S1 2020 Earnings Call

Company Participants

- Gary Duggan, Chief Executive Officer
- James Quin, Group Chief Financial Officer
- Lance Batchelor, Group Chief Executive Officer
- Robin Shaw, Chief Executive Officer

Other Participants

- Abid Hussain, Analyst
- Ben Cohen, Analyst
- Joanna Parsons, Analyst
- Luke Stratford-Higton, Analyst
- Omar Resheq, Analyst
- Unidentified Participant

Presentation

Lance Batchelor {BIO 6884486 <GO>}

Morning, everyone, and welcome. Thank you very, very much for joining us. As you probably know by now, after six years of me standing up, I'm Lance Batchelor, the Group CEO of Saga, I'm joined today by our CFO, James Quinn, and also by the CEOs of our Travel and Insurance Broking divisions, Robin Shaw and Gary Duggan. Our Chairman, Patrick O'Sullivan, and a number of non-execs from our Board are also with us this morning. So, welcome to you.

Now given that we're mainly going to spend this results presentation reporting on the progress against the strategic reset that we did back in April, kind of makes sense for us to follow a similar format to the one that we use then. So I will give a quick introduction. Then I'm going to hand you over to James who will talk you through the numbers in more detail. Gary, and then Robin will give you an update on their respective businesses. I will then update you on membership and the brand. And I'll conclude and open the floor to questions. I'll just let everyone settle.

So let's start with the headlines. As you will have seen from this morning's release, we've made good progress against our strategic goals. From astounding start, the sales of our three-year fixed price insurance are good. And that has helped us in a number of other areas. We are stabilizing Saga's branded Home and Motor policy count, despite a challenging insurance market and without needing excessively to use price comparison websites to drive the volume. Our retention has improved. The proportion of new customers buying from us direct has improved. We've been able to deliver margins above our target range for the year. Meanwhile, on the other side of the business, our Cruise division is really going full steam ahead. The launch of Saga's Spirit of Discovery was a really significant milestone for the Company. And the booking momentum that we've had since then has meant that we've achieved this year's targets. And looking forward to next year, over 55% of our total target volume is already booked. Now, remember that next August we get a second new cruise ship and that increases our capacity by 28%. So given that we're already 55% pre-built for next year, we are genuinely in a very strong position in Cruise.

In the other part of our holidays business, Tour Operations, we're continuing the process of transitioning the business towards higher margin, more differentiated products in a very challenging market. So in short, we've made a good start. We're confident of hitting our previous guidance for underlying PBT of between GBP105 million and GBP120 million. But there's plenty of work still to do.

So with that, I'm going to hand you over to James, who's going to take you through the financials in some more detail.

James Quin {BIO 18345789 <GO>}

Thank you, Lance. I'll now take you through the first half results, starting with the main headlines. Underlying profit before tax of GBP53 million for the first half is around half the prior year figure. This is due to a combination of factors, including lower reserve releases, margin pressure in Broking and temporarily lower earnings from Cruise. The key point to make, however, is -- this is in line with the guidance that we provided in April.

On this slide, we showed both underlying and reported profit before tax. And these are for the most part, the same number. In terms of the items outside of underlying profit before tax, there are some relatively small ups and downs, but these effectively net off to zero. Debt ratio has increased as a result of lower reserve releases. That reduces the denominator in the leverage ratio calculation. Actual net debt, excluding the debt relating to the Spirit of Discovery, was stable in the first half. And the interim dividend of 1.3p per share is consistent with our rebased dividend policy.

On the next slide, I show the results by division. There are two points I would like to highlight here. The reduction in the underwriting results is due to lower reserve releases, which are tracking in line with our expectations. And the result of travel is very much a one-off, including a GBP3.4 million loss from the cruise business compared to a profit of GBP4.3 million in the prior year. This is due to the fact that we only had one ship in operation for three months of this half year and due to launch training and marketing costs for the Spirit of Discovery. We expect a very different picture from now onwards.

On the next slide, I show more information on the broking business. We've made some good progress in broking in the first half against the KPIs that I set out in April. However, before I talk about that, I'll give you an update of the information I provided with our full year results, which shows the moving parts in written profit between last year and this year.

Compared to the first half of last year, the new business contribution of home and motor business has declined by GBP4.8 million. This is mainly due to the factors that I outlined at the time of the full year results and relate to changes in distribution trends and the impact of GDPR on direct mail volumes. In addition, we have in the first half increased spending on advertising to promote the new fixed product and to bring customers in on a direct basis. This is consistent with the direction we set out in April and our focus on Saga's heritage strength as a direct-to-consumer brand.

A point I would like to make here is that our new business margins on net of a prudent deferral of part of the premium paid on three-year fixed policies. This makes allowance for future customer retention levels as well as the likelihood of customers making material mid-term adjustments or claiming on their policy. In which case, we would reset the price on renewal. As of 31 July, we had deferred GBP1.8 million of revenue on 112,000 policies. That's about 8.5% of the total net written premiums of all the business written on a three-year fixed basis. And it allows us to absorb inflation running above our base case assumptions through the life of those policies.

Turning back to the chart, we've seen a GBP4.4 million of reduction in renewal margins, almost all on home, mainly due to the impact of discounting in the prior year [ph] and an increase in net rates from panel insurers. We've been seeing some small other changes, such as reduction in travel volumes that was expected and a small increase in operating costs, which is due to the fact that we've accrued six months of bonus payments whereas previously all such costs were recognized at the end of the year.

Now, I do recognize this is not -- does not make for easy reading, but the key point here is that these year-on-year movements were very much what we had expected. And as I explain on the next slide, the underlying trends in the business show good signs of progress.

At the time of our full year results, I set out a view of expectations for the performance of the broking business as we implemented a new strategy. And on this slide, I show you an update of how we are doing. In terms of policy volumes, our goal for this year was to hold home and motor volumes as fairly stable. At the half year, overall, home and motor policies were down by 4%, largely due to a planned reduction in our motorcycle [ph]brok, Bennetts . For the Saga branded home and motor business, policy -- policy volumes reduced by 1.9%, which is slightly below expectations and due in part to very competitive conditions for new business.

With a disciplined approach to pricing and with the benefits of the three-year product, we've started to shift our distribution model back towards direct. For the first half, direct new business represented 53% of total Saga branded home and motor new business, compared to 44% in the second half of last year. In relation to retention, we have a positive story. Across home and motor, retentions are more than 1 point higher than in the prior period and around 3 points higher than in the second half of last year. This is due to various initiatives to improve customer retentions.

In terms of profitability, at the time of the full year results, I provided an indicative range for gross margins per policy after marketing costs and across home and motor combined. We're slightly above the top half -- the top-end of that range in the first half at GBP75.50. The full year margin is expected to be in the guided range of GBP71 to GBP74 as a result of changes to renewal pricing for long tenured customers, which were largely implemented in July.

And last, I would expect overheads to come in within expectations for the full year, and I would anticipate a lower written to earned charge compared to the GBP5 million. The point I want to leave you with is that we have stabilized the broking business and we are making good progress in some critically important areas. While it's still early days, we will continue to test and learn with different approaches to advertising spend and improve our insurance propositions to drive a further shift back to direct over time. Gary will talk more about this shortly.

Next, I would turn to our underwriting business. Earned premiums in AICL declined by 9%, although this is a somewhat backward looking view reflecting a loss of panel share last year. AICL's share has now increased again as a result of actions to improve competitiveness. And this should lead to a more stable picture for the full year. Claims trends have been largely in line with expectations. We've seen a modest increase in inflation trends in theft and some other small risks. This has had a modest overall impact on inflation and that's consistent with what we hear from other insurers.

Overall, however, this is within normal ranges and large bodily injury claims experience has been fairly good. During the first half, we released GBP18 million of reserves. That's in part due to the reduction in the Ogden discount rate from minus 0.75% to minus 0.25% and in part a recognition of prudence in best estimate reserves. Our expectations for AICL are unchanged from the comments I made in April. To be specific, we expect reported results to trend to medium-term combined ratio of around 97% in the next two years. The focus within AICL now is an improving pricing sophistication and supporting footprint expansion in line with the role of the underwriter as a key enabler of the Group's insurance strategy.

Turning now to travel. Highlights of the first half has been the completion of the Spirit of Discovery from a purely financial perspective on time and on budget. Bookings for both this year and next year for the two ships have been very strong, particularly following a step-up in marketing activities from June. We have an increasing level of confidence in achieving the target of GBP40 million of EBITDA per ship, albeit there's still a long way to go for next year. In terms of this year, the loss increase in the first half was in line with expectations and is due to the sale of the Pearl in April and marketing and other costs relating to the Spirit of Discovery.

In relation to tour ops, the travel industry overall is going through a period of major change and the added political uncertainties around Brexit have exacerbated those pressures. We have seen a 5.6% decline in passenger numbers and a 3% decline in revenues in the first half. In addition, gross margins have fallen from around 20% to 17.6% in the current year due to one-offs in the prior year of about 1 percentage point and the impact of price discounting in the first half of about 1.5 percentage points. While the demand environment remains fairly challenging, we do expect to see improved margins in the second half. And Robin will talk to this shortly. Overall, our priorities for tour ops are unchanged. We will shift towards higher margin and differentiated holidays, particularly based around tours and river cruise.

Next, I will cover emerging businesses and central costs. Emerging businesses' underlying profit before tax reduced by GBP0.5 million [ph] in the prior -- in this period. And that's mainly due to margin pressures in the group's printing business. Central expenses increased by GBP4.7 million for three reasons: investments in brand and IT capabilities of around GBP3 million; an increase in legal and professional fees of around GBP1 million; and an accrual of six months of bonus payments of a further GBP1 million. To give you more of a sense of what is included in this category, we provide additional disclosure in the back of the presentation.

Around GBP4.5 million of the total central costs related to PLC costs and share-based payments for senior management. A further GBP4.8 million relates to centrally managed costs such as group group IT and shared service costs, as well as professional fees, group audit fees and insurance costs. And GBP6.3 million relates to central brand spend, the costs of membership and depreciation on IT assets that are used across the group. The point here is that a relatively small portion relates to central overheads, and the majority of these costs benefit the trading divisions of the group.

In this respect, to get the full picture of the group's cost base, I share analysis of total admin and marketing costs on the next slide. This slide analyzes how group admin and marketing costs have changed compared to the prior period. There are three main moving parts. The biggest is the fact that we are now accruing half a year of bonuses. This adds GBP3.2 million to costs. But it is of course, a cosmetic change. We have then, as expected, also spends around GBP6 million more on marketing costs than in the first half of last year, and that split more or less 50/50 between broking and cruise. These investments were flanked with our year-end results and are an important part of our strategic reset. This is then partially offset by around GBP4 million in high deferrals under the written to earned adjustments and the quota share treaty. Net of these items, total admin and marketing costs were pretty much flat as we continue to take a disciplined approach to expenses.

On the next slide, I set out available operating cash for the first half. There are two specific one-off factors, which have reduced operating cash in the first half. We injected GBP25 million into travel in February to help meet the final installments due on the Spirit of Adventure. And we had a one-off benefit in working capital last year, which reversed in the first half of this year. This was in an amount of GBP15 million. Adding these two items back, our cash conversion, which is namely the percentage of EBITDA that translates into operating cash would have been around 75%. This is consistent with a level in the prior year, adjusted similarly to exclude the working capital one-off. We expect the cash conversion ratio to increase once the two ships are operational. And that's because they will start to make a positive contribution to Group cash flow above and beyond that needed to fund cruise's debt service commitments. This should help to demonstrate how we can achieve a cash conversion ratio of at least 85% for the next two financial years.

On the next slide, I'll provide an update on Group debt. The important point I want to make here is, this is pretty much the same chart that I showed with year-end results. Net debt, excluding the cruise debt, was largely unchanged in the first half, mainly due to the one-off factors outlined above. Our total debt has increased entirely as expected following the completion of the Spirit of Discovery in July. As I explained in April, the main covenants in our short-term debt is calculated, excluding both the debt and earnings relating to the two new ships.

At 31 July, our debt to EBITDA ratio, excluding the Spirit of Discovery, was 2.2 times, well within our covenant of 3.5 times. I do expect this ratio will increase in the short-term, and that's due to lower ex-cruise EBITDA as reserve releases decline. However, with a target future cash conversion ratio of at least 85%, we expect our non-cruise debt to reduce significantly in the next few years. My goal remains to repay the short-term loans and the revolving credit facility ahead of these -- the expiry of these facilities in May 2023 and we remain on track to do so. In the meantime, also in line with what I set out in April, I intend for the Group to maintain 0.5 turn of headroom to the covenant level.

I'll now wrap up with a quick update on how we see the second half. In broking, we expect the full year Saga branded home and motor policy count to be slightly lower than last year. Consistent with the picture in the first half. We expect margins in the second half to be lower than the first, but, overall, in line with the indicative target range of GBP71 to GBP74 we set out in April.

AICL results for the second half are expected to be broadly in line with what we reported in the first half of the year. In travel, we expect to see a slightly improved picture in tour ops compared to the first half. And with the Spirit of Discovery making a full contribution. Central costs are expected to be around GBP5 million higher in the second half, and that is due to the timing of certain IT and membership investments. Perhaps, most importantly, overall, as mentioned before, our target for full year underlying profit before tax of between GBP105 million and GBP120 million is unchanged.

With that, I will hand over to Gary.

Gary Duggan {BIO 18331803 <GO>}

Good morning, everyone. Thank you, James, for the introduction. In April, I advised of a new transformational insurance broken strategy, the rationale for the changes, and why I thought we were in a strong position to respond to the challenges ahead. We have a profitable insurance business built on solid foundations, and we're just six months now into the implementation of this fundamental change to our strategy.

I'm pleased to say that we've made good progress on our three key priorities growing direct channels by launching disruptive new propositions, keeping more of our customers for longer, and becoming more efficient as a business. We launched our groundbreaking three-year fixed price products in April, and I'm delighted to say it's been extremely popular with both new and existing customers.

It's become clear that customers within our demographic are prepared to pay slightly more in the first year for a high quality product with the reassurance that if their circumstances don't change, neither will their price. We've also received some very positive PR in being one of a small number of insurance companies that are actually proactively responded to the pricing challenge as part of the FCA market study.

Over 60% of customers buying a policy from our direct channels have chosen the higher premium three-year fixed price products. And in H1, we sold 112,000 policies to new and existing customers. And the latest trading data shows that that's increased to over a 180,000 [ph] now. This has really helped to increase our sales through direct channels, as James mentioned, which now represents over 50% of new business and is 8% up on H2 last year.

In addition to which, our revenue per policy on new business has increased by GBP6 per policy since H1 last year. And we have driven some of this growth by launching off first advertising campaign for almost a decade now. The campaign was successful in driving 20% increase in quotes and a 9% increase in brand consideration, though there remains some work to be done in optimizing our channel mix and increasing our conversion rates.

For those of you out there who may not quite fit into our demographic and missed the adverts during (inaudible) or the entertaining daytime programs that you may have missed, we thought we'd give you an opportunity to see our first kind of advert, our motor advert. It's the first time that we say we've done this in almost a decade above the line.

(Video Presentation) So, whilst new business is really important to us, retention is absolutely key to any insurance business. I committed to developing a more progressive approach to customer loyalty in the future back in April. And this approach has already paid dividends in H1 and both home and motor retention rates haven't increased since last year, as James mentioned.

We've adopted a broader range of solutions to the customer retention challenge now. We've utilized some behavioral economics techniques, working in partnership with Swiss Re. We've increased the prominence of our membership program benefits in the renewal letters. And we've now got over 800,000 insurance customers who are Saga members, which gives them another compelling reason to stay with Saga.

We provided our customers with an increased choice of products now, including our three-year fixed price product, and 25% of our customers are now moving over to the three-year fixed price product at renewal. So it's clearly very popular with our existing customers.

And finally, we've implemented some new pricing models that would recognize the higher value that comes from our longstanding customers. As a consequence of all of these actions, our overall motor and home policy volumes have been stabilizing. As you can see, there is a change in the channel and the product mix. We increased our PCW sales in the second half of last year, following the impacts of GDPR in May. But you can now see a shift back to direct channels in the first half. And this chart also illustrates the increasing volume of three-year fixed price policies across the portfolio, which we anticipate will drive further improvements in retention rates in the future.

We launched fixed price in April, May time. So the 30% of fixed price in new business that you see there from direct has now actually risen to a run rate of 60% of our direct sales. Interestingly, actually, 10% of our fixed price policies originated from a PCW inquiry, despite the fact that the product isn't actually available on our PCW. And similarly, the 18% of retained business on three-year fix in H1 was actually increased to 25% of renewals in recent months. So you can see the shift back towards direct channels and three-year fix is improving as we build our understanding and we look to optimize our product and channel mix moving forward.

I said back in April that we would continue to focus on driving efficiencies into our business and our operational costs have -- by policy have continued to reduce, by now -- down by 18% compared to 2017, '18. And they decreased by another 1.3% in the first half of this year. We have recently implemented some new technology solutions into our business, which will help to drive our cost down even further, such as robotics and webcams. All of our motor policies have now transferred over the Guidewire. And we are now beginning to leverage Guidewire's digital capabilities to improve our customer journeys, which will help deliver a better online experience for our customers and increase our conversion rates.

I also have signaled the need to expand our footprint and increase our competitiveness on our panels. The good news is we've managed to sign two new insurers onto our home panel and we've launched a new breakdown partnership with the RAC. I'm delighted to be able to announce that we have also reached agreement with Sabre, who will be our first new insurer to join the motor panel since 2015.

We're also now working with another insurer who wants to join the motor panel next year. So this increased panel competitiveness will really help to provide even more opportunities to drive improved quotability and conversion rates in the future. We needed to expand the footprint beyond its historically very narrow base of customers. And following the implementation of a series of initiatives already this year, I can confirm that we've increased both quotability and competitiveness in H1.

Our motor quotability for example has increased by 4 percentage points since the beginning of the year. Now, looking ahead, to H2, we'll continue to execute our innovation program and we have a number of propositions in development to build on the success of the three-year fixed price policies. We are continuing to refine the three-year fixed price proposition and our advertising campaign strategy in light of the initial learnings that we've taken from the launch. And this will help us to optimize any future investment, focusing on the customer segments and the channels which deliver the maximum value.

We will also continue to increase personalization within our renewal materials and we'll leverage our membership program to drive an increase in retention rates. We also have plan to introduce a new pricing engine this year that will significantly improve our pricing capabilities and decisioning in the future. We also have a number of additional footprint expansion initiatives in H2 that will also help to drive our quotability and competitiveness. And we will commence the migration of our home policies onto Guidewire and accelerate our digital program to drive further efficiencies into our operation.

So in summary, it's early days in the implementation of our new strategy, but I believe we've made good progress in executing against the key priorities we set out in April. We've driven growth in our direct channels. We've sold over 180,000 fixed price policies. We've increased our retention rates and we've delivered further operational efficiencies. We operate in a highly competitive market, but right now in a much better position to respond to the challenges given the progress we've made in H1.

Now, I would like to hand you over to Robin Shaw, our travel business CEO. Thank you.

Robin Shaw {BIO 20138547 <GO>}

Thank you, Gary. Good morning, everyone. As always, it has been an eventful six months in travel, but I'm pleased to report that we continue to make positive progress in the transformation of our travel businesses, particularly cruise. However, our half year results are against the backdrop of a challenging market, particularly for Tour Operations. Indeed, the adult market for seven-plus night holidays, according to GFK is down 5%.

I will, however, start with cruise. And we've been talking about cruise for a long time now. So it's a great pleasure I can show you a picture of a real ship and not just a mock-up.

(Video Presentation) The last three months have been absolutely amazing and we successfully delivered our first new build, Spirit of Discovery on time and on budget. The ship has been widely applauded for its design, style and overall quality. And most importantly, since launch, we have seen a significant uptick in bookings. I will touch on this later. As James mentioned earlier, our half one cruise performance was an underlying PBT loss of GBP3.4 million, which is in line with our previous guidance and reflects taking Saga Pearl out of service in April in order to prepare for the new build Spirit of Discovery coming into operation and includes marketing and training costs.

I am also pleased to announce that we've agreed the sale of Saga Sapphire, which will leave us in mid-June 2020 prior to the arrival of our second new build Spirit of Adventure in August 2020. As of today, we have virtually achieved our '19-'20 full year revenue target, which means for our new build Spirit of Discovery, we are confident of achieving on a pro rata basis a GBP40 million EBITDA for the first full six months of trading.

Booked revenue for '20/'21 has also been strong in recent weeks. And we have now booked 55.7% of our full year revenue target for the year to 31 January 2021. And this again gives us full confidence in our ability to achieve the GBP40 million EBITDA per vessel per annum.

Turning to tour operations, as mentioned earlier, outbound UK travel has been tough for the first seven months of our financial year. The Brexit uncertainty has had a impact on both people willing to travel, but also general consumer confidence. Overall, our passenger number declined a 5.6% is in line with the market, but we continue to move away from short-haul stays down 19% and into tours and rivers, which grew by 7% and 15% respectively. This reflects our focus into the more differentiated and higher margin segments. However, half one did result in a marked reduction in gross margins from 20% in half one to 17.6% in the first half of this year and reflects the very competitive pricing as all travel operators chased volumes, particularly where there were inventory commitments.

Looking forward, top line trading conditions have been continued to be difficult. And we expect similar overall revenue declines in half two versus half one. However, we do expect to see margins to return to levels closer to the prior year resulting from profit improvement initiatives taken throughout the year, including benefits from our holiday transformation plans.

I would now like to talk a little about '20/'21 [ph] trading. The chart on the left shows the cumulative booked revenues for '20/'21 as at 14 September and how they have tracked over the last 14 weeks. As noted on the graph, the rate of sales has increased significantly since the launch of Spirit of Discovery and now stands at GBP84 million. This represents 55.7% of our total full year ticket revenue target of GBP151 million. The increase in ticket revenue in '20/'21 is a direct result of our increase in capacity with a new ships of 28% year-on-year.

To be clear, the step change in bookings since the new ship launch has exceeded our expectations. As noted on the previous chart, tour ops trading for '20/'21 is down 4.3% on prior year. The chart on the right breaks down this performance into the key segments and shows a relatively strong performance in rivers, which is important given our inventory commitments.

Stays have stabilized as we start to overlap significant reductions in the prior year. And our key challenge in the coming months is ensuring we optimize our tour load factors, given the overall demand environment. Importantly, we are seeing the benefit of investing in commercial tools and expertise, and we are already seeing margin improvements on booked '20/'21 revenues. Earlier, I commented about how well our new ship has been received into the markets, both by the general media and indeed the travel and cruise media. The Mail say it's clear that the Spirit of Discovery is a game-changer with chic interiors in a palette of cool shades.

The Times, it turns out that Spirit of Discovery is pretty cool. Travel agents through Travel Weekly, I along with many of the agents onboard, probably had some preconceived notions, but these were all undone after two days. The decor isunderstated luxury is contemporary with flashes of opulence. And most importantly, our valued guests are particularly impressed. (Video Presentation). It'll be nice if all our customers had GBP105 [ph] savings with us.

In summary, we have delivered a high quality, unique small cruise ship into the UK market and it is certainly challenging in a very positive way how the brand -- Saga brand is perceived. In summary, cruise is in an excellent place and our confidence is high that we will fully achieve our targets, notably GBP40 million EBITDA per ship per annum. The overall demand environment for tour ops is tough. And given the continuing political and economic uncertainty, we do not see this changing in the short term.

However, within tour ops, we are making good progress with our transformation strategy and we are already seeing those margin improvements for '20/'21 bookings. Our NPS scores are market leading. And we continue to review all elements of the customer journey. We know that small improvements add up. And we are committed to raising the bar even higher. Indeed, we are looking forward to Q3, where we will see the impact of the new ship on our NPS scores.

Lastly, I am very pleased to say that we are still on track as a travel division to deliver underlying PBT of between GBP60 million and GBP75 million by '21, '22. Thank you.

Lance Batchelor {BIO 6884486 <GO>}

Okay. Thanks very much, Robin. I hope it has come across that we've made a good start. We're now focused on specific and clear actions to build the momentum in cruise and also to improve the quality of our offerings in tour operations business. And on the insurance side, we want to turn an increasingly stable platform into one from which we can grow.

Let me take a few minutes just to update you on the brand and membership. The focus of the first half has been on driving brand consideration on the back of our new products in cruise and insurance and with Saga's first above the line marketing campaign in over 10 years. Also on strengthening the route to our customers through our membership and growing their engagement. And we've done that. Additional marketing and the launch of fixed price of Spirit of Discovery have all added to a positive dialogue with our customers. We've also continued to improve our membership offering by adding entertainment possibilities to the travel and dining propositions, and we've increased the proportion of members that we can e-mail by over half over the last six months.

And these two things together have helped us to boost the engaged proportion of our members by 61%, albeit from a lower base. Now, there's still a lot to do. And in July, we did some detailed sampling to help us understand which areas might be holding us back in membership. And they are the digital experience and the lack of broad regional footprint for many of our members. Now we've got a number of actions planned for the second half that are going to help us address these challenges and continue to drive membership momentum. So, for example, the launch of our new app. And we've also signed up Mitchells and Butler, which takes us to more than 1,800 restaurants across the UK in all regions.

Now, we've said all along that membership needs to drive real commercial value into the business. And we're starting to see strong evidence of its value and some meaningful financial benefits. We set ourselves a target this year of taking 4,000 passenger bookings through Saga possibilities by the end of the year. And in fact, we've already sold over 95% of that volume in the first six months. Very importantly, over 75% of those bookings are for [ph] cruise, and over 65% of those bookings were made by customers who have not previously traveled with Saga Cruise.

So let me summarize, we have made some really good progress, but we still have a great deal to do. We have significantly de-risked cruise expansion. And we've established a more stable insurance platform from which we can start to grow. We're very focused on delivering the guided profitability for the current year. And we're taking further actions now to ensure that we can grow from next year and beyond.

So, that concludes the presentation. Thank you. And with that, I'll open up to questions that would be very helpful if you could say your name when you get the mic.

Any questions?

Questions And Answers

Q - Omar Resheq

Hello. Omar Resheq from KfW Bank in Germany. I have a quick question...

A - Lance Batchelor {BIO 6884486 <GO>}

Sorry, I missed your first name.

Q - Omar Resheq

Omar.

A - Lance Batchelor {BIO 6884486 <GO>}

Omar. Hello.

Q - Omar Resheq

Yes, hello. I have a question regarding -- two questions regarding Brexit. First, as far as I know, your revenues are completely focused on UK. So I guess regulation wise, there wouldn't be so many obstacles if there would be a half Brexit. Is that correct?

A - Lance Batchelor {BIO 6884486 <GO>}

Are you talking about on holidays business or across the whole base? You're right. The huge majority -- really all of our revenues are UK based. The main impact we have is that some of our holiday customers do go into EU markets and we'll see what the trading conditions are going in there, but we are overwhelmingly a UK-based business.

Q - Omar Resheq

And the second question, you had quite high impairment lost in the last year on goodwill. And my question is the uncertainties regarding Brexit increased in the last weeks, do you expect that, there might be further higher impairments or did you already included these uncertainties in your last impairment?

A - Lance Batchelor {BIO 6884486 <GO>}

James, do you want to take that?

A - James Quin {BIO 18345789 <GO>}

Yes, so for goodwill, I mean, we've looked at the goodwill again for the half year and there's no change in the goodwill carrying value. I mean, Brexit is a consideration in that. It's one of the things that we look at as a stress test against it. And if I'm honest with you, I don't think it's probably the biggest input into the valuation of goodwill. So, I think the real driver of goodwill there is us delivering on our plan. And while I wouldn't say that's insensitive to Brexit, I don't think Brexit is going to be the biggest piece of that equation.

A - Lance Batchelor {BIO 6884486 <GO>}

Thanks, Omar. Any questions?

Thanks. Ed Morris, JP Morgan. Two questions, please. First of all, you just commented on some of the learnings that you'd made from the roll-out of three-year fix and some slight changes that you've made. I wonder if you could just talk a little bit about that process and what you may have learned and changed since it was initially launched.

And then secondly, could you just talk a little bit about the competitive backdrop in motor and in home? It seems to be some evidence that pricing is stabilizing, potentially doing a little bit better. But can you just talk about your thoughts, please? Thank you.

Gary, may I pass this to you?

A - Gary Duggan {BIO 18331803 <GO>}

In terms of the learnings set from the campaign, clearly, I'd say it's the first time we've been out there for 10 years now in terms of above the line activity. So, we're learning them and working with our marketing agency to see which channels work best for us. And that means, it's online work better than TV, work best than press. What we've actually seen is TV and social media and digital channels actually work better than press in the initial launch. So, for example, we look to shift some of our activity into the future to those channels that have delivered better value, if you like, in terms of policy sales and also brand consideration. The motor advert cannot perform better than the home advert. That was a bit clearer. So we're learning as we go, but obviously we'll build all of those learnings into the next campaigns that we're looking to undertake between now and kind of the end of the year. So I think that's set in probably in terms of the above the line campaign and the marketing activity.

And in terms of the competitive backdrop, I think you're right. I mean, generally, relatively stable. People talk in most around about 5% claims inflation that seems to be pretty standard view across the across the industry in motor -- sorry in home similarly. So, we're not seeing huge swings in terms of the inflation rate assumptions for the market. It still remains a very competitive market. But I think, as we said earlier, it's not so kind of make some good progress in our areas. And hopefully, the new panel members coming on and the work we're doing on footprint expansion will help us to compete even more effectively in the future. I don't know, James, anything you'd add to that.

A - James Quin {BIO 18345789 <GO>}

I agree with all of that.

Okay.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi. I am Ben Cohen, Investec. Just following up on the second of those questions. I think you talked about how you've been squeezed a little bit in your home broking margin from your suppliers essentially needing to raise prices I guess because of claims inflation that they're seeing or margins that aren't up to scratch. Is there a risk of that coming through as well on the motor side? If we go through a sort of a repricing cycle in motor and that could impact your margins.

And the second question I had was in terms of the broad strategy of the group. Obviously, Elliott has taken a stake in the business now. I just wondered sort of where the board is, where management is in terms of thinking about the best composition of the Group, given that this probably isn't a structure that you would get to if you were sort of starting a company fresh. Thank you.

A - Lance Batchelor {BIO 6884486 <GO>}

Just going to ask Gary to take the first half of that and I'll take the second.

A - Gary Duggan {BIO 18331803 <GO>}

Yeah. Sure. On the home side, Ben, I think we mentioned that back in April as well, that we've started to see some kind of net rate inflation on our book on home. But actually, we are now starting to see that the insurers are starting to see an improvement in the performance of our book. So, we anticipate (inaudible) moving forward and that's kind of a one-off correction, if you like, for the insurers incentive and net rate increases. And we predict moving forward that it will -- into the future, that it will be kind of more in line with the rest of the market as they've kind of corrected the net rate pricing on our particular portfolio. And there's no evidence that, that has kind of created any kind of (inaudible) impact on the motor book at the moment. The motor inflation, claims inflation, net rate inflation that we're seeing is pretty well in line with the rest of the market.

A - Lance Batchelor {BIO 6884486 <GO>}

And on your second question, Ben, look, two things to say. The first is management and the Board are not wedded and have never been wedded to any particular structure for Saga. What we want is to create shareholder value and we want to create fantastic offers for our customers and members. And we will go with whichever structure makes sense in order to achieve that. What I would say, though, is that I don't believe that in the last five or six years, we have demonstrated the capability of what Saga can be. We now have what I believe are the best insurance policies in the UK market. And as you heard, they're selling really, really well.

And we have the best cruise ship in the UK market with another one to come. And they held together by Saga Possibilities, which is the membership structure and that appears to be gathering momentum in driving cross-sales across the Group. So my belief is that it's only now that we are really testing the current structure of Saga to find out what it's capable of. And I think when the Board is open-minded as we move forward and we want to see what can we get out of Saga, now that if you like, it's firing on all three cylinders. But again, we're not religiously wedded to any one structure and we'll stay open-minded as we move forward.

Any more questions around the room? Nick?

Q - Unidentified Participant

Hi. Good morning. Just a couple of questions, please. Firstly, on other broking segment, which is now your second most profitable insurance broking segment. Within that, can you just give a feel for what the market environment is like for private medical insurance in terms of margins and volumes because that doesn't often get much discussion? Thank you.

And secondly, on the medium-term growth outlook, I think you said in April that you had an aspiration for 5% per annum policy growth in the medium-term, which would drive GBP20 million uplift in profit on a three- to five-year basis. Obviously, it's early days now, but can you just say how confident you're in aspiration given what you've seen so far for the strategy reset? Thanks.

A - Lance Batchelor {BIO 6884486 <GO>}

I'll let Gary lead and James jump in if you want to.

A - Gary Duggan {BIO 18331803 <GO>}

Yeah, I'll just pick up the PMI piece. So, we actually -- we have probably one of the most comprehensive products in the market. Very good product compared to a lot of the competition. But we are seeing -- so, we are seeing some increased competition at new business from a couple of the big players in the PMI market in terms of new business volumes. The good news is at the same time our retention rates are very strong. So once we've recruited customers into our business on PMI products, because of the nature of the product and the fact we can roll-out pre-existing conditions, we're seeing our retention rates increase further. So, that's helping to compensate for some of the competitive challenges we see in terms of new business. I don't know...

A - James Quin {BIO 18345789 <GO>}

No, I don't think, Nick, in terms [ph] of your second one. I mean I think -- I mean, ther's no question that Saga branded policy count is -- I mean, it's a little bit below where I think we would have expected to be. But I mean, down 2%, I wouldn't say that sort of taken us dramatically off track. I mean, it's a little bit weaker. Perhaps, the market's been part of that, but I wouldn't say that's dramatically changed that. I think in terms of the other aspects of growth, I mean, this year was always going to be a somewhat transitional year anyway.

And in terms of us, we think about the growth from here. I mean, that was really two paths. One was a pick-up in new business share. And the second one then was higher retentions. And it's sort of more a 50-50 between those. I think in terms of the higher retentions, not any [ph] substantial portion of that comes from the experience that we'll see around three-year fix and how loyal those customers are. So, right now, I've seen nobody's actually renewed on those policies, so it's a bit hard to tell what it's going to be. But I think we would certainly expect retention levels to be higher than they are otherwise.

I think in terms of new business, I think one of the things we need there is to keep improving the proposition and also keep investing in new marketing techniques, because what we don't -- won't do is, we won't get there by giving people more -- sending more direct mail out. So we have to keep testing and learning. So I think it's probably a bit early to say whether how confident are we. I think our confidence is basically the same as it was. We're still very much early days, but clearly with some signs of progress.

Q - Joanna Parsons {BIO 1558226 <GO>}

Joanna Parsons from Canaccord. Just one question, please. On Saga Possibilities and the Membership, is the Slide 35 the actual numbers at the moment? And could you just give us a little bit more color as to what is going on there? Are you seeing growth there? Are you seeing changes in the composition and what your plans now? Thank you.

A - Lance Batchelor {BIO 6884486 <GO>}

Yeah. At a headline level, the number of Saga Possibilities members is a reflection of the number of Saga customers, which is broadly flat. What we're seeing is over 80% of new customers choose to be Saga Possibilities members and we lose -- if we lose customers, then we lose Saga Possibilities members with them. So that total number in the Membership scheme is roughly flat at the moment. But what I would say is our focus in the first six months of the year was very specifically on driving engagement from the current base of Saga members. That's where we put the huge amount of effort over the last half. So, we made the offer richer to them in terms of the number of benefits that they can get. We focused on driving cross-sell. We focused on driving accessibility of e-mail, for example. And the second line you can see there is a significant increase in the number of customers that we are in touch with and able to communicate because that has been a relatively small proportion of the base and is growing quite steeply. And I mentioned earlier on, our target had been 4,000 cross sales for the year, and that we've achieved over 90% of that in the first six months of the year. I think that's a reflection of the growth and engagement that we've seen. So, we're very pleased that we're starting to monetize that relationship.

The question was, if the composition of the membership changing in terms of what products they bought from, do you mean?

Looking at the -- the marketing director is shaking his head at me. So no, broadly stable. Thank you. Was there enough question here?

Q - Unidentified Participant

Jason Street, Arlington Capital Market. On the cruise side, firstly, there is no reason really why the cruise market wouldn't have been affected by exactly the same things as tour operating market. So, could you have done even better had circumstances been more friendly?

And secondly, I wonder, you sort of half made this point, but I wasn't entirely sure whether those right or not that some of your customers would have been waiting for feedback about what the new ships were like. I mean, they're likely to be pretty conservative bookers. And this was a brand new ship. They like the old ones. Is there some sense that there's a sort of relief that the new ships or is as good or rather better than the old one? And therefore, we'll see more sort of strengths in future bookings and confidence in the new ship to come.

A - Lance Batchelor {BIO 6884486 <GO>}

Robin, do you want to fill this?

A - Robin Shaw {BIO 20138547 <GO>}

Absolutely. Firstly, pleased to get a cruise question. Thank you very much. The cruise market is slightly different than the tour ops market. And generally, it's no older demographic. And arguably, they are slightly more immune to maybe the more mass market, tour ops market.

A - Lance Batchelor {BIO 6884486 <GO>}

So we do see that. But clearly, has there been an underlying impact? It's hard to say there hasn't been. But what we've seen is that with the launch, the buzz, the excitement around the new ship has far more outweighed that to the extent that everything we kind of market around the new ship is now far more impactful than it was before, because we're marketing what is being kind of in the media, the social media, when people Google the ship from all the activity we're doing. It's getting rave reviews. So I think we're not seeing it in cruise because of this upsurge of excitement and bookings from the new cruise ships. So that's the first point on that.

I think in terms of people holding back, our existing customers holding back until they find out what the ship is like. Actually, it's probably the opposite. Our existing customers are very loyal to us because they know what we do and they just can't wait to get onboard. To the extent that we almost have to make sure that we kind of curtail their demand in the first few months to make sure we had enough capacity to introduce first-time buyers to cruise. The feedback has been fabulous from our existing guests. We knew lots of them wanted to maybe pick holes in that, but that has not been the case. And they've been blown away with what we've produced. And we're exceptionally proud as well. Any more questions in the room?

Q - Unidentified Participant

Maybe I can ask you second cruise question to make you more happy. You just said you have very loyal customers. Do you have an approximate idea of the repeater rate in the cruise business?

A - Robin Shaw {BIO 20138547 <GO>}

For us, traditionally, up until this kind of new area that we're in, we've been at about 75% repeaters, 25% first-time buyers. Moving forward, clearly, that has to change because we're moving in a situation where we need to generate more like 45,000 passengers a year versus the existing 25,000 passengers. And the good news is that we are seeing first-time buyers now starting to grow and grow to the extent now on a few of the cruises recently picking the shorter ones, which encouraged first-time buyers. We're getting in excess of 40% first-time buyers on those particular cruises.

A - Lance Batchelor {BIO 6884486 <GO>}

At the back there.

Q - Luke Stratford-Higton {BIO 21041344 <GO>}

Luke Stratford-Higton, UBS. Two questions. Firstly, on Ogden, you mentioned there was a gain there. So what would reserve releases have been without the change in the Ogden rate? And secondly, on cruise, again, you mentioned that the sale of the Sapphire had been agreed. Is there any detail around what the purchase price was and how that compares to the book value you have on the balance sheet?

A - Lance Batchelor {BIO 6884486 <GO>}

James, do you want to take that first?

A - James Quin {BIO 18345789 <GO>}

Yeah. So I think the change in the Ogden discount rate, I mean, we're not talking very much money here. I think [1:01:52] (inaudible) GBP5 million, GBP6 million. I can't read [ph] the exact number, but I think it's in that sort of ballpark. And I think the -- on the second one -- sorry, what was the question, again.

Q - Luke Stratford-Higton {BIO 21041344 <GO>}

Sapphire sale.

A - Lance Batchelor {BIO 6884486 <GO>}

So, in the last -- second half last year, we had written down the Sapphire. In actual fact, the sale price is slightly better than what we had written it down to. So if you look in the ways of the impairments outside of underlying profit before tax it's actually a GBP3 million reversal, which is actually the actual sale price relative to the -- what we've written it down to. One or two more? All the way down the left, my left, your right.

Q - Abid Hussain {BIO 20229932 <GO>}

Hi, morning. It's Abid Hussain from Credit Suisse. I've just got one question. I was just wondering, given your early learnings in the three-year fixed insurance policy, where do you think penetration levels can get to? I mean it's tracking quite well at the moment. And sort of second part to that question, given that there is -- the early success that you've had, do you think others might try to copy the product?

A - Lance Batchelor {BIO 6884486 <GO>}

In terms of penetration levels, I mean we'll [1:03:17] [ph]say 60-odd-percent is a pretty good starting point from standing start actually. It's really about giving customers choice. The important thing for us is giving customers the choice, some customers who want to come in and shop and aggregators. Some people would rather have a discount and then shop around on renewal and other people that want to. It's about giving the customers the choice. I think the reason that I believe that the three-year fix has been so successful within our demographic is all of the research and the analysis suggests that customers typically within our demographic frankly don't particularly want to shop around necessarily if they can be confident and reassured with the fact that -- a lot of them around fixed income over a period. So, if they around fixed income and they know they've got fixed insurance costs the next three years, that gives them that kind of confidence in reinsurance. So there is no reason with all the work we're doing on the above the line why that shouldn't potentially grow beyond the 60% book. It's all about growing the numbers, not necessarily [1:04:07] the display of fixed versus kind of non-fixed.

And second part of the question, remind me sorry. (inaudible).

Q - Abid Hussain {BIO 20229932 <GO>}

I was just wondering, do you think others will try to copy it because it is such a successful product?

A - Gary Duggan {BIO 18331803 <GO>}

Yeah. I mean a few people have said this. Well if they do, kind of what is the sincerest form of flattery is -- people -- I'm sure are watching to see what's going on and how we're performing. I think our focus just needs to be on driving as much as growth as we can within the three-year fixed. And if people copy those then, fine people copy us. We've got a whole range of new propositions that we're looking at as well. So it doesn't stop with the three-year fix. We're looking at health and well-being packages. We're looking at travel products. So we're looking at the next stage of innovation within our business to build on to the success we've had so far with three-year fix.

A - Lance Batchelor {BIO 6884486 <GO>}

I think the point there is, we know that when we build differentiated products for Saga customers, then we can win in the market. And if you look back historically for several years for a decade roughly, our product was not differentiated. And what's really exciting for us is to see the impact of a product specifically designed for Saga customers in consultation with them in both insurance and cruise and how rapidly the customer responds when you put a product like that in front of them. And as Gary says, there's more to come.

Any last question? Otherwise, we will wrap up. Thank you very, very much for your attention. We'll be here for a few minutes after this, if you want to grab us for anything else. Thanks.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.
