Q2 2014 Earnings Call

Company Participants

- Lance Henry Batchelor, Group Chief Executive Officer & Director
- Stuart Michael Howard, Chief Financial Officer & Director

Other Participants

- Barrie J. Cornes, Analyst
- James A. Shuck, Analyst
- Matthew C. Webb, Analyst
- Philip D. Middleton, Analyst

MANAGEMENT DISCUSSION SECTION

Lance Henry Batchelor {BIO 6884486 <GO>}

Well, good morning, everybody. I recognize quite a few faces in the room. For anyone I haven't met yet, I look forward to getting to know you in the weeks, months and years to come. Welcome to Saga's maiden interim announcements. We're delighted to welcome you all here today, but particularly delighted because we've got a very strong set of numbers to present to you.

We're going to focus on two real areas over the next half hour or so. The first of those is the current business, where are we, what progress are we making. We're also going to talk to you quite a lot about the early steps in innovation and the things that we started to do to build on the model.

Just in case you're trying work out who I am, I'm Lance Batchelor, Chief Exec. And to my right here is Stuart, the CFO.

So, what you're going to hear today is the first six – it's the six-month period that we're covering. And of course, only two or three months of that is post-IPO. What have we been doing in the last six months? Well, we've IPO'ed the company. And as you might expect, that took quite a lot of time, effort, intellectual focus and resource and so on. But we've also been also busy building the core business, and we've got plenty to talk to you about in terms of where we've been going with Insurance and with Travel and with Healthcare and so on.

In the New Year, we're going to have an Analyst Day where we will take you through in real detail the kind of five-year roadmap for this business. There's a huge amount to talk about on that day and we're well under way with preparing for that day. But today, our focus is strictly going to be on the six-month period for our interims.

Before I go any further, I think I'm going to hand over to Stuart, who will take you through some of the detailed numbers, and then I'll pop back up again and talk to you a little bit about some of the business divisions and how they're doing. So, Stuart, over to you.

Stuart Michael Howard {BIO 16905415 <GO>}

Thank you, Lance. Good morning, everybody. So let's kick off. So I'm just going to start by giving an overview of the group's performance for the period.

We've had a very solid half year, with all profit measures up year-on-year, and we are on track to deliver our trading EBIT target for the full year. Revenue is slightly down, driven by reductions in Motor gross written premiums and Healthcare, and that's been partially offset by the improvement in Travel.

The business continues to be highly cash-generative. And since IPO, we have de-geared ahead of schedule. We've achieved an operating cash flow of £143.7 million, and at the end of July, we had a net debt to EBITDA ratio of 2.5 times compared to 3.1 times at the time of the IPO.

And I think this slide is a good one-page summary of what we see as the strengths of the Saga model, and that is consistent growth and strong cash generation. So we've had strong trading EBITDA growth of 9.7%, driven largely by Travel and Financial Services, and that converts into the cash flow I've mentioned, which was 110% of trading EBITDA. And this has allowed us to reduce our gearing in a shortened period of time.

The cash performance is loaded towards the first half of the year, and I'll come back and explain a little bit more later about why that is. But I think this does demonstrate our resilience and it gives us the flexibility to invest in the business.

So the income statement is summarized on this slide. Clearly, there is some noise from the IPO in the financing early in the year which we stripped out off this numbers. So here, we show revenue and profit measures on a like-for-like basis. Then we have IPO and financing expenses to get to the reported profit before tax.

So, revenue for the period was down 3.9% on the same period last year; and whilst we saw growing revenue from increased passenger income and ship passenger days within the Travel business being more than offset by the impact of lower market gross written premiums in Motor and a reduction in the numbers of hours of care delivered by our Healthcare business. But despite this, driven largely by the margin improvement within Financial Services and a strong start of the year we've had in Travel, underlying trading EBITDA was up for the period by 9.7%.

You'll see in the appendices on slides 40 and 41 in your pack that we've included a breakdown of exceptional costs and finance charges. And I'm more than happy to run through those at Q&A or on one to one if that would be of help. But in summary, the actual cost of the IPO was some £5 million less than the £37 million that we forecast in the IPO prospectus.

On tax, the tax charge was down £12.5 million on last year. This reflects the deductions during the period for allowable IPO expenses and finance costs of new debt, together with a reduction in the effective rate from 23.2% last year to 21.3% this year.

I also wanted to mention the pro forma earnings per share numbers that we've shared today, and this is really an attempt to show a reasonable like-for-like comparison with the same period last year when, of course, we were part of a larger group and had no debt attributed to Saga.

A quick look at the cash flow. So, as we've said before, our cash generation has been very strong but this point, (05:51) deleveraging is really no different from what the group's been achieving over many years. But remember that this deleveraging is all underlying cash flow. It does not include any of the proceeds from the IPO. So it's just the cash generated from our operations then strips out the impact of the IPO.

And just a bit of a reminder, we have this concept in the business of restricted and available cash. So restricted cash is that cash that's held by our regulated businesses and in particular, our Travel business and our Underwriting business based in Gibraltar. And what this slide shows is the available operating cash flow that we can use to reduce borrowings and pay dividends.

So I mentioned before that the cash – the strong cash generation has been loaded to the first half of the year and that's for three main reasons. Firstly, in the first half of the year, we received a full year dividend from our underwriting business from Gibraltar. That won't repeat in the second half of the year.

Secondly, we've seen a very significant improvement in working capital management in our Healthcare business, in particular around the collection of receivables, that has given us an additional £8.4 million of cash in the first half of the year. I do expect there to be some continuing improvement in the second half year but it won't be at that kind of level.

And finally, the Destinology acquisition. Now that was an acquisition that happened in August and was paid for not by available cash but was paid for from restricted cash within our Travel business. So, what that means, it does not have an effect on our net debt. What it does mean, however, is that some of the cash that we'd normally expect to come out of the Travel business in the second half of the year will not now come out this year.

So I'm now going to just talk you through the key highlights of the various divisions. So we're going to start with Motor, has been widely reported, market conditions remain difficult for Motor Insurance. Despite that, the first half has been good for us. Our underwriting performance has been very encouraging and we continue to focus on the efficiency in our business. So whilst we have seen prices stabilize, we have not seen any evidence of price increases and we are not counting on any for the remainder of the year.

However, we have improved our margins, our pure combined ratio and our underwriting performance. This has been helped by favorable large claims experience, including winning a couple of large full (08:17) cases, and better than expected development of small personal injury claims following last year's Ministry of Justice changes. Combined, this has led to a 5.7% improvement in trading EBITDA.

Turning to policy volumes, largely result of (08:35) the market dynamics that have been highlighted, core policies have fallen by 7% year-on-year. But our strategy is not to chase policies in unfavorable conditions. However, we've worked hard to minimize the falling core policies by focusing on retention of our existing customers and a tactical acquisition of profitable new business.

We have seen retention rates are significantly higher amongst the customers we have targeted, which will in turn strengthen the quality of our book for the future. As a result, we expect core Motor policies to be flat for the year.

Add-on policies have fallen by 15.9% as a result of planned changes we've made in our business last year ahead of regulatory changes to the sales process for a number of these products. Because of this – because this change happened last year, the full-year impact on add-on policy numbers will be significantly reduced. So overall, gross written premiums were down 13.9% and in combination with the reduced level of premiums in second half of the year, this has driven the overall reduction in revenue.

Say a few words about our combined ratio. So the combination of lower claims costs and a reduced acquisition cost has generated 9.8 percentage point improvement in the pure combined ratio to 91.8%. This ratio calculates the sum of claims costs and other expenses as a proportion of net earned premiums, after adjusting out the effect of reserve leases. So, this result is in part due to favorable claims experience I mentioned earlier, but it is also due to a change in the mix towards more renewals, which incur minimal acquisition costs compared to new business volumes.

I think it's also worth noting the seasonality of performance here. Our customers tend to be lower mileage drivers who drive less in the dark and in bad weather. And when it is bad weather, if they have the choice of not driving, they will not drive.

But in the pre-Christmas period, our customers – we see our customers driving in often difficult weather conditions with a large increase in claims in November and December. In fact, December is generally our worst month of the year, but January is often our best month of the year as customers decide not to drive in January.

So, we do expect to see a decline in the combined ratio in the second half of the year. And just to give you a sort of flavor for that, if you look at last year's numbers, the pure combined ratio moved from 101.6% at the half year to 109% to the full year.

Now, here, we set out our Motor P&L in detail, and I just thought it might be worth taking a couple of minutes just to describe what sits under each of the headings as we have a number of businesses included in here.

So, Saga core business is Saga-branded Motor policies and Motorhome premiums net of reinsurance premiums. Ancillary income is add-on income, Saga credit hire income and installment income. And other trading income is net earned premiums from the AA Motor business as a result of us sitting on the AA panel. The revenues of our specialist broker, Direct Choice, and non-Saga credit hire income. And I think claims cost and reserve releases speak for themselves, and other cost of sales include staff costs for both handling claims and for our credit hire business.

The group has maintained its prudent approach to underwriting and reserving, and a combination of lower than expected numbers of large claims together with good experience from small personnel injury claims mean the reserves releases are higher than we had forecast for the first half of the year.

Reserve releases will be ahead of our initial forecast for the full year. However, we did expect the releases to be higher in the first and the second half because of the profile of improving claims cost last year. And the proportion we had expected was two-thirds of the release in the first half and one-third in the second half. And we still expect this split broadly to hold true.

Now, moving on to Home. So, revenue for home was £43.7 million, down slightly on the same period last year. However, gross written premiums were down 5.5%, and this reflects our decision to pass through lower net rates achieved from the panel of underwriters to our customers to maintain a broadly consistent level of core policy sales.

EBITDA was slightly behind last year, partly as a result of an investment in Saga Home Emergency product. We have in place a number of initiatives in the Home Insurance division primarily around the make-up and reach of the panel, which we expect to pay off during the second half of the year, and this means we are comfortable with our assumptions for the full year.

On volumes, core policy volumes were broadly flat during the year but add-on policies increased by 16.5% (sic) [16.6%] (13:38) and about half of that growth is coming from our investment in the Home Emergency product. And we see this product as a strategically important product for us. It is designed for and increases engagement with our Home customers in particular.

Moving on to Other Financial Services. Just to remind you what's in here. So, within this segment, we include Travel Insurance, Private Medical Insurance, Pet and Boat insurance, Credit Card, Savings Accounts and other investment products. But the two single largest products here are Travel and Private Medical insurance.

So, trading in Other Financial Services in this area has been strong with revenue at £49 million and trading EBITDA up to £18.9 million from £16.9 million last year. And this performance has been driven by Travel Insurance where we have found new routes to market to allow us to benefit from the strengthening of the wider travel holiday market.

Travel policy numbers are up over 7% and we have seen our best ever trading days for Travel Insurance in the history of Saga in the last three weeks. The result is also supported by our Private Medical Insurance volumes which are up nearly 5%. Again, we've established new routes to market through third-party lead generators.

And the customers we're getting through these new routes tend to be a younger cohort than the customers we've attracted through our traditional market routes. And Travel Insurance and Private Medical Insurance are providing a really good source of new names to our database at the moment. Overall, the number of policies sold was up by 2.4% and gross premiums were up £4.7 million or 8%.

We also launched a successful initial pilot for Legal Services and we are tweaking the offer based upon the feedback we received. And I think this is a product we're very excited about and we are going to be pushing very hard into next year.

And moving on to Travel. So, we are delighted with the performance of our Travel business so far this year, which has achieved a significant improvement in both volume and margin. The management team have been focused on yield management and increasing the quality of earnings by adding value to the range of holidays it offers under the Saga brand. That includes shifting the product mix towards long-haul holidays and river cruising.

Whilst the (16:09) business is performing very well, we're not moving our forecasts for the year as experience tells us that things in Travel have a negative impact in the second half of the year, and we don't know what but it's nice to have a contingency to hold back for unforeseen events.

And finally Healthcare. So the restructuring we undertook last year to focus on margin is bearing fruit. And operating profit has remained largely flat despite reductions in revenues. We've reduced overheads by £3.5 million in the first half of this year compared with last year. We also continue to provide market-leading levels of clinical governance and to make improvements in efficiency and margins. However, trading in Healthcare remains challenging due to the continued pressure on local authority care budgets. So, despite winning new contracts, the number of hours being delivered on existing contracts has been under pressure as local authorities seek to manage their budgets.

EBITDA delivery for this business is weighted towards the second half of the year, due to the timing of holiday accruals, which is significant, given the number of carers we have. Also, a number of the efficiency savings that have been made had a greater impact in the second half of the year.

I think it's worth highlighting now the increased quality of the business is being reflected in improved working capital management that I mentioned earlier, contributing £8 million to the group's cash generation in the period. So, we see that Health, whilst showing year-on-year margin improvement, will deliver slightly less than forecast for the full year.

And finally, Media and Central Costs. So, just to remind you, within this segment, Media and Central Costs includes our magazine; Metromail, which is our mailing house; and our central costs including our plc costs. So, we were a public company only for the last two months of this period. And we had incremental costs in that – for those two months of about £0.5 million. Clearly, that number will increase proportionally in the second half of the year, but overall, we're on track.

So, just to sum up. You'll see that the breadth of the offering and the resilience of the model means we remain on track to deliver for the full year. The mix of delivery will change slightly as the business reacts to market conditions and exploits new opportunities. But at the half year, all measures for profit are up year-on-year.

We've delivered excellent cash generation, have reduced our debt ratio ahead of schedule and we have a strong balance sheet. We're also on track to achieve our full-year dividend. And just to remind you, we have adopted a progressive dividend policy and will pay out between 40% and 50% of net income, excluding exceptional items. The first dividend will be paid after the full-year results and will be prorated to the timing of the IPO. But important to note that this will include the interim and final elements in one payment effectively.

Thank you. So, I'll now hand back to Lance.

Lance Henry Batchelor {BIO 6884486 <GO>}

Thanks very much, Stuart. Right. Let's talk about what makes Saga, Saga. The fundamentals of this business start with the fact that we want to help the over 50 year olds to live their life well. How do we do that? Well, we start by putting the customer right at the heart of everything we do.

We've talked about the database that we have, and we've mentioned that to you in the past, 10.5 million names, now up to 10.6 million names of the over 50 year olds in the UK. This is a unique level of understanding that goes back 60 years to help us understand the needs and the wants of the over 50 year olds. And we use that database both to help us improve today's products and services on an ongoing basis but then also to develop new products and services, and to better understand what are the unmet needs in the over 50 year olds marketplace.

So we don't focus on innovation to get out there and to test and to develop new products and services. Everything we do, we try to do in what we call the Saga way, which basically means we go the extra mile for the customer. Our business model gives us some real advantages.

So first of all, Stuart's talked about the fact that we're able to move our resources from one part of Saga to another. Motor Insurance, for example at the moment, is not the most efficient place to go out and find new customers to get into our database. Unlike a pure insurance company, we have the ability then to trade our focus and move across and, for example, look at Travel Insurance and look at Health and the other parts of the business.

And that's exactly what we've been doing during the current challenging time for the Motor business.

The direct relationship that we've got with our customers, the fact that they're on our database, the fact that many of them already have products with us in other categories means that we have a lower cost of acquisition when we bring a new customer in. For example, into Motor Insurance, we believe that our typical cost of acquisition is significantly lower than the market averages.

Saga's always had a relentless focus on cost control. And it's an absolutely core part of the DNA. It's a defining characteristic of this group. So for example, in our Financial Services division, we've had a program underway this year which has already delivered over £4 million in cost savings. And on a going basis, we expect that to be in the order of £20 million per annum, moving forward, of savings in that division alone.

We've got a very healthy operating margin. We've got very low levels of capital tied up in the business and very high cash flows, and that has enabled us, as Stuart mentioned, to reduce our net debt faster than the market's expected. That means we can invest in growth if we choose to. It also means that, over time, we can be progressive with the payment of the dividends to our shareholders or, indeed, a combination of those two.

Let's have a quick look at each of the divisions just at an overview level. So, as Stuart said, we've had a good first half despite the challenging environment out there, and that's because of the flexibility of our model. It's because we're efficient, and it's because we have a choice of underwriting or broking, we're not wedded to one model or the other. We can move customers and policies back and forth across the two if we choose to.

In Home Insurance, we've seen solid performance again. We've invested quite heavily in that Saga Home Emergency product, which Stuart talked about, which our customers really value, and is a great way for us to bring new customers in and deepen the relationship with them.

We've also launched a landlord insurance product. Now, this is to help what we call accidental landlords. So for example, customers of ours who have, through inheritance or through remarriage, have found themselves owning a property that perhaps they hadn't expected to own. And our customers asked us for that help and we've been able to launch that product for them.

The Other Financial Services division has done very, very well. We're really encouraged by the progress with it. It remains an extremely important area for Saga as we move forward. The policy numbers are up. We've found new routes to market, driven largely by Travel Insurance and by Private Medical Insurance. And again, it's a very good way for us to bring new customers onto our database and to reach a different part of the over 50 year olds demographic than we might have done through some of our traditional core products.

Travel, great start to the year. Growth both in terms of customer numbers but also in terms of margin. We continue to work very hard to find new routes to market for our Travel business. Couple of examples of that, you will have noted that we purchased Destinology. And Destinology is a business that has quite a bias towards the 50 to 60 age group. And that's a real area within our demographic that were key to unlock and to drive deeper penetration in. And there are also great skill sets and so on that we pick up with that acquisition.

We've also moved into third-party cruising. And this is where, instead of placing Saga customers only on our own ships, we also put them with chosen partners on their own ships, which helps them to use up some of their capacity with very high quality customer base. What's very interesting for us is about a third of all the customers that have come to us for third-party cruising are actually new to us that haven't booked a holiday or travel or cruise with Saga before. So again, that's evidence that we're driving deeper penetration into the over 50 year olds demographic.

In the Healthcare business, we're accelerating our development of a private pay offering. We've appointed a dedicated managing director and team to take this forward into that space. Over the winter, that team will be running a series of small pilots to help us understand the optimal way to enter the private pay space.

Remember what we're looking at here is looking after the elderly and the vulnerable in their own homes. All of that is built on the expertise that we've developed in the last couple of years running Allied Healthcare. And Allied is the business that interacts mostly with local health authorities.

Within Allied, we've continued to focus heavily on efficiency and on quality to give us a real competitive advantage in that space. And we're actually almost twice the size of the next player in that market. It's a very fragmented market with about 7,000 different players in it. But we're the largest, and we believe that we're the best. So we continue to win work from local authorities. But just to echo the point that Stuart made earlier on, it's a very challenging marketplace because the local authorities are under pressure in their care budgets. And of course, labor rates are rising all the time.

So, our real focus is going to be as well as continuing to look at efficiency and quality and margin within the Allied business, also moving forward, to use what we've learned and accelerate into private pay home care, which we believe is an area of real opportunity for Saga. There is no national brand for you to turn to if you, for example, have an elderly parent who needs looking after at home.

Let's talk a bit more about innovation generally. In the first half of this year, we set up a dedicated innovation team, and that team has been tasked with taking a rigorous approach to drilling into the data in our unique database and to develop the insights with our customer base in order to identify potential product and service areas that Saga can move into in the next few years, and then to piloting and testing those ideas.

And what we've done is we've put in place a process called fast piloting where we can rapidly test, on a very small scale, quite large numbers of ideas in the marketplace in a real world environment. And depending on the product or the service we're talking about, that means that at very low cost and high efficiency, we can get answers within weeks or months to whether a particular area is likely to be fertile territory for Saga or not. If it is, we can scale it up and get moving on a larger scale pilot. The key point here is that in the months to come and the years to come, you'll see Saga innovating more and more on top of the core business. And some of those seeds that we plant will turn into big businesses.

Let's talk about a couple of seeds that we're excited about at the moment. So, the first of those is wealth management. Now, at the time of the IPO, we talked to you about the fact that the wealth management market is in a state of huge change at the moment, that customers and investors out there are looking for brands that they really, really trust, and that they're telling us that they would like to see Saga in that space.

Now we've spent a lot of time in the last six months getting to know that marketplace and drilling down to understand what is the best way for Saga to enter. Do we build something from scratch? Do we buy something? Or do we partner with somebody? And what we've concluded after spending a lot of time looking at it is that the right way for Saga to enter is in a partnership structure with a business that's already in that space and perhaps is looking for access to a strong brand, big database and strong marketing skills.

And I'm pleased to be able to tell you today that we are at an advanced stage of discussions with several potential candidates. And it won't surprise you that there are a number of firms in the middle of the market that would be very keen to work with somebody like Saga. And I'm looking forward to coming back to you with further news on that, hopefully, before the end of the year to talk to you about our entry into the wealth management space.

A second area that we've made real progress on is retirement villages. This is another area we touched on during the IPO. Retirement villages are big business in the U.S. and Canada, Japan, Australia and New Zealand, but they're a relatively new thing in the UK. And we have signed a deal with a company called Rangeford who are specialists in building and financing of retirement villages. That's not a space we intend to get into. We're not going to become a builder or a financier of these things.

But what we can bring is our database, our brand and marketing expertise, and that's what we're doing with them at this stage. It's a small scale pilot together, but it's about Saga moving forward and learning in that marketplace. Potentially, there could be many more retirement villages to come. Potentially, Saga might start to operate within those retirement villages. But at this stage, it's a sales and marketing pilot together.

So let me summarize before I hand over to you for any questions that you might have. It's been a solid set of results at the end of the six-month period. I'm very delighted to be able to stand up here and present those to you and to say that we are on track to meet the market's expectations for the full year. And that's driven by the flexibility of the Saga model that I've touched on and that Stuart's touched on, our ability to move investment across different parts of the brand in order to ensure that we hit the numbers.

We are both building the base and also innovating at an increasingly rapid clip, and we're looking forward very much to talking to you again sometime early next year to paint a picture of the five-year vision for Saga plc and where we're going to take that business as we move forward.

So, we're going to open the floor to Q&A. This meeting is being webcast, so if you could wait till you have a microphone in your hand before asking your question, that would be wonderful. And if you could state who you are and where you're from, that would be also very helpful. Philip.

Q&A

Q - Philip D. Middleton {BIO 3021993 <GO>}

Yeah. Thank you. It's Philip Middleton from Bank of America Merrill Lynch. Looking forward to the Strategy Day (31:23) in January, but maybe if we just therefore focus on growth opportunities with your existing marketplace. There's still a huge market share you're not tackling in the core business as you built out in the moment. What's your ambitions there? Because maybe there's more you can do there as well as in innovations.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Yes. It's absolutely true that our market share in the over 50 year olds in our core categories such as Motor Insurance, Home Insurance, Travel is typically around about the 5% mark. And that, by definition, means that there's significant opportunity in those spaces. And there are 900,000 people a year coming into the key demographic of 50-plus year olds who are new customers for us. So quite apart from the innovation opportunities that I've touched on, we really do believe there's growth opportunity in our core businesses as well.

Stuart's been very clear, and I would echo, that we won't chase volume for its own sake. One of the great advantages of the Saga model is we don't need to chase the top line. We can be focused on quality rather than quantity. So we won't chase volume for its own sake. But I think that over time, you will see us investing cautiously in the – if you like, the adjacent spaces around our current core of Insurance customers and Travel customers. And we believe there is scope for more growth.

Q - James A. Shuck {BIO 3680082 <GO>}

Thanks. This is James Shuck from UBS. Three questions, please. Could I ask first off what you did with your Motor rates in the first half of the year and how those compared with the market you experienced in the first half?

Secondly, in terms of – I think in the past, you commented that you have about 15 points of redundancy on the claims side of things, which is more or less in line with peers. So, can you confirm that you're still reserving on the initial loss picks for that kind of reserve release as well going forward?

And then finally, the H1 numbers were sort of boosted a bit by a higher-than-expected level of reserve releases, if you like, because you've guided to those coming down over time. If I normalize for that, then you're kind of broadly flat year-on-year, and yet you're kind of – previous guidance for EBITDA growth has been around 7% or 8%. So, could you just explain the delta on that, please?

A - Stuart Michael Howard {BIO 16905415 <GO>}

So, just first of all, on pricing – on market pricing, I think as I've said before, we've – in terms of our own pricing in the market, we've held our prices relatively flat. So, we have though been trying certainly in the sort of latter end of the period and certainly in the second half to moderate any price increases on our retained books and certain parts of our retained books and that's what we're trying to focus our investment on building the retained book, because that's just more efficient at this point in the market than chasing new business that's probably unprofitable.

And as I said before, we have seen the market – we have seen no sign of any increase in the market price at all. There's no doubt it's very stable at the moment. We're not seeing any price increases – or any (34:25) reductions but it's very stable and we're sort of matching that.

Q - James A. Shuck {BIO 3680082 <GO>}

(34:29)?

A - Stuart Michael Howard {BIO 16905415 <GO>}

Yeah.

Q - James A. Shuck {BIO 3680082 <GO>}

So, when you say price is flat, is that keeping pace with your experience on the claims inflation side of things? So, you're overall margins are staying the same or are you keeping pricing flat but then experiencing improvements?

A - Stuart Michael Howard {BIO 16905415 <GO>}

So, we're keeping prices flat. Inflation hasn't been abolished for claims costs, so that's still coming through. But we're seeing – and so, we're seeing a considerable improvement in small personal claims experience so that has helped. We've got a lot of efficiency programs going through the business that make sure what we're doing – driving more efficiency through the business. And we talked about at IPO about the sort of £20 million target for improvements and efficiencies across the business, and we're pretty comfortable with that still in our Financial Services business. So, I think we're able to maintain our margins despite the fact we've got this underlying increase in inflation coming through and a flat headline.

I think the second question was about the reserve margin that we held, which I think we talked at IPO, we had a surplus of around 15%. I don't think we've been planning to give a kind of running commentary on the size of that margin going forward. But just to give you some comfort, it's actually changed very, very little since the IPO within a percentage of that starting point.

And then the third point was on reserve releases in the second half of the year, I think, or reserve releases generally?

Q - James A. Shuck {BIO 3680082 <GO>}

Sorry, no, no. Is this the underlying growth? Because if I say the H1 growth is close to 10% but I X out the exceptional run rate for reserve releases then there's actually no growth coming through in the underlying business and yet your guidance is for 7% to 8% of a normal run rate.

A - Stuart Michael Howard {BIO 16905415 <GO>}

So, the 7% to 8% – 7% guidance people have taken is around (36:19) for the whole business as a whole. And I think we didn't at the IPO expect there to be on Motor. We were guiding to a relatively flat position year-on-year I – pressure's (36:29) on revenues, balance sheet, holding our margins constant. But actually, we've done better than that by what we've done, the improved mix of the business, we've had a better performance than we had expected.

Q - James A. Shuck {BIO 3680082 <GO>}

But I think – my point is that if the H1 reserve release had kind of trended to what you guided to in the past, which is coming down to a normal average run rate, if you just normalize for that, then the 10% growth that you've booked at H1 would in fact be flat. So I'm just kind of pointing out that's different to the kind of your normal medium-term growth projection of 7% to 8%.

A - Stuart Michael Howard {BIO 16905415 <GO>}

Yes. But as I said, that was for the group as a whole not for Motor.

Q - James A. Shuck {BIO 3680082 <GO>}

Absolutely. Yeah.

A - Stuart Michael Howard {BIO 16905415 <GO>}

Yeah. Yeah. So, I mean I think it comes back to the point we run the business as a mix of businesses. We'll move investment from one part of the business to another. So – and trading is difficult in Motor. We put the investment behind cruising, Travel business, we can move things around to get – manage the right result at the end of the year.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Perhaps I'll follow up later. Thanks.

Q - Lance Henry Batchelor {BIO 6884486 <GO>}

Hi. This is Lisa Jay (37:37) from Bank of America Merrill Lynch. I was wondering, given the debt reduction ahead of schedule, do you have a leverage target in mind and do you have any plans to become like investment-grade?

A - Stuart Michael Howard {BIO 16905415 <GO>}

I think we said at the IPO that we were looking to – we expected to delever by about half a turn a year. But when we got down to sort of 2 times multiple then we plan to look at what the opportunities were for further investment in the business or whatever things we could do, return cash to shareholders or whatever it might be, but we made that call once we got down to that sort of level, we'd have that.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

And it's partly an ongoing discussion with our investors, because one message we've been picking up from a number of investors is that they would like to see smart investment in growth. And the lovely thing about such high cash flows and such rapid deleveraging is as that leverage ratio comes down, we have more and more opportunity to invest if we chose to do so.

Any more questions, ladies and gentlemen? Sir.

Q - Barrie J. Cornes {BIO 2389115 <GO>}

Hello. It's Barrie Cornes from Panmure Gordon. A couple questions. The share price is underwater from the IPO price, and I know you said at the outset that obviously with a lot of your customers investing in the float, have you had any reaction from the 200,000 investors as a result of that, any negative reaction, and what have they done if they have reacted badly?

And the second one in terms of the wealth management, without giving names away, I'm trying to get a feel, is it – are you looking to partner an investor or you're looking to partner perhaps another distributor?

A - Lance Henry Batchelor {BIO 6884486 <GO>}

Okay. So, let me take those in order. On the share price, I think the first thing I would say is we don't see it as our role here to try and manage the share price. Our focus is absolutely on building the business, building the core, giving customers a great experience and innovating. And we passionately believe that the share price will eventually follow.

The second thing to point out is that the share price has been above and below the float price in the period since we floated. But the most important answer to your question is that actually, our retail investors have been absolutely rock solid in their support for the brand. Remember that the huge majority of them are customers. So, they actually know what Saga is. They holiday with us. They cruise with us. They buy our products and services. So, they really do understand what Saga brings to the marketplace. And we've been really encouraged by the level of support that they've shown, and it really hasn't eroded away at all, in fact, many of them have been buying.

To your second question around the entry into the wealth management space. I'm sorry, I'm not willing to say more at this point except that we have some very, very interesting candidates to work with, and that I'm confident that we'll get closure on that in the near future.

A - Stuart Michael Howard {BIO 16905415 <GO>}

Thanks, Barrie.

Q - Matthew C. Webb {BIO 19890601 <GO>}

It's Matthew Webb from JPMorgan. I just wonder whether you're willing to say any more about the innovation team in terms of the size of that team, the sort of investment you're putting into that, and there's a range of projects that they're currently undertaking and how you see that developing going forward.

A - Lance Henry Batchelor {BIO 6884486 <GO>}

I'm not going to say a lot, but I'll say a bit. The investment team is headed up by a senior director who reports directly to me with a long experience based in innovation including bringing companies all the way through to float himself. He's got a small hub of half a dozen or so innovators sitting around him, working full time. And then what they do is they pull in resource from around the organization. And if necessary, we will recruit individuals with specialized skills to help us enter new markets. And we've done that in one or two pilots.

We have three pilots on the go at the moment, which we've talked and the team's target is to come up with another half dozen to run during next year. And I hope that we'll scale that up gently over the next couple of years, so that we have at least half a dozen ideas in the pot at any one time. From my perspective, if one of those turns into a major operational opportunity for us, then that team is absolutely paying itself back. And thus far, we've been very excited about what they've been able to create.

It's about pace. The faster you get out there and learn – the faster and cheaper you can get out there and learn, then the faster you can find out whether an idea has legs or not. And if does, then it's worth investing behind.

Any further questions?

If not, I will bring this to a halt, I think. Thank you again, everybody for coming along today. It's been a pretty exciting day for us, our maiden presentation to you all. We've had some great questions, I really appreciate that. And we look forward very much to seeing all or many of you early next year to talk about the long-term plan. And then of course, in six months' time for our year-end.

Thank you very much.