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S1 2022 Earnings Call

Company Participants

- Euan Sutherland, Group Chief Executive Officer
- James Quin, Chief Financial Officer

Other Participants

- Alexander Evans
- Analyst
- Ben Cohen
- Benjamin Cohen
- Leopold Bian
- Nick Johnson
- Philip Crate

Presentation

Operator

Hello, and welcome to the SAGA Plc 2021 Interim Results Analyst and Investor Q&A. My name is Boyka, and I'll be the chorus operator for today. There will be an opportunity for Q&A later in the call. (Operator Instructions)

For now, I would like to hand over to Euan Sutherland. So, Euan, please go ahead.

Euan Sutherland

Thank you very much. Good morning, everybody, and thank you for taking time to join me on today's Q&A call. I'm joined today by James Quin, our CFO. I'm sure you have seen our result statement and video this morning, but I'll do a quick run through of the first half highlights before handing over to questions.

It's been a period of continued progress and delivery against the priorities that we laid out 12 months ago as we position the business to emerge stronger from the COVID pandemic. We have made continued progress across the group and have further strengthened SAGA in financial, operational and strategic terms.

The results are in line with expectations driven by a robust performance in insurance and a successful return to crews. Taking insurance to deliver positive results across all key metrics, maintaining motor and home policy growth, while improving margin and

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retention rates. We look forward to welcoming Steve Kingshott, our new Insurance CEO who joins us in November.

As for travel, we've successfully proven our ability to reintroduce a safe and compelling crews' offer, including the launch of our new ship, Spirit of Adventure. While capacity restrictions remained on early sailings, and we were limited to cruising around Britain, we achieved a strong set of cruise metrics in the first half. We carried over 3,000 guests with per diems at over GBP294, while monthly burn costs were lower than guidance at GBP5.9 million per month, and very high customer satisfaction levels.

Pleasingly, in the first half, customer demand was greater than our supply, demonstrating customer confidence in our proposition, and as we returned to international cruising at the beginning of half two. A particular learning has been that shorter Round Britain cruising has been a hugely popular product for first-time cruisers, and this is something that we will build into itinerary planning for the future.

Across SAGA, our strategic focus on delivering the required data, digital and brand transformation has continued with all programs on track for delivery in half two. These are incredibly important foundations in the resetting of our business for future growth.

We've also continued to support our colleagues and the community across our business and have been shortlisted for the for the UK's best mental health strategy at the National EBA Awards. All of this progress has been underpinned by a further strengthening of our financial position with the issuance of a new GBP250 million bond, which has improved liquidity and providing greater flexibility for the business for today and for the future.

We're still mindful that there is still some uncertainty around the COVID-19 pandemic. We are emerging stronger from the pandemic than we went in. And looking ahead, we plan to relaunch our brand and our business in the coming months and I'm confident that we are well set to return Saga to sustainable growth and create significant long-term value for all shareholders in the future.

So with that, I'm taking a pause and hand over to Q&A which is the main business of this call. We're happy to take your questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) We have the first question on the phone line today from Nick Johnson of Numis. So Nick, please go ahead.

Q - Nick Johnson {BIO 1774629 <GO>}

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Hi. Good morning, everybody. I've got a few questions. I'll ask a couple first and then maybe come back later. But just to kick off.

A - Euan Sutherland

Hi.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi. Can you just say how much of tours revenue bookings for next year of GBP109 million relates to postponed bookings from prior to COVID? And how much of that number is actual new bookings?

And secondly, on insurance pricing, how does the rate being paid by three-year fixed customers who took out those fixed price policies a few years ago? How does the rate that they're paying now compare to the current market rates? And will there be a sort of reset downwards of the rate for those customers once the three-year fixed expire? Thanks.

A - Euan Sutherland

Great. Thanks, Nick. A couple of good questions to kick us off. Let me try and provide some color around the first one, then perhaps pass over to James for more detail on three-year fixed. Broadly, retention as we reported before in both cruise and tour ops has been strong. Through the last 18 months, we've retained a lot of customer loyalty through that period with higher in Cruise about 70% of retained bookings being pushed forward. It's around the 40%, 45% of bookings in general terms for tour operations. So that will have filtered through and underpinned the numbers that we are reporting in terms of forward guidance for tours.

Clearly, the relaxation of the restrictions around red, amber, green at the weekend is encouraging more first time bookers to come back onto our tour operations business. We've seen a step up over the weekend of interest, but too early to call some of those very recent trends. But it is true to say that the numbers in 2022 are supported by loyal customers retaining their money with us, but more in Cruise than on tour ops. Well that help to give you some color there. On the three-year fixed point, James, do you want to update on that?

A - James Quin {BIO 18345789 <GO>}

Yep. Thanks, Nick. So on the three-year fixed pricing, so as customers renew this year. So we have -- we haven't been through a full cycle of sort of the policies being renewed at the end of the three-year period. So the people who're renewing now are essentially either first-year renewals or second-year renewals. And in terms of what they are paying, they are obviously paying the flat price that they started paying at the beginning of their product. So that is essentially, what we haven't done is, we haven't started cutting price on three-year fixed at all.

The -- in terms of retention, retention has been extremely good on three-year fixed. So we're very pleased that. I think the point you are making is, what will they pay at renewal?

When those policies essentially have run the course of the three-year fixed and they hopefully buy a new policy. The price they will pay then will be the new business price since all of that will be post the market study and obviously, post-market study what you will pay in renewal will be exactly the same as what you would pay for a new business price. So that would be the price that they'll start paying from April next year onwards which is when the sort of the first lot of, the first tranche, if you like the three-year fixed customers will start to renew brand new policies.

So that answer your question.

Q - Nick Johnson {BIO 1774629 <GO>}

Yes, that's really helpful. Just I was wondering if you have a sense for -- obviously, most of the pricing in particular has moved quite a bit up and down since you started selling three-year fixed price policies. Just wondering if you have a sense for where market pricing is now compared to where it was when customers first started taking out three-year fixed price policies.

A - Euan Sutherland

Yes, you're right. So pricing did go up a bit in the first year. So if you bought that policy in 2019, yeah, they couldn't, price would have probably gone up a bit then it would have come down a bit as well. We have been reasonably cautious on our pricing of three-year fixed though because we're very conscious of the fact that we're writing a policy for three years, not for one year. So in terms of the sort of the current new business price you would get on three-year fixed. We've only essentially take into account an assumption that you will get a lower price for one year rather than three years. So if for example, the new business price was down 10%, we would -- we wouldn't put the three year price down 10%. We would put it down the third of that. So what that -- what you would see therefore is that the new business pricing on three-year fixed is a bit more stable than the pricing on one year policies. So well that also then means is that it shouldn't be quite such a big impact when those customers come to renew next year.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay. Yeah, that is -- that's clear. That's very helpful. Thanks very much. That's all from me for now. Thank you.

A - James Quin {BIO 18345789 <GO>}

Yeah, just the other part I'm going to make is, obviously that there are a lot of other considerations around pricing post market study, particularly for those customers who switch from one-year contracts onto three-year fixed, but that's probably going beyond the scope of your question.

Q - Nick Johnson {BIO 1774629 <GO>}

Yes. Thank you. Thanks very much. Thank you.

A - Euan Sutherland

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Thanks, Nick.

Operator

Thank you. (Operator Instructions) We now have the next question from Ben Cohen from Investec. So Ben, please go ahead.

Q - Ben Cohen {BIO 1541726 <GO>}

Yes, good morning everyone. Thanks for taking my question.

A - Euan Sutherland

Hi Ben.

Q - Ben Cohen {BIO 1541726 <GO>}

I guess that there were two things that I wanted to ask. Firstly, how quickly do you think that you can get to your target load factors and start to get to the sort of target run rate of the GBP40 million per ship per year given the various headwinds that you're facing?

And I suppose the second question is really a similar question for tour. And maybe you can just remind us actually what you are trying to achieve in tour, because it would seem from the statement today that you're sort of maybe a little bit less clear in terms of really where you're going to get to with that division? Thanks.

A - Euan Sutherland

Thanks, Ben. So, yeah, I think this is a period of two halves as we look forward in the next couple of months or so. I think what we're seeing is, it's just a little bit longer to fully come out of the pandemic issues largely impacted by national issues and government policy around everything from the booster jab through to the clarity of the international travel requirements for passengers, which has really helped our cruise business because it takes UK and door-to-door. So that's why we're seeing very strong demand and underpinning a faster start there and a slightly slower start in tour operations.

If you look ahead to the target load factors, and then talk about the target GBP40 million EBITDA per ship. We're very confident on both of those metrics coming through. In the medium term, if you look at the first half of 2022 season, we're already at 80% load factor for the first half, 60% load factor for the entire year, next year, we're looking 18 months ahead. We are carrying a little bit higher cost into that because our commitment has always been and will always be to fully protect all guests and crew on board. So we are continuing with our COVID based protocols. Everything from the VIP transport from your house to the ship for an individual household rather than mixing households through to more protection around shore excursions, several medical teams, et cetera.

We haven't had to use them all in force because we haven't had the instances of COVID on board that we -- that would fully test those, but it's a sensible precaution. So therefore,

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very confident in the load factor coming through in the beginning of next year which would support the GBP40 million EBITDA.

We are carrying a little bit of cost into the next half of this second half, which we will be able to remove when it's sensible probably through the early part of the first half of next year. So that then gives us more confidence that we have restated today that the GBP40 million EBITDA per ship is more than doable. Of course on top of that, we're seeing very healthy per diem. So that the per diem when the business case supporting the GBP40 million EBITDA per ship are lower than where we are today for the second half and lower than where we are seeing the numbers coming from next year. So there is an upside from very strong per diems through the cruise proposition. So hope that gives you a bit of color on the confidence there.

On tours. Yes, you're right. We are -- we completely reset that business within the period of the COVID hibernation. We're coming back out to the market with that now. We're confident in the new proposition. We are just waiting to see the full volume coming through, much more encouraged by the bookings that we're seeing already for early 2022. And as we said today, there -- it's just taking our customers a few more weeks probably rather than significant months to get back into the confidence for international travel through international airports, et cetera. But confidence in the reset of that business clearly, it's a much lower contributor to profitability than cruise.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Great. I'll leave it there and maybe follow up if there's time later. Thank you.

A - Euan Sutherland

Okay, thanks.

Operator

Thank you. The next question comes from Philip Crate of Altana Wealth. So, Philip, please go ahead when you're ready.

Q - Philip Crate {BIO 18074771 <GO>}

Hello, good morning. Number of my questions have been answered. I just got a few. The first is, I missed, in terms of the load factor, did you say load factor for next year, for full year was 60%? The next question relates to cash burn. We note that the cash burn rate came in below your expectations. Would you expect to see that continue to decrease as load factors improve? And lastly, I wonder if you could provide some context in terms of CapEx? We've been looking at CapEx guidance, sorry, CapEx numbers on Bloomberg, and it seems to be significantly higher than guidance. So I just wonder if you can confirm CapEx guidance for this year and next year. Thank you.

A - Euan Sutherland

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Great. Excellent and happy to do that. So importantly, the 60% load factor for next year is where we are today. So clearly, we still have the rest of this year and all of next year to sell that load factor. So we would naturally expect that to rise as we're selling through cruises, typically we'll get to the end of January with about 80% of the following year sold where we're heading this year is to exceed that. So by the time we start effectively the next financial year, we would expect a normal year to be 80% sold. We're well on track and indeed ahead of that forecast. So it's just a snapshot of where we are for future load factors as it looks today. Hopefully that helps. Cash burn, yeah, very much more healthy position for that and CapEx as well. James, you want to pick up on those two?

A - James Quin {BIO 18345789 <GO>}

Yeah. The cash burn -- cash burn is sort of a relevant metric when the ships are not operating. I think as they are operating, it sort of ceases to be meaningful because obviously we would expect quite positive and significantly positive cash flows. And in fact, even with load factor for the second half, we'd still be cash positive. So I'm not planning to talk about cash burn again unless we have to put these ships into suspension mode again, which we don't think will happen. So I hope this is the last time I ever have to talk about cash burn.

CapEx, I'm not sure what's on Bloomberg. Sometimes I think people do include the ships in CapEx, which is one way of looking at it. That wouldn't be the way I would look at it. But the CapEx guidance, I'm not sure we really given much guidance, but it's -- I would say that the CapEx that you see in our operating cash flow statement which is the CapEx and this doesn't include essentially the sort of ring-fenced differences. But there will be small consumers of CapEx anyway. So the CapEx would probably be somewhere in the region of about GBP20 million a year. So that's essentially the sort of group and insurance CapEx.

In terms of Cruise. There's a little bit of CapEx that you would expect in any one year, but certainly nothing very much for the next few years given that no dry-docks or anything like that in the first few years of operation.

Q - Philip Crate {BIO 18074771 <GO>}

Okay, that's clear. Thank you. I'll join the queue.

A - Euan Sutherland

Great. Thanks Phillip.

Q - Philip Crate {BIO 18074771 <GO>}

Thank you.

Operator

We now have a question from Alexander Evans of Credit Suisse. So please go ahead, I've opened your line.

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Q - Alexander Evans {BIO 19956412 <GO>}

Hi Euan, hi James. Thanks for taking my questions. Firstly, just on reserve releases. I think at the trading update you suggested that they're going to remain sort of elevated for the first half of the year. But then you also, I think in the presentation, said that you've got a partial release of prudent revisions here from last year. So, is that sort of an indication that we expect them to remain? And then secondly, just on the diems, they're very strong and ahead of guidance, how sustainable do you view that in the current market?

A - Euan Sutherland

Great, thanks. I'll ask James to comment on the reserve releases point. I think we're pretty confident -- very confident that the per diems are in the right place. It has been -- we haven't particularly targeted taking price. We're certainly seeing that we've got strong demand and strong load factors coming through. We're seeing customers not trading on price at all, they are looking for reassurance, certainty, peace of mind. So, we have seen that we've taken market share based on our commitment to those factors, and for customers feeling very willing to trade a little bit of price for those benefits.

So therefore, we're confident into the outlook for per diems being ahead of plan in 2022, 2023 season, and indeed there's opportunity for us to further enhance our cruise offer as we fully come out of the pandemic. So we don't think it is something that is unsustainable. But clearly, value for money is still incredibly important to us. We feel we're providing that today and in future and customers are clearly seeing that value at the current per diems. James, do you want to do a quick update on that?

A - James Quin {BIO 18345789 <GO>}

Yes. You're right. I mean, I think the half-year signal that we'd expect some elevated reserve releases for certainly this year. In terms of what we see in the first half, that sort of continues to be the case in terms of sort of ongoing reserve release emergence, principally from our large loss assumptions which are quite conservative. So, historically being very conservative. And then the other piece of it is that we were quite -- also quite prudent on how we begin 2020 accident year. So we essentially took a sort of prudent view around claim severity and other assumptions.

Now, six months on, trends have been pretty well behaved. And so we have released half of that provision, so that's about GBP10 billion, and that is included within the reserve releases in the first half, and then we've still got the other half still in reserves as well. So, for the second half, I think, we'd probably expect to see something that looks a bit like the first half. We're still pretty conservatively reserved. The reserve releases will start to go down and they're definitely not going to continue the current levels forever, we've probably still got a bit of favorable momentum there to take us into the first half of next year, I would say.

A - Euan Sutherland

Does that help with those points, Alex?

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Q - Alexander Evans {BIO 19956412 <GO>}

Yes. Thank you very much, Euan and James, that's great. Thanks.

A - Euan Sutherland

Great. Thank you.

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Operator

Thank you. We now have another question from Leopold Bian from Tresidor. So, Leopold, go ahead.

Q - Leopold Bian {BIO 18978050 <GO>}

Hi guys. Thanks for taking my questions. Three quick ones, if I may. Just as the first one, given the cash balances you now have in the balance sheet, do you plan to accelerate the payments of the third portion of the cruise ship debt, the GBP52 million if I'm not mistaken?

Then second question, is it fair to say on cruises that if there are no restrictions next year in terms of sailings, is your expectation that would be able the GBP40 million EBITDA per ship already next year? And then the third question is just a broader question. The stock is down sort of I think one-third since June, at the same time you restarted travel. I guess the question is, what is that telling you? And if you have any plans to do anything about that? That's it. Thank you very much.

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A - Euan Sutherland

Hey, thank you. I'll ask James to talk about the significant cash balances that we've got and the ship debt. I guess that in the context of your question, if we are seeing a completely unrestricted year for cruising next year, there's no reason why we cannot get to the GBP40 million EBITDA per ship, where we're clearly at the mercy of governments changing their views. We're seeing a steadily improving position, we are sailing internationally. We're sailing very successfully internationally today, and we expect week-on-week and month-on-month for that situation to improve.

So, as we said in previous answer to the question, we're carrying a little bit more of sensible precautionary cost to protect crew and guests on board today, but as restrictions ease and the situation improves, clearly that cost pressure that temporarily goes into the GBP40 million reduces pretty quickly too. So we're seeing positive on per diems, very positive on load factors. Those are the major two numbers that go into driving the GBP40 million. So in an unrestricted year next year, yes, we're very confident in the cruise proposition.

I guess a comment on the stock down a third, largely out of our control to be honest. I think we're kind of at the mercy of headlines that are moving around, particularly in the travel space. I think I would encourage all investors to look at the fact of our proposition, and where we are winning an emerging stronger from the pandemic. Actually, I think you would guess that I would say that I think that under values us in terms of the potential coming out of this on a medium to longer term valuation point.

We're certainly seeing the strength coming through in our insurance business. We are making the right investments around data, digital and brand. And those are coming through very strongly in the second half in front of customers. And our travel businesses are bouncing back pretty fast compared to competitors in both of those sectors. That's underpinned by a target customer group that has been least economically impacted by COVID that are feeling increasingly confident to travel internationally and have got the money to do so.

So, I guess it is very difficult for us to comment in detail on where the market is valuing us, but we think that it's undervalued today. On the cash balances and ship debt, James?

A - James Quin {BIO 18345789 <GO>}

Yes. So we certainly could pay off those cash at the obviously deferred elements on the ship debt. And to be honest, we're not paying very much interest on it, so actually it's not like there's a major incentive to do so. It's something I think we might think about doing equally also it's not as if the terms of the ship debt deferrals are putting a lot of constraints on what we cannot do.

So we -- I mean, we can't pay a dividend until those deferred payments are made, but we won't be paying a dividend anyway. So, I think there's no immediate pressure on us to do that at all, it is probably something we might look at doing maybe next year.

A - Euan Sutherland

Does that help?

Q - Leopold Bian {BIO 18978050 <GO>}

Yes, absolutely. Thank you very much, guys.

A - Euan Sutherland

Great. Thank you.

Operator

Thank you. We have the next question from (inaudible) from Mirabaud Asset Management. So (inaudible), please go ahead when you're ready.

Q - Analyst

Hello I just had two questions, please. In terms of your 2024 bonds, can you tell us when we should expect those to start being redeemed? And also, how would that process occur, should we expect it be a tender at par or we do open market exercise? And the other, my last question is just on your cash balance, what is under normal operating

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conditions the minimum amount of cash you would want on your balance sheet? Thank you.

A - Euan Sutherland

Great. James, you want to pick up those two?

A - James Quin {BIO 18345789 <GO>}

Yes. So the remaining amount on the 2024 bond we would expect to redeem at par when it's essentially Q4 redemption. So that would probably be, I think the point at which we could do that would be in the early 2024. I mean, if there's an opportunity to buyback cheaply before then, I think that's something we might do. But that in ordinary course of events we'd just let it run until redemption.

In terms of the minimum amount of cash, we should look to hold that's been leased, we clearly are not going to run the GBP175 million amount of cash. In the sense that it is -- it's a lot more than we need. Clearly there are some sort of calls on that cash, notably I think obviously the point that it just made around the ship that deferrals and the fact that we have to cash those payments in upfront way. I think at the moment, it is probably still a sensible policy for us to run with the lot of cash on the balance sheet to give ourselves a bit of extra security through the next 12 months, given there are sort of less things that could happen around COVID, but it makes sense for us to be protected from it, that's one of the reason that we did see bond issue when we did it.

So, I think it's probably a question for us maybe in sort of 12 months' time, as we start to obviously rally for COVID behind us and we will start to think about what's the size of the cash balances that we'll run with. But long-term, we're not going to run with GBP175 million of cash, that is for sure.

Q - Analyst

Just two follow-ups on 2024 bond, but under your agreement with the RCF you must take out those bond by 1 March of 2024, that's ahead of maturity clearly. And given that, roughly the RCF becomes immediately due, so there is a clear agreement incentive for you to take out the bonds prior to maturity. And the other thing within that, given that the banks have a desire for the bonds to be taken out earlier, I would have thought there would have been an incentive at the very least for goodwill towards the bank, to not wait until the actual last moment or last required date to take out those bonds.

A - Euan Sutherland

Yes. So, you're right, certainly in the RCF, I mean, I think not surprisingly I think quite reasonably. I think the banks were keen to essentially ensure that the duration of the -- there was an incentive risk to repay the bond. I mean, we absolutely intend to do. I think it's just a practical question for us. So I think if we start -- if we were to try and repay the bond early, that's when we start to get into having some penalties involved. I think it's from the 1st of February I think is the period or 1st of March, I can't remember which date when we can redeem it without any penalty. So that would be sort of plan A if there is

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opportunity to redeem the bond a bit earlier, then I guess that's something we might do. So, but certainly either way, we would redeem it at that point in March, if not before.

Q - Analyst

Okay. So I can see that. So you'll use either the part call option or potentially you could just kind of require to bondholders, and that would be no penalty to you.

A - Euan Sutherland

Yeah.

Q - Analyst

Yeah. And last thing in terms of just clarification on the minimum cash level. Should we look at I guess pre-COVID levels to give an indication of where we can kind of guestimate where, let's say, world becomes normal where cash could go?

A - Euan Sutherland

Yeah, I mean that's probably not a reasonable one. I mean, I think it certainly would be a sensible thing for us to have cash on balance sheet at all times, probably supported by some level of credit facility as a backstop as well. So, again, it's not something I've given a lot of thought to, but probably somewhere in the region of GBP50 million of cash would be a sort of sensible number on an ongoing basis.

Q - Analyst

Okay. Thank you very much.

A - Euan Sutherland

Thank you.

Operator

Thank you. We now have a follow-up question from Ben Cohen from Investec. So Ben, please go ahead when you're ready.

Q - Benjamin Cohen {BIO 18668171 <GO>}

Hi there. Thanks very much. I just wanted to ask two things. Could you just give us a bit more detail about the underlying cost inflation that you see in both parts of the business? I guess, particularly on the insurance side in terms of claims trends as you see them, and maybe as they've changed as COVID has moved behind. But then also just where are we with cost pressures in tour and cruise and needing to match those? And also, I think you made some reference to starting up and needing to stay ahead of that. And the second question was, just on your readiness and your confidence ahead of the rule changes for the FCA, you're obviously not giving any kind of guidance as to the outlook, but may be any color you could give in terms of your increased preparedness since you last updated? Thank you.

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A - Euan Sutherland

Thanks Ben. Well, we're trying to cover all the aspects of the cost -- inflation and cost pressures. First, I guess looking across the board, we've seen some shorter-term pressure during the summer around some cost inflation and pressure in our claims operations through the network. That network was suffering like the rest of the UK from the pandemic, right, the way through to shortages in staff. We've seen that in our call centers as well as we ramp up, clearly we were ramping up both travel businesses from period of hibernation, rehiring colleagues, frontline colleagues that's been more challenging than we were expecting due to the national job situation that is evident across the country.

We're improving that now and largely getting back into where we need to be by the middle of October. That has caused a bit of wage inflation, to be honest, but nothing that is particularly significant to the numbers. And in travel area, the only other areas of cost inflation that we're seeing is around our crews, food supply, where we've seen some inflation coming through but we need to take a bit of the hit because it's an all-inclusive offer. Again, not particularly significant for the medium term, but we're seeing some short-term pressures as the rest of the country is seeing, all within the bounds of the guidance that we've said, so there's no need to adjust any numbers on that. Wider cost inflation across insurance. James, you want to take on that?

A - James Quin {BIO 18345789 <GO>}

Yeah. So I mean, there is fully bit of underlying claims inflation. Nothing I think that is particularly newsworthy. So, this is fairly typical underlying inflation probably across motor and home. Obviously, that's been very much obscured by the impacts of lockdown on motor claims frequency, certainly, through the early part of this year motor frequency was well down because of the both lockdowns we went through.

Right now, and certainly in the last couple of months, I would say that although motor frequency is still a bit below where it was before the pandemic, it is more or less in line with pricing assumptions. So I think we along with everybody else in the industry is making some allowance now for an ongoing lower level of claims frequency, and that's been passed on in pricing. So at the moment pricing and claims costs of running more or less in line with each other, obviously, something we're going to keep a close eye on in terms of what happens next.

A - Euan Sutherland

I think kind of standing back from the scenarios that we've presented previously, when we've spoken from crews, treated too roughly due to insurance, very much within the guidance that we had previously given, I think that we're seeing in terms of inflationary pressure is going to kind of move that away from that guidance.

In terms of FDA readiness, we're well-prepared. We have hit all of the milestones that we need to hit through the regulatory product development pricing, et cetera. We're further reinforcing the team, clearly seeking shortest joining, in about six weeks' time as the CEO of insurance. We're also announcing today that Graham Wright is the lead pricing consultant from Willis Towers Watson is joining us as the Pricing Director for Insurance in

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December as well. So the team is well set, team is working incredibly hard over the last year to be ready for the FDA market study. We're adding to the capability, so we feel confident around the prospect of that. And as you said before, we think this is the right move for our customers long-term. So, nothing really to report in the lead up to that other than on plan.

Q - Benjamin Cohen {BIO 18668171 <GO>}

Okay. Thank you very much. Thanks.

A - Euan Sutherland

Thanks, Ben.

Operator

Thank you. (Operator Instructions) And we now have a question from Nick Johnson from Numis. So, Nick, please go ahead.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi again. Just this one follow-up from me please, just on the footprint expansion in motor underwriting due to the model upgrade. Can you just give us a feel for what segments that might be in? And perhaps how significant -- talk about how significant that is as a development in terms of future growth potential and the capability in insurance? Thank you.

A - Euan Sutherland

Yeah, I think we've made some really good progress in underwriting under Steve McGuinness coming into the business about nine months ago. We're treading that business really strongly back into policy growth there for the first time in quite a long time. Electric vehicles have been added to the book and we're seeing successful uptake there, number of other areas that we're looking to expand the footprint. But that's a positive indication of where we're moving with the footprint. James, anything else you want to?

A - James Quin {BIO 18345789 <GO>}

Yeah. I mean, I think at the moment probably it's much about a core competitive versus the panel, as opposed to necessarily opening up new types of business that the broking business would not have been competitive on previously, but it is also about that second piece as well. And so there is a piece there, which I think we -- I mean, it's still early days in terms of what we could expand that into. So it's probably more a case of small steps at the moment in terms of that second piece of opening up on footprint expansion from a broking perspective as opposed to the sort of the competitiveness of a core versus other people on the panel.

Q - Nick Johnson {BIO 1774629 <GO>}

Great. Thanks very much, indeed.

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A - Euan Sutherland

Thanks, Nick.

Operator

Thank you. We have now no further questions registered at this time. (Operator Instructions) We now have a question from David Cullen of Howie[ph] Investment. So, David, your line is open.

Q - Analyst

Good morning. Thanks for the opportunity to ask the questions. Can I just ask about debt? What is the, I think now is the right level of debt to the business, if you could end that both inclusive and exclusive on the ship there. Because I guess going forward, with any cash generated you're just paying down debt. I'm curious to know what's the point where you can start to, I guess, rethink the capital allocation strategy? Thank you.

A - Euan Sutherland

So, in terms of the right level of debt, I mean, I think the right level of debt would be probably quite a lot less than we had at the moment, without one of these decisions about it. I mean I think that clearly what we've done in the short-term is take on more debt -- more gross debt, haven't changed the net debt particularly in the interest of really giving ourselves more security over the next few years, but really what happens with COVID. And also to extend the maturity profile as well, so we got no refinancing needs really at all for quite some time from now.

The goal here clearly has to be then to reduce both gross and net debt. And I think that this goal that we've set ourselves of having debt to EBITDA of below 3.5x I think is -- I mean, that is definitely a sort of minimum objective I think that we would have. And what we've said really, that puts a priority over other calls in terms of dividends as well. So, I think minimum is to get it below 3.5x debt to EBITDA, including the cruise ships obviously. And that will take us a few years to do, but I think once you're down to that level then the balance sheet would look very different.

I think there's obviously other questions that we will look at over time, but I think that would be the objective for now anyway. Does that help?

Q - Analyst

It does. Did say 3x or 3.5x?

A - Euan Sutherland

So I think 3.5 would be the minimum that we would want to get it down to, so below 3.5. Now, I think that you could argue well, why not go further than that? And I think the question then obviously is one about, I mean, the reality here is that cruise is an asset-backed bit, this it probably wouldn't make sense to try and run that on a totally debt-free basis. And so it's a business that can support a reasonable amount of debt.

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Now, you want to get the loan to values down to probably be somewhere below 50%. But at that point, that seems like a reasonable place to be. And then if you take cost to insurance business, you'd run with much lower levels of leverage, maybe 1x EBITDA or something like that. And if you put the two together then you probably end up with somewhere around about sort of 3x EBITDA or is an ongoing level. Big question then is, is that the right shape of the balance sheet for future? It's a good question, it's probably not top of mind right now, but it's certainly something we'll be looking at over the next 18 months.

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Q - Analyst

Great. Thanks very much.

A - Euan Sutherland

Thanks, David.

Operator

Thank you. We have no further questions registered at this time. So we'll hand it back to the team.

A - Euan Sutherland

Thank you very much. Thank you for joining the call. Just remind people who are on the call, we are also hosting a retail shareholder call on Friday morning. So happy to take further questions then. And if there are any other follow-up questions, please feel free to call through. Thanks very much.

Operator

Thank you. This does conclude today's call. Thank you, all again for joining. You can disconnect your lines.

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