Q2 2016 Earnings Call

Company Participants

- Jonathan Stanley Hill
- Lance Henry Batchelor

Other Participants

- Andreas van Embden
- Ben Cohen
- Dhruv Gahlaut
- James A. Shuck
- Nick Johnson
- Ravi Tanna

MANAGEMENT DISCUSSION SECTION

Lance Henry Batchelor {BIO 6884486 <GO>}

Good morning, everybody. Welcome. It's a great pleasure to welcome you to what is actually our third set of results that we've put out since we became a public company. Lots of familiar faces in the room, welcome back, and a few new faces as well, very good to see you. Welcome to you also.

In terms of the agenda for this morning, I'm going to give you an overview of the results for the last six months, a reminder about our strategy, I'll give you some more information about the shipping decision that we've announced this morning, I'm going to have a look at the operational performance in a bit more detail, and then I'll hand over to Jonathan, our CFO, and Jonathan will take you through the numbers in more detail before flipping back over to me. I will then look at our priorities in the future and, of course, we've got some time set aside for Q&A.

Now at our prelims six months ago, I was very proud of the fact that a year in as a plc, we had absolutely delivered on the key objectives. So, I'm pleased to be able to say now, six months later, that we've made a very good start to the first half of our new year and we have delivered a strong set of results. Trading EBITDA from our core Financial Services and Travel businesses is up by 5.2%. That has been partially offset by the fact that we now have a full half year of plc costs, which, of course, we didn't have in the same period last year when we were still a private company. Now, that delta will wash through and it won't apply starting in the second half.

Group Trading EBITDA has grown by 0.8% to £131 million. And we've grown Trading Profit, we've grown PBT, we've grown earnings per share, and we've also generated high levels of cash, allowing us to further reduce our net debt position. All of this means that we are confident of achieving our full year profit expectations and it supports the announcement of our maiden interim dividend of £0.022.

Now, a quick reminder of the strategy that I outlined back in January at our Capital Markets Day for building on our position as the UK's leading provider of products and services for the over 50s. What we said then was we're going to deliver sustainable shareholder returns by: firstly, unlocking the growth potential in our core businesses; secondly, investing strategically in the business to generate future growth opportunities including, for example, the announcement on a cruise ship that we've made today. And thirdly, maintaining our capital efficient model.

How are we going to do that? Well, firstly, by expanding our insurance footprint beyond the relatively modest market share that we have today. Secondly, growing our travel businesses through the strong brands that we've got, the portfolio of brands and ever-expanding range of itineraries for our customers; thirdly, broadening our personal finance offerings and, in particular, the launch of Saga Investment Services, which we'll talk more about in a minute; fourth, enhancing the Saga database and the use of that database. It's a very important resource within the company and it's full of rich data. And finally, continuing to assess ways that we can develop the business through innovative ideas and through processes. So, that's the reminder of what I said back in January and it is unchanged.

So, what progress have we actually made since the start of the year? Well, firstly, we have grown our core book, increasing motor policy numbers and maintaining our combined operating ratio. The motor panel that we talked about a lot six months ago is now up and running. This is complementary to our in-house underwriter, AICL. It gives us access to third-party underwriters across all of our major product lines now and that should allow us to compete in parts of the market where we don't have the data or the expertise to want to underwrite the risks ourselves.

We've also completed the Bennetts acquisition. We're seeing positive early signs both in terms of the performance of Bennetts as a business, but also its integration into our current operations. We continue to grow our Travel business. That's evidenced by the growth in Trading EBITDA and also forward trading data, which shows increases in both our Holiday revenues booked and also in the load factors for Cruising.

The decision to invest in cruise ship capacity – in the refreshing of our cruise ship capacity, I should say, has now been taken. That investment will be transformational for our cruise business. I'm going to go into a bit more detail on that shortly. The work to develop and then launch Saga Investment Services proposition is gaining momentum. Nici Audhlam-Gardiner joined us as Managing Director of that business back in August. She's putting together an impressive team to lead the Saga Investment Service business. They're working very hard on our customer-led proposition, which is on track, as planned, to launch before the end of the year.

And finally, as we projected, the sale process for Allied is due to be completed by the end of the financial year and is on track to do so. We announced, remember, back at our Capital Markets Day in January that we had written that business down to zero.

Now, before we move on to talk about the rest of the business, I want to spend a bit more time looking at two businesses, two key areas first. First of those is Cruising and the second is motor insurance. As we have said in the past, Cruising sits right at the heart of the Saga brand. It plays a vital role in demonstrating the excellent customer service that Saga is renowned for. Our cruise operations remain extremely popular with customers. Over 98% of customers rate their experience as excellent or good. In fact, during August of this year, both Saga Sapphire and Saga Pearl achieved their best ever customer satisfactions scores.

So the business is performing well, demand is high, and we remain very committed to it as a key part of the Saga offer. However, we're currently running older ships. They're less efficient. They cost more to maintain. They make it harder for us to provide our customers with a fantastic offer that we want to. And we therefore announced today that we have taken the decision to update our shipping capacity.

After a rigorous selection process, I'm very pleased to be able to tell you that we have secured the Meyer Werft shipyard in Germany for the build. We've signed a memorandum of understanding with Meyer Werft for the delivery of a new purpose built ship in 2019. And we have an option on a second ship to be delivered in 2021. We have two years to make the decision about that second ship.

Cruising is a growth market. It's a market in which we have a proven track record, where demand for our offering is exceeding the supply, where new ships will be transformative for our business. And the business case for this investment is extremely compelling. Jonathan's going to give you a bit more detail of that including some expectations around returns shortly.

There are few images up on the screen that you can see, which show how the new ship may look. We'll be finalizing the design of the ship over the coming months with input from our customers. Safe to say it's going to be a significant upgrade for us, whilst retaining the traditional features that our customers really value in Saga Cruises.

For example, all the cabins will now have balconies, which wasn't the case on our older ships. But we'll still maintain the intimate small ship feel compared to some of the new ships out there being built with 4,000, 5,000 even 6,000 berths on them. These ships will have under 1,000, so it is the classic small ship cruising experience.

There will be a high crew-to-customer ratio as we have today. And we'll retain lots of nice touches, which we know our customers value like single-seat dining, great public spaces and excellent entertainment facilities. Overall, as I've said, the decision is transformational for the profitability of our cruise business and will offer compelling returns.

Let's talk a little bit more about motor insurance operations. Firstly, let me remind you of why our motor insurance business has very strong built-in strength. Firstly, we have lower acquisition costs thanks largely to our database, which now covers 11 million people in over 50s age range. At the heart of this business is Saga Services, which is the retail end of our insurance business. Saga Services is a differentiated and highly effective distributor of our products. And it can choose whether it underwrites policies internally or whether it wrote them (07:59) externally through the new panel.

Our in-house underwriter, which we call AICL, remains in a position to price extremely competitively in the narrow space of the market in which we are true experts. That is small – low mileage, smaller cars and so on. We're very, very good at that. Finally, our claims cost are kept very low compared to industry averages. We have an excellent claims management process.

Now, this model has allowed us to deliver a strong performance in motor despite the continued challenging market conditions. We have not seen the uplift in claims frequency and personal injury claims that have been reported elsewhere in the industry. Our exceptional claims handling also means that our claims costs have remained very low, helping us drive profitability. Where we do agree with the market is that there are signs of sustainable premium increases coming in. This plays to our advantage. AICL's claims experience and its pricing structure allows us to compete very effectively in a market where more people are starting to shop around.

Now, let's be clear. The numbers that we've announced today cover the last six months. They are not yet the results of the new motor panel. The increase in customers that we've announced is an increase of market share within our core market resulting from AICL's expertise and claims experience and from Saga Services' ability to grow policy numbers.

So, the core business is performing well, but there's still a lot to be done to broaden a market in which we operate. The motor panel, as I say, launched over the summer. It now has its first two external underwriters as well as AICL underwriting policies. As a reminder, what we saw with our home panel when we launched that four or five years ago is that it becomes increasingly efficient and effective as more underwriters join the panel. What happens is they start to trust the data that we supply them and they start to build competitive tension into the panel. We expect to add two or three more underwriters between now and year-end, and then another two or three in the first half of next year.

The motor panel will enable us to capture market share in areas that, as I said before, a highly conservative in-house underwriter is unable to price for competitively. It might sound amazing but, historically, up to three quarters of the customers who come to us for a quote did not get competitive quote from us because we didn't really want to underwrite that risk. We will now be able to pursue the whole of that market using our motor panel.

The completion of the acquisition of Bennetts, the UK's premier motorbike insurer, will also help us to drive our motor business forward. It provides a significant opportunity for us to cross sell and to up sell products to its customer base of over 200,000 policyholders. Bennetts' core motorbike insurance sector is within a part of the market that's growing very strongly. And it's very close to our demographic. The majority of their customers are either over 50 or approaching 50. Early indications are that this business, as I mentioned earlier, is integrating well into the Saga Group. And we will be in a position to give you more detail on how that develops in the months to come.

Trading and home insurance was very encouraging in the first half. Trading EBITDA increased by more than 16% on the comparative period a year ago. That result was driven by the competitive pricing advantage that we get from our home panel despite a challenging marketplace.

During the first half, market premiums continued to fall, resulting in less shopping around by customers, i.e., less churn. Now, we're a relatively new entrant into the home insurance market, and so we benefit in a market where there's lots of churn. And as a result, we've seen a small reduction in the core policy numbers for home in the first half.

In other financial services, which is mostly Private Medical and Travel Insurance, core policy volumes and revenue were up, principally driven by performance of those two core businesses. The slight fall that you see in Trading EBITDA was due entirely to investment in future growth opportunities, in particular, the wealth management offering, Saga Investment Services, which I mentioned before, and also Saga Legal Services.

Trading for the Travel business in the first half of the year was encouraging. Growth in Trading EBITDA, this was a result of ongoing implementation of the clear strategy that we talked about back in January and the contribution made by Destinology.

We continue to win lots of awards. Saga Holidays was recently named by The Times and Sunday Times as the Specialist Tour Operator of the Year. Titan Travel was named as the Best Escorted Tour Operator. Saga Cruises was Best Value for Money Cruise Line for the second year running at the Cruise International Magazine Awards.

Finally, we're focused on developing the cruise business through optimized pricing, through growing our load factors and through maintaining the excellent levels of customer satisfaction that we've got.

I'm now going to hand you over to Jonathan, who's going to talk you through the numbers in a bit more detail. Thanks.

Jonathan Stanley Hill {BIO 16892113 <GO>}

So, thanks very much, Lance, and good morning, everybody. It's great to be presenting to you all for the first time as the Saga CFO and, especially, with such a solid set of numbers. I've now been with the business for almost six months and it really is a very exciting time to be joining the group. Built around the cornerstone of our fantastic brand, we have two excellent growth businesses in our insurance and our travel with great growth potential.

However – and our target customers provide us with many other areas where we could grow a third and potentially a fourth substantial pillar to the group. However, we do need to remain focused and clear on the scale opportunities where we can provide a differentiated offering, responding to the needs of our customers. And I'm really looking forward to working with Lance and the team over many years to build from these solid foundations and to grow the business.

So, moving on to the financials, the income statement here represents the continuing operations of the group and all the numbers exclude Allied. Overall, we've achieved a robust performance during first half of the year with encouraging growth coming from our core businesses. Revenue increased by 8.7% to £478 million, largely due to the growth of the Travel business with the acquisition of Destinology. Trading Profit, which excludes intangible – which excludes amortization of acquired intangibles relating to the group's two acquisitions, Destinology and Bennetts, grew by 1% to £117.5 million. And it is important to note that our Trading EBITDA from those core businesses of Financial Services and Travel increased by 5.2%, offset primarily by those normalization of plc costs and I'll touch on that later.

Looking below Trading Profit, the non-trading credit results mainly from the reduction and we expect to defer consideration on the Destinology acquisition from the initial cautious estimate and finance costs were £14.1 million comprising £10.2 million of interest costs on debt and borrowings, £2.5 million of amortization of debt issue costs, £0.6 million of finance charge associated with the pension scheme and £0.8 million of charge associated with the unwinding of the discount on that deferred consideration on Destinology.

The group's financing arrangements were put in place in April 2014, part of the way through the first half of last year, thus the £10.3 million cost in the first half of last year is not purely comparable to the cost in the first half of this year. IPO expenses in the current year relate to costs associated with options granted at the time of IPO. And overall, the strong performance in continuing operations has resulted in a reported EPS growing to £0.07 with H1 in the prior year including the significant IPO and exceptional debt costs.

Moving on to dividend, we have today, as Lance said, announced our first interim dividend of £0.022. This is based on three factors: Firstly, our confidence in delivering the full year number; secondly, our ability to continue to grow our business sustainably and profitably going forward; and thirdly, those strong cash generation attributes of the group.

As a reminder, the range of the dividend payout ratio was raised at the time of prelims to 40% to 60% of group net income, excluding exceptional items, and we also provided guidance at the time of the IPO that interim and final dividends would be paid in approximately the proportions of one-third to two-thirds, respectively.

Our Motor and Home insurance businesses have performed really well, delivering increased EBITDA against a tough market backdrop. Other financial services have borne those start-up costs as Lance said, of both the wealth management JV and the legal services. Travel has continued to deliver another profit increase on that journey to improve its EBITDA over time. And the health care EBITDA relates to our continuing Patricia White's, Country Cousins and Saga SOS businesses, as well as our pilot in visiting homecare. We have invested in this pilot to enable us to consider scaling that up in the future and this has led to a marginal profit reduction.

Media and Central costs increased from the prior year with these PLC costs and I'll talk a little bit about those later.

Moving on to Motor insurance. Revenue has decreased by 1.8%. The core underwritten business clearly has faced a market with reducing premiums, while Broked income has increased as a result of the inclusion of Bennetts since its acquisition in July. Despite the Motor market remaining highly competitive through the period, the positive claims experience has allowed us to grow Trading EBITDA by 2.6%. Core policies sold in the last 12 months have risen as a result of two factors; the positive policy additions in H2 of 2014-2015; and the addition of Bennetts in the first half of this year.

Moving on to the Motor core underwriting P&L, I will spend some time talking about our Motor underwriting performance. The underwriting business has again reported an exceptional combined operating ratio of 68%. The group has not seen the increase in claims frequency experienced by the wider market, with frequency remaining broadly flat across accidental damage, third-party injury, and personal injury claims. We believe that this is largely driven by the demographic factors within our customer base with the majority of our customers being retired. However, we are not complacent and are keeping an extremely close eye on changes in that claims progression. This demographic factor seems to have reduced the impact of both falling fuel prices and the improved economic growth.

Claims severity remains broadly stable across accidental damage and personal injury claims and the group has continued to maintain strong levels of retention within the Ministry of Justice Portal with ongoing effective management of these claims types. We have seen some impact in third-party damage severity in line with the market, chiefly at-fault repair from the Coles v Hetherton judgment. The overall positive claims experience led to strong prior year releases of reserves.

As we have consistently communicated, we constantly review the balance between volume and value. During H1 2014, our pricing approach delivered a pure combined operating ratio of 97%. Given the cautious nature of our underwriting and ones this year would have worked through in terms of being earned, this initial pure ratio would be expected to deliver an excellent underwriting result but at the expense of policy growth. We rebalanced this in the second half of last year to increase policy volumes, achieving a full year pure combined operating ratio of around 106%. We have continued to write business just below this level in the first half of 2015, which we would expect to finally earn through at a significantly better rate.

For the full year to January 2016, we should expect a pure combined operating ratio to be more consistent during the first half of this year and the second half of this year. Additionally, the combined operating ratio is expected to be materially in line with last year. Finally, the positive claims experience has enabled us to release £40.5 million of prior year reserves. And at the year-end, we will have no material change in the level of reserved margin.

Here you can see the aging of the releases from the prior years with the majority in the three accident years to January 2014. Limited reserve releases have been recognized for the accident year to January 2015, maintaining our cautious approach.

Moving on to Home Insurance, the market has remained highly competitive, as Lance has said, in the first half of the year. Those benign weather conditions also reported by other insurers have led to reductions in claims cost across the industry, resulting in falling premiums. This means that people tend to shop around less, reducing the number of quotes and therefore resulting in a slight fall in new core policies. Despite these market conditions, the home panel has continued to afford us the efficiency to drive down net rates that we receive from our underwriters and grow revenue by around 16% in Trading EBITDA by just over 16%.

In Other Financial Services, we have seen continued strong performance from the PMI and travel insurance products, resulting in a 7% increase in revenue from broking and other trading. Core underwriting policy volumes remain consistent to previous half year on slightly reduced revenues by 3.4%. Trading EBITDA was £1.3 million lower due to the impact of that investment in marketing and other startup costs to launch the legal services product and the Saga Investment Services' wealth management JV.

Moving on to Travel, we have delivered a strong performance in this first six months of the year despite uncertain times in the market. The acquisition of Destinology in August 2014 has contributed to the strong growth in revenues and profits. And the Holidays business revenue has increased by just over 25%, the majority of which was contributed to by Destinology and the rest by a shift towards higher value, higher profit long-haul holidays.

Gross profit was 22% higher with Destinology contributing £4.1 million and the remain attributable to this – the remainder attributable to this mix shift. Cruising business' revenue reduced slightly by 1.2%, predominantly due to the change in itineraries during that period compared to the period a year before.

Improved yield management has continued to deliver benefits to average daily rates and load factors were 83.8%, marginally down on the (24:41) 85.3% in the first half of last year. These occupancy levels are impressive when considering the demographic of the ships, where single occupancy in the absence of children in cabins lead to a natural reduction in load factors.

Gross profit in the cruise business was down by £0.8 million, reflecting the marginally lower revenues and some increased expenditure on repairs and maintenance for the ships. But from a full year perspective, the group expects the profits to be up from the Cruising business.

Overall Trading EBITDA was £16.9 million, 11.2% higher with just under half of this increase attributable to the acquisition of Destinology and the remainder being driven by the margin improvements across the other tour operating businesses.

In terms of current trading, the current outlook is pretty solid with the businesses pretty much fully sold for this year and improving profits expected for the full year. The business is currently in a robust trading position for next year, with growth expected in tour operating volumes. The cruise business for 2016-2017 is load factored 1% behind year-on-year; however daily rates are strongly ahead. Against this, we will have Sapphire in dock for a couple of months of next year, which will hold back profit growth of the Travel business in 2016-2017.

Media and Central costs increased from the prior period with an operating loss of £10 million, resulting primarily from the normalization of plc costs, accounting for £4.2 million of the increase. These plc costs include head count costs, long-term incentive costs, which have increased as another year's grant has been added. It should be remembered that we were a public company for only two months of the comparable period last year and only at plc costs of around £0.5 million for that period. We flagged then that costs would clearly increase in the second half of last year and into the first half of this year. This increase in Central costs in the second half of this year compared to the second half of last year will be significantly reduced.

The business remains highly cash generative, where there is an (27:01) available operating cash, both from (27:02) continuing businesses of just around 107% of Trading EBITDA. While profit was higher within the respective businesses, we have increased the dividends paid from these companies. And as before, the day-to-day CapEx requirements of the Group are relatively limited.

Moving on to the balance sheet. We have £2.7 billion of assets on our balance sheet. Of these, £1.5 billion relates to primarily the acquisition of Saga by Acromas in 2007. Goodwill and intangible fixed assets increased by around £28 million, primarily due to the acquisition of Bennetts and just over £700 million of cash and investments were held for regulatory purposes in our Travel and underwriting businesses. We also have around £60 million of assets in relation to our existing cruise ships. The increase in other liabilities is due to higher current tax liabilities and seasonal deposit levels.

At IPO, we said we will reduce net debt by half a turn compared to EBITDA per year. The continued strong cash generation has allowed us to make good progress so far this year, enabling the group to reduce its debt ratio to 2.35 times from 2.5 times at the start of the year.

Having been in the business for six months, I've had time to assess the future capital requirements of the Group, including the implication of the announcement today regarding the renewal of our cruise capacity. We are clear in the need to have a balanced approach between investments in our businesses, debt reductions, and returns to shareholders. We intend to reduce the debt ratio to between 1.5 times to 2 times of net debt-to-EBITDA subject to the achievement of our expected profit and cash flow targets.

We are aiming to be at the lower end of this proposed debt range before taking on any debt in relation to new shipping capacity. And even after this investment, we should remain below the 2 times level. This is also consistent with our current dividend payout ratio.

Moving on to Solvency Capital, we continue to hold sufficient capital reserves in our underwriting business under Solvency I. The coverage ratio of 234% is materially in line with the same point a year ago. And obviously, the regulator requires us in order to pay dividends to hold a minimum of 200%, and therefore the Group has a significant buffer.

We continue to make excellent progress ahead of the implementation of Solvency II and are intent to go down (29:41) an Undertaking Specific Parameter route for the calculation of Solvency reserves. We are confident that the underwriting business will be fully compliant as at the 1st of January 2016 when the regulations commence.

Following careful analysis of the regulation, we remain confident that AICL will not require any additional capital as a result of Solvency II and expect to have a solid buffer in excess of the requirement at the year-end. We have also reviewed our investment strategy in light of Solvency II and intend to implement a lower risk strategy, which will reduce the Group's SCR with a limited impact on investment return.

The financial case for the ship investment is robust, mainly predicated on increased efficiency of our new capacity. Roughly half of this is driven by reductions in the use of fuel and the other half by repair, maintenance and general running costs. The business case delivers an ungeared IRR in the mid-teens and includes suitably cautious assumptions with no uplift in load factors and daily rates on a marginally increased capacity.

In terms of payments, 20% will be payable in four installments before delivery of the ship with the remaining 80% payable on delivery. And this is likely to be funded by efficient asset-backed finance. Returns are expected to be significantly in excess of the Group's cost of capital.

Finally, in terms of outlook for the year, we are confident in delivering that Trading EBITDA growth in line with market expectations. The amortization of acquired intangibles will have an incremental year-on-year effect of around £4 million. And with the ongoing gradual reduction in the level of net debt through the second half, the finance costs will be marginally below the charge in the first six months.

I'll now hand back to Lance.

Lance Henry Batchelor {BIO 6884486 <GO>}

Thanks, Jonathan. So let's move forward. In Financial Services, our aim is to drive growth through the core Financial Services businesses in the second half of this year, whilst maintaining the right balance, as Jonathan said, between profit generation and policy growth. In Motor Insurance, we're going to monitor the claims environment extremely closely to ensure that we stay on top of our claims experience and we react appropriately.

We are going to retain our prudent approach to underwriting, focusing on our core area of expertise. And finally, we will add further new underwriters to our motor panel.

In Home Insurance, we aim to capitalize on the pricing advantage that we get from our home panel, using it to compete for market share in the second half of the year. In Other Financial Services, we are going to look to grow our travel insurance and our PMI products by continuing to evolve the products to ensure that they remain relevant to our customers. And we will, of course, launch Saga Investment Services by the end of the year.

Growth in the Travel business remains a key part of our strategy. We'll be focusing on maintaining momentum into the second half of the year and beyond by developing the distribution channels for our products, maintaining our focus on targeting customers via digital channels and optimizing their digital experience, offering exciting new products in the form of new destinations and itineraries.

And finally as described earlier, the cruise business remains absolutely central to the Saga brand. We've made the decision to enhance it with an investment in replacing the shipping capacity. We will now work very hard over the coming months to finalize the details of the new ship. However, remember, we won't take delivery of a new ship until 2019. So our immediate focus is on providing the excellent service that keeps our customers coming back again and again.

So let's wrap up. What are our priorities for the second half of the year? Firstly, to build on the launch of the motor panel to add new insurers, to maximize the pricing efficiency as we've done with our home panel, and to therefore allow us to compete for additional market share in the broader over 50s market. Secondly, to finalize the details of the investments in shipping. We have a team in place now to deliver the design and then build for 2019; to launch Saga Investment Services under the leadership of Nici Audhlam-Gardiner. Fourth, to focus on the use of the database and the customer journey within Saga.

We now have the team in place to deliver this, including a Chief Digital Officer, a Head of Customer Engagement, a Customer Director who owns cross-sell, all of them reporting to our new Chief Marketing Officer, Matt Atkinson. As I've said previously, this is a long-term project and I look forward to keeping you updated on it at our prelims next year and beyond. Finally, we are going to complete the sale of Allied Healthcare.

So, in conclusion, we are well positioned to build on our momentum into the second half of this year and beyond and we are on track to deliver on our target of 5% EBITDA growth for the year.

So we'll open the floor to questions. There are a number of mikes in the room. Please wait till you've got a mike before you ask your question. It would really be helpful if you would state who you are and where you're from. That would be appreciated.

Ravi?

Q&A

Q - Ravi Tanna {BIO 16926941 <GO>}

Thank you. Morning. It's Ravi Tanna at Goldman Sachs. Three questions please. So the first one was on your Motor Insurance result. Obviously, the reserve releases came in a bit stronger, but your current year loss ratio came in a bit weaker than I was expecting. I was just wondering, going forward, is there going to be any spillover impact on the current year loss ratio in your underwritten business from the launch of the new insurance panel? And then will there be a kind of tradeoff in terms of growth and profitability on what you are underwriting in-house?

The second question was just on the reserve releases themselves. Obviously, you'd guided in the past to £50 million, being quite an elevated level. Given the strength of the number in the first half, how can we think about reserve releases going forward and what's the outlook there, please?

And then finally, just on uses of cash leverage, payout ratio, et cetera. Again, previously, you had talked about, once the leverage ratio fell below 2 times, there was potential to consider a different dynamic in terms of the long-term payout ratio for the group. Obviously, given today's announcements around the shipping investments and the 1.45 times to 2 times target, is it safe to assume that's now off the table or how should we think about the longer-term payout ratio trajectory please? Thank you.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

I'm happy to deal with those three questions in reverse order. The first question in terms of the payout, I mean, you should assume that we'll stay within that range in terms of where we get to, we get the lower end of the range consistent with the current payout of 40% to 60%. We will then invest in one ship and potentially a second. What you should then consider is that the – there will be significant EBITDA growth per ship delivered into the business. And at that point, to the extent that we do not invest that in other businesses, then there is a simple calculation of how we distribute that further to the business.

We have clearly said, we are an asset-efficient business. We put our money into assets where we believe that that will give us some form of competitive advantage, and be that in our underwriter or elsewhere. We are not talking about investing in other businesses where we have a significant capital requirement.

In terms of the reserve releases in the long-term guidance, we have had an exceptionally good claims experience during the first half of this year and that is being reflected in terms of the reserve releases. We do still expect those reserve releases to reduce over time gradually as we said at the time of the IPO, but that is just deferred because we've had an excellent claims experience during the first half.

I think your next question – and sort of, that's why I did it in reverse order, because obviously the reducing releases will have an impact potentially on the motor underwriting core P&L. But on the flip side, we have various things going the other direction, which will enable us to grow the business. The first of those is clearly the panel, which will come into our broking P&L within that motor. So that will grow as we add complementary and adjacent areas of the market where we do not underwrite, and we could increase our market share within those specific areas.

Secondly, we have always talked to you about an ongoing efficiency and productivity drive within that business, and we delivered significant benefits year-on-year-on-year. We will aim to continue to do that. And then thirdly, what we are also seeing is, the start, we've had some very tough years of both Motor and Home markets. We've seen a start of a turn in the Motor market and we've seen the first hint of a turn in the Home market as well. So to the extent that we may see a market improvement from this low point, then we have the opportunity to play both our underwriting book and the panel to grow both volume and value. Does that answer the question?

Q - Ravi Tanna {BIO 16926941 <GO>}

(39:27). Thank you.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

Thank you, Ravi.

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

James. Sorry. Come back to you in a moment.

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

Thanks. It's James Shuck from UBS. I had three questions, please. Firstly, on the crew ship investment, could you just clarify – I mean, are you moving from two ships to three ships or are you sort of intending to take one of the other two or both of those ships out of service or update them in some way because I mean they've been around for a while now, they're like 30, 40 years old, so could you...

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

This is a very quick answer. It's a replacement strategy; so when the new ship arrives, an old ship will go. So we expect to maintain a two-ship fleet.

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

So at some stage you will need to – you also need to buy another ship, and hence the option with a 2020, 2021.

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

Correct.

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

Okay. Fine. And could you just clarify on the financing of that ship. You mentioned asset-backed financing. But roughly what kind of capital expenditure are you thinking of?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

We can't actually divulge that because it is commercially sensitive. And so we are not in a position to tell you exactly what the capital is. We are looking at an ECA-backed loan, which would be 80% of the value of the ship. That will obviously be on balance sheet, but will be very efficient financing in terms of the cost of debt.

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

What does a ship like that sort of cost roughly?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

We are not in a position to make that specific comment. I think you can probably look at comparable out in the market. If you can find anybody that's actually stated how much they paid for a ship...

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

We were looking out. So I – no one seems to ever put this into the market, but if you find something, I'd love to see it.

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

Okay. Great. So, second question, just returning to the combined ratio on the motor side, I mean, previously you had indicated that the reserve releases would come down and that you'd be able to keep the motor combined ratio broadly flat because the accident year loss ratio would be improving to help to offset that. And clearly, that hasn't happened in H1. We've got the loss ratio, the pure loss ratio getting around five or six points worse year-on-year at H1. So could you just clarify kind of what your expectation is around the motor combined ratio, please?

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

Yes. I'm not exactly clear that we did guide that we would offset with a better pure ratio, the reduction in releases. I think what we said was, a mixture of the growth in the panel, the quality of the underwriting, those two things put together would offset. So I think that's not what we are saying today and I'm not convinced that that may have been how we guided before.

And you wanted to clarify the other elements of the question, around there's a (42:10) deterioration from H1 last year to H1 this year?

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

Yes.

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

I mean, that's very straightforward. The outlier here is H1 last year; we wrote at a specific level at 97% and when that earns through on our pretty conservative basis, that will give us an excellent underwriting result in terms of pure ratio, but it will not give us a great balance of volume and value. So in the second half of last year, we specifically took actions in order to get that balance right and we've continued that into H1 of this year, getting the right balance between volume and value. We are writing at 103% in the first half of the year, which we would expect to earn through significantly better as we have still maintained a cautious approach in terms of underwriting.

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

I mean, perhaps just a – I mean, is thee – I think we got a difference of opinion about what was said at – over IPO on that particular point. But is mid-80s kind of combined ratio on the motor, is that still where you see an all-in kind of level?

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

Two years ago, we were at the upper 80s level. I think we're at 87, we're last year at 77. We've indicated something similar for this year. I would expect us to move back towards where we were two years ago.

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

Thank you. And my third question then is just on the kind of customer growth. I mean, you got the number of active customers and the contacts or names on the database. I guess I would have expected those to have grown a little bit more, H1. I mean, they are operating modestly versus full year. Could you just talk about what you're doing to increase those numbers, please?

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

If you look back on average, over a decade, we grow at about 400,000 net customers per annum, and we did that again last year. It does tend to oscillate slightly with the state of the motor market. When there's a lot of churn, we get a lot of quotes and therefore, we add extra names into the database. When the market's more suppressed, we pick up fewer.

And then the other big driver for us is travel insurance, where we bring in a lot of customers through that as well. It varies all the time. And we've hit the 11 million names mark on the database. It's partly about continuing to grow that proportion, but it's also about what you do with the 11 million names. And that's where I think things are going to get exciting over the next year or two.

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

So 400,000 a year increases?

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

Roughly. And that's...

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

You'd expect it to remain the case?

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

It's hard to predict this early but it should be roughly in that order. I think we've had years where we've been as low as 300,000 and as high as 450,000 – in that kind of bracket.

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

Okay. Thank you.

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

Sure.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Good morning. Dhruv Gahlaut, HSBC. I've got a couple of questions. Firstly, just thinking with this reserve releases, could you say what your reserve margin is or when you are reserving, what is the excessive of the best estimate that you reserve for? Or – I also – have you changed the reserving methodologies and have you been reserving with a similar margin in this year vis-à-vis last year?

Secondly, on Solvency II, could you also say then what is the outstanding issues left for you guys, as in, if you could talk a bit in terms of what do you feel your level of capital is there? And also, I appreciate you guys are regulated by the FSC rather than the PRA, so are you – do you have to have any discussions with the PRA as well in terms of the structure, et cetera, or is that FSC pretty much who dictates? Thanks.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

We don't – I'll just answer the second of those first. We don't obviously have any discussions with PRA. We are at advanced discussion with the Gibraltar authorities. The only technical thing we're waiting is the signoff of the USP (45:52) which will come in early Q4. Then we're done in terms of the process. The Gibraltar authorities have already looked at our Solvency I and Solvency II ratios for the start of the year to the point at which we paid our dividend and have asked to look at that for the year-end and they are comfortable and we are comfortable that there is a substantial buffer within the calculations. Hopefully that deals with the Solvency II question.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Well, have you said in terms of where you are expecting your ratios (46:18) model or...?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

We haven't said that; we haven't come out specifically with that at this stage. In terms of your first question...

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

Reserve margin.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

We said at that time of IPO that we had circa 15% reserve margin. We have said at the year-end that we were not fundamentally different from that position. We have not given a specific number. We expect this year-end what we have said is to be consistent with last year-end and therefore we will be roughly consistent with where we were at the time of IPO. So we are not changing our approach in any sense to the reserve margin in the business.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

But I'm assuming the way you've coming down in terms of the overall reserve, the pound number should be coming down now because I think you are doing a lot of reserve (47:08)...

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

At some point, it may do and that will depend on the book and where the book goes as well. So I think we need to see how that develops. If we see a market where we have an increase in our underwriter, we shall see how that affects the book and therefore what happens to that reserve surplus.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Thanks.

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

Nick.

Q - Nick Johnson {BIO 1774629 <GO>}

Morning. Nick Johnson from Numis. Two questions. Firstly on home, can you just give a bit more detail, please, on how you have achieved the revenue growth despite reduction across the numbers? Is that purely difference between panel pricing and Saga services? Just trying to get a handle on that dynamic and whether we should expect that trend to continue. And also, is it logical for that trend to go in the other direction if home rates start to increase? So that's the first question.

And secondly, on the new ships, I was wondering if you could just quantify a bit in terms of what you expect the impact on revenue per passenger to be and also impact on margins from the lower cost of the new ships? Just trying to get a handle on what sort of a quantum of EBITDA uplift per ship we should be thinking about. Thanks.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

Do you want to do home and I'll do ships?

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

Yes, I'd love to. Yes, you are absolutely right. This is all about the difference between the growth rate and the panel rate we get. So we've been able to effectively increase the spread between those two, which has driven the revenue increase. Your question then was, if the market increases, will we expect that to go the other direction in terms of narrowing? That all depends on what we do in terms of those levers of volume and value and that will come down to the market circumstances across our portfolio of different insurance products. So I don't think you would logically suggest that that will narrow over time. It depends what we are trying to drive out of that business at that point.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

On the ships, our business case is not predicated on a significant increase in revenue per passenger. What it's predicated on is a slight increase in passenger numbers, but a really dramatic difference in the margin that we make per passenger day because fuel efficiency is dramatically greater in a new ship than it is in a 35-year-old ship. Reliability, the amount of time required for maintenance and so on are dramatically better. You also get itinerary opportunities and so on, all of which will significantly improve the margin that we make per customer day.

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

Thanks, Nick.

Q - Andreas van Embden {BIO 1795530 <GO>}

Thank you. Andreas van Embden, Peel Hunt. Just coming back to the motor panel, just a quick question, whether you would consider integrating your own in-house insurance company, AICL, within the panel or you're just becoming another member of the panel and competing with the panel. Is there anything that would sort of hold you back in doing that over time?

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

In fact that's exactly what we've done. AICL is on the panel. It's on a level playing field with the other panelists. That's exactly how it behaves with home insurance on the panel, what we have there, and it has to fight for its own market share.

Q - Andreas van Embden {BIO 1795530 <GO>}

So the panel members will be openly competing with your in-house insurances?

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

Correct, absolutely.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

Exactly as we do today on home.

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

And what we find with experience in the home panel for example is that AICL, because of its in-depth understanding of a tight part of the market, wins a lot of share in that area because it just knows more about how to price risks for the core cause of the customer. But that it's less efficient as we move further away from that core which is where the other underwriters get a chance to win and gives us a chance to win market share.

Q - Andreas van Embden {BIO 1795530 <GO>}

So, you don't fear any cannibalization within that sort of footprint...?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

If somebody is willing to provide risk to or set a lower (51:00) price and we can hold less capital because of that within our underwriter, then that is what we shall do. We shall take the increased profitability and not take the risk on our own book. That is the only way you can run a panel to make people want to join it for a start. And secondarily, if we can do this through broking and make it as broking margin, we will do that.

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

When that happens we'll make profit essentially because we get the risk underwritten for less.

Q - Andreas van Embden {BIO 1795530 <GO>}

So, have you thought about the margin benefits you're going to get by doing this?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

Well, that will – sorry, that will...

Q - Andreas van Embden {BIO 1795530 <GO>}

So, you had a big margin benefit in home, so...

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

That will all depend on how competitive, how quickly the panel becomes, whether we see individual panel members wishing to win market share. It's very difficult to specifically quantify that. What you will see is a written to earn benefit from effectively going from an underwritten business to having more of a broker business, because clearly we'll recognize – we recognize the underwritten business over a – on a twelfth basis (52:00) and we'll recognize the broker business as it is written. So, you will get a profit uplift from that effect as we go forward. That is a primary end-point that you will see within the numbers as we go into next year.

Q - Andreas van Embden {BIO 1795530 <GO>}

Okay. Thanks.

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

Ben.

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks. Thanks very much. Ben Cohen at Canaccord. Just the first question, just following on from that, could you just say more about how the on-boarding expectation of the new panel members has gone relative to your expectations six months ago maybe against the home panel as well and maybe the incremental kind of benefit you expect to get when we're – in a year's time that's set?

And the second thing was on the Investment Services, again, now that you're sort of starting the launch, I appreciate it's not fully rolled out. Can you give us any update in terms of the addressable market for you, any kind of financial metrics that you're looking towards for that business even just in terms of who you think you're going to take share from as you launch? That would be helpful. Thank you.

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

Sure. So, taking this in order, the on-boarding process for the motor panel has been a lot more straightforward for us than the home one was five years ago because we've done it before. So, both from a process point of view and from an IT point of view, there is a lot of knowledge that we could reapply this time.

We also have the huge advantage that a number of the underwriters who are joining the – have joined or are joining the panel already worked with us on the home panel. So, they know how the systems work, but they've also learned to trust the data because we give quite a lot of information to underwriters to help them price risk accurately. We know a lot about our customer base that other insurers don't know. And they've learned over five years in the home panel that those data are extremely valuable to help them price accurately. So, they trust us already.

So, broadly, we hit the milestones that we're expecting to hit. We intended to launch mid-summer and we have. We hoped that we'll have two or three panelists by now, we do. I mentioned earlier on that we're expecting another two to three by year-end and they're all on track to sign up. It's just getting the IT plugged in. But, again, we've done this before. I'm expecting another two or three next year.

So, we're very comfortable with where we've got to. Now, we have to learn, if you like, to operate the panel with the underwriters. And that is something you will see evolve over a period of years. We're still five years in with the home panel, are learning how to achieve – to fine-tune it to get the maximum possible returns from it.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

The restriction here is the speed with which the third-party insurers can get into an IT slot in their own companies to link in. So, we've set the platform up. It's working. It's just a case of when they can get a slot to do the changes to enable them to come into our panel.

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

Yeah.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

That's what holds back the speed of adding more.

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

On Saga Investment Services, I can't say a huge amount because some of its still being formed and some of its very confidential. We are on track to launch by the end of the year of our database of 11 million. We've done the cuts within the database. We know exactly who we're targeting when we're ready to launch. There's a substantial proportion of customers that look attractive to us. Remember also that we have 200,000 customers who bought Saga shares, so we have an open dialog with them already in the context of investing. And at the time they bought those shares, they shared with us quite a lot of information about their personal financial circumstances.

We have 180,000 customers who have credit cards with us. We've got £5.5 billion worth of savings in our savings account. So, this is a territory where we actually know quite a lot within our database about customer needs, behaviors and so on. And we're refining the proposition at the moment. I've got a reasonable feel for what we go live with at the end of the year. However, the market changes all the time as you all know and we're watching it closely to make sure than when we launch we've got a really exciting and competitive story to tell and I believe we will.

I'm afraid I'm just not in a position to give you market share estimates and so on. What I can tell you is the two core metrics that we will track above and beyond any others our customer satisfaction. Remember that Saga doesn't go into these markets just to win short-term volume and try and get money from people. What we do is part of the multi-decade relationship with individual customers. So, we are going into that market to delight the customer and that's number one for us.

Then number two will be assets under management, funds under management, how fast does that grow. And of course, we'd run various projections on how fast it might grow, but we just don't know. And our colleagues across Tilney Bestinvest, who has been in this market for many years, they don't know either. What we do think is that what we're going to bring to market is a really exciting proposition and should achieve some cut through.

Who hasn't we heard from yet? Anyone who's not asked, otherwise we go back around again, Ravi?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

Is it going to be the same questions, again, Ravi?

Q - Ravi Tanna {BIO 16926941 <GO>}

Exactly, exactly the same. So, it's Ravi Tanna, Goldman Sachs. Just a couple of follow-ups, please. The first one was I think you referenced that the Sapphire was going to be in dock for a couple of months next year and that would impact the Travel business. Can you give us some kind of quantum in terms of should we think about the profitability of each cruise ship as being broadly equal and just take it through for a couple months or – and how do we think about that in the context does that impact the longer-term Travel EBITDA guidance that you've given at all?

And then just the second one was just the number of underwriters that you have on the motor panel, up maybe eight, nine, 10 versus 16, 17 (57:58) on the home panel. I was just wondering if there's any reasoning behind the number that you'd have on the panel. You've said that more is better, generally.

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

Sure, happy to take those. So, firstly, think of the shipping business as growing with little lumps in the road each time a ship goes into refit or needs work done. The inevitability with the ship is that it every few years, has to go in to dock for a couple months for ongoing maintenance. And therefore, you will make less revenue and profit in that year. It absolutely does not impact on the long-term goals of the Travel business. This is – now, one of the advantages of new ships is that they go into maintenance much less often and for shorter, so you can get several years of growth from them before they have to go back into refit.

Second question around underwriters, we do expect to get something in the order of nine or 10 underwriters on that panel eventually and that is fewer than the 16 or so – 17, I think, now that we have on the home panel. And the reason for that is that there are fewer players in the motor underwriting space. In home, there are some deep specialists who focus on individual areas and those equivalents don't really exist in motor. What we know is that once we get four or five or so, we start to get some real critical mass and competitive pressure.

Q - Ravi Tanna {BIO 16926941 <GO>}

Okay. Thank you.

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

Thanks, Ravi.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Dhruv Gahlaut, HSBC. So I had just one follow-up. In terms of the investment, somewhere you mentioned that you might be loading the risk profile of the investment portfolio you have. Could you talk a bit more in terms of what changes are you thinking of making on the investment portfolio?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

Yeah, sure. We've got it. You'll see in the document a breakdown of the investments we have. There are some of those which are and below A-rated investments under the Solvency II. Obviously, you have to hold additional capital, about 25%, on the higher risk assets. And we will – we've looked at that and determined that actually the best way to do it is to move into a lower risk set of assets, de-risk the portfolio, take us marginally lower investment return, but hold less capital in the underwriter.

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

James.

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

This is James Shuck at UBS. Two follow-up questions, please. Just on the sale of Allied, you talk about what you're planning in terms of reducing the debt leverage to 1.5 to 2 times. Obviously, that doesn't have anything to do with the quantum of the debt. I'm just interested to know what you plan to do with the proceeds from Allied. That's my first question, please. Is it possible you look at doing some form of special dividend perhaps?

And then secondly, private equity has a history of under investing in companies before bringing them to market. Your messaging around the cruise ship is a bit different from my interpretation at the full year numbers, which was that you're looking to add incremental numbers of ships to your – you were saying two, so I always thought two might go to three rather than two staying at two.

So, my question is really a broader one, and that is when you – Lance, when look at the business, is your feeling that it has been under-invested for a number of years and that you're going to need to invest in a number of innovative style things, whether that's digital technology or in addition to looking at new revenue streams? Is the IT infrastructure and the digital capability really there for now?

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

Yeah. In terms of the Allied point, you should not – we have announced that the National Living Wage has had an impact on the whole of the care market. You should not assume a significant return in terms of the sale of that business. We wrote it down to zero. I wouldn't be putting in your models a significant amount of money for the return on that business.

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

So, it should still be tens of millions that which...

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

We will see what happens at the end of the process. And when we finalize the process, we'll come back to you and tell you what we're going to do with the proceeds. But I wouldn't assume that given the size of the debt at £536 million, it's going to be material relative to that.

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

On your second question, private equity under-investment, I don't accept that premise in this case. We operate two ships aged in their 30s. It is inevitable that we will have to replace those ships at some point. And I think we've always flagged very, very clearly that we would make a decision on that in the next couple of years. We've reached that point now and we've announced the replacement of the first of those ships. I don't think that really relates in any way to the previous ownership structure of the business.

And indeed, when I look across the business as a whole, I don't think it has been systemically underinvested in over the years. There will always be some investment needs for us on an ongoing basis in IT and so on, but we are an asset-light and asset-efficient business. The ships are the only meaningful capital we have on the balance sheet and it's time to refresh the first of those.

A - Jonathan Stanley Hill {BIO 16892113 <GO>}

In terms of the IT, I think our IT is actually in good shape. I've been coming from the outside and looked at it afresh. I think we're in good shape there. There is some investment in digital to be done, but it's in single millions, rather than tens of. So, I don't think we're in a bad shape at all.

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

You got a new Chief Digital Officer, could you just talk a little bit about what he's being charged with?

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

I'd rather leave that to the prelims, if I may, by which time, we'll be able to give you a multi-year strategic focus on where we're going with digital, with one-on-one marketing with the kind of long-term relationship build for each individual customer. That's a major stream of work for us that I'd like to talk about in six months' time.

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

Great. Thank you.

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

Thanks, James.

I can see another question trying get out there. Anyone else – anyone we haven't heard from who'd like to – okay. I think we're done. Thank you very, very much for your attention. Nice to see you all again.