Company Participants

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

Other Participants

- Barrie Cornes, Analyst
- Blair Stuart, Analyst
- Chris J. Esson, Analyst
- James A. Shuck, Analyst
- Nick Johnson, Analyst

MANAGEMENT DISCUSSION SECTION

Lance Henry Batchelor {BIO 6884486 <GO>}

Good. I think we are ready to roll. Good morning, everybody. It's a great pleasure to welcome you all to the first set of results for Saga as a public company. There are lots of faces in the room I recognize, but are also new faces to me. Welcome to both groups. You're extremely welcome. We think we have an interesting and very positive story to share with you this morning.

In terms of agenda for this morning, I'm going to do a short introduction. Then I'm going to hand over to Stuart Howard, our Group CFO, and Stuart will take you through the numbers in some detail. He's then going to pass back to me, and I'll provide a bit more color on the delivery within the business and on the progress that we've been making against the strategic initiatives that I described back in January at our Capital Markets Day. And of course, we will talk a bit about priorities for the coming year as well. We then have some time set aside for Q&A.

It's very much worth noting that our new CFO Designate, Jonathan Hill, is here with us today. Welcome Jonathan. It's great to have you here. You'll be able to catch up with Jonathan at the coffee break and ask him any questions you want. I say he's here – there he is. He's hiding in the middle. I was trying to work out where he was.

So, what a year. I think what I'm most proud of is the fact that we have delivered on all of the key promises that we made to the market at the time of the IPO last May. In fact, we've beaten our promises in a number of key areas. We have grown our like-for-like trading EBITDA by 6% this year. I think market consensus was around about 4%. We have continued to generate very high levels of available operating cash flow. We're proposing a dividend of £0.041, which on an annualized basis is £0.06 per share. That is right at the top end of the target range. We've delevered more rapidly than we had outlined at the time of the IPO. You may recall that at that time we said we would reduce our net debt by perhaps half a turn a year, and we've actually reduced it by 0.6 over an 11-month or a 10-month period. And we down to 2.5 times today.

We are making good progress on the implementation of those strategic plans for growth that I talked to you about back in January at Capital Markets Day. I'm going to come back to that in more detail later on. And finally, I just want to absolutely reiterate our commitment to getting the balance right between value-enhancing growth opportunities, our progressive dividend policy, and further debt reduction.

In January, I outlined how our growth targets that we've outlined to the Group in the next few years will be delivered mostly from our core businesses of insurance and travel. All the other opportunities that we're exploring, and there are a number of those which I'll summarize quickly later, could be described, if you like, as cream on top.

It's very encouraging, therefore, to see that all of our core businesses have demonstrated good growth this year and throughout the year. As I said, I will come back to that in more detail later on, but just to say at this stage that I'm very excited about the growth opportunities that we can see through. For example, the delivery of a panel into our motor insurance business in the coming year through continuing to capitalize on the pricing advantage that we have created on our home insurance panel, which will allow us to compete for market share. Thirdly, to maximize the cross-sell and the up-sell opportunities from our database of well over 10 million customer names; and fourth, to build on the really strong momentum that we have in our travel business at the moment.

Now, I'm going to hand over now to Stuart, who'll take you through the numbers in some detail, and then I'll be back up shortly. Thanks.

Stuart Michael Howard {BIO 16905415 <GO>}

Thank you, Lance. Good morning, everybody.

So, this has been a very encouraging first year for us as a PLC. We've had a very strong financial performance. We've delivered 6% growth in trading EBITDA despite the additional costs of being a public company, and that's about £3 million ahead of market expectations. We have pro forma EPS up 13.5%. And as Lance said, we've delevered at a faster rate than targeted at IPO. And that strong cash generation has allowed us to pay a dividend at the top end of the range.

So, we have delivered on our 5% to 7% trading EBITDA growth target. And it obviously (05:22) what we mean by 5% to 7% growth target. We have targeted 7% underlying growth in EBITDA over the coming years, and that's what we've achieved in the last – in recent years. But for the year we're talking about now and the year we are currently in, those numbers will be expressed a little bit because we'd have the full impact of the costs of being a public company, which we had a half-year impact last year and full-year impact this year.

So, taking that into account, we are at the top of that range, allowing for those public company costs. And refocusing on prospects for our core business means that we're well-positioned to continue to deliver on that growth target in the coming years.

So, I'm just having a quick look at the P&L. So, this is now the P&L for the continuing operations which, just to remind you now, exclude Allied Healthcare, which is treated as an asset held for sale. Revenues there are showing a small increase despite the deflationary pressures in the markets for our two largest products of Motor and Home Insurance.

We've improved our EBITDA margins by 0.6% to 21.3%, reduced the level of exceptional expenses, and altogether, that has driven a like-for-like increase in profit before tax of 9.6%. During the year, we had one-off IPO costs of £50 million. And also included in the interest cost line of £34.6 million are one-off expenses of £12.1 million, which relate to the fees for the new bank facility and also the costs expensed from repayment of £550 million of that facility's IPO.

Now, in relation to Allied, the sale process is under way, and we've taken the decision to write the investment in Allied off in full now, net of expansion scheme liabilities, resulting in a loss from discontinued operations of £220 million. Now, we have taken, we believe, a very conservative view here. And it's far too soon to say what the actual proceeds will be, but we'll update you when we've got something substantive to report. But we do expect the business to be sold during this year.

Now, looking at the business by division, and I'll walk you through these segments one by one, but I think the really encouraging thing here is that we've had growth from all our core businesses. So we've had – which has been very encouraging.

So, just looking in a bit more detail, we start off with Motor Insurance. So, from Motor, during the year, we've seen continued downward pressure on gross written premiums, which were down 8.7%, although we did see the rate of reduction in that reducing towards the end of the year. And despite that, we have slightly improved the number of core policies. And that is an improvement from the half-year when you may remember that we were showing a decline in policies at that point in time.

Overall, Motor's grown by 8.9% at the EBITDA level, and that has been driven by very strong underwriting performance. And I'll come back to that in more detail on the next slide. Ancillary revenue and EBITDA reduced in the year as well as a result of operational changes introduced during 2013, following regulatory changes across the industry for sale of add-ons. And that position stabilized in the second half of last year.

Currently, in terms of the market, we are not seeing any signs of price increases. We're seeing a very flat motor market at the moment. But that in itself is very considerable improvement on what we have seen in the last two years.

So now, I'll talk about that core underwriting column in a little bit more detail. So for our underwriting business, again, market pressures on closed written premium have resulted in revenues falling by 12.7%. However, despite that, we have seen an improvement in the combined operating ratio from 88.4% to 77.9%, and that is the best we have achieved in our history.

We are very strong at underwriting a relatively small and specific segment of the over-50s market and our careful risk selection has continued to strengthen our profitability this year. We've continued to manage small personal injury claims very effectively and have seen favorable claims experience for both large and small bodily injury claims.

Reserve releases remain flat year-on-year whilst we've maintained the strength of our reserving position. And as I said at the Capital Markets Day in January, over the medium term we do expect to see a reduction in the level of reserve releases.

We remain conservative on how we go about our reserving, but we think the claims costs are more in balance with the likely ultimate position, and this will feed into lower reserve releases in future years. But we believe the impact of this will be more than offset by the increase in broking income from the introduction of our panel in the middle of this year, the widening of the footprint for our business, the consequent increase in the size of our book, and in continuing improvements we deliver on inefficiency.

So let's move now to Home. So, the Home insurance market also saw a fall in market premiums, particularly for buildings cover, which has followed period of benign weather conditions. However, the net rate provided to us by our panel fall under the faster rate than the market rate.

And the graph on the slide here shows that since February 2012, the market rate has fallen by around 15% where the net rates that we received from the panel has fallen by 25%. So that means that in a year, when gross written premium has fallen by 6.9%, we have used the improved margins to grow our EBITDA by 2.2%. And I think improved competitive position in the market. We've been in a very good position to capitalize on that position in Home going forward. And we will be able to balance the growth in policy numbers with growth in EBITDA.

And then on to other financial services – so, just a reminder, within other financial services, this is primarily led by – it's a broking model primarily led by Travel and Private Medical Insurance, and those two products represent about 65% of the EBITDA for this segment. And to be clear, the Travel Insurance here does not include travel insurance which is also part of our Travel product. Also, in here we have Pet and Caravan insurance and other insurance products together with personal finance products, for example Credit Card, Savings and share dealing.

So overall, the EBITDA for this part of the business has grown by 12.3%, and Travel Insurance performed particularly well. This year, for the first time, we have been selling Travel Insurance through aggregators. And we've also seen a higher proportion of annual Travel Insurance sold compared to single trip, and clearly annual Travel Insurance is a higher premium and also it has a renewal stream attached to it.

And Travel Insurance is also a very important source of new names for the database. We actually generated 137,000 names from Travel Insurance, and actually, this year it was the most important source of new names for the business.

We've also had a strong underwriting performance from the smaller products that we underwrite, which include, for example, Pet Insurance, which has led to an increase in EBITDA on lower revenues.

Well, the Travel business has really had a truly outstanding year. We've seen strong growth in revenues and profits from both Holidays and Cruising. For the Holidays business, the shift in product mix towards higher-value long holidays has driven good margins. And for Cruising we've been restructuring our pricing and banding of cabins to drive higher demand for the higher-graded cabins, which results in higher yields and load factors.

And the organic growth in passenger volumes has been further enhanced by the acquisition of Destinology in August last year, and that business was acquired using the Travel business' restricted cash and that all did not have a negative impact on the group's net debt, although it reduce the dividend the Travel business could play the group in the second half of the year by about £5 million. So this business, as we've talked about on our Capital Markets Day, has set itself a target of doubling its profits over five years, and so far it's on track to achieve that.

And so, Healthcare – and just a reminder, these numbers are now for the Healthcare businesses we are going to retain, so that includes Country Cousins, Patricia White's, Saga SOS and our Private Pay business trial. And these are high margin businesses which we'll have the potential to grow. And the strategic decision to sell Allied will not detrimentally impact these businesses. In fact they'll geta lot more focus as they now have their own dedicated management team.

Central costs, it's no surprise to see that they have increased year-on-year. And the main element of that firstly is, I said before, the costs of being a public company, which are around £2.8 million in this period in this year (15:09) about £4.5 million on an annualized basis. They also include additional LTIP costs of about £1 million in this year. And also, this year for the first time, we invested in a dedicated innovations team, which is between £1 million and £2 million we spent on that in this year. Now all these costs will increase in the current year as we have those plc cost for full year. And we have another year of LTIP being added to last year's grant.

And Saga remains a highly cash generative business. So 72% of our EBITDA converted into available operating cash flow last year. That percentage would have been higher if it had not been for the acquisition of Destinology, which as I said before was paid for by restricted cash from the travel business, but it did limit the dividends that would have normally come out of that business by about £5 million in the second half of the year. And also, it would have been higher, if not for the increased proportion of profits that we made in the restricted businesses. Now, that should result in higher dividends flowing through into the current year into the center.

We are an asset life business. Of the £2.8 million of assets on the balance sheet 1.5 million of that relates to goodwill which is primarily due to the acquisition of Saga by Acromas back in 2007. Of the reminder, £700 million of cash and investment are also (16:40) regulatory services are not travel and underwriting business. It's also worth noting that the reduction in financial assets and other liabilities year-on-year is due to the removal of intercompany balances with other Acromas companies' IPO.

So as Lance said at the IPO, he said we would reduce leverage by half a turn of EBITDA per year. And that strong cash generation means we have beaten that target reducing it by 0.6 of a turn in 10 months. Our underwriting vehicle in Gibraltar remains very well capitalized despite the fact we had paid the (17:20) dividend to the group during the year. And the coverage ratio has increased from 225% to 277% during the year. And as I said at the capital markets day, we are comfortable that no additional capital will be required as a result of Solvency II.

So, the updated strategy we outlined in January is focused on capital-efficient, primarily, broking model. And this, combined with a strong available operating cash flow, has allowed us to pay dividend at the top end of the range outlined at the IPO. Just remind you, the range that we set at that time was 40% to 50% of net income excluding exceptionals.

So, the dividend we are paying of £0.041 equates to 49.5% of net income. Now, that dividend is time apportioned for the period we have been a public company. And as Lance said, on a full year basis, that dividend is £0.06 per share.

And now that we have more clearly defined our capital-efficient strategy, we have decided to increase the top of the payout range from 50% to 60%. Deleveraging remains important, but we'll take a more balanced approach to debt reduction, dividends and value enhancement – value-enhancing investments going forward.

Thank you, Lance.

Lance Henry Batchelor {BIO 6884486 <GO>}

Okay. So, I mentioned January's Capital Markets Day a couple of times earlier on. But for those of you who weren't there back in January and are new to the Saga story, I think it's worth just taking a couple of minutes to revisit what are the key elements of our refreshed strategy for growing the business.

First, our insurance business is the jewel in the crown of Saga. It is a fantastic business, as you'd just seen from the numbers that Stuart's taken you through. It's the biggest contributor to our earnings by far. It's also responsible for the majority of interactions that we have with our customers.

However, our market share in the areas that we operate in, particularly motor and home, is actually very low. In motor, we have about an 8.5% share of the over 50s. And in home, we have 6.8% market share of the over 50s market. Given its size, one of the most important elements in our growth strategy is to grow our footprint across our insurance businesses. I'll come back to that.

Secondly, our travel operations play a really, really important part in the Saga business. They are central to the history of this business. They are key element in the DNA of the brand. They provide a vitally important halo impact on the whole of the brand. Our customers can actually experience our commitment to customer service firsthand and for a prolonged period when they come away with Saga.

We therefore, as Stuart mentioned, challenge that team to grow the travel business. And the delivery of their five-year growth plan plays a really important part in the growth trajectory of the group as a whole.

Third, we have a high-quality, but still relatively small personal finance offering. It includes savings accounts and credit cards and share dealing and equity release. However, there's a lot of change going on in that marketplace, as you'll be aware. The UK's over 50s hold 68% of the nation's wealth. They really, really are looking for a trusted brand in that space, and we feel that Saga is extremely well placed to do more in the area. And we announced back in January our entry into the wealth management space. And I'm going to come back to that one as well.

We now have 10.8 million contactable people on Saga's proprietary database. And as I've said in the past, that database is proven to be an exceptionally important tool to help us grow the business, predominantly for direct marketing purposes and also as a renewal engine for the insurance businesses. It's also one of the cleanest databases that I have inherited in my career.

However, given my own background in digital marketing, I know we can do a lot more with that database to segment and to understand our customers' needs. That will help us to cross-sell and upsell more products across the whole of the 10.8 million group of people and also to develop new products over time.

And finally, innovation remains absolutely at the heart of this business. And by innovation, I mean two things. Firstly, identifying and assessing and qualifying piloting into new areas where our model can work, where the brand can work, where we can differentiate our products and our services, and where our customers would welcome our involvement. And we've got a number of pilots underway that I'll summarize later. But also, to focus on our current businesses of insurance and travel and innovate within those businesses, it's absolutely critical that we do that.

All of the above generates healthy growth, high returns on capital, strong cash generation which allows us to continue, firstly, looking for value creating investment opportunities for the business; secondly, to grow our shareholder dividends progressively over time; and thirdly, to continuing paying down debt.

I'm now going to talk you through the businesses individually, focusing on the highlights from last year and what we're going – and then, what we're going to do in the coming year for each business. So let's start with financial services.

Our motor underwriting business has performed very strongly. As Stuart said, it's achieved a combined operating ratio of 77.9%, despite the fact that we're operating in what is still a very challenging market for this segment and has been over recent years.

We – and then, moving to home. We continue to add new insurers to our Home Insurance panel that further improves its efficiency. Every time we add another player to our panel, it becomes even more competitive. We combine that with what we call a Saga factor, where we provide unique information to help those underwriters to assess risk. That has led to a significant reduction in the net rate that is provided to us compared with market averages.

Now, in light of the proven performance at our Home Insurance panel, we announced back in January that we would adopt similar policies for motor, with the aim of further growing our footprint into the motor insurance space.

Just a reminder, we only have an 8.5% market share of the over 50s motor market. We're conservative in our underwriting approach at the moment that we actually turn away about three quarters of the customers who ask us for a motor quote.

Now, these are people who look and feel like Saga customers. Very often they already are Saga customers. They might take Home Insurance from us. They might travel with us. They might cruise with us. But we're still not writing them a competitive quote in the motor insurance sector. And a panel will enable us to do that to many more of our customers.

Also while we're talking about Motor Insurance, we announced the acquisition of Bennetts, the UK's leading motor bike insurer. This acquisition is absolutely in line with our strategy. Bennetts is also a great brand. It's capital-light. It is a market-leading brand. As I say, 77% of Bennetts' customers are aged over 40. 43% of its customers are aged over 50.

So, there's a good fit with our demographic. And factors are mutually good fit because we don't have many bike customers on the Saga database at the moment. And we can plug Bennetts into our database of 10.8 million names to help them grow.

We continue to see good growth from our activities in other financial services. Again, mostly, travel and PMI, and there's a significant growth opportunity available in that space. And despite all of this success, there is a huge amount to do in the year to come. We've identified the potential that I've just mentioned for motor for a panel, and we've announced its implementation.

This year, we're actually focused on getting that panel into market up and running with the first group of panel members. We're delighted that there's extremely strong demand from potential underwriters to join that panel. We are on track to launch our motor panel this summer.

Moving on to Bennetts, once that acquisition is completed and what we're waiting for at the moment is CFA approval – is FCA (26:25) FCA approval on that acquisition. We're very excited by the potential, as I said, of blending that business into our database, capitalizing on the marketing and the cross-selling opportunities of the 200,000 policies that they bring to us.

We're going to continue in home to capitalize on the pricing advantage that the panel has provided for us. This gives us, as Stuart mentioned, the choice to flex between growing our market share or growing our profit.

And in Other Financial Services with a real focus on PMI and travel, we have seen significant growth on that over the last year, again, not just as a source of income, but also an absolutely vital tool for adding new names to the Saga database. In fact, we added more names to our Saga database last year from Travel Insurance than from any other source.

Turning now to the travel business itself, travel performed extremely well last year, demonstrated a really, really strong performance on an underlying basis. This is partly due to management's increase focus on that business. Andrew Strong has return to us from running the AA for a few years. He has a proven track record of creating growth and we are seeing that coming through in our Travel division.

We successfully acquired Destinology, which is one of the UK's leading online travel companies. It offers bespoke holidays in five-star hotels and resorts in major international destinations. It fits extremely well with our other travel brands in our portfolio. It fits well with our demographic. It enhances the range of offers that we can give to Saga customers, but it also allows us to target a group of customers who wouldn't travel with Saga perhaps because they want to travel with their children. And we see significant growth opportunity in the Destinology brand. The other thing is we're learning a lot from Destinology about how to operate in a Web-driven environment, where more and more of our customers are moving to.

Moving to what we call third-party cruising, where we put our customers on to other people's ships, has been very successful for us. Much of the demand for this business has come from new customers and that's people who've never traveled or cruised with Saga before. Or in some cases, it's people who've lapsed and not traveled with us for three or four years. And the majority of third-party cruising has come from them. So, that's adding new names into our travel database, which is very good news.

Perhaps the best indication of the success of our travel business last year was that when Saga and Titan and Destinology went to the 2014 British Travel Awards, which, as you probably know, are the Oscars of that industry. We won a record 46 awards which is more than any other travel company in the UK. It's not bad for a relatively small travel business.

This year, we are looking to build on our success through a better exploitation of the database in travel – I've jumped a slide, let's come back – and also to carry on improving our customer's journey, something Destinology has helped us with as I said before. We're also continuing to develop our contact centers in order to improve the customer experience there.

We're taking some of the technology learnings that we've had on the services side in our contact centers, and applying those in travel as well. We're looking at new airport start points for our customers from around the UK. And we're really focusing on how to grow our operations to become a major part of this business over time. We really think that travel has a lot of upside in it.

Now at the interims, we announced our plans to move into wealth management. We comprehensively assessed the different ways that we could enter the wealth management space and you will remember that we announced at Capital Markets Day in January that we were going to do a JV partnership with Tilney Bestinvest to create Saga Investment Services.

We've already had strong indications of interest from our customers for us to enter this sector. And this year, we are looking to launch a range of customized products into the market by year-end. We're very confident that this market represents an area where our brand and our business model can work well. And I look forward before year-end to giving you an update on exactly what will be in that portfolio.

We continue to see innovation as something right at the heart of the Saga business. We're also looking for areas where our model and our brand can operate effectively to develop new products and services that our customers want. Private home healthcare, retirement villages, legal services are just three areas where we see potential for this approach to succeed. The pilots for all of those are up and running and they're progressing well.

Of course, the most cost-efficient and effective form of innovation is to better develop what you already do and what you already know well. And we're continuing to look for ways to enhance insurance and the travel businesses.

Turning now to the team, I mentioned earlier on the hiring of Jonathan as our CFO. However, I'd like to emphasis again, that we're building the team out in the round. We're welcoming Karen Caddick to the business as our new HR Director. Karen brings with her wealth of experience from large public companies. She's going to be absolutely critically to working with Jonathan, myself and the rest of the leadership team to build the right culture and the right energy to take the business forward into the future. I'm also pleased to say that we have hired senior heads to help us drive digital marketing, customer insight. And we'll shortly be able to announce the arrival of a managing director for our wealth joint venture.

So, our first year as a plc has been a very solid start. So far this year, trading is on track to meet the 5% to 7% growth target that we have outlined. The UK motor and home markets do remain challenging. We have seen rates roughly flat early in 2015. However, our motor core underwriting has continued to perform very strongly. And our Home Insurance panel has allowed us to remain very competitive on pricing. That leads us to expect continued strong profitability in the year ahead.

Performance in Other Financial Services continues to be robust driven by the success of Travel Insurance and Private Medical Insurance. And we continue to see and expect to see continued strong performance on those segments. The travel business remains very focused on growth in passengers and profits. We've seen strong performance across all those businesses so far this year.

Now I spent lots of time talking about our core businesses today. Let's just reminds you that the core business is where we continue to expect to see most of our growth coming from. In particular, we see the potential for sustainable growth from our insurance and our travel businesses. But there are also new opportunities for long-term growth from our small but important pilots that we're running. And we are confident that at least some of those will turn into large businesses in the future.

This growth strategy requires very little capital meaning that our total shareholder return is firmly based around sustainable growth, cash generation and progressive dividend returns. So, I think I'll pause there. And Stuart and I will go over to the fireside chat site to take any questions that you've got. Thank you.

Q&A

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

Can you actually see us? Yes? I'm going to pick the first.

(34:59)

Sorry, Ravi (35:01), I can't quite hear you.

(35:03-35:22)

Yes. So, on frequency, first of all, I mean, I have to say it's something we are expecting to see and we are looking very closely, but we are not seeing any increase in frequency at all coming through. I know other people are seeing they are seeing. But we are not. Now, it doesn't mean it won't come through. But in current experience, we're not seeing it at all. That might be because our customers have actually changed the way that they drive.

Certainly, I drive slower the most two or three years ago. I think then on (35:51-35:57). And also, over the recent years, we have been – I said (36:00) narrowing and narrowing down our – the target that we are going for – the customers we are going for. So, we are just not seeing it at the moment. One of the reasons we want to keep a strong reserve position is because it might happen, but we're not seeing it currently.

In terms of size of the claims that are coming through, severity, that has been for us, recent years, has been reducing. I talked about it in the Capital Markets Day a little bit, how we have done a quite major project to really manage this very tightly. And I think in 2013, we've reduced the cost of setting an individual claim by 7% in the market, so that increasing by 1%. And one of the reasons you see the reserve releases is for that change still washing through our numbers. And we're still seeing that.

The second question was just around Solvency II, again, so especially on the insurance side. You referenced that it's a smooth transition process (36:57). Can you just give us an update in terms of timing, standard model versus internal model and conversations with the regulator?

Yes. So, it's a slightly different relationship we have with the regulator (37:08) here and that you are having a direct conversation with them all the time, rather than it being done through third parties. So, we are in regular conversations with them about it. We've already submitted a number of our documents to them that they've (37:22) reviewed. The actual application will go in the first half of this year, and hopefully for the standard model, which we hope to get approved in the second half of year.

So, at the interims, we'll be able to give you an update on that. And then, we'll probably be giving our own detailed model in 18 months later after that. So, we are on track. We feel very comfortable with it, very good relationships with regulator. And we feel very confident about the level of capital that we'll need to have to put in - to not put in (37:53).

Great. And the third question was just around the Allied Healthcare and potential use of proceeds. You've been very clear I think about the dividends, debt reductions and growth as the three targets broadly speaking. But is there any priority among those in terms of how you might think to use the proceeds from the sale?

I think the honest answer to that is it's going to depend on what scale of proceeds we get. And we're going to start off by seeing what quantums are involved. And we will know that over the course of the summer. At which point, as a board, we'll then discuss among those three priorities that you've just repeated, where do we want to put the focus. So, I don't want to prescriptive about exactly where the funds will go. Obviously, it will be one of those - one of three. It's unlikely at this stage in our lifecycle to be a special dividend, far more likely that we would rather deleverage further or invest in a growth opportunity.

Thanks very much.

James?

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

Yes. It's James Shuck from UBS. I also had three questions please. First was just on the leverage ratio and your debt outlook because at the time of IPO, you were looking to get that down by 0.5 a turn.

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

Yes.

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

You're pretty much where you said you would be - presumably want to get that down. I mean, as an insurance analyst, I find it difficult to kind of get my head around you having negative tangible asset. So, I mean, where do you see that kind of debt coverage going to over the medium terms is my first question.

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

So what we said at IPO and it's still the same point now is we want to get down below 2 times. Clearly with the higher dividend, it's going to be a slightly lower rate of reduction (39:42) 18 months, two years to get there. Jonathan now, he will be looking at the capital structure and what is the best capital structure going forward and what is the right level to get too, but we still got a few years to carry on reducing that number.

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

Okay. And then on the combined ratio, could you just talk a little bit about the current year loss ratio and the outlook for that next year? So, obviously - the rating outlook is looking pretty flat at the moment. We may get some increases as the year comes through. The planned (40:14) inflation is returning to the system a little bit. So, it's difficult to see you get much help from the market. And you put your 10 points of -- or near enough 10 points improvement last year. What more can you do to offset the market environment? And should we be thinking that will get better from here?

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

So, in terms of - I think what we've been trying to do is get our current year pricing or current year cost closer to where we're actually going to end up. So, I think - as you said - the current year or last year's claims costs are much closer to where we think we'll actually end up because actually what we're trying to - we've been trying to do, we write the 10% (40:52) return on capital within our underwriting business. We don't write to try and create a lot of surfaces just to emerge because we've been naturally cautious.

So we're trying to - we've been historically, I'd say, quite quick to recognize bad news and slow to recognize good news. And what we're trying to do is be more - recognize good news more quickly. And that is I think - with Lance coming in, we're working much more as a team together with some broking side and the underwriting side to make sure we do get stuff into (41:21) pricing more quickly. We also continue to look at - we call it efficiencies.

We delivered probably (41:31) about £20 million of efficiencies into last year's - in to the numbers we're talking about here. Now, those aren't cost savings. What we're talking about here is using our people more efficiently. So, it's about using data better in our pricing. And it's also about one of the big drivers of that has been (41:49) analytics, where we're using - we digitized all the conversations we had with our customers and then we analyze that and use that as a training alternative to tap that conversion effect of it.

And that will continue into the current year. So we've got another target in the current year of efficiencies. So we feel pretty confident about because it's actually doing - it's carrying all the things we were doing last year.

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

So, currently, it will get a bit better then...

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

Currently, it will get a bit better, yes, it will be. Yes.

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

And then, just on the markets share numbers you gave on motors, you got 8.5% market share in the over 50s market, 6.8% on home. And mostly home is - a lot of that is (42:35) already. And on the motor side, you're saying well by (42:39) panel production broking or that market share will be able to increase, you're obviously already doing that on home, but the market share is actually lower. So, how do I sort of square those two?

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

We made a choice, the efficiencies that we gained through a lower net rate because of the panel in home can be taken to share or they can be taken to EBITDA. And we chose last year to take most of that to EBITDA rather than to share. In the coming year, I'd expect to see us balance that more. So, we're looking for some upside in terms of share in home as well in the coming year.

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

Because of that gap has been increasing - we see increased during the year and we expect that to continue to increase. So we expect that trend to further (43:20) competitive position strengthened during the year. And we expect it to continue to strengthen this year.

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

Okay. Thanks.

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

Thanks.

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

Thanks, James.

Blair?

Q - Blair Stuart

(43:33-43:38). It's Blair Stuart from Bank of America Merrill Lynch. Just expanding on James's point there. So in the motor market, you said that you recognize good news earlier.

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

We're trying to.

Q - Blair Stuart

Does that mean that you will just book a lower loss ratio in the year one or will you pass that on to a customer through better pricing and get...

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

Well, that's a choice we have. It's a bit like Home Insurance. That's the choice we have. Both the panel and the fact that we're trying to get a more accurate current year – our loss ratio, let me start off, just gives us more flexibility in the market. So, we can either use that to maintain our margins, which is actually largely what we've done over recent years. And the introduction of the panel, which also pushes down our net rate, gives us the opportunity for the broking part of our business to – look, to go into parts, segments of the market that we haven't been in. So, basically, it gives us a flexibility to do either.

Q - Blair Stuart

Okay. Thanks. And just a couple of more questions, on the motor panel point (44:35) is established and up and running. How should we think about the economics to you from the fee side rather than the underwriting side? How is that going to work? And secondly on that, how will you manage the temptation to take broking fees and give up underwriting? How do you manage that conflict because clearly if you're passing underwriting on to a third party, you're potentially giving up an underwriting fees that you might have got to your own books?

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

So I think it's important – don't think of it as a commission. That's the wrong way to think about it, I think. They are providing us with a net rate and they are competing with each other to get the lowest net rate to win business. And they'll be competing against us for the lower net rate. The amount of price that's charged to the customers -- for the customer, they don't see that. They'd – there's a completely different group of actuaries in our broking business who decide what the price we are going to put into the market. So, we can choose what that difference is.

So clearly that allows us to go into parts of the market, where we just are not being competitive before and makes our marketing much more efficient than it was before because past people who've come to us for business where we're having excess item (45:47), we can now go back to them with a quote which will be attractive with the new rates that are coming through.

To the extent that our underwriting business – our underwriting business- one thing's for sure, it's not going to get bigger, the under panel is going to stay the same or contract. My definition, if someone is offering so low a net rate, then we can generate. Then, our margin is going to increase. The only difference to that is of course we look – we make an underwriting margin. We're targeting 10%.

So that is high. That's a piece we would lose. But clearly, overall, if people are (46:24) net rate, then we can get that – allows us to offer low net rate in the market, which again we can take as margin or look as another growth opportunity.

Q - Blair Stuart

That has come through as a (46:35)...

That comes through as a – yes, the difference here as revenue to us, yeah.

Thank you.

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

Gentleman over there.

Q - Nick Johnson {BIO 1774629 <GO>}

Nick Johnson from Numis. Just a question on the average number of products per customer which has gone down slightly from 2.7 to 2.6...

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

Yes.

Q - Nick Johnson {BIO 1774629 <GO>}

Which, my term, suggests reduce effectiveness of cross-sell, could you just elaborate on the drivers behind that? Thank you.

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

Yes. It's actually a very simple driver, which is the reduction in add-ons in the first half of last year. And Stuart mentioned earlier that there were regulatory changes and pressures on all motor insurers to tighten up the add-ons. We were actually quite well placed compared to most people in the market because we've never been aggressive sellers of add-ons. We've always tried very hard to ensure that our customers only take add-ons that they need. That said, we did see a reduction in motor add-ons in first half of the year and that almost entirely drives that number. So – and as Stuart also said, it has stabilized in the second half of the year.

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you. It's Barrie Cornes from Panmure Gordon. I just wanted to ask about the pension changes, rule changes, as to whether or not you're seeing (47:52) inquiries, and how you're going to try and capture what I guess is going to be a fair amount of cash (47:57) able to spend?

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

So we made a conscious decision not to rush our wealth management offer into market. We were asked by a number of commentators, why don't – don't you want to be out there in time for April because the world is going to change radically in April? But actually, our view is different, which is that the world would change from April onwards. And from that point on and for years to come, customers are going to be trying to work out what to do with their wealth. We think we have a big advantage because we can essentially sit back between now and year-end when we're planning to launch, and we can lead the way that the market is evolving and which products are proving popular, what stories are cutting through and building credibility. And therefore, we can shape our proposition to be optimal at the time that we launch late this year.

We don't – truth is, we don't have a huge dialogue with the customer at this point. We are doing a lot of inside search and focus groups about what our customers would actually like that is not as if the lines are open at the moment on an ongoing dialogue about what can they do right now, because right now, they're not expecting Saga to provide that.

What we do have, just to remind people in the room, is about £5.5 billion worth of funds under management in our branded savings account, as provided for us by Birmingham Midshires. And we haven't pushed that very hard. We don't spend much advertising it. It's just there and because it's a Saga savings account and because we've got 10.8 million people who know us, they've poured £5.5 billion into those accounts, which is one of the indicators that gives us a lot of faith that our wealth proposition is going to be attractive when it hits the market. Another reminder for you, we've got 200,000 retail shareholders and with those individuals we have an ongoing dialogue about how they save their wealth.

Q - Barrie Cornes {BIO 2389115 <GO>}

Thank you.

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

Thanks, Barrie.

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

James?

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

Yeah. Just couple of follow-ups. On the payout ratio, you've increase ratio 40% to 50% to 40% to 60%. In theory, your business is getting less volatile, not more volatile. So why didn't you move up to 50% to 60%?

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

I think we've – so we keep our options open. Frankly, taking it up to 60%, I think, should be viewed by the market as a clear indicator. However, we don't want to look ourselves into a particular outcome at this stage in the year. There is lots of volatility out there in the (50:43) market, for example, and we couldn't see the upside in narrowing that range dramatically at this point. What we wanted to do is raise the top so that inventors can see that there is achance for progression, given that we've come in right at the top of the range at this first year.

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

Why you have a cap at all? I mean, the cash conversion is 80%, so shouldn't you be paying out all of that?

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

Well, we said that there are still three priorities for us. It is possible that there will be opportunities to invest in accretive growth for the business. We do still have 2.5 times leverage. We do want to bring that down further to below 2. I think once we are down below 2, then there is a discussion to be had about exactly what that range should look like. But at this point, where we're still leveraged at that point – at that stage, then we think it make sense just to keep the options wider for now.

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

Okay. Just on the – at the time of IPO, you showed various sort of cohort developments, which you thought you were interested in. I mean is that still the way we should think about the business? Can you sort of give – shed some insight into how the development of more recent years has actually been relative to previous years?

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

Well, actually, at the time of the IPO, you'll recall, we showed, I think, half a dozen different cohorts and how they had tracked over time. And what was remarkable about them is how similar they were longitudinally within each cohort and over a period of time. We've seen no dramatic shift in the development of that. It's a good point. Maybe next time around, we'll put up another cohort just to show the world at large that – what we'd just remind everybody. Customer typically comes in in their 50s with a transactional relationship. It might be motor insurance or credit card, and then typically that customer will broaden and deepen their relationship with Saga in the years to come. In their 60s, they might start to travel with us; in their 70s, we might get them on the cruise ships; in their 80s, it might be healthcare and so on. And therefore, we deepen the relationship. Those brand relationships become stickier, because if you buy two or three products from us, you're much less likely to leave.

And of course they become larger interactions. So, the margins get bigger. A month on a cruise ship is a very different proposition than just having some savings in our savings account in terms of your financial involvement with us. And what we looked at at the time of IPO was we went back in history to see whether that pattern was changing, and the answer is its remarkably consistent.

Another reminder, the average age that a customer joins the database has been astonishingly consistent over a decade. At about age 60 is when people come into the database; doesn't shift much at all. But yeah, we'll dig that out and have another...

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

Yeah.

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

Go ahead.

Just one follow-up. You said in the Motor market that you turn away three quarters of the approaches that you get just because it doesn't fit in your pricing criteria. What's your expectations once the panel's up and running of how much of that overall that you can harvest? At the moment, you harvest 25%. If you harvest a half of it, then your book's going to double, or your interactions are effectively going to double.

Well, we have modeled a variety of outcomes, and the honest answer is we can't know until we switch the panel on exactly what the outcome will look like. We've been recently prudent in our internal assessment of what will happen. But as you say there are a whole variety of outcomes, including significant growth in share. But we don't want to count on that internally, nor to signal it externally at this point because we don't have the data to support a significant increase.

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

And it will take time to mature. I mean, obviously it depends on the net rates that would come through initially on the panel. But also, the panel takes time to mature, because we'll start with a small small number, a handful of insurers on the first few months.

And what the Home Insurance – experience with Home Insurance is that every time you add another panel member, your average net rate goes down. So if we start off at, let's say, 3 and get up to, I think - say 10, it will be a reasonable sort of target to go for over sort of a 12-month period. During that period, we would expect that the rate that that panel delivers to fall over time.

And the other element we found with the that Home Insurance panel is that, we will be doing the same things. We'll be giving anonymized data to the underwriters that they can't get from any other source. And they would use that. They'll will see that that will be predictive of claims experience going forward. And the question is how quickly will they rely on that and put that into their net rates?

Now, hopefully, we've got some of those people who are on our Home panel are also on the Motor panel, so some of those people will know that it works. But you can say it takes a little bit of time for that to mature.

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

And what's the process of getting insurers on to the panel? I mean, why can't you just put (55:44)

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

Yeah. Well, that would be great, actually, if we could do that, first of all. The issue is the people who come on to the panel, first of all, are not necessarily people who have got the best rates or are the largest insurers. They're the people who've got the internal IT capability to deliver to a certain timetable. Actually, the timetable we're talking about, by the time, it's quite tight. And again, we've been through this with the Home panel. So we are - we set the panel up, but they need to file (56:10) their own IT systems into the panel. So they have their own development that they need to do to be able to do that.

So, really, the people are coming on first, and there's an incentive for people coming first, because obviously, you're the first on the panel. You're likely to take a larger share than if there are late people on it. But we are reliant on their IT teams to deliver their systems into our panel.

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

Because it has to be seamless from a customer perspective. I mean, what the customer sees is Saga, and we can't delay the transaction with them. We have to be able to get them an instant quote from which we have to know exactly what price we're going to charge them and what sort of underwriting rate we're likely to get as well. It's all got to happen in real-time.

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

Now, clearly, we're not sitting back and just allowing them to - we're doing everything we can be to proactive to help them provide resource, give them as much hope as they can. But a lot of them have (57:00) which are fairly well spread out, and they have other IT priorities. So we just have to fit in with their priorities.

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

We think we're on track to launching about half the time it took us to get there.

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

We are.

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

Yeah. It is (57:10).

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

It is actually a pretty short period of time that we're doing this.

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

So just fallin off from that point, then, are you running reputational risk with the other insurers? You obviously have very high levels of service and claims payments and things like that.

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

With our customers?

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

Yeah, sort of.

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

Yeah. So I think the way we want the panels up, they are very different from other panels that I have seen or you may have seen in that we work very hard to make sure that all the panel providers worked a very straight set of service standards and we audit them, manage them daily on that so we would know if someone's (57:51) was falling on any particular day, we would know and we would intervene.

The first notification of loss will be us, so this person to call will be Saga. And we will – if we identify people who've got particularly difficult – potentially difficult claim, we will then manage that claim for the customer through the process.

And if people – obviously, panel providers don't give the (58:14) service that we expect, then they won't be on the panel anymore. I mean, at the end of the day, it's more important that we look after our customers than make a bit extra margin. So that's what we'll be very focused on. That works very well with the Home panel.

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

We have a process for identifying vulnerable customers. For example, if a customer comes in and we think that for some reason they might not understand or could be exploited by the process, we will handhold them all the way through the whole thing to make sure they're looked after. And we get real-time feedback all the time from our customer panels. And as Stuart says, we have downgraded players on the panel if they don't meet our service standards.

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

I mean, it is one of our core competencies. This is – most of our – majority of our business is about, at the moment, that. So whether it's Private Medical Insurance or Travel Insurance...

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

...hotels.

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

(59:00) arrangement, we still have to manage it in that way.

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

The one over there. Or is that the bright side?

I'll take one over here. Andrew Farrington (59:13) from Investec. Just on page 16, the cash conversion declined that you saw this year, some of which was due to the acquisition, some due to restricted. What should we expect as a normalized level going forward?

Well, high 70s, 80% is what the business has achieved year after year after year. And actually, if you put back, if you - now, that's effectively for the restricted business, because we've been getting a dividend from - into the center from the underwriting business in the first half of the year we're in now. If you kind of normalize that you get back up to that sort of level. So it's been very consistent. High-70s, 80% is where you'd expect it to be.

Q - Chris J. Esson {BIO 6194371 <GO>}

Hi. Good morning. Chris Esson from Credit Suisse. Just following-up on the solvency discussion. So, when I look at slide 18, your solvency requirement is roughly 16% to 17% of your retained premium volume or your net revenues in Motor, which seems a reasonably low number. Just wanted to get a bit of, I guess, a sense of what in - in a Solvency II world, how much does that potentially increase? And leading on to that, can you maybe share with us some of the discussions you have with Gibraltan regulator about whether, for example, the PRA is encroaching a little bit? Because in terms of passporting their services into U.K. - and also whether there is any potential change in remittance dynamics from that business coming forward?

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

(01:00:41) is it decreases. Andrew Button is here. So if you just want a detailed discussion on all conversation we're having, then Andrew is the one who's actually helping them face-to-face. But the PRA are not involved in our process at all. They have no impact on what we are doing.

And under Solvency II, there are some important things to think about with our Underwriting business that may be different from others. For example, we're not exposed to...

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

So, you have to take into account your market exposure. If you're an underwriter, you're (01:01:17) Solvency II. Now, clearly for our underwriter, we're writing to return on capital plus 10%. It is not exposed to the market. It is the broking business, so, certainly - which is exposed to the market.

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

That's an important factor.

The other thing we are not - this is not a stand-alone underwriting business that's - so, it is a business that's part of a much larger group, which is cash-generative. So, therefore, when you are looking at losses, you have to make - might make in a 50-year period your worst loss. The one thing we have, of course, is that loss will be offset by - those taxes losses that will be created will be offset by the rest of the group.

So there are number of factors that actually are quite helpful for us under Solvency II. Most of the things are the things we've been discussing with the regulator. And so we're having fairly frequent and regular discussions with them, but Andrew can give you a much more detailed picture of that if you want to catch up with him afterwards.

Any more questions? Otherwise we will draw a halt and thank you all very much for coming. Hope you enjoyed listening to our first set of results. We've enjoyed presenting them, and we will crack on and deliver another year of good consistent growth. Thank you very much, everyone.
