

7 August 2019

**PRIVATE AND CONFIDENTIAL**

Dear Shareholder,

**Saga plc – Closure of consultation: Change to LTIP Performance Conditions for 2019 to support New Strategy**

**Background**

I am writing to you in my capacity as the Chair of the Remuneration Committee (the “Committee”) of Saga plc. This letter is to inform you of the key components of Saga’s New Strategy along with proposals setting out how the Committee is planning to reflect these in the performance conditions for the LTIP award in 2019 and on an ongoing basis.

The Committee commenced a consultation with major shareholders on 1<sup>st</sup> May and sent a follow up letter on 3<sup>rd</sup> July which provided an update on the LTIP consultation and clarified the rationale for the proposed changes including the degree of challenge contained within the proposed measures and targets, whilst seeking further shareholder views.

The consultation period concluded on 15<sup>th</sup> July and we have been carefully considering the feedback we received. This letter is being sent to our major shareholders who were part of the consultation process as well as an extended list of shareholders including those who subsequently joined the shareholder register or increased their holdings since the start of the consultation.

The comments we received during the consultation were somewhat diverse, so arriving at an appropriate outcome has required considerable thought and judgement. I am now writing to complete the consultation process on Saga’s measures and targets for its 2019 LTIP award.

In summary, compared to our original proposal we have decided to:

- Reduce the weighting linked to TSR from 30% to 25%;
- Reduce the weighting linked to ROCE from 30% to 25%. We have maintained the range at 8-10% p.a.;
- Increase both the threshold and maximums for Cruise EBITDA per ship and Tour Ops margin;
- Add a fifth strategic measure, Cash Conversion.

The full detail of both the original proposal and the final outcome is contained in the Appendix.

By way of explanation for these changes, there was clearly a view that the strategic goals that underpin the Business strategy that were outlined at the Capital Markets day should form a significant part of the LTIP award. Consequently we have increased this to 50% of the total award. The addition of the cash conversion measure, alongside the retention of ROCE measure (at a marginally reduced level), acknowledges that consistent profit and cash delivery are critical factors in our debt reduction plans over the next 3 years and beyond.

Under the revised proposal, management have “delivery control” over 75% of the award, with the TSR measure providing an external relative assessment as to how well they are executing against our stated plans.

In summary and as a conclusion to this consultation, I feel we now have the appropriate balance and stretch in the final set of measures and targets.

I want to thank all of you who have given thought and time to contribute to this process. Given the strategic journey that Saga is undertaking, my intention would be to contact you again at the back end of this calendar year to secure further thoughts you might have ahead of us finalizing the targets for our 2020 LTIP award. I am sure Lance’s successor will welcome this too.

Yours sincerely,

Gareth Williams  
**Chair of the Remuneration Committee**

## Appendix A

### Link between Incentives and New Strategy

The following table sets out the key components of the New Strategy and how the Committee is proposing to reflect them in the performance conditions for the LTIP award in 2019 and on an ongoing basis:-

Key Focus of new Strategy	Measure of Success	Performance Conditions used in the LTIP
<b>Launch of new Insurance approach focused on growing direct channels, with the launch of a 3 year fixed price proposition, and with a new approach to renewal pricing.</b>	<ul style="list-style-type: none"> <li>Retention of existing Saga customers.</li> <li>Growth in new business.</li> <li>Efficient growth in returns.</li> </ul>	<ul style="list-style-type: none"> <li>SSL retention performance condition incentivises management to introduce differentiated products and services which retain existing customers.</li> <li>SSL direct performance condition incentivises management to win new customers directly through differentiated products and services with the positive impact on margins.</li> <li>ROCE ensures that the investment in differentiated products and services is efficient when looking at the returns generated.</li> </ul>
<b>Accelerating transformation of Tour Operations.</b>	<ul style="list-style-type: none"> <li>One of the objectives of the Tour Operations is to focus on those products where the Saga brand and type of service offered is bespoke to the Saga demographic: For example a focus on reducing short haul stays in favour of higher margin escorted touring, river and bespoke products.</li> </ul>	<ul style="list-style-type: none"> <li>There is specific margin performance condition proposed for the LTIP.</li> <li>The focus on increasing margins will flow through to the quality of earnings growth and be measured directly by the ROCE measure and indirectly through the Company's total shareholder return performance compared to the market.</li> </ul>
<b>Continue the Cruise transformation</b>	<ul style="list-style-type: none"> <li>Delivery of the ships on time and to budget.</li> <li>Generation of £40m EBITDA per ship.</li> </ul> <p>This is one of the key drivers of Group earnings under the New Strategy.</p>	<ul style="list-style-type: none"> <li>The impact on growth in earnings is directly reflected as an EBITDA target per ship.</li> <li>ROCE growth alongside cash conversion will reflect both the earnings generated by each ship but also ensure that the capital investment is efficient in generating these earnings.</li> <li>Comparative TSR will reflect the quality of the total returns generated by the Company compared to the market.</li> </ul>

### Current Performance Conditions and proposed for the LTIP in 2019

The following table sets out the current performance conditions for the LTIP and the Committee's proposed performance conditions for 2019 LTIP award:-

Performance measures	2018 LTIP weightings and targets	Previously Proposed 2019 LTIP weightings and targets	Final Proposed 2019 LTIP weightings and targets with rationale
<b>Organic EPS</b>	Weighting: 30% Threshold (25%): 12% p.a. Maximum (100%): 21% p.a.	Removed.	Removed. In line with the New Strategy there is expected to be a decline in profit in 2019/20 with underlying profit before tax expected to be £105-£120m due to a reduction in reserve releases, as well as a decline in Broking gross margins (less marketing costs) from £80 to between £71-£74 per policy.  The execution of the strategy is better incentivised and measured by focussing management on key operational and strategic metrics including cash conversion and ROCE.
<b>Relative Shareholder Total Return (TSR)</b>	Weighting: 40% Measured against FTSE 250 (excluding investment trusts) Threshold (25%): median Maximum (100%): upper quartile	Weighting: 30% Reduced weighting.	Weighting: 25% Reduced weighting.  The Committee feels that is important to retain an output based measure which reflects the market's view of the success of the implementation of the New Strategy.  In addition, the Committee wishes management

			<p>to be focused on recovering and enhancing shareholder value.</p> <p>The Committee has further reduced the weighting of TSR to 25% to ensure there is a sufficient focus on the execution of the strategy measured through the new operational and strategic measures, including cash conversion. This is based on feedback to date from shareholders around their confidence in the execution.</p>
<b>Return On Capital Employed (ROCE)</b>	Weighting: 30% Threshold (25%): 10.5% p.a. Max (100%): 11.5% p.a.	Weighting: 30% Threshold (25%): 8% p.a. Max (100%): 10% p.a.	<p>Weighting: 25% Threshold (25%): 8% p.a. Max (100%): 10% p.a.</p> <p>The ROCE metric will ensure that the management are focused on generating an appropriate level of return on the investments being made over the next period.</p> <p>The ROCE range has been reduced to reflect the expected decrease in profit as a result of the implementation of the New Strategy and the increased focus on margins and quality of earnings.</p> <p>The Committee has further reduced the weighting of ROCE to 25% to ensure there is a sufficient focus on the execution of the strategy measured through the new operational and strategic measures, including cash conversion.</p>
<b>Operational and Strategic Measures</b>	New measures for 2019.	Weighting: 40%	<p>Weighting: 50% Cash Conversion added (see table below).</p> <p>These operational and strategic measures are some of the key inputs to ensuring the execution of the Company's New Strategy (see table above for further information and table below for the actual targets).</p> <p>The addition of Cash conversion alongside ROCE contributes to our ability to stay within the leverage territory we have outlined to shareholders.</p>

### Operational and Strategic Measures

The Committee is proposing that 50% of the LTIP award is subject to the satisfaction of the following five equally weighted performance conditions (i.e. 10% on each condition):-

Performance Condition	Threshold (25% Vesting)	Target (60% Vesting)	Maximum (100% Vesting)
Cruise EBITDA (£m per ship)	£37m [£36m]	£40m [£40m]	£43m [£42m]
Tour Ops net profit margin (%)	6.0% [5.9%]	6.5% [6.5%]	7.0% [6.8%]
SSL retention (% average across home and motor)	72.5%	75%	77.5%
SSL direct (% of new business)	62.5%	65%	67.5%
Cash Conversion in years 2 and 3	85%	87.5%	90%

The threshold/target/maximum figures for Cruise EBITDA and Tour Ops net profit margin have been revised to introduce additional stretch; the previously proposed amounts are shown in square brackets for ease of comparison.

The targets for all the performance conditions have been set in the context of the New Strategy explained to shareholders on 4<sup>th</sup> April 2019. The Committee is satisfied that the targets are sufficiently stretching to encourage over performance against the plan within an appropriate level of risk set by the Board.