2 April 2020

This announcement contains inside information

Saga plc

Unaudited trading update and assessment of the impact of COVID-19

Saga plc ("Saga" or "the Group"), the UK's specialist in products and services for life after 50, announces a trading update for the 12 months ended 31 January 2020 and an updated assessment of the potential impact of COVID-19

Trading update for the 12 months ended 31 January 2020

- Underlying Profit Before Tax expected to be £110m, in line with the target range of £105m to £120m.
- Debt ratio (excluding Cruise) of 2.4x, with £109m of short term net bank debt.
- Good progress against the business priorities set in April 2019 and positive momentum in the cash generative Insurance business.
- 320,000 three-year fixed-price policies sold and 57% of new business volumes written on a direct basis. Saga branded policies down 3% due to discipline in new business pricing, gross margins at £74 per policy.
- Successful launch of *Spirit of Discovery*; financial performance in the first six months of operation was consistent with a full year objective of £40m of EBITDA. As at 31 January 2020, forward Cruise bookings for 2020/21 were at 80% of the full year target, ahead of internal expectations.
- Projected Insurance cash flows are broadly unchanged from the prior year, however Insurance goodwill to be impaired by £370m primarily relating to an increase in the post-tax discount rate from 8.55% to 10.7%. This is due to updated external inputs, including the Group's share price in January 2020.
- Audited results for the year ended 31 January 2020 and the 2019/20 annual report are expected to be published on 9 April 2020, a week later than initially planned, following the request by the Financial Conduct Authority to observe a moratorium on the publication of results statements.
- Dividend to be suspended.

Updated assessment of the potential impact of COVID-19

- Strong progress from largely unaffected Insurance business underpins cash flow and profitability.
- Saga moved rapidly to full home working with over 2,300 colleagues enabled:
  - Insurance capabilities are working well, with excellent call answer rates across our customer services and sales teams.
  - Travel operations have successfully repatriated almost all customers and are supporting rebooking efforts across Tour Operations and Cruise.
- Given the significant potential impact of COVID-19 on the travel industry, the Group has considered scenarios for extended suspension of Cruise and Tour Operations, including full cancellation of all travel departures over six months, followed by a slow recovery.
- Based on this analysis, the Group has taken action to protect its balance sheet and increase near-term liquidity by:
  - A precautionary £50m draw down of the revolving credit facility, with available cash resources at the end of March of £92m;
  - Reducing operating expenses, with run rate cost savings of £15m from actions that were implemented in February. This will be partially offset by an expected £10m of redundancy costs in the current year. Further mitigating actions are underway in response to the COVID-19 crisis in relation to the Travel business;
  - Suspending the dividend; and

- Agreeing amendments to banking covenants, with the net debt to EBITDA (excluding Cruise debt and EBITDA) covenant within the Term Loan and RCF increasing to 4.75x from 3.5x for reporting periods from 30 July 2020 to 30 April 2021, and to 4.25x at 30 July 2021.

- Saga has strong liquidity and diversified sources of income, and has the flexibility to respond to the challenging market environment due to the cash generative Insurance business, an expected £23m in cash proceeds to be received from the sale of Bennetts and the £50m remaining undrawn revolving credit facility.
- The Group has been notified by Meyer Werft that disruption arising from COVID-19 may delay delivery of Saga's second new ship, the *Spirit of Adventure*, currently due to commence operations in August 2020. This has been considered within planning scenarios and is not anticipated to significantly change the Group's financial position.

Euan Sutherland, Group Chief Executive Officer, said:

"In a year of change, Saga has made significant operational progress and strengthened the management team to ensure the business is positioned to deliver for our customers and members and for investors. Our Insurance and Cruise businesses made good progress against the priorities we set out in April and we have moved to significantly strengthen our financial position, reducing debt and operating expenses and improving cash flow.

"Saga Insurance remains largely unaffected by COVID-19, however along with all other Travel businesses, our Travel business has been significantly impacted. We have acted quickly to ensure the health and wellbeing of our customers and colleagues and, following the Government's advice on cruise ship and air travel, we have suspended our Cruise and Tour operations. We have also worked with our banks to agree temporary amendments to our debt covenants. We have significant available liquidity and can consider a range of further mitigating actions across the Group.

"Saga is a strong brand, with loyal customers and where we offer really differentiated products, underpinned by excellent service, our businesses do well and have potential to do better. Organisationally, the Group had become inefficient, lost its tight focus on customers and had under invested in digital, data and brand. We have started the work to make the changes necessary for us to be able to deliver the truly differentiated products and services our customers expect from us.

"Against the backdrop of COVID-19, the outlook is uncertain, but we remain confident that the Saga brand, and our Insurance and Travel businesses have a successful future ahead."

2019/20 Unaudited Operating Performance

£m	12m to Jan 2020	*Change*	12m to Jan 2019 (restated)[1]
Revenue[2]	**797.3**	***(5.2%)***	**841.5**
Underlying Profit Before Tax[3]			
Total Retail Broking (earned)	90.2	*(14.7%)*	105.8
Underwriting	40.6	*(53.2%)*	86.7
Total Insurance	130.8	*(32.1%)*	192.5
Travel	19.8	*(8.3%)*	21.6
Other Businesses and Central Costs	(27.0)	*(26.8%)*	(21.3)
Net finance costs[4]	(13.7)	*(7.9%)*	(12.7)
	109.9	***(39.0%)***	**180.1**
Net fair value (losses) / gains on derivatives	(1.1)		1.0
Impairment of assets	(16.9)		(5.9)
Thomas Cook insolvency	(3.9)		0.0
Restructuring costs	(5.9)		0.0
Impairment of goodwill	(383.0)		(310.0)
Loss before tax	**(300.9)**	***(123.2%)***	**(134.8)**
Tax expense	(11.9)	*56.6%*	(27.4)
Loss after tax	**(312.8)**	***(92.8%)***	**(162.2)**

The Group expects to report Underlying Profit Before Tax for the 2019/20 financial year of £110m. This is in line with the full year target range of £105m to £120m and reflects:

- Resilient trading in the Insurance business with both the Retail Broking and Underwriting businesses continuing to make good progress in the execution of the strategy set out in April.
- The successful launch of Spirit of Discovery and her first six months in operation.
- Challenging conditions for the Tour Operations business.

Insurance

Within Insurance the Group successfully launched an innovative three-year fixed-price product in May. With 320,000 policies sold in the year to 31 January this now comprises more than 20% of the policy book. A shift back towards direct has continued with over 57% (2018/19: 51%) of customers written on a direct basis and over 60% of these have chosen the three-year fixed-price policy.

Saga branded home and motor policies reduced by 2.9% to 1,600k as the Group adopted a disciplined approach to new business, partially offset by a 2.2ppt increase in retention. The lower new business volume supported average home and motor margins, which at £74 per policy were at the top end of expectations.

AICL, the Group's in-house underwriter, is expected to report an underlying reported combined ratio (excluding quota share) of 83.0% (2018/19: 62.0%), generating profit before tax of £40.6m (2018/19: £86.7m). Total expected reserve releases of £40m reflect favourable experience on large bodily injury claims. In line with other insurers, the Group has seen higher inflation on third party damage and theft costs, with overall inflation in Q4 running at around 7% compared to longer-term expectations of around 5%.

[1] The Group has adopted IFRS 16 Leases and is reporting its performance for the 12 months to 31 January 2020 against a restated comparative period for the 12 months to 31 January 2019 under this new standard.
[2] Revenue is stated net of ceded reinsurance premiums earned on business underwritten by the Group of £145.7m (2019: £136.0m)
[3] Underlying Profit Before Tax represents loss before tax excluding unrealised fair value gains and losses on derivatives, the impairment of the carrying value of fixed assets including goodwill, the impact of the insolvency of Thomas Cook and restructuring costs.
[4] Net finance costs exclude ship debt interest costs, net fair value (losses)/gains on derivatives and IAS19R pension interest costs

The unaudited AICL solvency ratio at 31 January 2020 was around 160%. This is estimated to have reduced to around 140% based on current asset liability valuations and movements in swap curves since the end of January. Since internal planning assumed a start point for AICL solvency of around 140% for the current year, and given a prudent approach to reserving, this change is not currently expected to impact the timing or amount of AICL dividends.

Travel

Notwithstanding the current situation, the first six months of *Spirit of Discovery's* inaugural year were a success and she delighted customers. Importantly, the new ship also met financial expectations with EBITDA in the second half of the year of £20m. While there is uncertainty over the delivery date for *Spirit of Adventure* as a result of the COVID-19 crisis, the Group's expectation is that this will be completed within the next 12 months. This will complete the transformation of the Cruise business.

The Tour Operations business has had a more challenging year with weak customer demand, which has accelerated due to the impact of COVID-19. The Group has continued the repositioning of the business to focus on differentiated products, with a need now to accelerate this transformation.

Update on Goodwill

The Group is required to test all goodwill for impairment on at least an annual basis. For the Insurance business, excluding Bennetts, the underlying forecast cash flows for the Insurance business used in this calculation are similar to those used last year. Both years take a prudent view of the outlook, specifically as regards to taking benefit from planned business improvement initiatives. However, as a result of the fall in Saga's market capitalisation and an associated increase in risk premium, the Group is required to discount these cash flows at a materially higher discount rate than was previously the case.

As a result, the Group has determined that the recoverable amount of the goodwill allocated to the Insurance business, excluding Bennetts, is below the previous carrying value. Final results for 2019/20 will include an impairment of £370m, of which £320m relates to an increase in the post-tax discount rate from 8.55% to 10.7%.

For the Destinology business, lower forecast cash flows have been assumed in the latest plan which results in an impairment of the Destinology goodwill of £13m. This is due to the challenging operating environment for travel agency businesses, which has been exacerbated by COVID-19.

Other items excluded from Underlying Profit Before Tax

During 2019/20 the Group impaired the value of property, plant and equipment relating to the printing business by £3m, recognised a £7m impairment of the value of the Saga Sapphire and a further £7m impairment of intangible assets relating to the Destinology business.

The Group recognised £4m of one-off costs in relation to the administration of Thomas Cook and £6m of restructuring costs, mainly relating to planned redundancies and the now exited healthcare business.

2019/20 Unaudited Available Cash Flow

Group operating cash flow is expected to be around £93m for the year ended 31 January 2020, 51% of Trading EBITDA, and 59% of Trading EBITDA adjusted to include the interest and capital repayments relating to the Spirit of Discovery.

Operating cash flow for 2019/20 is expected to decrease by £90m compared to the previous year, due to a reduction in broking earnings and a planned decrease in dividends from AICL, as well as two expected non-recurring effects with a combined impact of £40m; the reversal of a £15m positive working capital inflow from the prior year and a £25m subordinated loan to the Travel business in February 2019.

The Travel group has ring fenced cash facilities to satisfy CAA requirements associated with ABTA regulated holidays. As part of amendments to the facilities that were implemented on 31 January 2020, the Cruise business now sits outside of the ring fenced group. This move increased available cash by £23m. Cruise is now excluded from the restricted Travel group and its cash generation will contribute towards the Group's available operating cashflow in the 2020/21 financial year.

While the Group continues to target an 85% conversion of EBITDA into available cash flow this is likely to be impacted by COVID-19 and related short term working capital requirements in the current financial year.

Available Cash Flow	12m to Jan 2020	*Change*	12m to Jan 2019 (restated)
	£'m		£'m
Retail Broking Trading EBITDA	98.4	*(15.7%)*	116.7
Underwriting Trading EBITDA	41.7	*(52.2%)*	87.2
Travel Trading EBITDA	58.3	*15.2%*	50.6
Other Businesses and Central Costs Trading EBITDA	(16.7)	*27.5%*	(11.9)
Group Trading EBITDA[5]	**181.7**	***(25.1%)***	**242.6**
Less Trading EBITDA relating to restricted businesses	(100.0)	*27.5%*	(137.9)
Intra-group transfers paid by restricted businesses	15.0	*(80.9%)*	78.5
Working capital and non-cash items [6]	(9.5)	*147.7%*	19.9
Cruise carve out	22.7	*n/a*	0.0
Capital expenditure funded with available cash	(17.2)	*17.3%*	(20.8)
Available operating cash flow[7]	**92.7**	***(49.1%)***	**182.3**
Available operating cash flow %	*51.0%*		*75.1%*

Financing

The Group's net debt increased by £203m to £594m since the previous year end due to the additional £245m borrowed to fund the purchase of the Spirit of Discovery, partially offset by repayment of £40m in short term bank debt.

Excluding the impact of debt and earnings relating to the new cruise ship, the Group's leverage ratio was 2.4x as at 31 January 2020 (2019: 1.7x), within the current 3.5x covenant applicable to the Group's term loan and revolving credit facility.

Net debt	Maturity date	31 January 2020 (unaudited) £m	31 January 2019 £m
Corporate bond	May 2024	250.0	250.0
Term loan	May 2022	140.0	160.0
Ship loan	June 2031	234.8	0.0
Revolving credit facility	May 2023	10.0	30.0
Less available cash		(40.9)	(48.7)
Net debt		593.9	391.3

[5] Group Trading EBITDA includes the impact of IFRS 16 with the corresponding impact to payment of principal portion of lease liabilities included in net cash flows from financing activities
[6] Adjusted to exclude IAS19R pension current service costs
[7] Available operating cash flow is net cashflow from operating activities after capital expenditure but before tax, interest paid and non-trading items, which is available to be used by the Group as it chooses and is not subject to regulatory restriction

COVID-19

The Group's Insurance business remains largely unaffected by COVID-19, and the Group has successfully been able to maintain operational capability throughout this period, with almost all colleagues working from home. However, the Group's Travel businesses are currently experiencing a very high level of disruption from the impact of the COVID-19 virus. Following advice from the UK Government that people over 70 years old should avoid travel at the current time and given operational challenges in almost all countries, the Group took the decision on 12 March to suspend Cruising until May and on 16 March decided to suspend Tour Operations for a period of six weeks.

While customer demand for future departures remains positive, both for Cruise and Tour Operations, there remains considerable uncertainty as to when travel services will resume. It is likely that the period of travel suspension will continue beyond May.

The Group has therefore considered several adverse scenarios and has built contingency plans around a central stress test assumption that the Cruise business could be suspended for a period of six months, from mid-March to mid-September, with a suspension of Tour Operations until the end of August. Within this scenario the Group has also assumed that departures in the second half of the year, once travel operations have restarted, would recover slowly.

In this scenario the Group would expect revenues for the full year to be reduced by around 65% for Tour Operations and Cruise, with a 'drop-through' from lower revenues to Underlying Profit Before Tax of 15%-20% for Tour Operations and 55%-60% for Cruise, relative to plan assumptions. The difference between the two drop through rates is due to the fact that the Group operates with relatively low commitments in Tour Operations, and does not own travel infrastructure, compared to the ownership model for the Cruise business.

In the event of a suspension of travel for an extended period, the Group will be exposed to changes in the value of hedges relating to oil and foreign currency. These hedges are put in place to protect cash flows, but it is now expected that the Group will not require the level of oil or currency previously anticipated. As of 31 March 2020, the mark to market on such open hedges was a net loss of around £2m.

The Group would also be exposed to working capital outflows as a result of the return of customer advance deposits on cancelled departures. As at 31 March, total advance receipts for the Cruise business were £41m, of which around £27m related to departures from mid-May to the end of the year and a further £7m related to departures in 2021. Total advance receipts for the Tour Operations business at the same date were £69m, of which around £45m related to departures between mid-March and the end of June.

The Group expects that a significant portion of Cruise advance receipts will be retained, in return for discount vouchers and offers on future departures. For the Tour Operations business, customer refunds will primarily be met from cash held in the ring-fenced Travel business, with a much smaller provision of cash support from the Group to ensure that full compliance with regulatory cash requirements is maintained.

While a working capital outflow is likely to impact on the Group's financial position over the next six months, it is expected that a significant portion would reverse in the second half of the year as Travel operations restart, albeit with reduced bookings compared with previously planned levels.

Even in a scenario with a full suspension of travel for six months, and with a slow recovery in demand into the 2021/22 year, the Group is expected to remain in a strong position, for the following reasons:

- As at 31 March 2020 the Group had available cash resources of £92m, increased from £33m at the end of February, and significantly higher than the level needed to cover short term cash outflows. The increase in cash resources in March is primarily due to the receipt of £14m from the sale of two introductory healthcare businesses and a precautionary £50m drawdown on the Group's revolving credit facility (with a further £50m undrawn), partially offset by a £7m cash injection to the ST&H travel ring fenced group.
- The Group expects to receive cash proceeds of around £23m from the sale of Bennetts Motorcycling Services. This disposal is expected to complete in June 2020.
- In addition to the available cash resources of £92m the Group has a further £55m of cash in the ST&H travel ring fenced group, supporting £69m of advance customer receipts. The Group is prudently holding a higher level of cash in the ring fence than is required by the CAA.

- The Insurance business is performing well and is cash generative. While COVID-19 may have an impact on sales of travel insurance and on the PMI product, the core Motor and Home business is not expected to be materially impacted.
- No repayments are due on the Group's term loan until 31 January 2021, when £20m is due to be repaid; in the current financial year, two instalments of £10m each are due to be repaid in relation to the *Spirit of Discovery*, with no repayments on the *Spirit of Adventure* until at least February 2021.
- The Group has accelerated cost saving plans and will take further mitigating actions to reduce the impact of COVID-19 on earnings and cash.
- Given the uncertainty around the trajectory of the COVID-19 virus the Board of Directors is not recommending the payment of a final dividend for the 2019/20 financial year.
- Within this scenario the Group has not included any benefits from various government initiatives, other than an allowance for reductions in staff costs relating to 'furloughing' of certain colleagues that are directly impacted by the suspension of travel.

The Group has also considered a further, more severe scenario that assumes the cessation of cruise and holidays trading until January 2021, including additional mitigating actions such as the deferral of capital payments on the debt facility used to fund the purchase the Spirit of Discovery, deferral of certain tax payments into the 2020/21 financial year and a further reduction in operating costs.

While the Group is expected to remain in a strong position, in the scenario outlined above, the ratio of net debt to EBITDA (excluding Cruise debt and EBITDA) would likely in the short term exceed the 3.5x covenant included in term loan and revolving credit facilities.

As a result, the Group has agreed changes to its bank debt facilities that provide it with additional financial flexibility. The amended covenants in short term banking facilities are shown below.

	Ex-cruise Leverage ratio	**Group Interest cover**
Jul 2020	4.75x	2.5x
Oct 2020	4.75x	1.75x
Jan 2021	4.75x	1.25x
Apr 2021	4.75x	2.0x
Jul 2021	4.25x	3.0x
Jan 2022	4.00x	3.5x
Jul 2022 & onwards	3.00x	3.5x

The covenants in the bank facilities will be tested quarterly while leverage excluding Cruise is greater than 4.0x and no dividends can be paid while leverage is greater than 3.0x.

The Group will apply for a waiver of the covenants in the ship debt and is likely to apply for a debt holiday for the period to 31 March 2021 under a package of proposals that are being put together for the cruise industry.

While the impact of the COVID-19 situation cannot be accurately predicted and it is not possible to assess all possible future implications for the company, with these steps the Group believes that it has a secure financial position that will enable it to trade through the current disruption of the travel market.

Dividends

Given the uncertain implications of COVID-19, the Board of Directors does not recommend the payment of a dividend for the 2019/20 financial year. While the Directors intend to resume dividend payments in the future, the Group will assess its dividend policy for current and future years as the COVID-19 situation becomes more certain.

Financial priorities for 2020/21

The Group's financial priorities for the current financial year are to preserve cash and reduce leverage, comply with amended banking covenants and to reduce costs, while continuing the progress in Insurance that started last year, completing Cruise transformation and repositioning the Tour Operations business. Given the uncertain impact from COVID-19 the Group is not able to provide any earnings guidance for the 2020/21 financial year.

END

A presentation to analysts and investors on this trading update will be held at 09.00 via a conference call for registered participants. Registration can be completed at http://corporate.saga.co.uk/. The conference call can be accessed on: UK: 020 3936 2999, all other locations: +44 20 3936 2999. Participant Password: 740344.

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Notes to editors

Saga is a specialist in the provision of products and services for life after 50. The Saga brand is one of the most recognised and trusted brands in the UK and is known for its high level of customer service and its high-quality, award winning products and services including cruises and holidays, insurance, personal finance and publishing. www.saga.co.uk