Capital Markets Day - Q4 2017 Earnings Call

Company Participants

- Jeannette Linfoot, Managing Director, Tour Operations
- Jonathan Stanley Hill, Group Chief Financial Officer & Executive Director
- Lance Henry Batchelor, Group Chief Executive Officer & Executive Director
- Matthew Atkinson, Group Chief Marketing Officer
- Robin Shaw, Chief Executive Officer - Saga Cruises
- Roger Ramsden, Chief Executive Officer - Insurance Broking

Other Participants

- Andreas Evert Cornelis van Embden, Analyst
- Ben Cohen, Analyst
- Blair Stewart, Analyst
- Edward Morris, Analyst
- Lena Thakkar, Analyst
- Nick Johnson, Analyst

MANAGEMENT DISCUSSION SECTION

Lance Henry Batchelor {BIO 6884486 <GO>}

Good morning, everybody. Welcome. Welcome to our Saga double-well (00:12). The first part of the morning, we are going to take you through our third set of prelim results since we became a PLC three years ago, and in the second part of the morning, we're going to do what we're calling our Capital Markets event, where we're going to give you a lot more detail on our customer insight work that we've been doing over the last 18 months or so, which we call Project Connect. We're going to talk about the impact that Project Connect has already started to have on the Saga business, and we're going to talk to you about the launch of our new membership scheme.

Let me introduce you now to the team. Here on my left, some of them you recognize already, so, from this end, Roger Ramsden, who runs our Insurance Broking business; Matt Atkinson, who spoke to many of you a year ago, who is our Chief Marketing Officer; the empty seat is me; Jonathan Hill, our CFO, who I'm sure you now well; Jeannette Linfoot, who runs our Tour Operations, holidays businesses, that's the land-based side; and Robin Shaw, who runs our Cruise business. And you're going to hear from all of those individuals at various points in the next couple of hours. The team is going to talk to you about how Project Connect is being put into practice across the individual parts of the Saga business and how that underpins our confidence in taking the business forward and driving growth.

Now, before we jump in and start summarizing the numbers and so on, let's just remind ourselves of the key virtues of investing in Saga. First of all, Saga is different; secondly, we've now demonstrated for three years in a row that we can deliver consistent growth; and thirdly, and we're going to talk a lot about this one today, we've got really enhanced confidence in driving future growth and that's because of Project Connect, but it's also because of the increasing quality of earnings that we believe that we are offering.

What makes Saga different? We are completely focused on the older demographic. So, what we do? We wake up every day and we focus obsessively on understanding the unmet needs of the retired generation in the UK, and of meeting those needs. I don't know any other company that does that. We spend our working lives seeking to understand those needs and then finding out how we're going to meet them, and it's a wonderful target demographic to work with, of course. It's large, it's growing, it's wealthy, it's complex and it's looking for new experiences. That means that our model is focused not just on selling a product to an individual customer for a year or two and then replacing them. On the contrary, what we're seeking to do at Saga is to build multi-year, indeed, multi-decade relationships with our customer base, reinforcing that with excellent service in everything that we do and encouraging loyalty to the brand.

The other thing I think that makes Saga different is that we operate multiple businesses in very different industries, that gives us multiple opportunities to drive growth and it, of course, reduces our risk profile as well. What does all that uniqueness actually add up to, well, it adds up to this chart, I think. I joined Saga three years ago just before our IPO, you will recall that we IPO'ed in May of 2014 and here are the results since we became a public company. Our relentless job, because it's such a simple explanation of what we are seeking to do. You can see from the bars that profit is up consistently over time, those bars are snapshots at six months intervals off a 12-month rolling profit number. And you can see that it grows steadily. That's what we aim to achieve.

You can also see from the red dotted line at the top that debt is down, driven by our strong cash generation. Indeed, just as we stated we would about 18 months ago, we've now brought the debt ratio down into the 1.5 times to 2 times band, and we've done that while continuing to invest in the business and also paying a progressive dividend. Now, these results don't just happen accidently, but it come from the unique attributes that I mentioned on the previous slide. Our relentless focus on the over 50s, the strong relationships that we build with our customers, and the broad range of excellent products that we sell. And the strength of the Saga model has allowed us to deliver that level of consistency and will continue to allow us to do so.

Now, when I took over as CEO, and just start after the IPO, we made a number of changes to the business. So, for example, some of you will recall that we sold Allied Healthcare, and we exited the publically funded homecare sector. We also have built up a strong management team, many of whom you can see here today. And then in early 2015, I announced a new corporate strategy, which we're still using today. The strategy is very clear; it's very consistent and it's working.

Now, if you look at this list of strategies, numbers 2, 3 and 4, I think are pretty self-evident in our results. We are indeed growing our earnings from our core travel and insurance businesses just as we said we would, that's going very well. We have taken significant steps to reduce the risk profile of Saga, so we've introduced quota share which has reduced our capital requirements; we've launched the motor panel, which has helped us to drive earnings from our broking business. And we are investing prudently for the future.

But the real big theme of today will be strategy number 1, becoming increasingly customer centric. And for me that's the most important choice that we have made as a business. And it might sound like a vague phraseology after all what company out there doesn't want to be increasingly customer centric, but at Saga, it is a very specific and very powerful set of choices, and the results, which the team will talk you though later on this morning, have given us the confidence that we can continue to generate consistent results and increase the value for our shareholders.

Our confidence has been further enhanced by the next natural evolution of the Saga model, which we call Project Connect, and you're going to hear more about this in the Capital Markets section of the presentation later on, but the work itself is about deep insight into our customers and their potential future value, it's allowed us to grow our customer understanding and deepen the relationship with our customers that will lead to improved persistency as we retain more of the right customers, to enhance cross-sell opportunities and also to lower acquisition costs across the whole business. And the results of that will be that we grow our already predominantly broked profits in a more risk-free and less capital intensive manner, that will lead to an increasingly high quality earnings stream.

Now, let's have a quick look at last year's results before Jonathan takes you through those in more detail. In summary, another very strong year. We achieved our goal of increasing earnings from the retail insurance broking and travel businesses. As we guided, profits from our underwriting division have begun to reduce due to smaller reserve releases and also to more of our business going to third-party underwriters on the panel. Our finance costs have reduced due to our rapid deleveraging. We're now, as I said, within our medium-term net debt to EBITDA ratio of 1.5 times to 2 times. And all of fact means that we have delivered our stated target of growing group PBT by over 5%.

Let's zoom in a little bit on each business, first the motor insurance. As you know, that is our single biggest line and the majority of our insurance earnings are originating now in the retail broker where we have no capital risk. That business has performed extremely well over the last year, growing PBT by nearly 60% due to increased operational efficiencies, the benefit of the motor panel and further pricing optimization.

Again, as expected, the underwriting revenues decreased due to external underwriters taking more of the high-risk, higher premium policies via the panel. Our underwriter AICL retains a real competitive advantage and a high market share on our panel of old, lower-risk drivers and it has a consistent record of generating earnings for the group which is also useful for us in a rising rate environment because it means that we have access to a very well priced in-house underwriter.

The implementation of the quota share that we put in place from 1st of February 2016 with new REIT, just to remind you, cover 75% of the downside risk of all motor policies from that date. And that has decreased our capital requirement. I do believe that underwriting will continue to provide a solid contribution to our earnings in the future.

Let's look at home broking. The UK home insurance market continues to be highly competitive. There's no evidence at the moment to premium inflation. But despite those difficult trading conditions, we've been able to, indeed, we we've chosen to maintain our policy volumes with a small reduction in profit. The home panel enables us to access very competitive cost of risk with no capital requirements.

And within other insurance, that is medical insurance and travel insurance, we registered another robust performance. We have clearly differentiated products in this space and they continue to appeal to our customers.

Let's turn now to travel. Travel had another excellent year, the business has continued along it's trajectory of profitable growth. It is on track to beat the target that we publically set of doubling EBITDA to £40 million in five years. We delivered excellent growth in profits within our tour operating businesses, and we continue to see a shift in the mix of sales towards long-haul higher value products. Our customers are looking beyond some of the traditional holiday destinations. They clearly value the security that Saga brings to them and in products, such as river cruising and our guided holidays offer, they're highly differentiated and they're highly tailored for the needs of our target demographic.

Meanwhile, cruising remains essential to the Saga brand and to the customer offering. And our two cruise ships, the Sapphire and the Pearl had another good year with exceptionally high customer satisfaction levels. We are of course very excited about the prospects for our new ship, which we are naming the Spirit of Discovery. This project is on track and the first itineraries of Spirit of Discovery will go on sale this summer.

Let's now look at our smaller emerging businesses. We're continuing to learn our way into three new categories, money, health and retirement villages. Saga money is made up of a variety of different products, credit cards, equity release, savings, loans, wealth management. The team are working on some exciting new products for test during 2017, based on our clear understanding of what our customers want.

On the Saga healthcare, we have a number of brands operating in the homecare sector, where we look after people in their own homes. And during 2017, we're going to be cautiously expanding the area covered and the number of Saga customers that we serve in that sector.

We've also been examining the potential of the retirement village sector since 2015, we've been working closely with Wadswick Green in Wiltshire. And what we've been doing is helping them to meet Saga customers in the right area and with the right profile and explain the benefits of dedicated retirement village living to those customers. That relationship has been mutually successful and we're now considering expanding more deeply into the category.

Now all of the above three initiatives form a very small part of the Saga business, but they all present interesting opportunities for us in the medium to long-term, and they do have the capacity to contribute materially for us in the future.

So, let's talk about the future. When we look at the investments that Saga is making, they are all heavily affected via deep focus on the customer. Yes, we're building a new cruise ship because the old one needs replacing. But we can also now build ships specifically designed for Saga customers, for the first time ever based on our 20 years of experience in the sector and our recent greater understanding of customer needs and behaviors. Robin will tell you a lot more about that shortly.

The Adobe Marketing Toolkit (00:13:30) gives us far more granular understanding of customer behaviors than we've ever had before. It means we can build tailored marketing behaviors, tailored marketing messages, and develop really specific journeys for every customer.

Yes, we're replacing our 20-year told insurance platform with the new one, but not just because it's old. We're replacing it because the new one will allow for dramatic improvements in designing and launching products for our customers. We now know what Saga customers want better than we've ever done before, and we will be able to differentiate more because of the new platform.

It's just worth pointing out that all these projects and indeed others have been several years in the making, ranging from one years to three years, they're all starting to come to life now, and in the coming year or two, you will see these projects kickoff and arrive in the market, and that gives me increasing confidence in our ability to continue to grow.

So, I'm now going to hand you over to Jonathan, who'll talk you through the numbers in more detail.

Jonathan Stanley Hill {BIO 16892113 <GO>}

All right. Thanks, Lance and good morning, everybody. Just wait for that one to come up. I'm pleased to be presenting another robust set of results. I think these numbers really speak for themselves this morning. Before we go into the detail, I think it's worth reflecting on what we've actually achieved over the last two years.

We as a management team have delivered significant change in Saga. We've had a rage of challenges thrown at us, which we have taken head on and have shown huge determination in delivering a consistent financial performance, and I do believe that we have set a very solid platform for the next phase of our development, and I do have real confidence in the ability of this team to deliver going forward.

As Lance has covered in his introduction, this is our third year of consistent financial performance growing profits, delivering strong cash flow, and then paying an increasing dividend all the time, while deleveraging. 2016/2017, our reported profit before tax was up by 9.7% to £193 million, and excluding derivative gains and a £4 million profit impact from the infamous Ogden. The profit before tax is 5.6% higher the £187 million. We've delivered a strong increase in available free cash flow enabling us to de-lever significantly during the year to 1.9 times from 2.3 times. And as Lance said, we're now within the range to be set for the medium-term leverage of 1.5 times to 2 times.

Our net debt has reduced by £83 million to £465 million from £548 million. And based on these numbers and our confidence in the future, we have proposed a final dividend of £0.058. When this is combined with our interim dividend, the full-year dividend is £0.085, 18% higher than a year before, and this equates to a payout ratio of 62% of net earnings compared to 57% in the prior year.

It's worth reflecting it over the last three years, we have increased our dividend from £0.041 to £0.072 and finally to £0.085, and we have moved progressively up within our guided payout range of 50% to 70%. Within the group P&L, revenue is decreased by 9.5% to £871 million as a consequence of the actions that we have taken. The quota share arrangement put in place from the February 1, 2016, requires us to derecognize part of the underwriting revenue, which I will cover in more detail later. We have included what we feel is a better measure of top line growth for you to judge this by (00:17:40), which is the value of sales to Saga customers, which has grown by 4.8% to nearly £1.2 billion.

Profit before tax of £193 million benefited from the strong growth in the core businesses, the lower finance charge, offset by lower reserved releases and investment in future growth. It also included the points made earlier around derivatives and Ogden.

Profit after taxes are 11.4% higher at £157 million with the prior year incurring a £7 million loss on discontinued operations. The effective tax for 2016/2017 was 18.6% compared to 15.9% in the year before. 2016/2017 benefited from about £3 million of historic group relief and the prior year benefited from the £7 million benefit from Acromas tax losses. But going forward, you should expect our tax rate to be much more aligned to the underlying corporate tax rates. Basic earnings per share from continuing operations were £0.141, 6% ahead of the prior year.

So, we have changed the reporting for our insurance businesses to split our retail broking from underwriting. We believe this is easier to understand, provides greater clarity on how we make money within our insurance business and better reflects the way that we actually run the business. This also reflects on feedback that we have received from both analysts and investors on how we might improve our disclosure.

In aggregate, the quality of our profit is improving with retail broking having delivered profit growth of 9% and our travel businesses having grown by 10%. This is a significant step-up year-on-year, and I would like to underline the significance of this slide. Not only does it show that we're improving that quality of earnings, generating more profits from areas of the business where we do not allocate capital, but it also demonstrates the resilience and diversity of our group. While some parts of the business have been under more competitive pressure, other areas have delivered strong improvements.

So, in this slide, we look at the comparable profit from each of our retail broking profits, where we have no capital at risk. Revenue on the right-hand side from all of our broking products grew by 14% to £289 million and we increased profits by 9% to £138 million. Across each of our products, we have actively managed the balance between volume and profit through the year to deliver an overall strong result.

Starting with motor retail broking, we've delivered a major uplift in profitability in a competitive market with the profit per core policy increasing by 44% to £33. This reflects the benefit of a number of initiatives that have been implemented across 2015 and 2016. Firstly, we introduced the motor panel in the summer of 2015 and that led to a £3 million increment in profit in the year with around 30% of net premiums on renewals being placed with third-party underwriters by the end of the year. Drivers underwritten by third-party underwriters have a higher risk profile than those underwritten in-house. As a consequence, these policies have significantly higher growth written premiums, generating additional net revenue and profit per policy.

The written to earned benefit associated with the growth in the motor panel also contributed an additional £4 million of profit. Improved yield management and operational efficiencies within Roger's business have also contributed growth of £4 million with a modest increase in Saga core motor policies being achieved with lower levels of discounting.

The full year impact of Bennetts which was acquired on the July 1, 2015 contributed a further £2 million of incremental profit and £4 million of additional benefit was generated by the introduction of the arrangement fee from November 2015.

Moving on to the home market. Home insurance market again is being tough with limited premium inflation in the market and with modest claims inflation, increasing net rates. With these market conditions which shows to maintain year-on-year policy volumes at a roughly similar level, leading to consistent revenues of £90 million. Profit reduced marginally to £61 million from £63 million in the previous year.

In other insurance broking, private medical and travel broking delivered higher revenues and this was offset by the discontinuation of legal services at the end of 2015. Profits were lower and this resulted from travel insurance which was more difficult in terms of trading towards the end of the year with slightly weaker demand and also being affected by sterling's depreciation impacting on net rates.

So, these numbers represent our underwriting business eco (23:24) only. In any one year, our underwriter targets on the current underwriting year, a 3% return on net premiums, plus an investment return on the equity capital within that business. To the extent that we can deliver consistent performance metrics, our in-year profits from this business should remain relatively constant over time.

During 2016/2017, the operating metrics delivered by our underwriter demonstrate the high-quality nature of the underwriting. Underlying revenues decreased by 10% as we expected with the motor panel leading to a reduction in the number of policies written by our underwriter. The pure combined operating ratio and the reported combined operating ratio have remained robust. Profit has reduced to £77 million as a result of reserve releases being £5 million lower year-on-year, and including the first year of the cost of the quota share arrangement that we put in place. Excluding reserve releases, our underwriter made a profit of £14 million compared to £16 million on the prior year. The group continues to see stable claims frequency.

As we have previously stated, we believe that this results from the characteristics of our current customer base with the majority of our customers being retired, therefore lessening that impact of movement in fuel costs and the impact of economic and employment growth. Claims severity during the year has continued to inflate as expected at a mid single-digit level. We are seeing the impacts of Ogden discount rate decision on net rates, both within our own underwriter and from third-party underwriters. The effects on gross written premiums are yet to be fully visible, but unfortunately, we do expect that the market will pass this through to customers.

Very quickly just touching on the quota share, which we put in place on the February 1, 2016. This has significantly reduced the downside risk and the potential downside volatility within our underwriting business; and as we will discuss later, has provided the initial benefit on cash flow with lower solvency capital required to be held on our underwriter.

This slide shows the accounting impact of quota share on the underwriter. Revenues were adjusted by £111 million to reported level of £112 million and the net overall cost of quota share was £1.6 million.

So, how should you think about our insurance business going forward? In our retail broking businesses, we are targeting growth in profit per policy from a range of areas. We will continue to benefit from better net rates from the panel as the competitive tension continues to increase.

Year-after-year, we have driven efficiencies in our operational and marketing performance, which we will continue to deliver. And the evolution of our customer understanding and Project Connect, which will be discussed in more detail later this morning. You should expect improved marketing efficiencies leading to improved persistency and improved acquisition spend. Overall, we will continue to manage the balance between volume and value to be able to deliver a consistent result.

From a systems perspective, we expect the new claims platform, which will go live later this year, not only to improve the customer experience, but also to drive efficiencies in our claims handling costs. Further out, we see significant benefits arising from our new insurance broking platform, not only from a cost perspective, but also providing more flexibility around proposition development. Clearly, offsetting these benefits, reserve releases will reduce gradually over time going forward. Overall, we expect that retail broking profits will increase and more than offset the reduction in those reserve releases. This will help to improve the quality of our earnings into the future.

On the Solvency II, the group's solvency capital requirement as of the 31st of January, 2017, have reduced to £103 million from £129 million a year earlier. This is benefited from our continued excellent claims experience and with the initial impact of quota share. We started 2016/2017 with £220 million of available capital within the underwriter and this was reduced by the year-end to £147 million. Over the same period, our solvency capital ratios reduced from 170% to a robust and sustainable level of 143%.

We paid a significant dividend from our underwriter of £115 million during 2016/2017 from the combination of profits recognized during the year and the reduction in our solvency requirement. This has been a key contributor to the material reduction in the group's leverage. The quote share will continue to deliver incremental capital reductions over the next few years. We have assessed the sensitivity of SCR to various potential changes and we believe that our solvency position is robust.

So, moving on to travel. We've had another solid year of trading and travel delivering a 10% increase in profit. Total revenue grew by 2%, and was composed of 4% growth in the tour operating business and a reduction in cruise revenue from the impact of the wet dock, which probably costs around £9 million in the year.

Tour operating profits increased by 32%, due to continued increases in higher value, higher margin, long-haul and third-party cruise products. From the first benefits of the efficiency program, improving our margins and also benefiting from the fact that we sold the loss-making Bel Jou Hotel in the previous year.

As communicated previously, the wet dock for Sapphire reduced year-on-year profitability by around £5 million. And by a mixture of improved yield management and excellent management of ship running costs, the year-on-year profit reduction was only £1 million. You should not expect a full recovery in cruise profits this year given that we have two dry docks this year, one for each ship for a combined 41 days and also we will be starting to market the Spirit of Discovery as part of part-way through the year.

We have a history of consistently good cash flow generation. For 2016/2017, the cash flow performance was particularly strong with the group achieving an available operating cash flow of £218 million, 88% of trading EBITDA, up from 75% last year. The increase of £40 million on the previous period was driven by materially higher dividend as I touched on earlier from our underwriter. You should expect us to revert to a more normalized level of cash flow generation going forward closer to the 70% level of trading EBITDA.

As I said earlier, our net debt is reduced significantly to £465 million from £458 million and we have moved within that targeted medium-term range, and we remain on track to reach the lower end of that range by the time of the delivery of the first ship in mid-2019. So, as I laid out earlier, we expect to deliver increasing profits in our retail broking business, current trading and our current plans support this. Our current trading and travel is supportive of a significant uplift in the profit this year with revenue booked for 2017/2018 departures, 8% ahead of the prior year as at the 17th of March.

Our finance charge is expected to be lower than last year with lower average net debt. These improvements were clearly partly be offset by the lower reserve releases which we expect this year and investment in future growth opportunities, particularly around the membership area. On leverage, we will continue to reduce our debt ratio, but not at the same rate as we achieved during 2016/2017 as explained. And we are confident that we can deliver solid sustainable profit growth going forward in line with the solid growth rate.

We have strong foundations and the proven track record in Saga. We have a shared ambition as a management team to take Saga forward, and through Project Connect, we strongly believe that we have a huge opportunity. This gives us all confidence that we can continue to deliver a consistent financial performance going forward.

I'll hand back to Lance.

Lance Henry Batchelor {BIO 6884486 <GO>}

Thanks, Jonathan. Okay, let's move on now to the real meet of the day, which is Project Connect, the growth in our customer insight, the importance of high affinity customers and the launch of our new membership scheme. We've really been looking forward to sharing this with us, because we were very excited about it. Now you've already heard this morning that Saga has just delivered a third successive year of strong and consistent results. We're now going to show you why we're feeling very positive about Saga's future prospects. After three years of driving a clear strategy, Saga is actually evolving quite fast now. We're evolving the business model to reflect the changing nature of our customers, more digital, more demanding, and more exciting – excited about what the world can offer.

In short, we're leveraging our deep customer insight and our differentiated customer propositions to deliver better outcomes for our customers and of course that should mean better outcomes for our shareholders. We're doing something new, something exciting and something different. Project Connect is an analysis program that we've run over the past 18 months or so while we have dug deeper into our historic data than we have ever done before. We're helped by new skills within the team. We're helped by new marketing analytical tools that are available and also by few external experts as well.

We spent more time listening to our customers in the last year or so than we've done for many years before and we've learnt a huge amount about who our high affinity customers actually are, where they came from, what they buy, when they buy it and why, of course, we should cherish them even more. The high affinity customers or HACs as we call them are the customers that deliver the greatest lifetime value to Saga. And if we can encourage them to and spend more with us, to get more benefit from us, then we will unlock a rich new scene of earnings potential.

Now, let's be quite clear. This cutting-edge marketing and is coupled to real business issues. The outcomes of Project Connect are already very visible in our business, in our products and services, in our marketing activities and in our results. We're hard wiring Project Connect and this way of doing things into every aspect of the Saga business.

Matt is going to give you an overview of how we have run the project in order to gather the enhanced insight. Roger, Jeannette and Robin are going to explain how Project Connect is becoming a game changer within their own businesses, they're going to talk you through what we've done to improve the customer proposition, smarter acquisition activities, more effective cross sell, smarter ways of thinking about improving retention, creating new ways of improving product holdings and really above all thanking our customers. It's becoming part of the DNA here at Saga.

The launch of membership that Matt also going to talk you through is a major step change for us. We're doing it, because that's how customers already think of themselves, is what they want. All customers are going to become members, but as you might expect the HACs are going to enjoy greater benefits. They're going to – we're going to find ways to encourage their loyalty and hopefully incentivize them to want to spend more time and money with Saga, that will deliver more lifetime value.

I'm going to hand you over now to Matt, our CMO. He is going to present the project to you and its impact on the business. Matt's very passionate about this project. He and his team have been helping us to drive real operational changes at Saga. I know you're going to enjoy his presentation.

Matthew Atkinson {BIO 21848472 <GO>}

Good morning, everybody. So, this is an exciting moment, because in this next section, we're going to bring to life for you the work that we've been doing over the last 18 months that gives you a real sense of the change that's happening in Saga to deliver the results that you've seen this morning, but also it opens up new possibilities for us to do new and different things to improve the customer office at offer and generate an improved return for our shareholders.

So, the first thing that we've done over the last year is to build a very different view of our customer base. One of the things that Saga has historically done brilliantly well is driven business results in its independent businesses. A very effective insurance model, a very effective cruise model, a very effective holidays model and so on and so on.

What we did is to start to fuse together some insights and data that really looks our customers at a behavioral level, a segmentation level and then the customer value level by fusing all of our customers together into individual segments and cohorts. What emerged from this work and this is looking at the 2.1 million product holders we have. We started to find a very unique signature, a group of high affinity customers, who have a much more intimate and a much more dynamic and a much greater product relationship with Saga.

Those customers typically buy premium products, they buy our cruise products, they buy (00:38:51) products, they hold our insurance products for longer, home and motor and travel. And so what has been really interesting about this work is it starts to affect the very activities that we deploy as a marketing and operations organization. So let me give you a better sense of that work.

So what you're looking here is a pyramid of those 2.1 million customers divided into two segments, a lower base and upper base. The upper base represents those high affinity customers that we've mentioned and Lance talked about earlier. What's really interesting about these customers is that compared to the rest of the 2.1 million – maybe a bit of a sneak preview here of the slides, there's 0.5 million of them, and they have very specific characteristics. They buy a better version of what we sell; they buy more of it, so they hold more products on average than the base. In addition to that, they stay longer and have an average and future life-time value that's much greater than the rest.

Now, that, in its own right is probably not necessarily a significant thing, apart from when you begin to understand what is the rest of the base look like relative to that insight. So the first thing that we've done is we've started to use that insight very specifically now to build an active profile of these customers that's being used to drive some of the activities that you'll see later on from Roger, Jeannette and Robin to improve the results and outcomes that we're getting from our marketing activity.

And this is very difficult to see on a slide, but what effectively is, is a real-time dashboard and data insight tool that we're using to create very individual profiles of our customers and these individual profiles start to unlock value for us that we were already deploying in the business. So for example, we can understand how a customer arrived in our business and what was the next product they took. We can begin to understand what channel they engaged with us in. We can begin to understand and use this insight to work out how to present new products to them. What is a more effective proposition, what channel, what area, what activity can we deploy to increase the efficiency of our overall marketing activity, and you'll see some pretty good examples of this in a short while.

Now, what's really interesting about this work is when you begin to understand the overall Saga model, and how this work can begin to influence and drive overall value from the activities that we execute in the business. So what you're seeing here is a picture of that overall base and the first thing and most significantly perhaps is that we found another group of these customers in the base, another group of lookalike high-affinity customers, significant group, in excess of 400,000, and the thing to recognize here is that Saga has historically not differentiated on a customer value basis its acquisition, cross-sell and retention activity. So the first thing to realize is that this work then starts to enable us as Roger will show to target our acquisition activity in a much more laser-like way to attract those customers that represent current and future value into the business. So it makes a really big difference to how we're able to deploy our acquisition spend.

The other significant point is that today and historically, we have spent almost all of our money at the base of the pyramid on an average basis. So what this also means we've been able to do in the last year is start to remove inefficient activity. So last year, we took about £8 million out of our direct marketing activity and that means that we're sending out less direct marketing, but producing the same level of outcomes and that means we can redeploy that money into more cost effective activities that are more personal, more relevant and more targeted.

The other thing that we're, therefore, also able to start to do as we will bring to life later is to focus on those cross-sell journeys with those customers that represent the highest potential future value and that's why you'll see our product holding increasing in the last year, because we're able to start deploy this science in a real time basis into journeys online and into journeys in the contact center to target propositions in a much more effective way.

But perhaps the most significant thing is that at the top of the pyramid we lose some value, we lose some value every year and we lose some value over a three-year basis. And so the conclusion, therefore, is that as a business we don't have a proposition that rewards the behavior we seek. In effect, we don't have mechanics to protect that value loss that we can see as a result of this work and we don't have a full suite mechanics that enable us to move people from single product to double products and so on and so on. And now that we've identified these customers, there is clearly a very significant opportunity for us to do something new and different to encourage and reward and ensure that that pyramid is in good health.

So that leads me on to membership. This is a game changer for Saga, because this is a fundamental change in the way that we interact with our customers. This is about turning 2.1 million customers into members and the notion of membership in its own right is a powerful concept. It is about an organization serving its members to reward them and encourage them to get to things that they won't have to apply (44:56) and to use our products and services as an enabler to do that.

Membership for us is about three simple things. And again, you have to remember that we're pretty unique in being able to do this, because we're business that's made up of several verticals. We're not just an insurance company. We are a holiday company. We are a cruise company and so on, and that enables us to thank customers in a much, much wider sense.

So, the first thing is I want to say thank you. Saying thank you is a powerful cocktail to a group of customers who over time very clearly have a strong commitment and relationship to Saga. We want to reward them for their loyalty. We want to encourage them to hold more of the Saga world, to say thank you for that, and as a result of that for them to get benefit that they can enjoy that they very clearly have told us that they want.

And then, finally, as a result of that cocktail, it encourages them to shop more from the shop, to do more of the things that we have to sell. Now, all of this work has been based on a very sound set of customer understanding. It's been based on a really deep and immersive program of really trying to design a proposition that meets the needs of our customer base.

What our customers tell us, as Lance said earlier on is that they already feel like they are members. They are at a point in their life where they are in transition from a full-time world of work to a part time or semi-part time world of work. And in that world, they're looking for new opportunities to do new things to explore the world, to think about how they invest their money, to think about how they go back to education and learn. It's a very exciting time for our customers and we have a significant opportunity to do something very dramatic to step into that world that builds a much stronger emotional and rational connection between us and our customer base. And that's why we're so excited about it. We are excited about it because the economics work, but also there is a pull from our customers and in every research group where we've put this proposition, there is an enormous engagement for our customers for what we are about to launch later on.

So, what is it? It's called Saga Possibilities. Saga Possibilities is fundamentally about enabling us to say thank you and to open up a world of possibilities for our customers. How does it work? Possibilities is really about enabling our customers to get access to a series of pots of value. So, one level possibilities will enable our customers to enjoy rich, immersive experience whether that's entertainment, dining, wine or just going back to learn something that they really wanted to learn, whether that's photography or dancing or painting. It's an opportunity for us to do and build on the work we've already started with some of the magazine, which I talked about when I was last with you.

We now have a digital asset, which has over a million unique sessions a moment, and what we are planning to do is to enable that as an opportunity for our customers to provide knowledge and access to expertise and experiences. But what it'll then also allows us to do is to give our customers a better version of the next product from Saga. So, what we're going to be doing is we're going to be rewarding our customers for incremental behavior, additional behavior and our customers will get a better product and a better service as a result of being members.

And then finally, it will no surprise we're in conversations with a number of very large leading brands across specific sectors of entertainment, technology, music. All of these brands have really engaged in the possibility of working with Saga, an iconic brand, serving the over 50s to do something really powerful and interesting. And this cocktail effectively enables us not just to say thank you, but to deliver against that economic benefit that I showed you in the earlier pyramid side.

And from a customer perspective how this works, is effectively the more you have, and the long you have it, the better you will get of those overall benefits. So, this is a very exciting time for us, as we begin to launch this new proposition into the market, but also to demonstrate how this work is already improving what we're doing today. Because fundamentally what it's enable us to do is to start to think about our acquisition activity and to concentrate on attracting those high-affinity customers that represent most value, and Roger will talk about exactly how he's been able to do that. What it also enables us to do, is develop new propositions and to fine tune our propositions, because we're designing it for very specific groups of customers with a very specific profile. What this (00:50:04) activity also enables us to do is to improve our retention numbers by developing new propositions and membership overall, and then finally what it's enabling us to do is to target the right group of customers to improve our overall cross-sell.

But in essence what it's about, is it's about new and different Saga for our customers and improving shareholder returns as a result of that cocktail of how we spend our money and efficiency. So, what you're going to see now is how this work is coming to life in the business and improving the outcomes and delivering the results that you're already seeing.

And I'm going to hand over to Roger, he's going to give you a sense of how this is working today in insurance business. Roger?

Roger Ramsden {BIO 18034967 <GO>}

Thanks very much, Matt. Thank you. Hello, everyone. Good morning, everybody. Over the next few moments, I'd like to just draw out some of the ways in which Project Connect is really helping me to develop the insurance broker business now and also what gives me great confidence for the future. And as Matt says, as we step through how we think about propositions, what we're doing in terms of acquisition, retention and cross-sell.

I want to start with acquisition. As you all know I think, insurance business is a key part of when which we acquire customers into the Saga Group. And what we can see already is that we are doing a very good job of drawing customers into the business who have the characteristics of those high affinity customers. So on the left-hand side of the chart here, you can see that 70%, sorry 60% of our customers have the characteristics of high affinity customers that we brought into the business last year. So, a very strong component of our new business is coming directly from those customers.

On the right-hand side, when we cast back three years and look at the customers who came into the business in 2014, and those who have the characteristics of high affinity customers, you can see that their value has grown in the last three years by 11 percentage points compared to 6 percentage points from the non high affinity customers. So those customers, the more that we draw in (00:52:05), we can already see they create more value for us. And with the targeting capability that the Project Connect (00:52:12) gives us, we have the capacity to focus even more intensively on attracting those types of customers with these characteristics into our business.

Cross-sell, on the left-hand side, you can see the significant acceleration that we achieved in the last three years in terms of the numbers of customers in year who go on to acquire both home and motor insurance from us in that year. 70,000 of them in 2015 moving through to almost 90,000 in the last financial year.

On the right-hand side, we can see that customers who own both home and motor insurance with us have very attractive characteristics. Nearly 70% of them are in the high affinity customer's space. Interestingly, they also go on to have acquired from us significantly more additional products; 1.22 additional products on average, compared with those customers, even though they hold motor and home insurance with us, but they'll not have the characteristics of high affinity customers are only taking 0.87 additional products from us. So, again, using that acquisition capability, using that insight, to focus our cross selling activity, completely create current and future value from these high affinity customer groupings.

The motor panel. This has been the very important task of demonstrating the flexibility of our supply model as the insurance retail broker. Also it has been very significant in helping us to target and acquire customers with the characteristics of high affinity customers. What the chart shows you on the vertical axis, is the proportion of customers drawn from in blue AICL, and in red, the other non in-house insurers on the panel, along the horizontal axis, you can see the vehicle value that has been underwritten by AICL, as the same blue and the other panel members in red.

And you can see that AICL is extremely good, as we've consistently described of underwriting vehicles, which typically tend to be of lower value, associated with lower mileage of the customers. What's very interesting is the way in which the panel has helped me to attract customers with somewhat higher vehicle values, and also, very importantly, those customers have very similar characteristics to those of our high affinity customer groupings that we are targeting. So panel, flexibility of our supply model is allowing us to present the right propositions to the customers that we seek to attract.

Our CPAs, cost per policy acquired have also been falling in the last four years. You can see the cost per average policy, that dropped from just under £35 to £30 in this period. This is a function of improved target and capability that we're already seeing, arising from work out to connect, as well as things like the movement to digital channels and the like. And I'm very confident with the insight that we're continuing to draw from the Connect Work (00:55:09), our ability to target right customers, draw them into the business with the right propositions. Those costs will continue to fall.

So, reflecting on what is now almost eight years of leading the retail broker business, I don't think I've ever be more confident about our ability to add further value through the acquisition of the right customers, the development of the right proposition, the ability to retain those customers, as well as to cross-sell them, as a result of the work that we can see flowing from our insight Project Connect and the membership structures that we can see now before us.

Now, I'd like to handover to Jeannette, who will talk about the tour operations business.

Jeannette Linfoot {BIO 20138529 <GO>}

Thank you, Roger. Good morning, everyone and it's great to be here. And what I would like to do over the next few minutes or so is take you through some of the really exciting things that are happening within our travel businesses.

I joined Saga around about – over a year ago actually, and I'm really excited about the portfolio of businesses that I lead, which includes Saga Holidays, Titan, Destinology, and our VIP transport division.

So what I would like to do really is give you an idea around how Project Connect and focusing on our high affinity customers is really making a difference to our business, not only in terms of what we offer our customers, but also what that means in terms of results.

So, what you can see from this slide here, I'm just going to focus on Saga Holidays for now. So, what do high affinity customers look like? Well, we have 85,000 of them, got accounts around about (00:56:57) 70% of this customers that travel with us every year under the Saga Holidays brand, and what you can see is that they actually spend a higher average revenue per holiday per customer than the overall. So, that's £1,900 compared to £1,500.

So having identified this group of really critical customers, what we wanted to do was to absolutely get under the skin of those customers. We wanted to find out how do they think, how do they feel, and really importantly what motivates them to travel. So, we took a very scientific approach, and we ran a whole host of quantitative and qualitative research last year throughout the course of 2016.

Really interesting was a number of focus groups that we ran across the whole of the UK, and that was to both our existing customers, but also customers that are not yet travelling with us. And what came out of that research was some really interesting findings, of course, there were some things that came up, which we already knew, and just reaffirmed our knowledge. But equally, what those customers were telling us was that they have an absolute desire to travel extensively and to travel further afield. And very often to very far-flung destinations.

Having this real sense of adventure came out through the focus groups, and importantly, wanting to have a really authentic travel experience to absolutely get under the skin of a destination, learn a language and meet the locals and flexibility was also key. I want a holiday on my terms, but actually what I want from Saga is for you to take the hassle away, make it easy for me. So from that insight, it really allowed us to shape our proposition. So, what you can see here is in December last year, we launched a new range of holiday experiences. The first one category that I'll talk about is Go For It. Now, in this category, we're talking about jaw-dropping adventure. And from the research, this is Book it List (59:20) kind of stuff. So, to bring this to life for you a little bit, imagine a holiday code in the footsteps of giants taking a really adventurous safari across Zimbabwe.

Now, our customers, they'll see the Victoria Falls, they'll go on the safari, but also, they will be able to explore on foot and go tracking elephants and buffaloes, as well as canoeing down the Zambezi. So, those are the kind of holidays that you'll find in the Go For It segment.

The second segment is Discover. So again, this is a fantastic range of touring holidays. And remember from the research, the customers told us, they wanted to travel further afield, and you will certainly get that from this collection of holidays. Just to give you again an example to bring this to life, within this collection, we have holidays which would track across Kazakhstan, and actually follow the ancient Phil Crews (01:00:20). So, some really, really interesting holidays in the Discover segment.

The third segment, we call it Stay and Explore; and again, that authentic local experience that our customers are looking for. So, whether this is dining at the local tavern, whether it's taking a painting class or whether it's learning a language, you could be walking through the couple of streets of Montenegro or equally, taking a holiday in a boutique hotel on the shores of Lake Garda. So, some really, really interesting holidays in that segment.

The fourth segment that we also launched was called Unwind. So, for our customers that want to have a stay put holiday in fantastic hotels, with great facilities and lots of activities going on, whether that'd be in the Caribbean, be in the (01:01:11) or some taking a spot of luxury in Thailand, you can find it in this segment. So, I'm sure I can see you are looking very excited about this inspiring range of holidays. Anyone that's interested in booking, come and see me afterwards. I'll take all forms of credit cards. But now, I mean, on a serious note, some really, really fascinating holidays that we created on the back of that really in-depth customer insight. So, we were keen to find out how all of this have landed with our customers and not only from the product concepts, but also the marketing that we used. So, we did some research that actually showed us compared to our competitor set how we were doing. What that showed was a real step change in not only the way the people consider Saga, but also what they think of us as a travel brand.

So, on a five-point scale, 56% of people scored us in the top two quadrants in terms of saying that they felt Saga was changing for the better, 45% that is not the kind of advertising they expected from Saga, and 54% like the style of advertising. And you can see there is some great quotes from customers, not only our current customers who want that sense of adventure, but also that we're appealing to a new set of customers, new high affinity customers that would never have considered Saga before.

So, what does all this mean in terms of our financial performance or what you can see here is on the end – on this chart, on the right hand side, this shows the proportion of first-time buyers that now consider Saga when they're booking a holiday with us.

So, back in 2014/2015, 24% were actually first-time buyers. That has increased to 28% in 2016. So again, really appealing to those customers that have never considered us before. And through Project Connect, we've become much more targeted with our marketing and similar to what Roger showed you, that means that cost of acquisition have come down quite significantly from £108 to £95.

And importantly, what does all of this means in profitability? Well, as Jonathan referred to earlier, we've had a significant improvement in our financial performance from a PBT perspective. The numbers here that you can see show the combined results for the tour operating businesses, so Sags Holidays, Titan and Destinology, but you can see an impressive more than doubling the profitability from £5.6 million to £11.5 million.

And looking forward, our booking position is very strong. So, for our revenue that is booked for 2017/2018 departures, that is tracking at plus 8% year-on-year. And once we are already on sale with departures in 2018/2019, it's very early, but we are seeing double-digit growth already, which is fantastic. And we've got this really strong pipeline of innovation continuing to learn from those high affinity customers. So, in Q2 and Q3 of this year, we'll be launching another 72 new holiday experiences.

So, when we look at cross-sell opportunity, combined with membership, this is a great opportunity for us to really cross-sell, now in particular between travel insurance and travel. So, we have 326,000 customers that buy travel insurance from us every year. Only 7,000 of those are actually buying a holiday or a cruise from us. So clearly, that is a massive opportunity. And what we wanted to do, again, using Project Connect to understand those customers. 87% of them were happy to share with us the type of holiday they wanted. And amazingly, 31% of people had booked travel insurance with us, but have not yet booked a holiday. So clearly, this is a real opportunity for us to leverage cross-sell with membership going forward.

So, what does all of that mean for the businesses that I lead? Well, we have a great portfolio of businesses already with really strong and loyal customer base, which is a fantastic place to start. We've a track record of delivering results and you can see that from the financial numbers that we've shown you. Through Project Connect, we have this really deep understanding of our high-affinity customers and we've been able to really reshape our proposition. Cross-sell, again, a really important and large opportunity for us. So through all of that, I feel incredibly excited about the future.

So with that, I will now handover to Robin. He will take you through cruising.

Robin Shaw {BIO 20138547 <GO>}

Jeannette, thank you very much. As always, a very difficult act for me to follow. Good morning, everybody. I'm going to talk to you about the cruise business for the next few minutes. I really want to draw out three key points. Firstly, again, to talk about how Project Connect, high-affinity customers is also now delivering real benefits to the cruise business.

Second, I want to talk about cruise insight of how we use that to really reframe and reposition our own cruise proposition. And thirdly then, to link then that has to actually our new ship, Spirit of Discovery.

So, this first chart here, there are some very hard tangible results where we've actually looked at high affinity customers who had already taken an existing cruise. And then, we – through recognition and reward of those, we've managed to significantly drive up conversions of those existing groups, i.e. increasing frequency and then also incremental revenue comes as a result of that. So the recognition pace which very much builds into membership and Project Connect really is working and these were people obviously that we were communicating with before.

The second chart here again looks at high affinity customers who traditionally have not cruised with us before. But on the left-hand side of that, again, a recognition of previous holiday buyers. So, typically, they will have spent three or more holidays. And by recognizing their loyalty, recognizing their business with us through the holidays business, we then target them specifically and again drive significant reductions in our first-time buyer cost from within that exiting segment.

And on the right-hand side, we've got also Saga Magazine subscribers, a huge potential, a rich vein of affinity customers for us, and we've targeted those in the same way. And again, the message is loud and clear, recognition and reward works and the ability to cross-sell through Project Connect is very significant for our cruise business, very encouraging.

Moving on now to the cruise proposition, in the top left there, we're very proud of the cruise operation we have currently, high value, excellent customer satisfaction, first-class service. And that's really kind of the existing proposition not in a bad place at all. Take a step back now some 15, 18 months and the business case for the new ship, was really predicated on that existing proposition plus the benefits of moving to a new ship, with new technology, benefits and operating costs, fuel, repairs and maintenance, and resilience, that was the business case.

Over the last 12 or 15 months, we just spent a huge amount of time gaining customer insight. And that customer insight is from three areas, our existing cruise customers, other people who go cruising, but with other cruise lines and then people who are potentially considering cruising. And the feedback is very much the same as Jeannette gave from land-based holidays and we've known this for a while, but the strength of feeling about people wanting to experience different things, more variety, more sense of adventure comes through loud and clear from all three cohorts that we've been researching.

We have to incorporate that into our future cruise proposition, and that was a message that comes out loud and clear. There are barriers still to cruise, people do think that what will I do on all these days at sea, is there enough time in pool and we need to do a job at Saga cruise of making sure we overcome those barriers. So, how are we going to do that? Overcoming barriers and perceptions, our product, our cruise operation will evolve over the next 12, 18, 24 months. We report the customer insight into practice with changing experience from bow of the ship.

A few examples of that, we've got a ship which will come on later, a new ship which will offer a huge variety of different dining experiences, entertainment experiences, but also still maintains that small ship feel that can go to destinations, the other cruise ships can't go, as a differentiation more overnight stays. We want to make the story for our customers as good ashore as on board. Traditionally, cruise companies do a great job on board, with the on board service, but when they go ashore that sometimes leave a little to be desired, and we're going to launch an explore ashore program, to ensure our guests have just the same experience in terms of personalization ashore as they do on board.

Amplifying our positives, personalization is in the DNA of Saga, we do nothing is too much trouble is absolutely at the heart of what we do, within the business and particularly on board our cruise ships. And we're looking at how we can enhance upon that. There are some things that we've done with the vessel which are very tangible. Customers have said time and time that we want that level of personalization, we want the fact that we've got panoramic kind of venues to 70 degree (01:12:44) for health and well being, we want the idea of a promenade deck where we can converse and talk. We've actually come up with the idea of a hundred small things on the ship design, which we're focusing on and these have come out of the continued research group that we have with our customers. And a few small examples, the height of the segs (01:13:04) in the cabins, would you believe that we had an in-depth discussion with customers about the types of hangers, cloth hangers in the cabins and we've made sure that you don't need to be a degree in computer science to work out the air-conditioning in the rooms. These are all small things that really work and the combination of those together will truly make this a ship that is very personal and thoughtful.

I have no doubt in this respect that come the launch of the Spirit of Discovery there will not be a better thought out ship in terms of design putting the customers right at the heart of that design. Forgive me, but we have put a couple of pictures in there, on the bottom left there is the latest design, the aft area of the eating area of the new vessel. And on the right there you've got the lower tier of our main dining room. We could have given you many more pictures, but I was only allowed these two. This chart here and this kind of amplifies again what we are able to do with the Spirit of Discovery. And there is kind of three kind of titles down the side here functionality choice, and I'll talk on those two first. There are some obvious things we can do. The fact this is going to be an all-balcony vessel is a huge benefit for us. It's almost a hygiene factor within the luxury market that we're now competing with this particular ship.

The fact that we offer more choice in terms of dining, in terms of entertainment, it's very evident, that still has to be done though in a way which is a Saga way, which is very personal, very thoughtful and that is what has made us successful to-date.

My favorite chart, why is this my favorite chart? Quite simply, these are the two things that will drive absolute success within the cruise business. On the top line there, we've got a situation where again I believe the ship that we end up designing which is now virtually complete will be unique within the UK cruise market.

It will be the only small ship built for the UK cruise market and I do not believe there will be any ship that have so much effort and time. We talked about internally about our relentless focus on the customer. One of our design partners has changed that word to obsessive. We are obsessive about making sure that we deliver the best possible ship for our customers and the future needs of customers and I'm absolutely convinced that will happen.

Ultimately, that will drive strong repeat rates, lower acquisition costs and overall strong demand, which is absolutely essential and that is the bedrock of what we need to achieve. Behind that and I spoke earlier about underpinning the investment case with a significant reduction in costs per passenger value. That's driven by the economics of a new ship with fuel costs, with low repairs and maintenance, with resilience, improvements, et cetera. That is a given those benefits are verified as I stand here today in terms of the design that we're at. So, we're very confident those will be achieved.

All-in-all those two factors which I feel extremely comfort about, means that our overall business case is very secure for our new ship, Spirit of Discovery. Thank you. Lance?

Lance Henry Batchelor {BIO 6884486 <GO>}

Thanks very much, Robin. So, you've now heard from Matt and from the team how excited we are about the learnings that we're getting from Project Connect and how that's having such a significant impact on our understanding of the Saga customer or member, as am I calling from now on, and also how the business operates has been changed.

We're going to be launching membership in the second half of this year, it's a fantastic platform for us to change how Saga engages with its members, rewarding them for their loyalty, was helping us to improve acquisition, cross-sell and retention metrics.

And finally, we have delivered another great year financially with underlying profits up 5.6%. With so much going on at Saga, it's important that we communicate with you clearly how we think that success should be measured moving forward. Our aim, as you know, is to deliver consistent sustainable profit growth, everything you heard today demonstrates that we're even more confident than we can continue to deliver that consistency of profit growth. The profitability of our core broking business will move forward with the benefits from the motor panel, operational improvements and the learnings that we glean from Project Connect.

Net debt is now down within our guided medium term range and our dividend policy will continue to be progressive. We're excited about the future of our travel business. We're very close as I said earlier to achieving our – one year early our previous target of doubling the EBITDA of that business over a five-year period. With the new customer propositions coming in that Jeannette talked to us about and the new cruise ships coming in, I'm very confident that we can continue to grow our travel division, and in fact, we're setting a new target publicly today of growing the profitability of our combined travel/cruise division by between four and five times over the next five years. So there is a significant uptick in our growth ambition for the coming years.

With the launch of membership and the focus on high-affinity customers, we're introducing another target which is to grow the number of products held by HACs by 20% over the next five years. So you'll see growth in the number of HACs, you'll see growth in the number of products that they hold and the combination of thereof we're targeting growth of at least 20% over the next five years.

I'm very confident that these metrics will allow you to measure our progress over the coming years, and coupled with some of the changes that Jonathan outlined earlier on in breaking out broking versus underwriting, we hope that everything you've heard today gives you a real understanding of how we're going to develop Saga, how we're going to measure ourselves, greater clarity on tracking us and our financial performance as we move forward. We are very excited about the future of Saga in the next few years. We hope you are too.

So we would now like to take any questions that you've got. The ladies I think have microphones. So if I could ask you to raise your hand, say who you are when you've got a mic, and I will distribute questions across the panel. If you have detailed financial questions that will require a quite a bit of discussion, my ask would be that you hold back and we will wait, we're not going anywhere, and we'll sit down in a corner and go through those with you just so that we don't bury ourselves in a particular subset of the numbers, but general financial questions or broader questions, please fire away. I saw that there three hands go down when I said them, if you've got detailed financial questions. Ben?

Q&A

Q - Ben Cohen {BIO 1541726 <GO>}

Hi. Ben Cohen at Canaccord. I'm going to ask a broad financial question, if I can. It's really on – I suppose two-fold, on motor broking in terms of how we should think about the development in revenue going forward? What is going to drive that given the increase in revenue at the same time as gross written premium declined year-over-year?

And the second question is really on the margin that attaches to that growth. Maybe anymore specifics about how much more you see coming from the panel going forward? How much more you see from efficiencies, maybe you could talk a bit more about how those efficiencies have come through, is that cost saving, is there actually some revenue that attaches to that part? That would just be helpful to try and build a view of motor broking going forward. Thank you.

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

Thanks, Ben. This is yours Jonathan.

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

Yeah, I think that might be mine. And gross written premiums were down because actually what's happened, the arrangement fees have come out of gross written premiums and gone as other income, so actually overall, gross written premiums are flat to marginally up, but we'll try and provide a little bit more detail on that to you and anyone else who'd like that.

In terms of the revenue, the revenue is one of the most difficult things for us to predict in the business, because we're not exactly sure where the panel share is going to end up and (01:22:15) we actually don't really care. Now that we've got quota share in place, what we want to do and hopefully we tried to explain this before, make sure we get the lowest cost of risk that we can possibly get, be it from AICL, our in-house underwriter, or be it from somebody else. If we get a change in dynamic and what our own underwriters sees and external underwriter see that can move around and will get the panel share moving up and down. That will have an impact on revenue. So revenue per se is quite a difficult metric to look at in isolation. So I'm sorry, I can't specifically answer that question because it's quite complicated depending on what happens with panel shares.

In terms of just bringing a little bit to life some of the operational efficiencies, this goes across multiple categories from the huge amount of work that Roger and the team have done on agent productivity, agent training to ensure that we have great service, but yet highly efficient calls, optimum use of discounting and optimum use of pricing and how we manage that in the business with the actuarial team that works within Roger's business ,the marketing efficiencies, I think Roger has covered some of that already this morning and I think you can see some really tangible results coming in there.

So these are all the things and obviously we're working with our colleagues, third-party underwriters on the panel to help them see the wisdom of the opportunities that sit before them by reducing their net rates to look at various areas where we think they may have options to price better. So we're always working with our suppliers to help them understand as well as we can there, their range of opportunities and underwriting with us. So there are a whole range of things, there are myriad activities that take place. We've done this consistently, Roger and team has done that consistently year in, year out, and we expect all of these items to be pushed forward again and again as we drive further efficiencies at the business. I think some of the stuff that Matt and Roger talked about this morning in terms of Project Connect gives us some great opportunities in that area as well going forward.

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

Anything to add, Roger?

A - Roger Ramsden {BIO 18034967 <GO>}

No.

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

Okay. Thanks.

Good morning. (01:24:40) HSBC. I have three questions. Firstly, you've given the total products held by HACs and how this could move. Could you talk a bit more in terms of how do you expect the HACs to grow in the next two or three years and how much can you add there? Secondly, on the Solvency II ratio, that's about 140%, you guys seem comfortable. The model is moving towards the broker business anyways, what's the lowest number as in you guys can go down to from a comfort perspective? And thirdly, in terms of reserve releases, that still remains a fairly chunky bit in the P&L, still at about £60 million, could you say what the reserve buffer currently stands at? I appreciate broker revenue will grow and offset some of that, but still what that number is? Thanks.

So, I'll take the first part of that and then hand over to Jonathan for the next two. So, on the first one, we are not publicly stating a specific growth target for the number of high affinity customers. The direction of travel will be upwards and that is because we don't exactly know how fast it will grow and we don't want to make the promise that we don't think we can commit to. We've done our best to look backwards into the database to find out how many HACs there have been, but because it's a new way of measuring and cutting the database, it's not that straightforward for us to get a historical measure.

So, what we're going to do over the next year or two is report to you regularly on what's happening to the number of HACs. And then over time, it's my hope that we'll be in a position to start making informal directional commitments to you about where we want to go. We are confident from the work that we've done over the last six to 12 months that the trajectory will be upwards and the number of HACs will be one of the key drivers of that 20% uplift in how many products are being bought by HACs. Likewise, we're not going to commit on the number of products per person because we're on a learning curve at the moment. Jonathan?

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

On the Solvency II ratio, we haven't given a specific target, specific range. We feel very comfortable with 143%, I don't think you should expect us to be near 120%, let's put it that way. We are at the mid to mid-low point where you probably should expect us to be going forward, but we feel very confident in where we sit today. I think obviously we have Ogden within that 143%, we were actually towards 160% pre the Og (01:27:16), so actually we – this is post Ogden rate change. So, we're in pretty good shape there.

In terms of the reserve buffer, you reminded me to make a point that I should have made earlier. We have not degraded the reserve buffer at all. We've not said specifically what it is, but we have a history, we said at IPO it's around 15%, and every time we stand up and say, it's not changed materially since the last time. So, from that I think you can probably infer where we might sit today. But there's been no degradation of the reserve surplus in any of the prior periods.

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

Question on this side of the room.

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

Andreas van Embden, Peel Hunt. Two questions, please. Looking at the motor broking business, if you look at the broker margin, it's still way below what you have achieved, probably a more mature business in home, and even lower than in the other sort of insurance broking units. Have you any thoughts of where that margin could go to as the panel ramps up, can we get close to a margin which we're seeing in home or what sort of level should we think about?

And the other question is actually about the non-affinity customers, have you been able to identify how many of those are actually loss making for the business and what would you do about them? Thanks.

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

I'm going to suggest actually if I (01:28:45) if you're happy that Roger answers the first one, and Matt, the second.

A - Roger Ramsden {BIO 18034967 <GO>}

Okay. Thank you. So the motor margin has developed across the business. The book has different configurations first of all, so we tend to acquire more customers from the motor insurance part of our business than from home. So, it has different configurations into the proportion of business, new business versus renewing business, which affects the shape of the aggregate total that we see.

Secondly, with regard to progress on the panel what Jonathan said earlier, I think that remains to be seen, in terms of the impact that it has, clearly, as we have seen from the home panel, which is now very mature part of our business. We've done very well if you like with regard to how the panel has worked. Key driver of those have been our ability to provide additional insight to those panel members around how best to compete, how also to think about our customers. So, we've introduced something, for example we called the Saga Factor, which is insight about the way in which our customers behave and its way in which we can see that in a way as an insurance business you may not be able to see those types of behaviors and we can correlate that with, for example clients behavior, and that gives additional confidence to price.

Now thirdly, we've been doing that for a number of years, for example in the home panel given the maturity of that part (01:30:00) of the supply side of my business. There's clearly an opportunity to develop that with our farmers now on the motor panel as well. So, I think we can improve the capacity of tension in the motor panel, we can improve the insight, but exactly how that will play out in what is obviously a very competitive dynamic and the fast changing marketplace in terms of the right place to price, right way to present pricing through different channels, I think that remains to be seen. So a bit difficult to make sort of forward facing statement, but we can see from what we've done previously that we can work very successfully within a family environment in a way that it is quite different to other brokers offering similar stars of product.

A - Matthew Atkinson {BIO 21848472 <GO>}

Yeah. I would just say, we don't necessarily set specific end game targets for where we want specific individual product margins to get to because obviously, we will trade volume and value across the different products and right across the whole business, depending on the market circumstances because we work in a very dynamic and competitive market, and we'll see where is best to grow and where – in terms of policy where it might be best to grow in terms of high-affinity customers and where it might be best to pullback a little bit, so we will work on that as we go forward and clear that with implications on that margin in the broking business.

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

And to your question on high affinity customers, we've already identified and taken out about £1 million of non-effective spend (01:31:33) goes to groups of customers whose behavior hasn't changed over the last two to three years, so already we are starting to use designs to improve our overall model.

The benefit of that is, there's kind of less Saga mail (01:31:49) in people's front doors, and then it allows us to reallocate that money to much more effective activity. We are on a journey here, and the journey is very much about concentrating our effort on those potential high-value customers, which allows us to become more efficient overall because as Roger said, we start to have target our acquisition activity in the right way, and then we can cross – do vertical journeys across our businesses and the model improves overall that will naturally create more efficient activity as we cut out inefficient spend. But I think the final point to say is that we obviously want to provide a great service and products to all our customers, but what we're starting to do is to narrow our activity focus on those specific groups of customers, and we'll continue to do more work to make our model even more efficient as Connect's continues to develop and improve.

And as always solid line of presenters there. From the market one gathers that there is obviously a contrary information, on one hand the disposable income is very high at the 50-plus (01:33:01) level, on the other hand, everyone is kind of wanting their money to go far and kind of more price conscious across. But coming back to Saga and specific about your HAC customers, I mean how is the age profile, the disposable income, I mean kind of that's – if you can throw some light there.

And it's pretty obvious following up to what Matt said; that all your new spend is basically going to go towards recruiting more HACs. So, if you could share some tactics and new thoughts on how you are obviously going to be targeting and recruiting new HACs? Thanks a lot.

Yeah. So, I think the first thing to say is that it's important that you understand the pyramid is a dynamic model because you've got customers coming in, moving up, moving out, and it's a snapshot of one period of time.

Naturally because of the way we've captured the data, quite a lot of the customers in the entry point of the pyramid have a slightly younger profile in age terms than those at the top of the pyramid because by definition they've been with us longer, they hold more products and services.

So effectively, what we're starting to do clearly is to use the signs (01:34:18) we have, and because it's quite a lot of Saga IP and there's a quite a lot of intellectual property involved in the segmentation and the targeting models, it's quite difficult to disclose all of the detail. But we can see full, very distinctive groups of customers with very different characteristics. And that clearly what that means is, using our new targeting capability, marketing cloud that's gone and we can start to customize our products, services and pricing at the entry point, and Roger has already started to do that, which is why his numbers are improving and changing as he has already disclosed.

A bit about what we do to grow the numbers and change those dynamics is really predominantly about why we're doing membership. Because today, we don't have an enormous number of levers to pull, to reward that behavior that we seek, whereas creating a vehicle and membership allows us to add value to you, when you go from one product to two products or when you go from our insurance business to our travel business, that really starts to enable us to not only attract more high affinity customers, but reward those who are at different stages in the permitted (01:35:37) value. Did I answer your question, okay?

Half of that.

Half of that. What was the half, I didn't answer?

Well, in terms of kind of royalty profile (01:35:45) of the customers...

Yes. Well, I mean, obviously, because it is intellectual property and because we are using that to be – give ourselves a competitive advantage in the marketplace, we're not going to disclose fully all of that detail because we know it's going to give us an advantage and it's already giving us an advantage in the marketplace.

A - Matthew Atkinson {BIO 21848472 <GO>}

And what you (01:36:09) in terms of proportion of wealth held by the over 50s is still growing. At the time of the IPO, we did desk research and bought in a bit of data and it would appear that the liquid wealth held by the over 50s continues to grow as a proportion. Now, it's gone from 68% to 70% roughly.

And then in terms of reassurance of our customer's willingness to spend and invest; two data points for you. The first is that in a travel market, which we think is roughly flat in Western Europe at the moment, we're up, our forward bookings are up 8%. And the other, some of you have heard this before is just to remind you that in a week or two after Brexit, we did a poll of 10,000 Saga customers and we asked them how their travel intentions were going to change and few of them, 1% of them said they were going to alter their travel plans, as a result and that does appear to be playing through now six months later into our forward bookings.

So from what we see at the moment, we remain very optimistic about the size and the behaviors of our target demographic. Nick?

Q - Nick Johnson {BIO 1774629 <GO>}

Thank you. Nick Johnson from Numis. Two questions, firstly on Saga priorities. Could you just talk a bit about what you expect the cost earnings profile of that to be over time assuming (01:37:24) there is some cost of rewards (01:37:26) that you're offering? So just a bit of a comment on the likely shape of that?

And secondly, in terms of the target to increase to 880 (01:37:35) products by 20%, again how should we think about the profit implication of that? Is it like to be sort of a linear increase in the same manner as the current profit-based customers or is there likely some products are going to be more popular?

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

Sure. Thanks Nick. Jonathan (01:37:53).

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

In terms of Saga priorities, the cost is measured in single digit millions upfront to set that up. Clearly we see that, the benefits flowing as an underpin to the steady sustainable growth that we talked about. And so that's a gradual delivery of benefits over a long time. This is 1% on persistency rates within an insurance business, cumulate quite significantly over time, higher levels of repeat business in the travel and cruise business. If you cumulate those over time, they can grow quite materially. So, I think, you should expect the benefits to come in gradually, but clearly, we'll have some setup costs. We will have some costs in terms of what we're offering the customers and that will come in the first couple of years.

In terms of your second question, clearly on cruise, there's a capacity issue. So, this enables us to, hopefully, drive the load factors and yields in the short-term, but clearly, that's got a limit on it. Clearly, in Jeannette's business, it will be great to see our ability to increase those customers gradually over time. And then, the crossholdings in Roger's business. So I think, you'll see this all coming through on a gradual basis. I don't think you should expect a sudden whizbang and sudden change. But, we see this as an absolutely an underpin, giving us greater confidence in our ability to deliver that sustainable, consistent growth going forward.

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

It's just worth bearing in mind that you're all aware that we have a decline in reserve releases over the next few years. And so, in one way, what we've talked about today is our confidence in our ability to offset that decline and continue to post solid profit growth in the years to come?

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

I mean, realistically, if you look at it, you got to expect rather in the 5% external growth, it's got to be double-digit organic growth to offset reserve releases. So that's what we're actually trying to deliver underneath this business.

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

Thanks. Anymore questions from the center, I've been ignoring the center?

Q - Lena Thakkar {BIO 16225519 <GO>}

Thanks. Lena Thakkar from HSBC. If I could ask three travel related questions. So, firstly, just on your travel PBT, which you're looking to grow 4 times to 5 times, could you just give us a very brief outline of the building blocks for that growth? And then secondly, Jeannette, just in terms of the forward bookings up 8%, I presume that's a volume driven figure. Could you comment on ASPs or any sort of pricing data there? And also, Robin, once for you. I understand this is a business case of new ships in terms of costs. Could you talk about the yield opportunity there as well, please?

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

So, Jonathan, perhaps you can take the first block of that, the building blocks part.

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

Yeah, sure. The building blocks, and Jeannette's business, as she shared earlier, makes around made around £12 million of PBT in the year just closed. Clearly, Jeannette's got some ambitious plans both on top line and in terms of some of the efficiency. The efficiency program that she has got going on particularly within Saga Holidays, which will help boost margins and profitability. So, you should see that moving up to a material contributor to the profit over the next five years.

And then, we've said pretty clearly on the ships that the first – in the first full year of operation, you should expect about £20 million profit from the ships. It grows over time, because what you're doing is you're taking on 12-year repayable asset-backed finance in year one. So, your PBT in the first full year is obliviously diluted. As that gets paid down over time, then you get the full benefit coming in, which goes to £30 million-plus over time. So, there was – you've got a couple of £20 million blocks coming in, and then you've got growth in Jeannette's business. It certainly get you to the bottom end of that range.

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

Jeannette?

A - Jeannette Linfoot {BIO 20138529 <GO>}

And in terms of the forward bookings, the 8% – plus 8% on revenue that we spoke about for 2017/2018, that's a combination of an increase in passenger numbers year-on-year and also an increase in the average selling price. Some of that is down to mix. So, we're seeing much more demand for our sort of long-haul rivers and program and of course those new concepts which we talked about is also allowing us to have a higher average selling price and as well as passenger growth. It's a combination of the two actually.

A - Robin Shaw {BIO 20138547 <GO>}

Okay. On the yield for the cruise vessel, the new cruise vessel, there is – firstly, I think, important point to make is that the business case was predicated on the cost benefits with effectively inflationary yield included into that business case. Then, there's two dynamics at play; there is the fact that we have this new cruise ship which is going to be all balconies and effectively the real estate is substantially improved in the facilities versus existing ship. So, there is a positive impact there. The other side of that is there is more capacity to fill, which is the other side of that equation. That's why, we got to that.

On the latter part of that equation, what I'm pleased to say is that the early demand, and yes, it's a early demand for 2019/2020, is extremely strong. We've had over 10,000 passengers register an interest to go on the first sailing, which could be a challenge. And of those – over half of those has put down deposits on those first sailings from July 2019 onwards. So, those 10,000, even it's (01:43:37) early stage of it, advance and pre-reg would account for the first 12-or-so cruises. So early signs, but the early signs are very, very encouraging from the demand side.

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

Couple of more questions and then, we'll call it a halt (01:43:52).

Q - Edward Morris {BIO 16274236 <GO>}

Hi. Ed Morris, JPMorgan. You sort of touched on what I was going to ask about a little bit there, but I'm pretty interested about capacity constraints in the cruising business. Because you have such a significant uptake from each ship, how far away are we from a position where you could think about adding another cruise ship? Is it the capacity leverage or the factors there?

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

Did he pay you for that price (01:44:21)?

Q - Edward Morris {BIO 16274236 <GO>}

The second question, Jonathan is the – it's on some of the investments you talked about needing in the broking business. If you could just talk about what exactly you need to do there and whether you'd be expecting to expense that or with – will there be any CapEx involved as well? Thank you.

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

Look, I'll take the one on the cruise. To remind you, we have an option on a second ship. We have to exercise that option by the end of this calendar year. And so, we are watching very closely two things. Firstly, the state of the global economy, global travel, global cruise. That looks pretty positive and very significant growth in ex-UK cruise numbers coming through at the moment. And we've always said to all the analysts and investors in the room that you should assume that we will probably exercise that option and build the second ship, which means that we'll have two old ships going out and two new ships coming in. So, there's no more hulls at the end of that, although they are slightly larger ships. So, that's the first thing we're watching.

And then, the second thing, of course, is Robin's pre bookings which he has just touched on. So, we're monitoring extremely carefully the level of interest from our customer base before making a final decision about that second hull. And again, just to finalize, it is our intention to build a two-ship fleet and operate a two-ship fleet. We're not fundamentally a shipping company. We are an asset light business with the exception of those cruise ships. We are a very asset efficient business and we don't want to turn ourselves into carnival. That's not our business. We think that it's a very important part of the heart of the brand, the brand experience, communication and it's the epicenter of great service for Saga that the whole of the rest of the business can learn from, but we have no intention of building more shops at this date any way.

Q - Roger Ramsden {BIO 18034967 <GO>}

And then, in terms of the broking investments, that's really around the new platform that we're putting in the new Guidewire. There is a mix share of CapEx and OpEx in there. It's low-single digit millions on OpEx and CapEx, you won't notice it within the bump in our run rate, which runs at about £30 million excluding the down payments we make on ships. So, it's not – you won't massively see a huge tick up in that sort of run rate CapEx, because clearly, we're putting other things off, where we've got other development programs. We're getting a lot of resource into this.

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

I'll get the last question to Blair. And then, we will be staying behind. So, anyone who wants to talk to us, please come, grab us.

Q - Blair Stewart {BIO 4191309 <GO>}

Thanks. Thanks very much. I've got a couple questions to ask. It's Blair Stewart from BOA. And first question just on the insurance side on the quota share. You said that you've covered the downside risk and (01:47:08) and the upside risks, with reserve releases, et cetera. So, how do you capture the upside risk as well? I guess the answer is no; just to explain that would be great. And secondly, the combined ratio, the core combined ratio deteriorated in the second half of the year quite significantly. Is that just normal seasonality or is there something else going on there, please?

And finally, I don't think you give the number of policy, the policy count for the underwriter anymore. You just – I think it's aggregated into one number. So, the overall policy count went up by about 5%, the core motor policy count went up by about 10%. I just wonder – get a feeling for where those numbers might move to over the next few years? Are those indicative of what you expect going forward?

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

If I can take those in reverse order, the 10% uplift is primarily the annualization of Bennetts on total policy numbers for motor. So, actually, the Saga core policies were up by – between 1% and 2% in terms of total policies underwritten by Roger's business in terms of the broker. The number of policies underwritten are down about 10% year-on-year within the underwriting business as a rule of thumb, where do I expect that to get to, I'll just refer back to the question about we don't really care, we're pretty agnostic as to whether we underwrite given with the (01:48:34) quota share in place or whether a third-party underwriter who takes the business, who prices it best, wins the business. So we don't have a target for where the underwriter will be. Was that your question specifically around motor policies?

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah. You just surpassed the overall numbers for a moment.

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

It's flat when you take the half year of incremental policies on Bennetts, but we can run you through the detail on that afterwards. In terms of the second question was the H2 core effectively we've recognized a greater quantity of reserve releases in H1 which excluding the core is – the core report is, and I'll come back to you on the answer to that one if I can do, I don't know the answer at this point. And the reserve releases outside clearly the quota share only covers policies in force from the 1st of Feb 2016, is the first point, so any reserve releases for the period prior to that point are clearly all on our account. And then secondly, we haven't being specific as to the precise split of the upside for the quota share paid and period in terms of releases, but I think you can materially expect all of that to flow to us.

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

Some great questions. I know we could carry on for long time. I'm hugely impressed after six years of running PLCs, I don't think we've ever presented to an audience of this size for two hours and lost nobody, which I believe that you are asleep or that you have enjoyed the presentation. We're going to stay behind, we're happy to take any questions that you've got. We're going to be seeing a number of you out on the road over the next two to three weeks, which we look forward to enormously.

Thank you very, very much for your attention and we look forward to seeing you shortly.
