national express

Half Year Results

For six months ended
30 June 2018

26 July 2018

Cautionary statement

This Review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the Review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside of the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements

Normalised operating profit, margin and EPS data, as referenced in this report, can be found on the face of the Group Income Statement in the first column. Normalised profit is defined as being statutory profit before intangible amortisation for acquired businesses, US tax reform, profit for the year from discontinued operations and consequent UK restructuring. The Board believes that this gives a more comparable year-on-year indication of the operating performance of the Group and allows the users of the financial statements to understand management's key performance measures.

Unless otherwise noted, all references to profit measures throughout this review are for continuing operations for both the current and prior reporting period. Further details of discontinued operations can be found in note 7 to the financial statements.

Underlying revenue compares the current year with the prior year on a consistent basis, after adjusting for the impact of currency.

Constant currency basis compares current year's results with the prior year's results translated at the current year's exchange rates. The Board believes that this gives a better comparison of the underlying performance of the Group.

For a full list of definitions, please refer to note 17 of the financial statements.

2018 Half year key highlights

Continuing to deliver strong financial results

Strong revenue growth

- Revenue up 6.4% at constant FX
- Robust organic growth boosted by bolt-on acquisitions
- Growth in all core divisions

Record profits

- Record H1 statutory PBT of £80.1m (up 24.0%)
- Normalised PBT up 18.0% at constant FX
- Operating margin – 9.8%, up 30bps
- EPS up 15.4%

Converted to cash

- Generated £85m of free cash
- Gearing stable at 2.3x

Upgrading FCF guidance to £170m

Reinvested and returned

- Invested in 7 bolt-on acquisitions
- Acquisitions delivering returns of at least 15%
- ROCE increased to 12.2%
- 10% increase in interim dividend

2018 Financial highlights
Strong start to the year

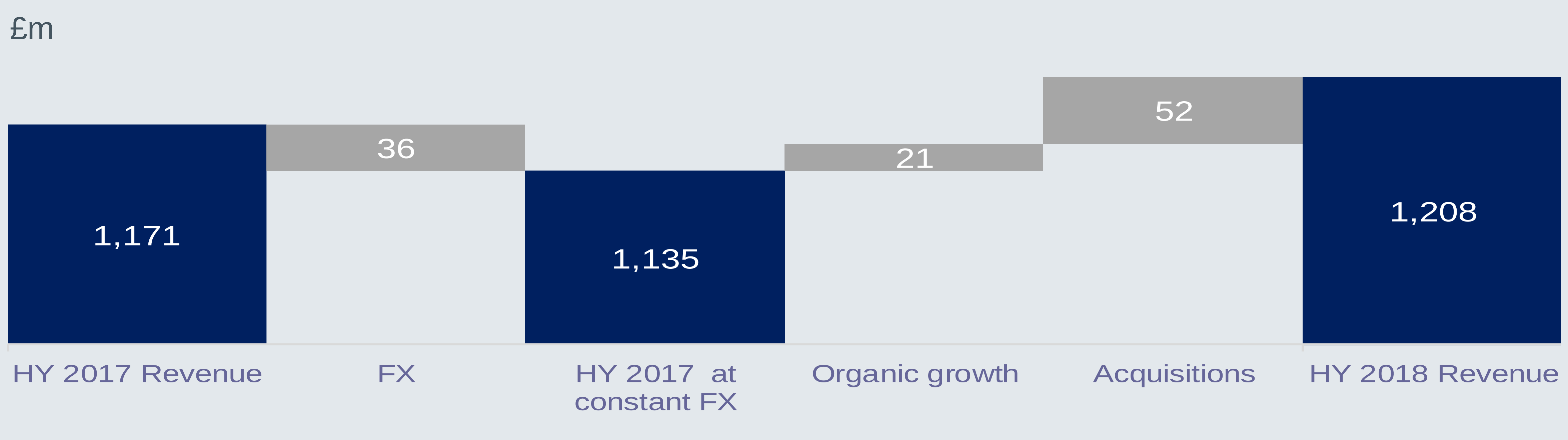
Continuing operations £m	2018	2017	Change	Change in Constant FX
Revenue	1,207.7	1,170.5	+3.2%	**+6.4%**
Group normalised operating profit	118.7	111.6	+6.4%	**+9.8%**
Group normalised PBT	100.7	88.9	+13.3%	**+18.0%**
Normalised EPS	15.0p	13.0p	+15.4%	

Statutory £m	2018	2017	Change
Group statutory operating profit	98.1	87.3	+12.4%
Group statutory PBT	80.1	64.6	+24.0%
Group PAT from continuing operations	63.0	50.8	+24.0%
Statutory EPS	12.1p	10.9p	+11.0%

Free cash flow	£85.2m	£82.4m	+£2.8m
Net debt	£922.1m	£873.3m	+£48.8m
Gearing	2.3x	2.3x	-
Interim dividend	4.69p	4.26p	+10.1%

Revenue

Strong growth from both organic & recent acquisitions



- Strong revenue increase, up 6.4% in constant currency
- Organic growth boosted by acquisitions in North America & ALSA
- Adverse impact from currency, with £ stronger versus the US $

Operating profit

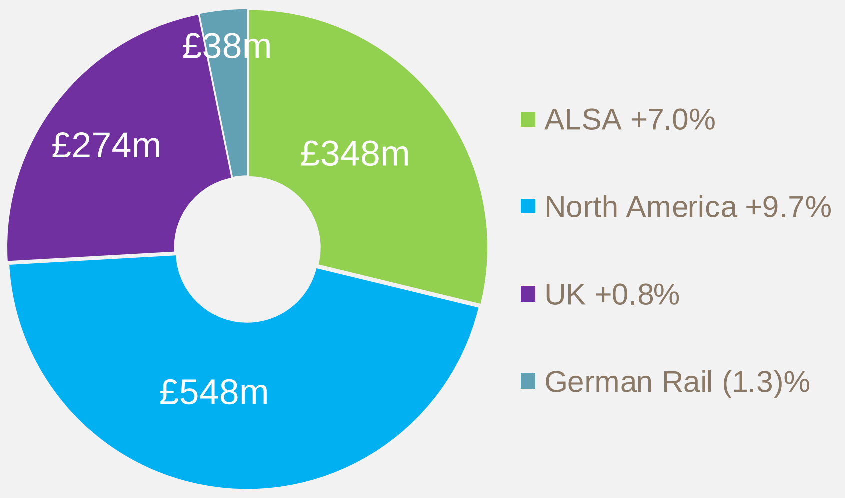
Strong constant currency growth

- Operating profit up 9.8% on a constant currency basis
- Robust organic growth boosted by acquisitions, with strong growth delivered across all core divisions
- Cost efficiencies & lower fuel costs largely offsetting cost inflation
- £4m adverse on FX, with the strengthening of £ versus the US $
- £3m impact from weather, predominantly in the US

Divisional summary

Strong growth across all core businesses

Revenue (YOY change*)



Year-on-year change shown in constant currency

Operating profit

	HY 2018	Change	Op profit margin
ALSA	€48.6m	€3.4m	12.3%
North America	$76.6m	$6.1m	10.2%
UK	£31.6m	£5.6m	11.5%
Other	£(11.4)m	£(2.6)m	
Group	**£118.7m**	**£7.1m**	**9.8%**

Income statement
Double digit reported growth

£m	H1 2018	H1 2017	Change
Operating profit	**118.7**	**111.6**	**+6.4%**
Share of results of associates & JVs	0.3	(3.9)	£4.2m
Net finance costs	(18.3)	(18.8)	£0.5m
Profit before tax	**100.7**	**88.9**	**+13.3%**
Tax (ETR 22%)	(22.4)	(21.4)	(£1.0m)
Profit after tax	**78.3**	**67.5**	**+16.0%**
EPS	**15.0p**	**13.0p**	**+15.4%**

- PBT up 18.0% in constant currency, up 13.3% on a reported basis (statutory profit up 24.0%)
- Finance costs down £0.5m, reflecting lower costs of funding with the issuance of the Floating Rate Note 2017
- Prior year write down of investment in minority stake in Deutsche Touring Group
- Effective tax rate has fallen to 22%, in line with previous guidance
- 15.4% EPS growth

Superior cash and returns

Investing for future growth & delivering returns to shareholders

£m	H1 2018	H1 2017	FY 2017
EBITDA	**188.6**	**180.8**	**377.0**
Working capital	(22.2)	16.6	4.8
Maintenance capex	(59.1)	(76.9)	(165.2)
Pension deficit payments	(3.7)	(1.4)	(5.0)
Operational cash flow	**103.6**	**119.1**	**211.6**
Tax/interest/other	(18.4)	(36.7)	(65.2)
Free cash flow	**85.2**	**82.4**	**146.4**

- Working capital outflow reflects the timing of working capital receipts in H1 – expect a working capital inflow in H2
  - Prior year inflow reflecting catch up revenue in Germany
- Maintenance capex weighted to H2 – now expect full year net capex of around £160m
- Interest lower reflecting prior year double coupon payments with expiry of bond in 2017

Increasing FCF guidance to £170m

Superior cash and returns

Investing for future growth & delivering returns to shareholders

£m	H1 2018	H1 2017	FY 2017
Cash flow available for growth & dividends	**85.2**	**82.4**	**146.4**
Net growth capital expenditure	(4.2)	(3.0)	(13.2)
Net inflow from discontinued operations	1.2	29.9	27.5
Acquisitions	(58.9)	(52.9)	(101.5)
Dividends	(47.3)	(42.9)	(64.7)
Other, including forex	(10.2)	(8.8)	(4.4)
Net funds flow	**(34.2)**	**4.7**	**(9.9)**
Net debt	**(922.1)**	**(873.3)**	**(887.9)**

- Growth capex weighted to the second half
- Disposal of c2c delivered an inflow of £30m in prior year
- £58.9m net expenditure on acquisitions

Growth

Acquisitions in 2018

7 acquisitions in the first half of the year

- Combined total consideration of £112m: £22m paid in H1 2018, £65m deferred consideration
- Targeting businesses that complement &/or have the ability to expand/grow our position in new markets
- 4 in North America:
  - 2 charter school bus businesses in Florida
  - A school bus business in NY state
  - A motor coach & charter business in New Jersey
- 3 in Spain:
  - 1 business that provides services to the growing cruise market
  - 1 urban & regional transport company in Madrid
  - 1 regular & urban bus business in Galicia
- Continue to evaluate a strong pipeline of further opportunities, applying our disciplined approach

Balance sheet

Gearing maintained at 2.3x, interest cover increased

Gearing Ratios	HY 2018	Dec 2017	Covenant
Net debt/EBITDA	2.3x	2.3x	<3.5x
Interest cover	10.5x	10.2x	>3.5x

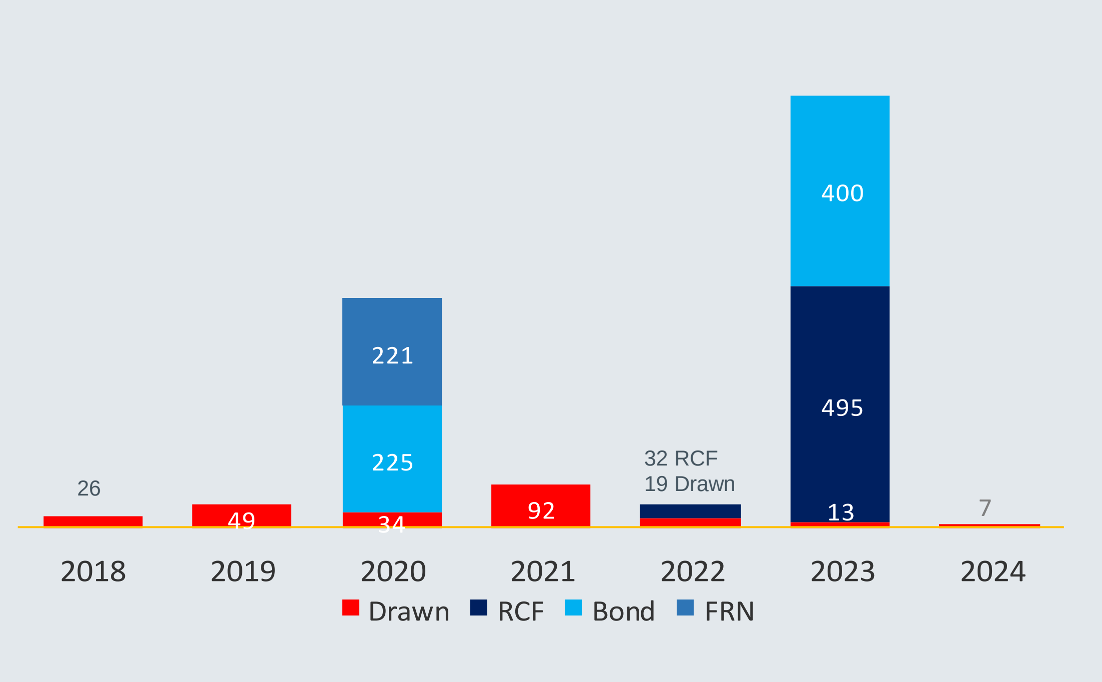
Ratings	Grade	Outlook
Moodys	Baa3	Positive
Fitch	BBB-	Stable

- Gearing maintained at 2.3x on net debt of £922m
- Working capital outflow, higher acquisition spend & deferred consideration on acquisitions made in 2017
- Remain committed to a robust financial strategy:
  - Prudent gearing policy: approximately 2-2.5x EBITDA
  - Dividend covered by at least 2x Group earnings
  - Strong commitment to Investment Grade debt rating
  - Prudent risk planning – fuel mostly hedged to 2019 & pension deficit plan in place

Balance sheet

Increased liquidity & interest savings

Strong debt maturity profile



Available cash and undrawn committed facilities at 30 June 2018

- £691m cash & committed headroom*
- Funding out to 2023 (average 3.8 years)
- Bank facilities extended to 2023 with two additional one year extension options

Guidance

2018

- Net capital expenditure at lower end of guidance at 1.1x depreciation – *c.* £160m
- Free cash flow guidance increased to £170m
- Effective normalised tax rate *c.* 22%, normalised cash tax rate <15%
- Lower fuel costs – *c.* £20m
- Dividend cover of at least 2.0x Group normalised earnings

Our strategy is working: a differentiated business

Introduction

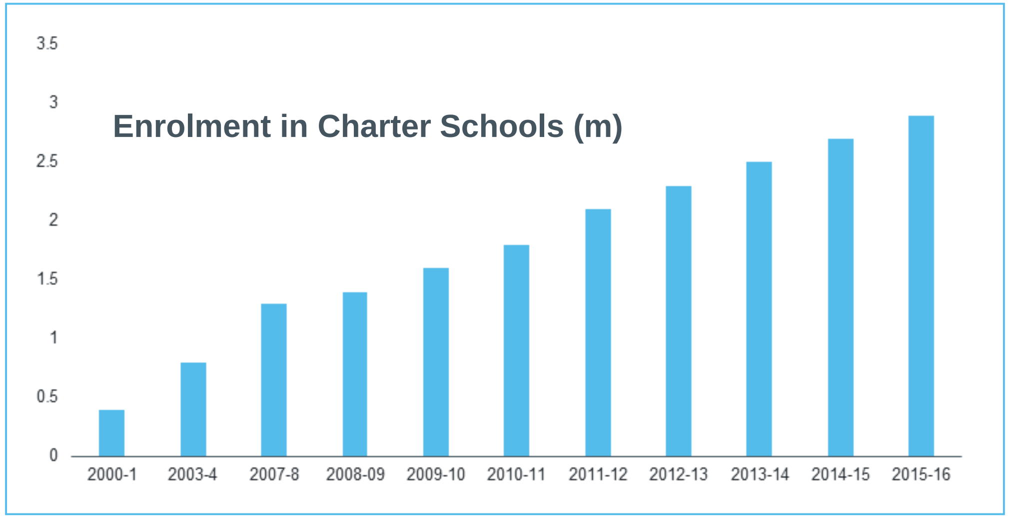
- Our strategy continues to consistently deliver: a record performance & growing returns
- Organic growth & new acquisitions complemented by expansion in to interesting new adjacent markets
- Benefit of technology investment & acquisitions continues
  - Strong commercial passenger growth
  - Acceleration of safety technology roll out
- Increasingly diversified earnings streams & new platforms for growth

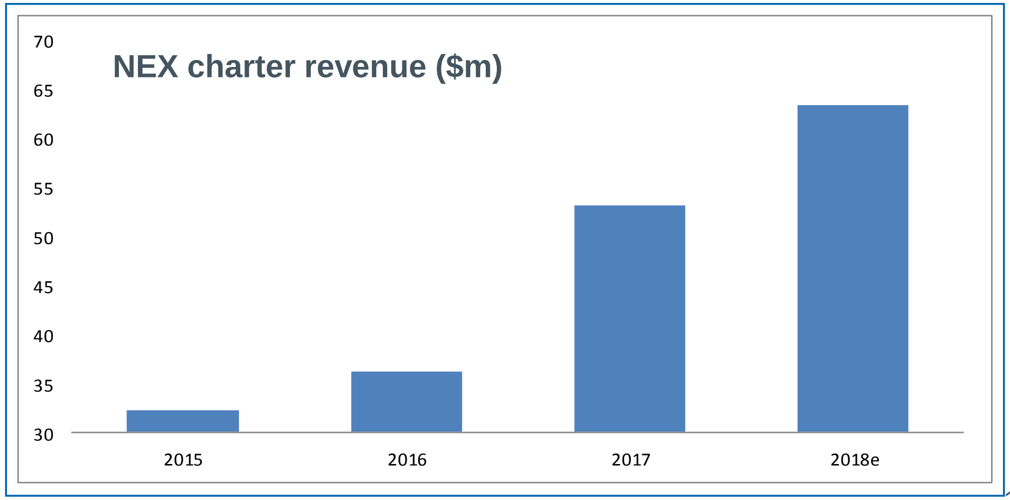
Managing our risks, growing our core, expanding our reach

North America
Disciplined bidding season – price rises above wage inflation

- Much stronger price increases achieved for 2018/19 school year
  - Average price increase of 6.6% on contracts up for renewal & 3.7% across whole portfolio
  - Retention rate of 90% overall
- Anticipate wage inflation around 3.4% in 2019
- Disciplined bid season: positive for profit & margin outlook
- First year of Transit renewals: successful renewal of 15 contracts including one of our largest. Now a $300m revenue business
- DriveCam is reducing our costs & our risks
- Acquisitions delivering strong returns & new growth opportunities

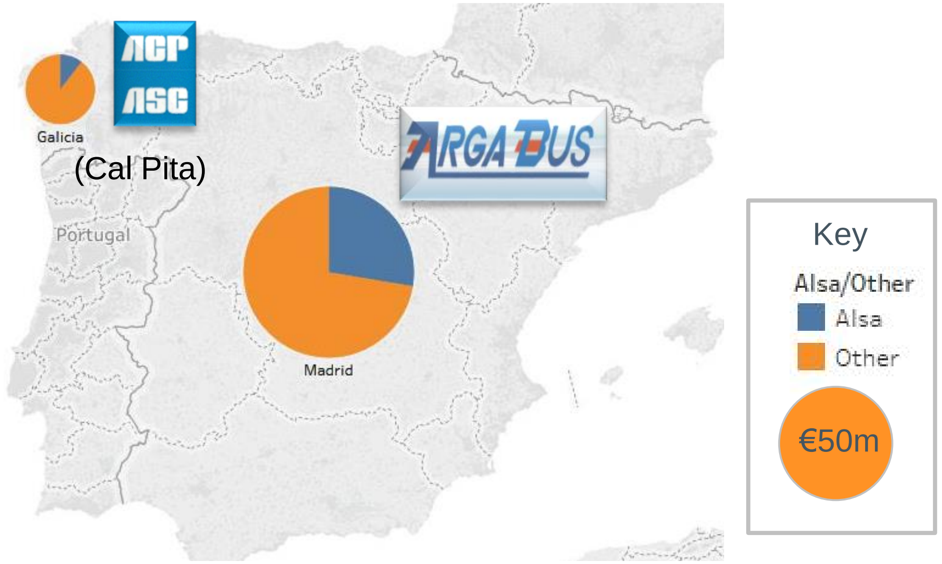
Attractive opportunities in 2 asset efficient markets



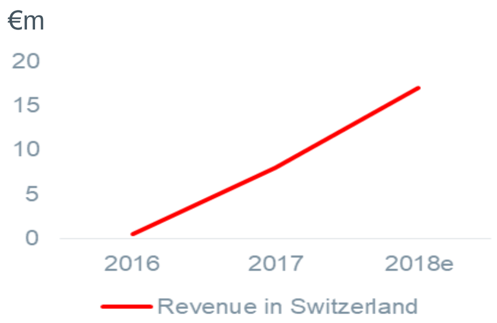


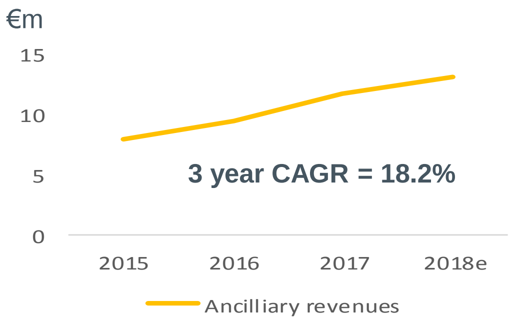
ALSA
Strong track record for growth & with new markets expansion

Acquisitions in regional markets with upcoming concession renewals where ALSA has low exposure



Strong growth in our new markets



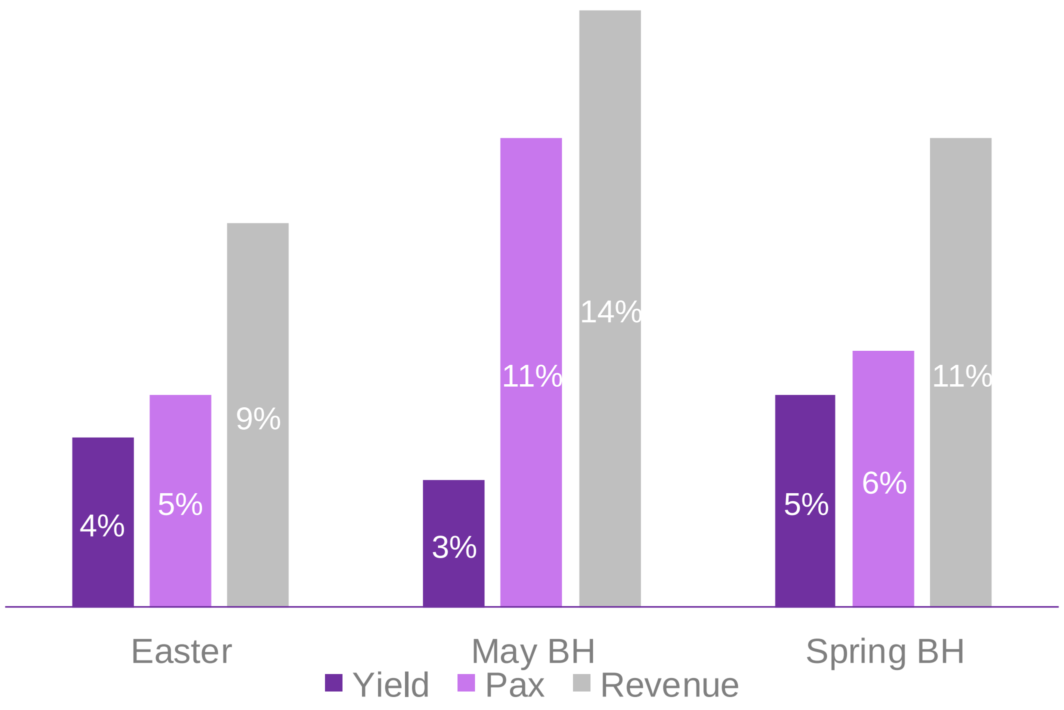


- Concessions: process on hold – little impact in 2019
- New market expansion, diversifying earnings
  - 3 acquisitions in H1 including entry into the services market for cruises
  - Rabat urban bus contract win: our 5th & largest contract in Morocco
  - Expanding ski transfers & sightseeing tours
  - Ancillary revenues growing strongly
  - Last mile services & multimodal

UK

Coach: RMS & targeted marketing campaigns delivering strong growth

% Growth in core revenue, pax & yield

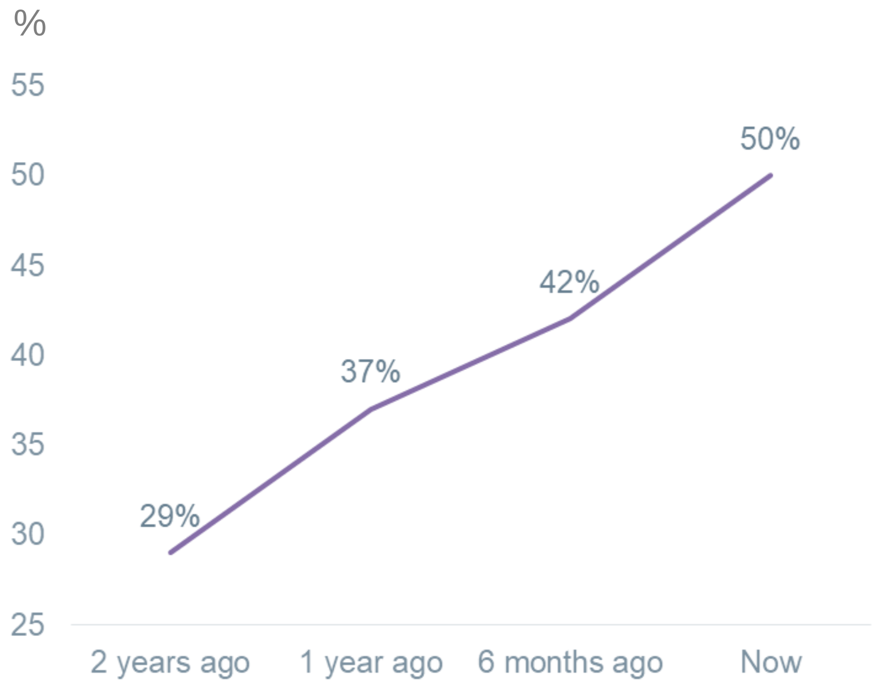


- Targeted marketing campaigns on key events, through our enhanced RMS capabilities
- Strong growth in core revenue & passenger journeys
- RMS helped drive a 2.9% improvement in seat utilisation in H1
- Core revenues up 5.2% in H1, passenger journeys up 6.0%
- Record passenger numbers over Easter & both May Bank Holidays

UK

Bus: Contactless & m-tickets seeing strong penetration

<u>% of passenger journeys through digital channels</u>



- Contactless & capping fully rolled out in West Midlands
- Revenue per mile +3%
- Commercial passenger growth +1.3% in West Midlands; return to growth in Dundee
- Continue to work closely with TfWM & Mayor on priorities, including congestion & clean air
- Sale & leaseback of Dundee depot

Greater convenience for customer

Delivering our strategy

Outlook

- Full year expectations: a positive outlook
- Positive outlook for Spanish concession renewals with greater emphasis on quality: no impact expected in 2018, minimal in 2019
- North America – disciplined school bid season, with price increases above wage inflation
- Continuing recovery in the UK, with accelerating commercial growth
- Interim dividend up 10% - third time in four years
- Cash generation remains strong, with guidance lifted
- Continuing strong pipeline of opportunities, including further diversification
- Outlook for 2019 is positive

Q&A

Appendix

North America

Another record half year with disciplined school bidding season

Delivering operational excellence

- Disciplined bid season for 2018/19
  - Average price increase of around 3.7% across portfolio and 6.6% on our contracts up for bid & renewal
  - Contract retention 93% on contracts up for renewal
- Acquisitions of A&S & A1A provide entry into new growing market segment of Charter Schools
- Good growth in charter revenues, up 19%

Generating superior cash & returns

	2018	2017
Revenue	$753.2m	$686.6m
Op profit	$76.6m	$70.5m
Margin	10.2%	10.3%

Creating new business opportunities

- 4 acquisitions in H1, growing our position in school bus & charter, and entering the Charter Schools market
- Strong pipeline

Risk

- Driver wage pressure – expected to be 3.4% in 2018/19
- Increased maintenance costs to return unused buses to service

Revenue: +9.7% in constant currency, with good organic growth together with bolt-on acquisitions

Profit: +8.7% - margin remains above 10%. Strong returns from acquisitions together with organic growth slightly offset by cost pressures from driver wages, a lower number of operating days & adverse weather

ALSA

Another record half year with strong organic growth

Delivering operational excellence

- 3m more passengers this year, with strong performances in Regular & Urban
- Morocco & Switzerland delivering strong performances
- Concession renewal process starts up with greater emphasis on quality
- Rabat urban bus award – our largest contract in Morocco
    - Morocco generating €100m annualised revenues in 2019
- Last mile services through ALSACab & Uber/Moove JV

Creating new business opportunities

- 3 acquisitions: 1 business providing entry into the cruise market, 1 regional & urban business in Galicia & 1 urban bus business in Madrid

Risk

- Further competition from rail
- Intercity concession renewal

Generating superior cash & returns

	2018	2017
Revenue	€395.7m	€369.9m
Op profit	€48.6m	€45.2m
Margin	12.3%	12.2%

Revenue: +7.0% - strong growth in regional & urban, Switzerland & Morocco together with acquisitions in Spain & Switzerland in 2017/18

Profit: +7.5% - Margin up 10bps reflecting underlying growth in Spain & Switzerland, together with lower fuel costs, cost efficiencies & the benefit of acquisitions made in 2017/2018, more than offsetting cost inflation

UK

Strong recovery continues with further acceleration in growth

Delivering operational excellence

- Strong recovery in Coach - RMS & targeted marketing campaigns reaping increased yields, passenger journeys & revenue
- Quicker than anticipated recovery from terrorism
- Growing high margin ancillary sales - booking fees & seat reservations
- Contactless & m-ticketing in Bus driving sales to stickier & less price elastic channels, helping to drive passenger & revenue growth
- Building our B2B business, including new £4m p.a. contract with JLR

Creating new business opportunities

- Added 25+ new commercial partners
- New airport routes & express services
- Birmingham Clean Air Zone 2020

Risk

- Advanced fare discounting in rail
- Concession income

Generating superior cash & returns

	2018	2017
Revenue	£273.6m	£271.3m
Op profit	£31.6m	£26.0m
Margin	11.5%	9.6%

Revenue: +0.8% - strong recovery in core coach revenues, up 5.2% & commercial bus revenues up 0.8%, partially offset by lower revenues from festivals, international services & exiting loss making businesses

Profit: Up 21.5% - margin up 190 bps, reflecting revenue growth, continuing cost efficiencies, lower fuel costs, property disposal gains of £3m & exit from loss making businesses

German Rail
Positive underlying performance

Delivering operational excellence

- Underlying revenue growth of 5.6%
- Stabilised profit stream
- Progressing with RRX mobilisation with driver training & recruitment underway

Generating superior cash & returns

	2018	2017
Revenue	€43.7m	€44.3m
Op profit	€1.3m	€2.0m
Margin	2.9%	4.5%

Revenue: Down 1.3% - underlying revenue performance positive but impacted by the catch up revenues in 2017 post the clarification of the revenue sharing position

Profit: Down €0.7m with 2017 profit boosted by revenue sharing clarification & catch up from 2016. Margin stabilised.

Creating new business opportunities

- Pipeline of German rail opportunities
- Looking to submit further bids over next 12 months
- Looking at other international rail opportunities

Risk

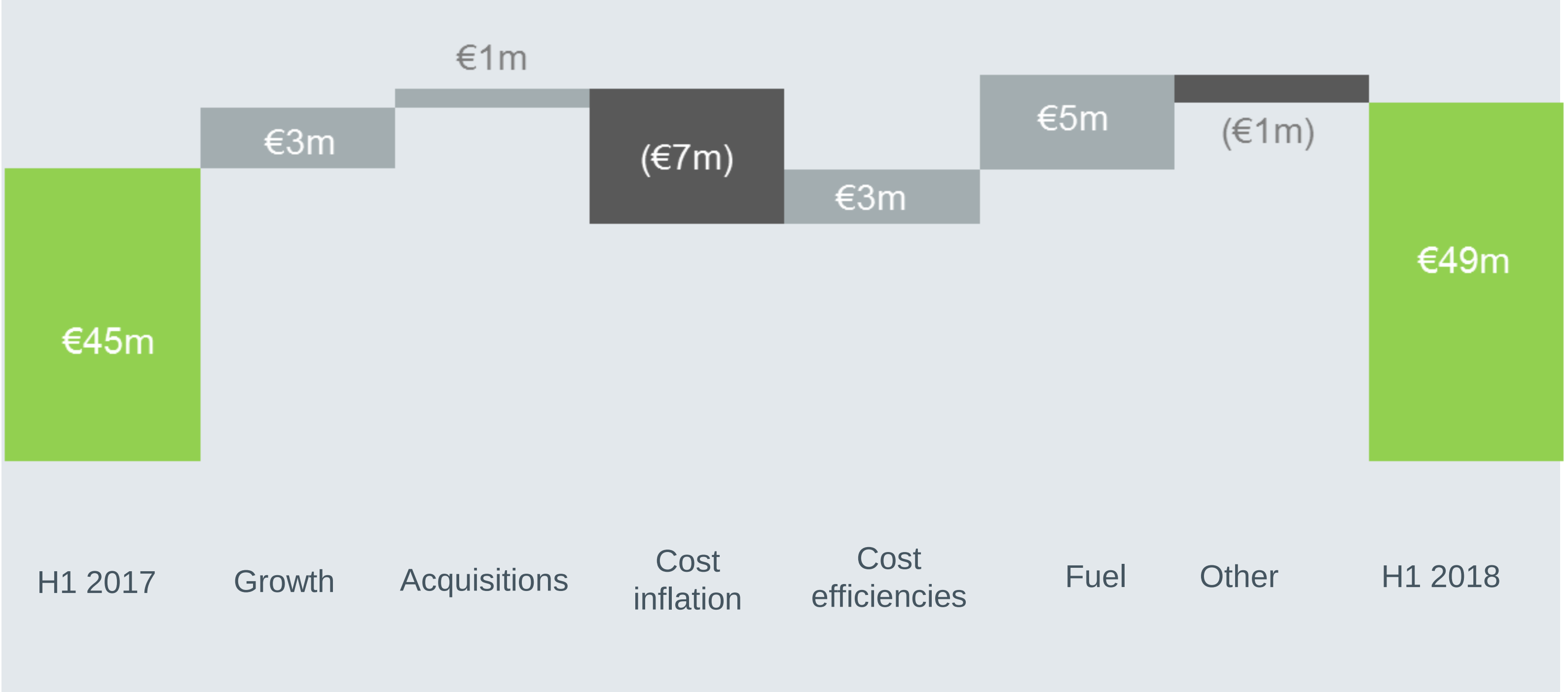
- Failure to win bids in Germany at acceptable rates
- Mobilisation on new contracts

H1 2018 constant currency revenue growth

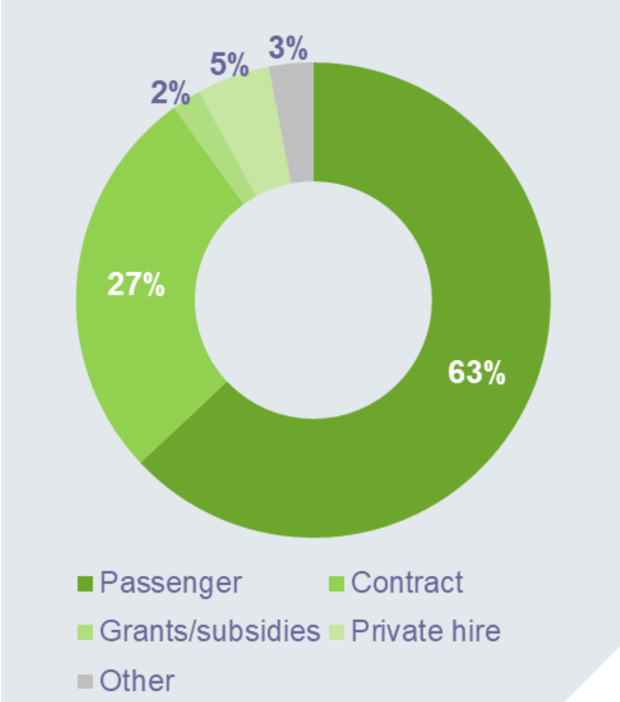
	Revenue	Volume	Yield
ALSA			
Spain	5%	2%	3%
Morocco	9%	2%	7%
Other	28%		
Total	**7%**		
North America	**10%**		
UK			
Bus	1%		
Bus Commercial	1%	1%	0%
Coach underlying revenue	3%	3%	0%
Coach Core NE network	5%	6%	(1)%
Total	**1%**		
German Rail	**6%**	4%	2%

ALSA – operating profit bridge

ALSA

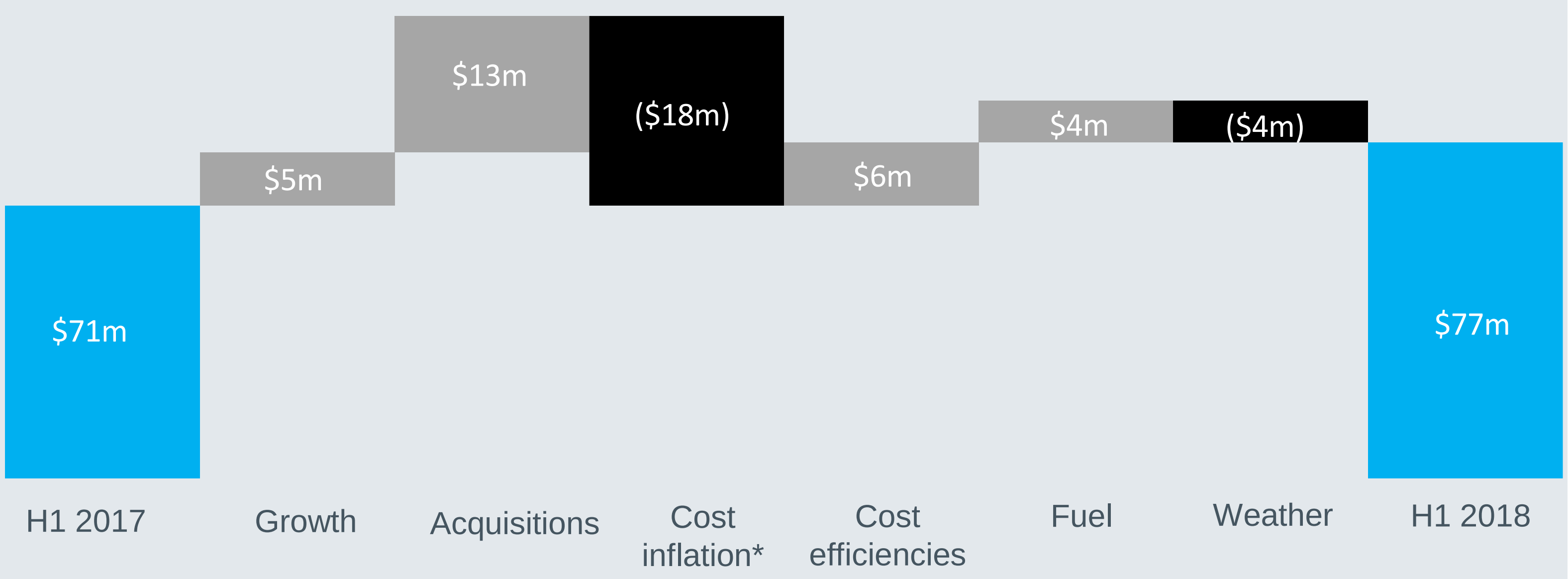


Revenue HY 2018

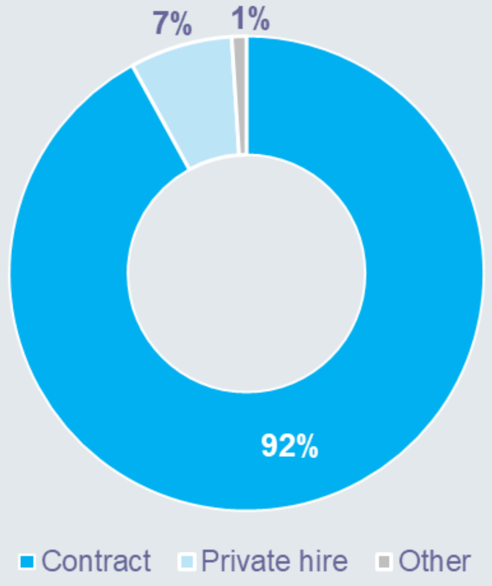


North America – operating profit bridge

North America



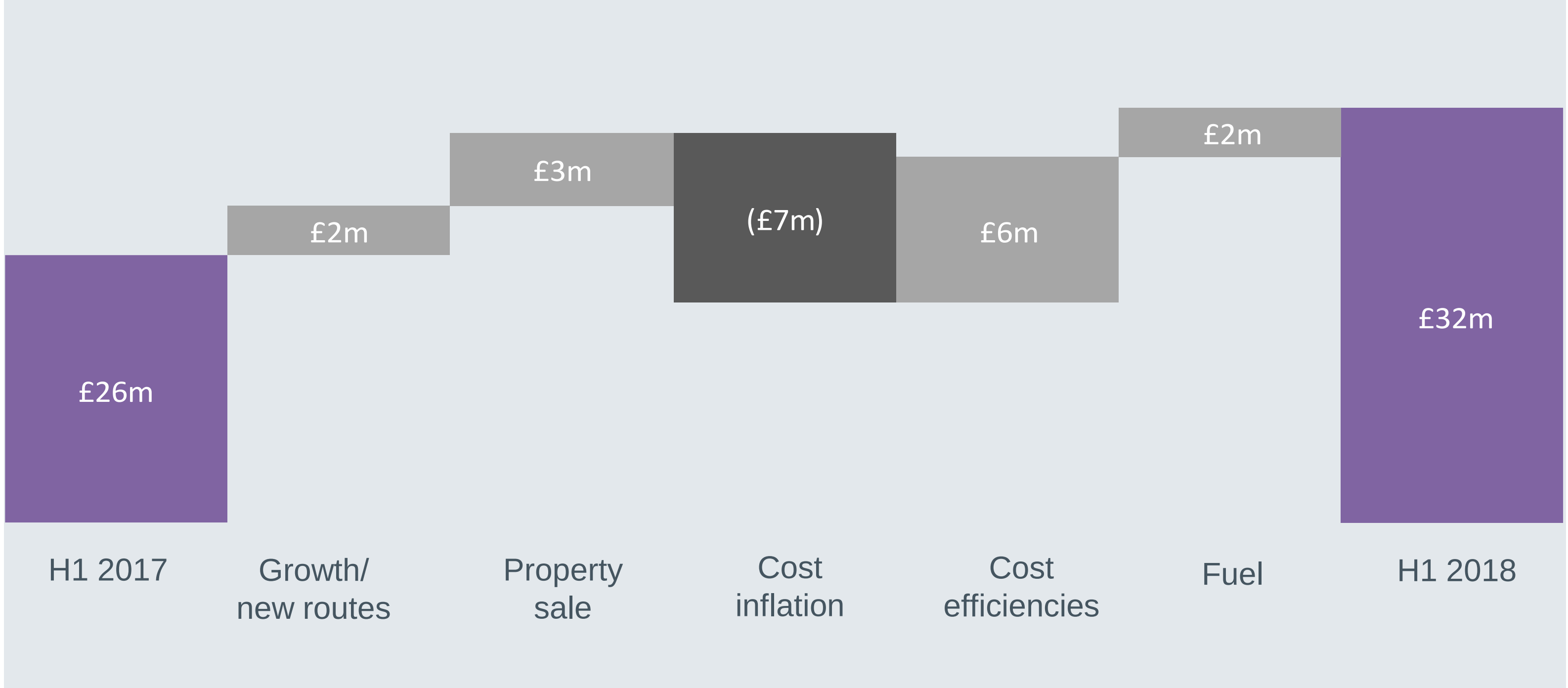
Revenue HY 2018



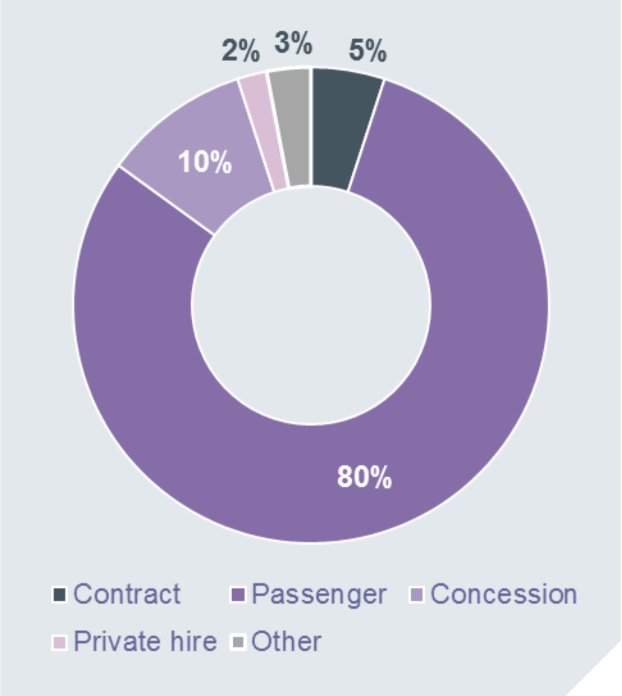
*Cost inflation includes $10m of driver wages

UK – operating profit bridge

UK



Revenue HY 2018



Risk management

Fuel risk largely fixed until 2019

Fuel hedging

	2018	2019	2020	2021
% hedged*	100%	80%	57%	8%
Price per litre	34.4p	35.0p	33.6p	34.4p

- Significant fuel savings expected & secured for 2018

** Of addressable volume (c.235 million litres)*

Foreign currency effects

Effect of fluctuations on profit and debt

Effect of a 1% weakening of £

	USD	EUR
Operating profit (£m)	**1.0**	**1.0**
EBITDA (£m)	**1.6**	**1.5**
Debt	**(4.0)**	**(3.6)**

H1 average rates versus £

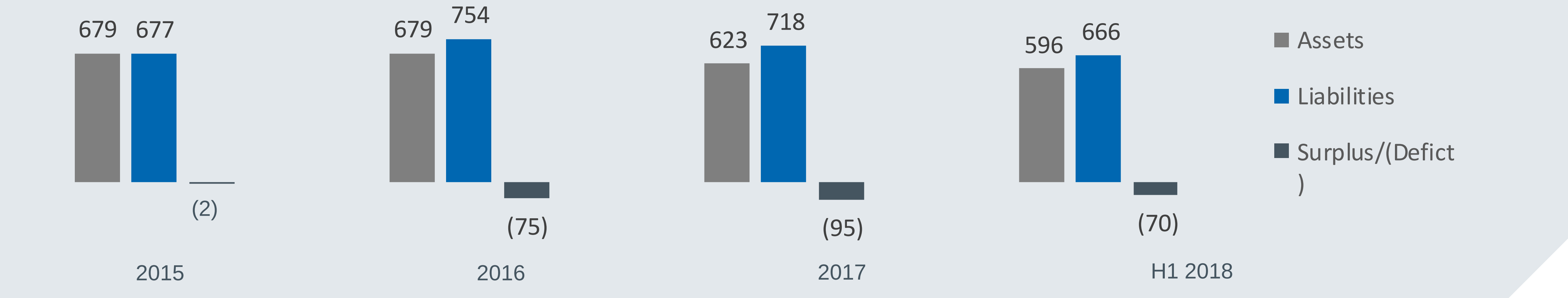
	2018	2017
USD	1.38	1.26
EUR	1.14	1.16

- Translational impact from movements in USD, EUR, CAD
- Hedging achieved by matching local currency debt to EBITDA

Risk management

Pension deficit plan in place through to 2020

Pensions £m (IAS19)



£m	Surplus /(Deficit) H1 2018	Surplus /(Deficit) 31 Dec 2017	Profit /(charge) H1 2018	Profit /(charge) H1 2017
UK Bus	(115.8)	(133.8)	(2.1)	(2.0)
UK Group	49.6	43.2	(0.2)	-

national express

National Express
Group PLC