

Trading Update

7 June 2022

Further to its full year results announced on 10 March 2022 and its Trading Update on 26 April 2022, National Express Group PLC ("National Express" or "the Group") provides an update on current trading and reinstates short-term guidance.

Ongoing Revenue Recovery

- Revenue continues to track close to 2019 (pre-pandemic) levels, progressing strongly to anticipated 2022 full year revenue of around £2.7bn:
 - ALSA revenue recovering more strongly than previously expected and is already c.15% ahead of pre-pandemic levels driven by strong organic growth in Morocco and a faster-than-anticipated recovery in Spanish Long Haul. Our Spanish Urban Bus business is revenue-protected.
 - UK revenue performing in line with expectations and continuing to build, with Bus patronage currently at c.85% of pre pandemic levels and Coach recovery faster than expected. A number of major intercity routes have already fully recovered and our airport volumes are currently at around two thirds of pre-pandemic levels and continuing to build back strongly, including strong volumes over the recent Jubilee bank holiday weekend. We are rapidly adding capacity to flex back up to this improving demand and position the network for an expected strong summer.
 - German Rail revenue is nearly four times pre-pandemic levels driven by the new contracts.
 - In North America, Shuttle revenue is above 90% of pre-pandemic levels as our customers return to their offices with organic ridership growth offsetting flexible working patterns. Transit is continuing to recover in line with our expectations with volumes now at 82%. As previously highlighted, School Bus continues to be challenging, with ongoing industry-wide driver shortages resulting in around 10% of our contracted routes not being run currently.
- We are progressing well with decarbonisation of the fleet. For example, through our Bus Alliance partnership with Transport for West Midlands, the West Midlands has secured more funding than any other city region from the various government funding rounds. This includes funding for over 300 ZEVs and doubling the length of bus lanes over the next three years.
 - Our initial tranche of zero emission vehicles in UK Bus are outperforming expectations and driving both cost efficiencies and revenue growth. By Christmas this year we will have an additional 130 EVs on the road, helping deliver the UK's first all-electric bus city, in Coventry, with further initiatives ongoing.

Reinstatement of Short-term Margin Guidance

- In the medium-term the Group is confident in delivering at least £1bn of revenue growth from 2022 to 2027. As per our Capital Markets Day, we expect an average profit margin of 9% in the period 2022 to 2027, and recovery to pre-pandemic margin levels of around 10% in the later stages of that period. This is expected to drive significantly more than £100m of EBIT growth over the same period.
- As set out in our full year results outlook, in the short-term, we expect the recovery in profitability to lag our revenue recovery, and hence for margins initially to be below our target 2022-2027 average. The Group continues to expect to deliver a sequential improvement in margins from 2021 levels, with a 2022 margin of around 7%. As guided

previously, the pace of the Group's short-term margin recovery continues to be a function of:

- Unprecedented levels of wage inflation in US School Bus amidst industry wide driver shortages. The group is anticipating average wages rises of around 12% for the upcoming School Year. For the c.40% of the portfolio that is currently being renewed in 2022, the business is re-contracting at rates slightly above cost inflation, evidencing the quality of our service offering and customer relationships. We expect to re-contract at least in line with wage inflation across the remainder of contracts as they renew, with a further c.30% of the portfolio up for renewal by the start of the 23/24 school year. Investing ahead of these renewals will put short term pressure on School Bus margins in both 2022 and 2023.
- UK demand recovery, underpinned by continuing to provide great value travel at a time when consumers' spending power is being squeezed. Our low fares (the best value of any major city) drive both revenue and patronage and work alongside active government measures to encourage modal shift.
- In the medium-term we expect average margins to continue to be impacted by:
 - An ongoing mix shift towards lower margin, but higher ROCE businesses particularly with the growth of German Rail and asset light US Transit contracts.
 - The transition from outright purchases to availability contracts as we continue to decarbonise the fleet, materially reducing upfront cash outflow and improving return on invested capital (with an availability charge slightly higher than historical depreciation).
- Going forwards, the Group expects 2023 margins to improve further on 2022 and towards our 9% target average margin, with further improvement thereafter towards pre-pandemic margin levels, consistent with previous guidance.

Cash Flow Generation and Capital Allocation

- The Group is confident in delivering at least £1.25bn of free cash flow between 2022 and 2027 with cash conversion growing to around 80%. Cash conversion in 2022 is expected to be close to 2019 levels, building over the next five years, driven by:
 - continued sequential EBITDA growth; whilst
 - holding maintenance capital expenditure at or below 2019 levels (of approximately £210m a year) over the next few years as we grow the business through asset-light contracts and utilise availability contracts to accelerate the transition to ZEVs.
- The Group is rigorous in its capital allocation, reinvesting free cash flow generation into:
 - attractive organic and inorganic opportunities, prioritising a strong return on invested capital;
 - balance sheet deleveraging towards our 1.5-2.0x target; and
 - delivering growing returns to shareholders.
- The Group's intention continues to be to reinstate a dividend in respect of the full year 2022 results.

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About National Express

National Express is a leading mass transit provider with bus, coach and rail services in the UK, North America, continental Europe, North Africa, and the Middle East.

Notes

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