring this to life in a modern way, which reflects today's consumer. The campaign will be big and bold, making our brand much more visible than it has been for many years. It will celebrate the experience of our customers, our 70 years at Saga and our commitment to delivering exceptional experiences. For us, experience is everything.

The campaign itself is still under wraps at this point, but I did want to share some of the fantastic feedback from our audience in testing research. As you can see, they show exactly the shift in perception that we're aiming for. Winning over more of our market by showing Saga is a brand for them and opening up a new audience to Saga who've not tried us before.

I've set out on this slide this commercial benefits that a stronger brand will provide, but there are also many softer benefits supporting our work on building Saga's culture internally, galvanizing our business and providing a real focus for transformation.

Saga Magazine has always played an important role at Saga, but it had become a bit of a hidden jewel. Its subscribers includes some of our most valuable customers and advocates, but you probably won't be aware that it is the UK's best-selling monthly subscription magazine. This is developed entirely in-house at Saga, it's unique to us and a real advantage over other brands.

So Saga Magazine is going to play a bigger role going forward. We're going digital with a full digital version launching this autumn alongside the paper version. And we've already delivered changes in editorial and design generating significant PR every month with columns from the likes of Jeremy Paxman and Paul Lewis.

Going forward, we will grow the leadership of Saga Magazine to drive brand engagement among more of our current customers and future customers.

This is my summary showing how each of these initiatives I've covered will create benefits for Saga and customers. We have had major transformation programs before, but a big difference this time is the alignment of the entire business around one cohesive plan and the bringing together of all of these things with an ambitious brand relaunch to transform our business.

Thank you. I'll now hand over to Cheryl.

Cheryl Agius {BIO 20013065 <GO>}

Good morning. Today, I will share with you my reflections on the Saga Insurance business over the last 8 months, the progress on our strategic priorities and how we are building on our core foundations for future sustainable growth.

As Euan and James has outlined, we have steered our business through COVID, delivered on our insurance performance and focused on our strategic priorities. We responded promptly and we're one of the first insurers to relaunch a travel insurance product for our customers to include COVID cover and cancellation.

When COVID took place, our colleague safety was our priority, whilst we focus on remaining open for our existing customers and new customers. We have the telephony and technology in place prior to COVID for some of our call center colleagues and we were able to scale up to get our full call center capability working from home within 2 weeks. The Insurance business remained open as normal, with 97% of our calls answering within 20 seconds at the end of March.

On our trading, our 3-year fixed has performed very well with over 500,000 policies in force at the end of July. This has been one of the drivers of increased retention and policy growth. We also secured reinsurance on our 3-year fixed product as part of our broader reinsurance strategy.

As James shared, we have maintained strong pricing discipline throughout with margins in line with expectations. We have had positive experience in personal injury claims, and attritional claims is in line with expectations. As we manage through COVID and normal trading, we have also progressed our strategic priorities, some of which we set out last year.

At the start of the year, when we went through our business transformation, we simplified our business and aligned the business under one leadership team. We have focused building our direct proposition capabilities, investing in pricing and data and transforming our technology infrastructure and digital. I will take you through more detail on some of these in just a moment.

The progress delivered to date has started to deliver value in our business. We are delivering on the principles set out last year. We have grown our direct sales with a clear targeted proposition in our 3-year fixed, which in turn has been a contributing factor to our increase in retention rates of 10% on Motor and Home on our 3-year fixed and an increase in policy count. We have maintained strong pricing discipline in line with expectations, and become more efficient by reducing our insurance cost base by 4%.

We have also focused on understanding our customer needs. Saga has a considerable advantage in our target market because of our relentless focus in customer insight and data to understand each stage of our customers' lives.

A large number of our customers are retired with a retirement income and want certainty and ease. The 3-year fixed for Motor and Home was launched in April 2019 and these are some of the customers' feedbacks of which are common themes from customers, peace of mind, reassurance and ease.

Our distribution will continue to focus in direct to our customers. A direct relationship with our customers provides opportunity for profitable growth by meeting the targeted needs of our specific customer base. The 3-year fixed is a good example of product innovation, distributed directly to our customers. We are modernizing our marketing, reaching more of our customers through digital and the recent appointment of Head of Insurance, marketing who has strong digital experience has accelerated the journey. We have invested in Guidewire and live on motor, with the intention of rolling out home later this year.

We will also distribute through PCWs to attract those customers in our chosen growth segments. PCWs are the largest source of new business, and we will target new customers that align with our profile. We will have differentiated propositions for direct and PCW specifically designed for each of those channels, and we are on track to launch a new cover level for motor against specifically designed for PCWs.

Overall, our strategic priorities are to build broader and longer relationships with our customers. Our strategy is split into Phase 1, which focuses on building the core foundations in technology, data and pricing, coupled with strengthening our capabilities in core products, customer experience and deep customer insights. Our Phase 2 leverages off this and focuses on distribution excellence, increased value, margin and retention to drive sustainable growth.

If I turn to Phase 1. We spoke to you last year about investing in our core foundations, and we have made strong progress. We have replatformed our motor book onto Guidewire, implemented telephony analytics, robotics and in-sourced our claims technology hosting whilst at the same time, our pathway through simplifying our claims handling processes.

In Q3, we are on track to deploying Guidewire with home implementation. And by the end of the year, we will have initial stages of online self-service for our customers. Our new platform makes it easier to broaden our relationships with our customers.

In pricing, we have deployed radar live into our broker and underwriting business. And as Stuart has shared with you, we have a program of work underway to modernize our data infrastructure and enrich that database on customer behaviors across our entire Saga business, including sourcing pricing data from internal and external sources. For our core products, as I mentioned, we will have launched a new product on motor and PCW.

Phase 2 is focused on building on Phase 1 to provide sustainable growth with a particular focus on delivering on initiatives that will drive broader relationships in our Insurance business and increased longevity. We have started to build out our digital capabilities and customer acquisition, so we provide targeted, relevant offerings to our customers. Stuart has shared with you our vision for an integrated customer journey in Saga for our insurance and broader customer base that is easy to use, and so they can service their insurance products. We will build on our 3-year fixed to reward them for their loyalty, and we will build up sufficient data and pricing capability to share in more of the value chain where it makes sense.

So to summarize, there are 5 things that I am very proud of. We have delivered strong results despite the headwinds of COVID. The underlying business is in line with expectations and showing initial indication of return to growth. We are making strong progress in direct with our 3-year fixed product. We are well progressed on delivering

Phase 1 of our transforming our core foundations. And finally, we have started on the initiatives that will leverage of our core foundations to deliver sustainable growth.

And now I'll hand you back to you.

Euan Sutherland

Thank you, Cheryl. In Travel, the team has completed a huge amount of work over the summer and have reset the businesses to operate successfully and profitably in a COVID world.

Firstly, on Cruise, our core Saga proposition has always been to create exceptional service whilst giving peace of mind and extra care and attention for our guests. Therefore, building on this into a COVID world has been arguably easier for Saga. Having said that, we have landed over 100 improvements on board and with the provision of safe and secure cruising, giving us the confidence to be ready to cruise today and certainly later this year.

Taking these in turn. Our ships are the newest cruise ship fleet in the world with 100% fresh air, air conditioning, meaning the air you breathe in your cabin is not breathed by anyone else on board. And we also have the technology to control airflows around the ship without recirculation. On top of this, we have the capability to use ionization and ultraviolet to kill pathogens in public spaces.

We have 100% balcony cabins and with a maximum of 1,000 guests, meaning social distancing and capacity management is easily achievable. And in the first instance, we will be capping load factors to 80%. In addition, we have extensive prevention planning with full COVID testing before you leave home, our car service to the port, testing at the port and a car service home at the end of your cruise.

Crew welfare and testing is top of our minds, too, with daily COVID testing of whole crew and a dedicated isolation zone and a doubled medical team for all who are on board. All of our cruises are UK to UK. So there is no fly risk for our guests, and we are confident in strong demand driving pre-COVID metrics.

In Tour Ops, we have reset the business to be a smaller, but high-quality business aligned to the cruise proposition, focused on off-peak and adopting many of the same COVID measures and this is set to return to service from March 2021.

There are 3 strategic drivers of the new travel offer at Saga, with an enhanced proposition, data and digital step change and a revitalized focus on exceptional customer service. The Saga propositions across cruise and tour operations have been aligned behind delivering exceptional experiences, enhancing safety and peace of mind with everything that we do. Both cruise and tour operations have seen strong customer loyalty, underpinning this proposition.

The travel businesses will benefit from the same data, digital and brand investment as insurance, making it easier for our customers to have longer and deeper relationships with us. And aligned digital crews and tour operations marketing development creates more opportunity for cross-sell. And the travel websites are being overhauled in early 2021, and we're taking each of the travel businesses more direct to control the quality of customer experience end-to-end.

In Cruise, we are confident in achieving our transformation promises when sailing resumes, but we've assumed lower load factors in the early months post lockdown being lifted. Both ships were on budget and prior to the lockdown, the key metrics of greater than GBP275 per diem and greater than 80% load factors were being delivered.

As I've said, we've worked closely with the government, the cruise trade bodies and public health agencies in establishing safe cruise protocols and are expecting publication of these later this month. We are confident about our ability to cruise again and demand does not look like it's an issue today.

There was a lot to fix in our Tour Operations business in 2020, constantly changing leadership and priorities alongside constant experimentation over the last 5 to 10 years has meant that we'd simply lost the Saga DNA, resulting in lower customer numbers across the board. We have reset this business over the summer, taking it back to its core heritage in a new digital context. The reset is built on 5 pillars. Firstly, our commitment to quality. We will not be the cheapest, but we will ensure added value and quality guarantees in every product. As such, we've reduced the product SKU count to only those holidays that meet our standards.

New product development is key. We are reintroducing an innovation program, adding longer holidays, a focus on off-peak across the world, cultural and special interest tours and we have our new river cruise ship program setting sale from March 2021. Our direct and digital marketing has been refined, and our operations have been streamlined and refocused. The Saga Holidays proposition caters for our core audience of 70 plus, while the Titan Travel operation caters for a younger and more venturous audience, both with the same attention to detail and underpinned by group synergies.

Our new 2021 season launches this month, including the key elements of our return to the Saga DNA inspiring destinations, peace of mind reassurances and including travel insurance now including COVID cover too. We have the launch of our new river cruise ship, the Spirit of the Rhine in March, which is fully booked. We will reach, reconnect and hopefully inspire almost 2 million people this month with our new proposition.

In Tour Operations, our principles are simple and clear in every touch point now with the Saga charter, underpinning every holiday, inspiration, quality, service and value for money with holiday specifically designed for our customers, inclusive travel insurance is even more important today than ever before and topped up by the reintroduction of the Saga price promise to give confidence to book now. Underpinned totally by the availability of our exclusive car service from your home. We believe the care and attention, alongside a brand history, offering peace of mind with inspirational destinations is a very strong proposition today and into the future.

So in summary, the team and I hope we have demonstrated our passion and determination to return Saga to being a great British business again. With our clarity and realism around the challenges that we face, our unrelenting customer focus and the development of a new performance culture. Our investments are disciplined and will drive growth from a focus on data, digital and brand, once the balance sheet has been strengthened.

We are already underway with improvements they need to drive the returns our shareholders deserve, and we are focused on creating a simple, compelling and profitable business for the long term. We will measure our success across a balanced scorecard. In Insurance, we have already turned a corner, and we're aiming to deliver strong retention of over 80%, alongside consistent policy growth of 3% at stable margins with a combined underwriting ratio of 97%.

In Travel, our first objective is a safe return to service and then picking up where we left off in Cruise with highly profitable cruise ships delivering GBP 40 million of EBITDA, while returning our Tour Operations business to a quality operation and consistent revenue growth of 4% per annum post COVID.

Our central cost will remain a focus, and we will not let them get out of control again, while investing in data, digital and brand to ensure more of our growing customer base, engage with the business for longer.

Finally, we will continue to be cash generative, with a cash conversion of 85%, while lowering our leverage to less than 3.5x by 2023.

Overall, our objective is to deliver improved quality of earnings on a sustainable basis across the group.

As you will already be aware, we are looking to raise GBP 150 million of gross proceeds. Roger De Haan will subscribe for shares equivalent to 20% of our existing share capital at GBP0.27 per share. This will raise around GBP60 million and he will own 16.7% of the company. We will then have a placing an open offer to raise a further GBP90 million.

In the first instance, all investors will be able to subscribe for shares proportionate to their existing holdings. Roger will maintain a 16.7% stake, and so we'll invest a further GBP15 million at a maximum price of GBP0.15 per share. Any shares not taken up will be allocated to shareholders willing to increase their holdings. Roger will invest up to around a further GBP25 million in this part of the capital raise again, at a maximum of GBP0.15 per share.

The placing and open offer are fully underwritten by JPMorgan, Numis and HSBC and completion of all elements are conditional on shareholder approval. Completion of the changes to the banking terms are also conditional on successful completion of the capital raising and the transaction is expected to complete later this month.

So in conclusion, we have a clear strategic plan based on 5 priorities: people and culture reset, a step change in performance, productivity and engagement. Data, digital and brand transformation, a bigger, bolder connected strategy, optimizing our businesses, exceptional experiences for our customers every day, lowering our cost base, a constant drive for efficiencies, and finally, debt reduction, further strengthening our balance sheet. And these are supported and underpinned by Roger de Haan as our cornerstone investor and new Chairman.

As a team, we are already building a track record of good execution across all elements of the business and have acted with precision pace at each stage of the COVID pandemic. We are confident in consistently delivering the balanced scorecard of measures for shareholders over the long-term and driving greater quality of earnings. I hope our customer focus is clear. And our customer demographics are attractive, strong and in double-digit growth over the next 10 years. Our objective is for Saga to emerge stronger from this crisis than it went in and to rebuild a great British business again. And we are underway with the steps to achieve that. Thank you.
