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6 May 2020

NATIONAL EXPRESS GROUP PLC

(“National Express”, the “Company” or the “Group”)

Update on COVID-19 response plans to reduce leverage and enhance the Group’s financial flexibility to take advantage of growth opportunities as it exits the COVID-19 crisis

The Board of National Express Group PLC, a leading international transport provider with a diverse international portfolio of public transport assets, today announces an extension to its plans in response to COVID-19.

In addition to the extensive series of measures the Group announced on 19 March and 14 April 2020 to help the business withstand this period of extreme uncertainty, National Express is today separately announcing a proposed placing of up to 19.99% of the Company’s existing issued share capital (the “Placing”).

Highlights:

- The contracted nature of the majority of revenue alongside robust cost management action underway means the Group has continued to generate positive EBITDA and cashflow
- The Group has made significant progress to secure additional liquidity with approximately £1.3 billion in cash or undrawn committed facilities
- The Group today also announces the pre-emptive gearing covenant waiver on its USPP and banking facilities through 2020
- In a period of extended global uncertainty, the Placing will lower the Group’s gearing, providing enhanced resilience, as well as further financial flexibility to invest in growth opportunities as it exits the COVID-19 crisis
- Aspiration to reintroduce a dividend alongside 2021 interim results
- Following the Placing, the Group will set a new target gearing range of 1.5 to 2.0 times, seeking to achieve this by the end of 2021

Dean Finch, Group Chief Executive, commented:

“Our immediate priorities have been to protect the health and wellbeing of colleagues and customers and secure the long term sustainability of the business. We have acted swiftly and decisively and have made significant cost-cutting measures, struck agreements with public authorities and contracted customers to maintain payment, and secured enhanced liquidity and covenant waivers. These have all been crucial in underpinning our future prospects.

“The placing builds on these actions, providing enhanced resilience and financial flexibility as we address an extended period of uncertainty and it increases our ability to invest in further growth opportunities once this period has passed. By strengthening our balance sheet we are also able to set a new, lower gearing target. Alongside our industry leading operational capabilities, I believe a stronger balance sheet will be a source of differentiation and competitive advantage for National Express going forwards.

“National Express went in to this pandemic as the leader in all the markets we serve. Whilst the next few months will remain uncertain, we are already seeing a number of growth opportunities as existing and potential new customers seek a financially secure and reliable operating partner.

“I look forward to maintaining our leadership position and resuming full services as soon as possible, delivering safe, high-quality services to our customers as well as strong and sustainable returns for our shareholders.”

Recap on Q1 trading and financial position

Since the emergence of COVID-19, National Express has released two trading updates, on 19 March 2020 and 14 April 2020. These outlined the underlying strength and resilience of the Group’s business model which, in the first two months of the year, delivered significant year-on-year revenue growth of approximately 17%. Before COVID-19 lockdowns were imposed, every division in the Group was trading strongly.

Since the impact of COVID-19, the Group has seen a significant decline in revenue as services have been withdrawn. Whilst overall revenue for the first three months of 2020 was up 8.9% year-on-year in constant currency (9.4% on a reported basis), the Group has acted swiftly and decisively to protect the business. This includes continuing to make good progress in maintaining contract payment terms with public authorities and major customers, as well as driving significant cost management actions across the Group, including:

- All variable costs being reduced in-line with service reductions;
- All material discretionary capital expenditure being put on hold;
- Where customers are not paying to retain staff, employees have been temporarily made redundant or furloughed utilising government income protection schemes where possible;
- The suspension of the Group’s UK coach network, facilitating a significant reduction in costs of operation whilst demand is low; and
- All members of the Board and Group Executive having taken voluntary pay sacrifices in light of the pandemic and its impact on the Group’s business.

Since the 14 April 2020 announcement, trading has continued in line with expectations with no material change to the trading environment. Even in this unprecedented lockdown, the Group continues to generate positive EBITDA and cashflow.

This pandemic has reinforced the fundamental and essential role the Group’s services play in the communities it serves. The extraordinary action of governments and authorities only reinforces the critical importance of the Group’s services. In each of the Group’s divisions, we are staying in close contact with furloughed or laid-off colleagues, to check on their welfare and make operational start-up as quick and smooth as possible. The Group has similarly sought to maintain strong relationships with its supply chain partners.

Covenant waiver and liquidity update

As at 30 April 2020 (and excluding the proceeds from the Placing) the Group has approximately £1.3 billion in cash or undrawn committed facilities.

In addition to the cost mitigation measures undertaken, the Group has also focused on optimising its liquidity position and today announces that it has obtained a gearing covenant waiver on its USPP and banking facilities, for the periods ending 30 June and 31 December 2020, with the delayed-draw USPP funding to follow in May and June this year.

Scenario planning

As a result of the actions already undertaken, including the pre-emptive waiver of gearing covenant tests through 2020, the Group's balance sheet remains strong with significant available liquidity.

In addition, our business model provides the Group with significant resilience given the contracted nature of the majority of our revenue, further strengthened as a significant proportion of this income is from public authorities or large multi-national corporations who, in large part, continue to pay us in line with pre COVID-19 levels.

The impact of the COVID-19 pandemic has, however, extended beyond initial predictions, with much of the world's population remaining in a state of lockdown, with widespread travel restrictions and uncertainty surrounding potential exit strategies.

Given this uncertainty, we have analysed a range of potential exit scenarios, including the mitigating actions available to the Group under such scenarios. Our balance sheet and liquidity planning is based upon a pessimistic downside scenario where further lockdowns are imposed to contain any future peaks in infection. The Group considers such a downside scenario to involve revenue recovering slowly from the start of Q3 (and from the current monthly run-rate during Q2 of just over 50% down versus pre-COVID-19 levels), remaining at somewhat lower levels into and throughout 2021 (a monthly run-rate of approximately 25% down versus pre-COVID-19 levels).

Under such a downside scenario, the Group's EBITDA in 2020, taking into account the benefit of the management actions taken to reduce the cost base, would fall approximately 40% relative to 2019. However, with the embedded growth in the business (such as the 2019 acquisition of WeDriveU and the significant new contracts wins in Rabat and Casablanca), revenue and EBITDA in 2021 under this downside scenario would recover close to 2019 levels.

The Placing

Despite the significant mitigating actions being taken by the business to reduce costs and improve the liquidity position of the Group, the Board has taken the decision that the Group's balance sheet would benefit from strengthening by way of additional financing, and has therefore today separately announced a proposed non pre-emptive equity placing. Without the anticipated proceeds of the Placing, the Company would expect to be in the top end of its previous target gearing range of 2.0 - 2.5x at the end of 2021, and therefore need to manage its cost base for longer, potentially limiting its ability to take advantage of growth opportunities that might arise after the Group emerges from the COVID-19 crisis.

The net proceeds from the Placing will reduce overall debt and gearing, and combined with the Group's recently increased lending facilities and the significant management actions well underway, will leave the Company with a stronger balance sheet, further liquidity, increased covenant headroom in future periods and enhanced resilience to manage the business through this market.

The net proceeds of the Placing will allow the Group to accelerate a reduction in gearing to within a new target range of 1.5 to 2.0 times, which the Board believes is a more appropriate level post-COVID-19 and which the Group will target for the end of 2021. The Board unanimously supports the Placing, with certain members of the Board and Executive management team intending to participate and in aggregate contribute approximately £1.0 million.

The Board continues to believe that there will be attractive opportunities to strengthen and invest in the future growth of the business as we exit the current crisis. The Group is already seeing a number of growth opportunities as existing and potential new customers seek a financially secure and reliable operating partner. As with some of our recent contract wins, many of these contracts would require upfront investment, but we believe they would secure strong, stable returns for the business for many years to come. Some of these potential opportunities include school boards looking to outsource for the first time (as, for example, they seek to preserve the capital needed to replace their own school bus fleets going forwards), corporates looking for dedicated shuttle services for staff in the current COVID-19 environment, and city authorities looking to us to take over the provision of bus services (where, for example, the existing operator may be unable to continue).

The net proceeds from the Placing will assist the Group in emerging from the current crisis with the financial flexibility to take advantage of these opportunities. The Board believes that alongside our industry leading operational capabilities, a stronger balance sheet will be a source of differentiation and competitive advantage for National Express going forwards. The Group will maintain a disciplined approach to investment, targeting returns well above our cost of capital and typically above 15% in line with our track record to date.

The Board also remains resolute in its commitment to target industry leadership on the shift to zero emission vehicles. This includes never to buy a diesel bus again in the UK (with an ambition for UK bus to be zero emissions).

by 2030 and coach by 2035) and to review and roll out similar ambitions across the Group. The net proceeds from the Placing will therefore provide the Group with further financial flexibility to continue to deliver on these important commitments and its ambition to be the world's greenest mass transit operator.

Dividend update

The Board continues to intend to resume its dividend policy at the earliest prudent opportunity. Subject to a decision at the time, the Board has an aspiration to reintroduce a dividend alongside its interim results in July 2021.

The person responsible for releasing this announcement is Jennifer Myram, Company Secretary.

Enquiries

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This announcement should be read in its entirety. In particular, you should read and understand the information provided in the "Important Notices" section of this announcement.

IMPORTANT NOTICES

In light of the continuing uncertainty caused by COVID-19, no assurance is given by the Company, and there can be no assurance, that the Group's illustrative downside scenario presented above under the paragraph headed "Scenario planning" represents a worst case scenario for any past or future time period. The statements made within this paragraph represent indicative estimates only, modelled by the Company based upon certain assumptions which may or may not prove to be accurate, and do not constitute, and should not be taken as constituting, a profit forecast or a profit estimate.

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looking statements include, among others, economic and business cycles, the terms and conditions of the Company's financing arrangements, foreign currency rate fluctuations, competition in the Company's principal markets, acquisitions or disposals of businesses or assets and trends in the Company's principal industries. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this announcement may not occur. The forward-looking statements contained in this announcement speak only as of the date of this announcement.