national express

Full Year Results

For the year ended
31 December 2018

28 February 2019

Financial highlights

Chris Davies

Group Finance Director

2018 Key highlights

Improved margin and record profits

Strong revenue growth

- Revenue up 6.9% at constant FX
- Robust organic growth boosted by bolt-on acquisitions
- Growth in all core divisions

Record profits

- Normalised PBT up 11.3% at constant FX
- Record statutory PBT of £177.7m, up 13.6%
- Operating margin up 10 bps to 10.5%
- Normalised EPS up 13.1%

Converted to cash

- Generated £199m of free cash flow
- Gearing stable at 2.3x

Reinvested and returned

- Invested in 11 acquisitions
- Acquisitions delivering returns of at least 15%
- ROCE increased to 12.4%, up 50 bps
- 10% increase in full year dividend

2018 Financial highlights

Strong performance for the year

Continuing operations £m	2018	2017	Change	Change in Constant FX
Revenue	2,450.7	2,321.2	+5.6%	**6.9%**
Group normalised operating profit	257.7	241.5	+6.7%	**+7.7%**
Group normalised PBT	220.0	200.0	+10.0%	**+11.3%**
Normalised EPS	32.9p	29.1p	+13.1%	

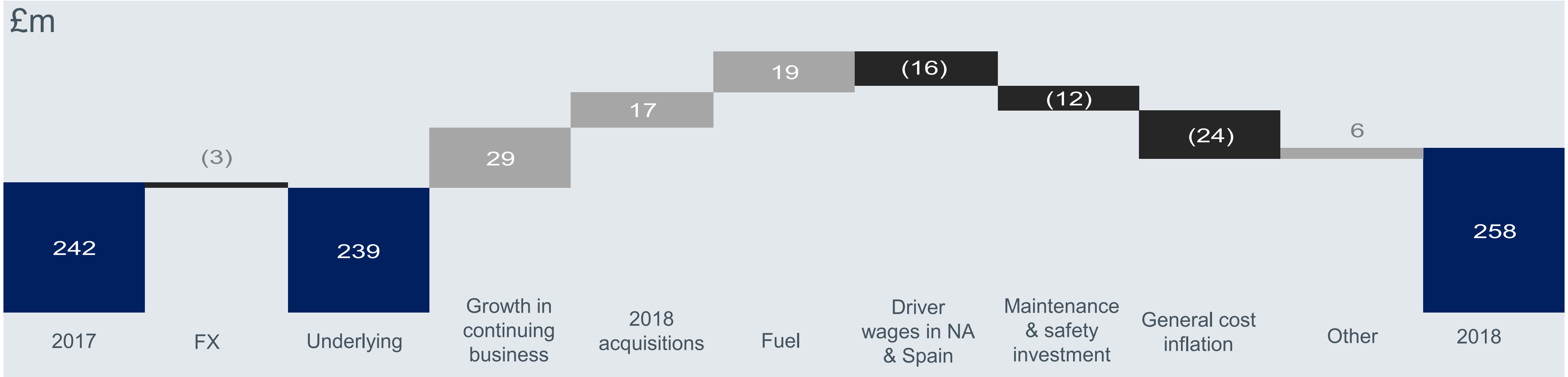
Statutory £m	2018	2017	Change
Group statutory operating profit	215.4	197.9	+8.8%
Group statutory PBT	177.7	156.4	+13.6%
Group PAT from continuing operations	138.7	128.4	+8.0%
Statutory EPS	26.6p	25.7p	+3.5%

Free cash flow	£198.6m	£146.4m	+£52.2m
Net debt	£951.5m	£887.9m	+£63.6m
Full year dividend	14.86p	13.51p	+10.0%

Revenue
Growth driven from both organic & recent acquisitions

- Strong revenue increase, up 6.9% in constant currency
- Organic growth of 3.6% boosted by acquisitions in North America & Spain
- Adverse impact from currency, with £ stronger versus the US $

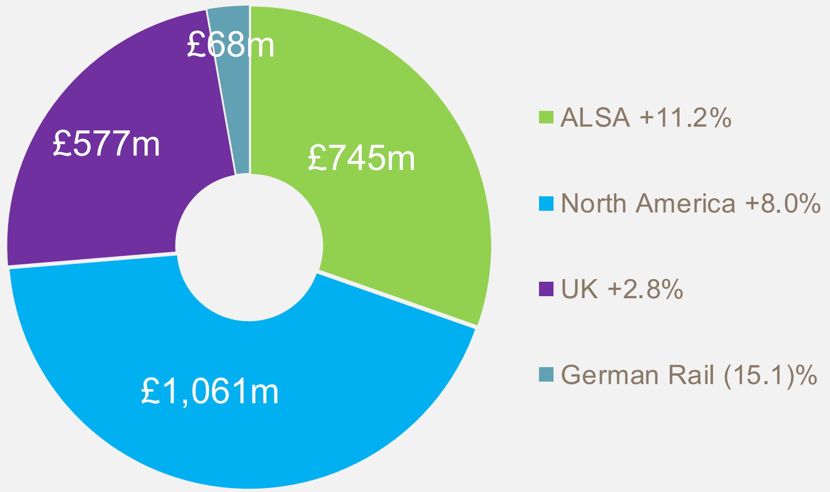
Operating profit
Balanced growth



- Operating profit up 7.7% on a constant currency basis
- Solid organic growth, boosted by acquisitions, with strong growth across all divisions
- Lower fuel costs offset by driver wage inflation in North America & Spain
- Increased investment in maintenance & safety – benefits to come in medium term
- Other includes profit on disposal of UK properties
- Operating margin increased to 10.5%, up 10 bps

Divisional summary
Strong growth across all core businesses

Revenue (YOY change*)



Underlying year-on-year change shown in constant currency

Operating profit

	FY 2018	Change	Margin
ALSA	€119.1m	€10.8m	14.1%
North America	$129.4m	$7.8m	9.1%
UK	£79.9m	£9.0m	13.8%
Other	£(24.4)m	£(5.8)m	
Group	**£257.7m**	**£16.2m**	**10.5%**

Income statement
Record profits

£m	FY 2018	FY 2017	Change
Operating profit	**257.7**	**241.5**	**+6.7%**
Share of results of associates & JVs	0.9	(3.5)	£4.4m
Net finance costs	(38.6)	(38.0)	(£0.6m)
Profit before tax	**220.0**	**200.0**	**+10.0%**
Tax (ETR 22%)	(49.0)	(48.0)	
Profit after tax	**171.0**	**152.0**	**+12.5%**
EPS	**32.9p**	**29.1p**	**+13.1%**

- PBT up 11.3% in constant currency, up 10.0% on a reported basis (statutory profit up 13.6%)
- Finance costs stable
- Effective tax rate has fallen to 22.3%, in line with previous guidance
- 13.1% EPS growth

Superior cash and returns

Strong free cash flow of £199m

£m	FY 2018	FY 2017
EBITDA	**402.1**	**377.0**
Working capital	(17.5)	4.8
Net maintenance capex	(123.9)	(165.2)
Pension deficit	(7.4)	(5.0)
Operating cashflow	**253.3**	**211.6**
Tax/interest/other	(54.7)	(65.2)
Free cash flow	**198.6**	**146.4**

Operating cash flow conversion %	
ALSA	104%
North America	83%
UK	101%
Group	**98%**

- Working capital normalised following prior year German rail catch-up
- Maintenance capital cash outflow lower driven by asset disposals
- Interest costs lower reflecting prior year double coupon payments with expiry of bond in 2017
- FCF of £199m, up £52m, partly reflects lower maintenance capex, which will return to normal levels in 2019

Superior cash and returns

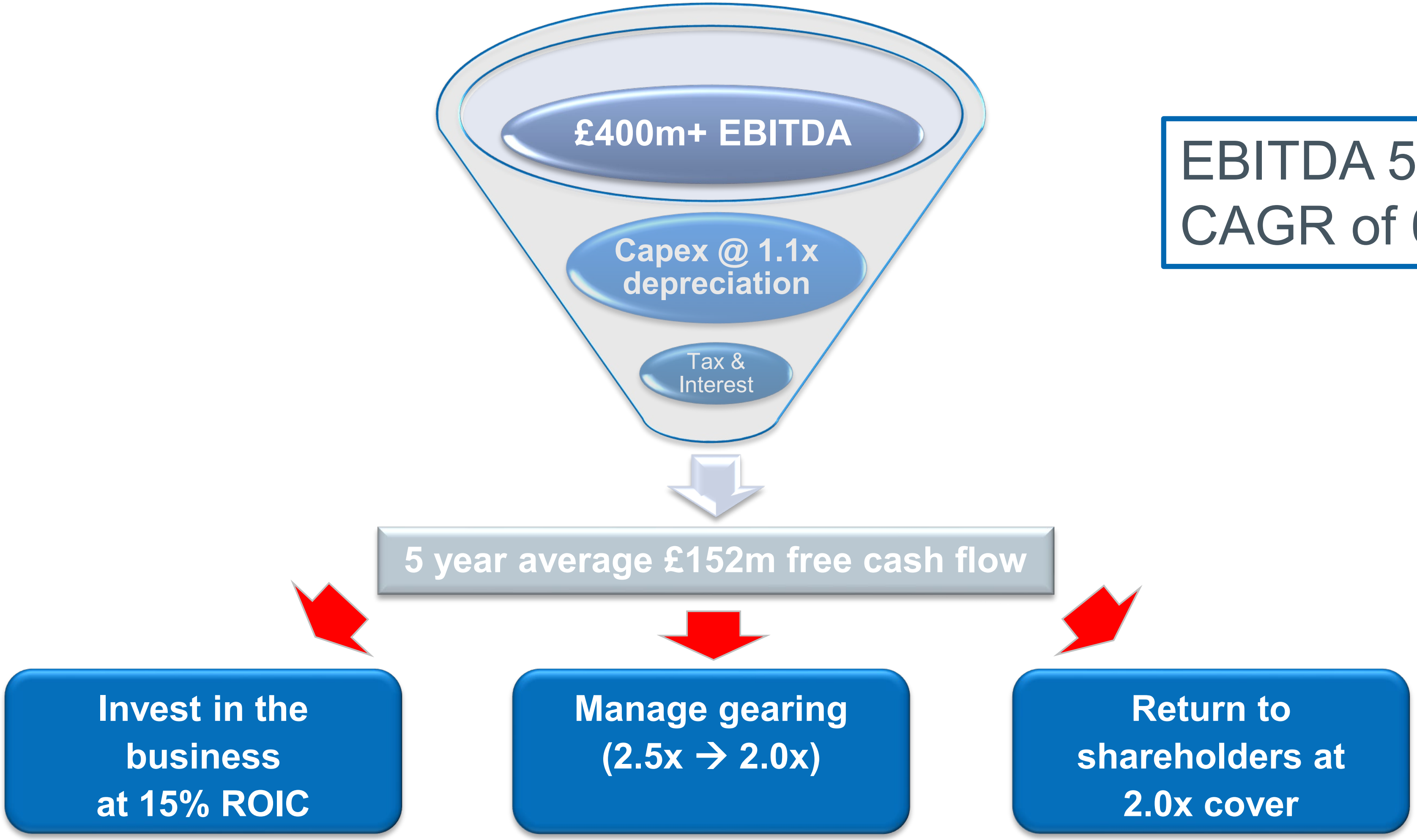
Investing for future growth & returning to shareholders

£m	FY 2018	FY 2017
Cash flow available for growth & dividends	**198.6**	**146.4**
Net growth capital expenditure	(5.8)	(13.2)
Net inflow from discontinued operations	0.4	27.5
Acquisitions	(154.5)	(101.5)
Dividends	(70.8)	(64.7)
Other, including forex	(31.5)	(4.4)
Net funds flow	**(63.6)**	**(9.9)**
Net debt	**(951.5)**	**(887.9)**

- 36% of free cash returned as dividend
- £160m reinvested for organic & inorganic growth
- £22m outflow from retranslation of foreign currency debt balances
- Gearing stable at 2.3x

Capital allocation

Sustainable compounding growth



EBITDA 5 year CAGR of 6%

2018: £143m on 11 acquisitions

2018: 2.3x

2018: 10% growth

Balance sheet

Gearing maintained at 2.3x, interest cover increased

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

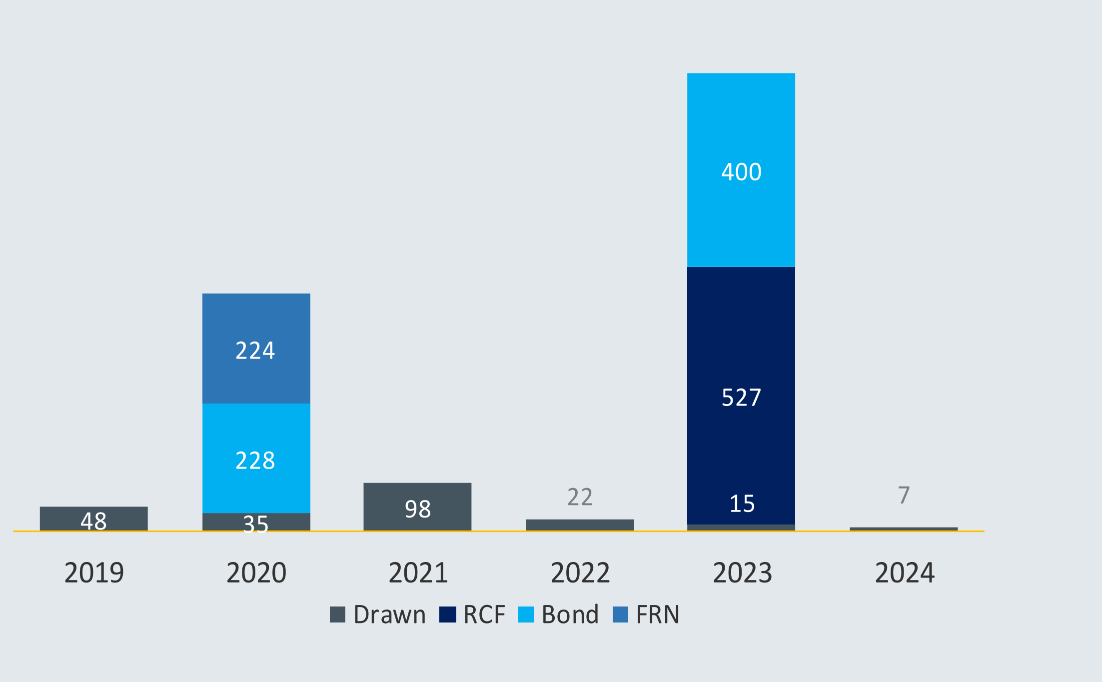
Ratings	Grade	Outlook
Moodys	Baa2	Stable
Fitch	BBB-	Stable

- Gearing stable at 2.3x on net debt of £951m
- Remain committed to a robust financial strategy:
  - Strong commitment to Investment Grade debt rating
  - Gearing & interest cover remain well within covenant levels
  - Moodys upgrade to Baa2 in 2018
  - Prudent risk planning – fuel mostly hedged to 2020 & pension deficit plans in place

Liquidity

Well funded through to 2023

Strong debt maturity profile



**Available cash and undrawn committed facilities at 31 Dec 2018*

- £644m cash & committed headroom*
- Bank facilities extended to 2023 with two additional one year extension options
- New 3 year £500m bridge-to-bond facility post the year end to refinance FRN and bond due in 2020

IFRS 16

No impact on our economics, how we run the business or the cash we generate

- Effective from 1 January 2019
- Will primarily effect the accounting of the Group's operating leases – increase in the number of leases being recognised on the balance sheet
- Rail leases will not come on to the balance sheet – not a right-of-use asset
- Expect to recognise right-of-use assets & lease liabilities of *c*. £200m
  - Impact on:
  - EBITDA – an increase of *c*. £60m
  - Gearing – an increase of less than 0.2x
- **No change to our gearing policy of 2-2.5x**
- **No impact on our investment plans going forward**

Guidance

2019

- Net maintenance capital expenditure of 1.1x to 1.2x depreciation – 2019 target *c.*£190m
- Effective normalised tax rate in the low 20s %, normalised cash tax rate <15%
- Fuel costs £6m higher (reverse in 2020)
- Free cash flow normalises to *c.*£150m - £160m
- Dividend cover of at least 2.0x Group normalised earnings
- IFRS 16: EBITDA c.£60m; Net debt *c.*£200m; therefore gearing increase less than +0.2x

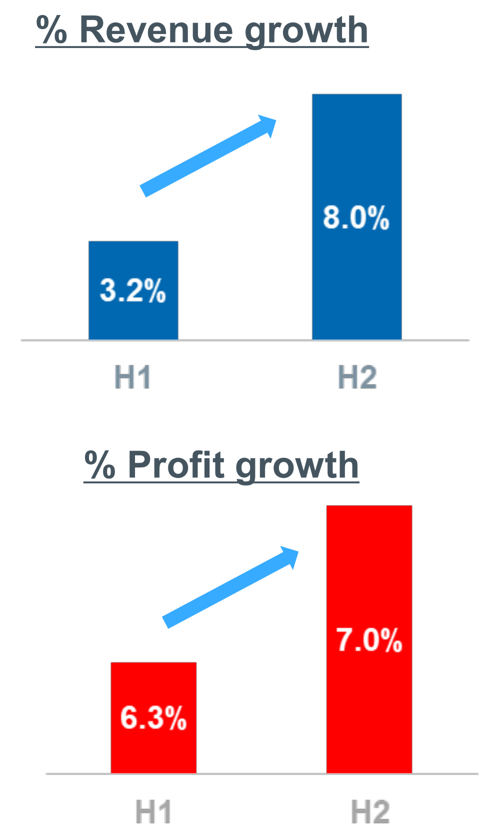
Strategic review

Dean Finch

Group Chief Executive

Introduction
Record year for the Group

- Record performance with improving trajectory through the year
- Based around success through focus on our 3 pillars:
    - Operational excellence
    - Deployment of technology
    - Acquisition & market diversification
- Balanced portfolio, strong businesses in multiple geographies – expertise being transferred across geographies
- Building up multi-modal hubs in Europe & US: use of technology, strong local partnerships & our expertise - leading to continued development & success for the Group
- Continuing positive trajectory into 2019, giving confidence for the year ahead



Consistent delivery

5 years of reliable growth across all financial KPIs

Continuing operations	2018	2013 restated	CAGR
Revenue £m	2,450.7	1,739.9	7.1%
EBITDA £m	402.1	301.0	6.0%
Normalised operating profit £m	257.7	173.8	8.2%
Statutory PBT £m	177.7	66.0	21.9%
Basic normalised EPS p	32.9	19.2	11.4%
DPS p	14.86	10.0	8.2%

	2018	2013	Change
ROCE	12.4%	10.8%	+160bps
Gearing	2.3x	2.5x	(0.2x)
Group operating margin	10.5%	10.0%	+50bps

Highlights

- Statutory PBT CAGR of 21.9%
- EBITDA now over £400m
- £450m dividend payments paid to shareholders since payments resumed

Operational excellence with technology

- Digital technology improvements:
  - ➢ Real-time management of on-time performance
  - ➢ Driver behaviour tracking
  - ➢ Vehicle diagnostic alerting
  - ➢ Vehicle utilisation
- Delivering significant improvements in key areas:
  - ➢ UK bus journey times improved by 0.9%
  - ➢ Driving out Harm - 73% reduction in harm since 2010
  - ➢ Maintenance performance in North America - 10x better than industry average

- ➢ Improves safety
- ➢ Lowering costs
- ➢ Improving revenue per mile
- ➢ Increasing average load factors
- ➢ Better customer retention
- ➢ Growing passenger numbers
- ➢ Improving margin

Excellent safety culture driving lower insurance costs

- Accident prevention and claims cost £90m p.a.

- Lytx DriveCam now installed in nearly 19,000 vehicles across the Group:
  - Monitoring & coaching better driving performance, lowering speed & reducing collisions

- We are just at the beginning of turning these benefits into cost savings:
  - Average cost of injury claims from collisions down 22% versus 2017
  - No claims in 2018 over $500k for the first time in 10 years; 10 year average is $6.5m

ALSA has always been a benchmark in road safety

"It is not a pirate company, local or small, but one of the most important in passenger transport. It has always been a benchmark in road safety."

Pere Navarro, Director General of Traffic in the Spanish Transport Ministry

Excellence & technology securing commercial growth

Modernising ticketing, booking & payment

- Website and/or app improvements in every division
  - ➢ 10% growth in Group digital sales
  - ➢ Third party channels saw 63% growth (UK Coach and ALSA)
  - ➢ Our channels becoming a platform for other modes and sales

Modernising pricing through further RMS sophistication

- UK Coach and ALSA learning from each other
- Increased sophistication of pricing along demand curves
  - ➢ Driving passenger & yield growth
  - ➢ Increasing load factors: ALSA +1.5% to 50.9%; UK coach +7% to nearly 60%
  - ➢ Strong organic growth

Helping drive Group commercial passenger growth of 2.7%

Transforming our UK Bus business

- Transforming pricing with granular and targeted fares:
  - Fare-paying pax 1.1% better
  - Commercial rev per mile up 4% (highest since 2012)
- Transforming payment:
  - 60% of pax on digital tickets: speed, data, marketing
  - First city outside London with contactless & capping
- Transforming bus service:
  - After a decade of decline, buses got faster in 2018
  - More priority, express routes, faster ticketing, *Platinum*
- Transforming the politics:
  - Bus Alliance delivering benefits without re-regulation
  - Preparing for 2020 CAZ & 2022 Comm. Games

Very positive momentum in 2018:

- 50% say digital means they travel more
- Customer sat 88% (the best ever)
- Bus speeds 0.9% better
- Mileage reduction through redesigned and faster routes
- Safety 13% better

Modern, clean fleet. By the end of 2019:

- 80% at Euro 6 standard
- 350 Platinums
- First EVs planned for winter

Transforming our UK Coach business

- Transforming into a digital retailer:
  - 70% sold on digital channels, 85%+ for InterCity routes
  - 10 clicks to purchase (was 26 in 2014)
  - App at 4.5 stars and delivering 8% of revenue
- Transforming sales channels:
  - APIs to leading multi-modal retailers
  - Contactless payment on every vehicle
- Transforming pricing:
  - RMS enabling sophisticated flight by flight pricing
  - New ancillary products including seat reservation
- Transforming network:
  - Invested in new routes and removed lightly used miles
  - Revenue per mile up 11.5% on core Coach

Very positive momentum in 2018:

- Core Coach revenue growth 7%
- Core Coach passenger growth 5%
- Ancillary revenue growth 12%
- Utilisation increase 7%

Industry leading fleet:

- Network fully Euro 6 within 15 months
- New Levante 3 rolling out with latest safety systems
- Fatigue monitoring system will roll out in 2019

Transforming our North American business

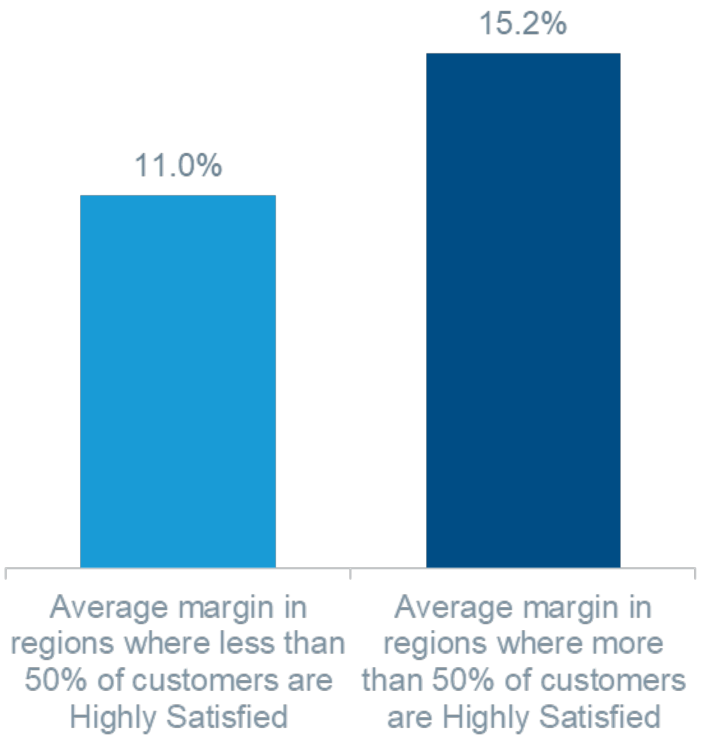
- Transforming safety performance:
  - DriveCam, speed monitoring and communications
  - Service and insurance benefits
- Transforming driver hour monitoring and customer billing:
  - Jan 2019 150 bps improvement over Q4 2018
  - Granular link to pricing
- Transforming asset utilisation and on-time performance:
  - Identifying surplus and re-deploy
  - Location-by-location oversight of key performance timings
- Significant efficiency opportunity:
  - Re-invest in improved customer services
  - Ultimately, sustainable margin improvement

Extra $16m invested in safety & maintenance in 2018 for sustained benefits

North American customer service premium

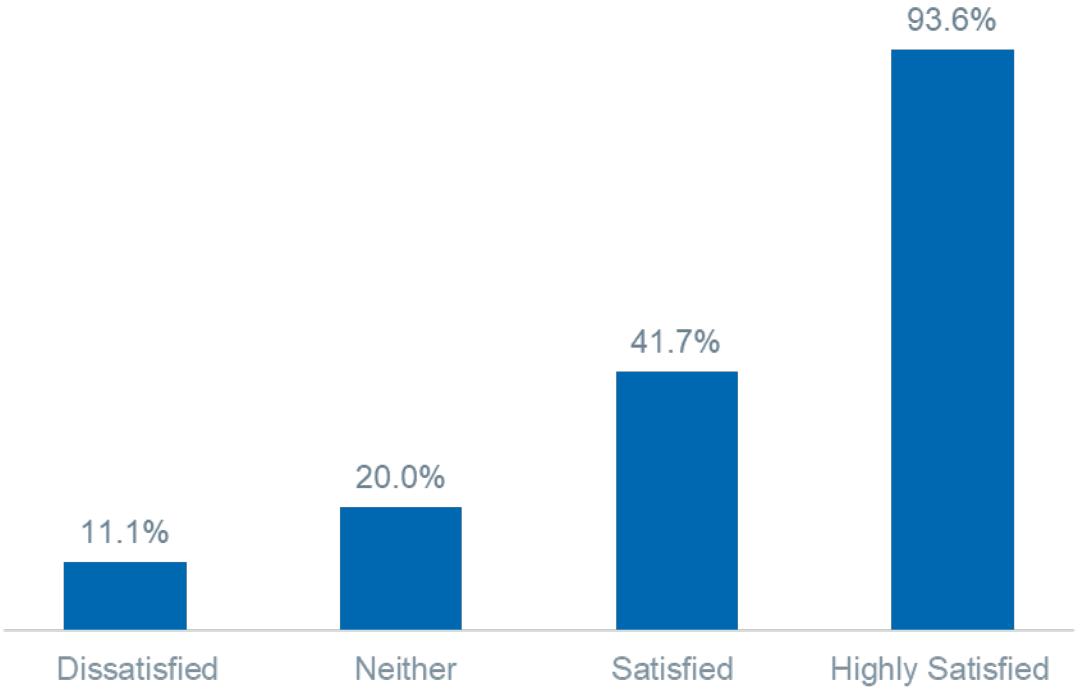
Comprehensive 2018 customer survey in US School Bus showed 46% of our School Bus customers are Highly Satisfied

Margins are higher in regions where the majority of our customers are Highly Satisfied



The lower margin regions cover ¾ of our US School Bus business, demonstrating the scale of the opportunity

Customer satisfaction and likelihood <u>not</u> to seek renewal for School Bus services



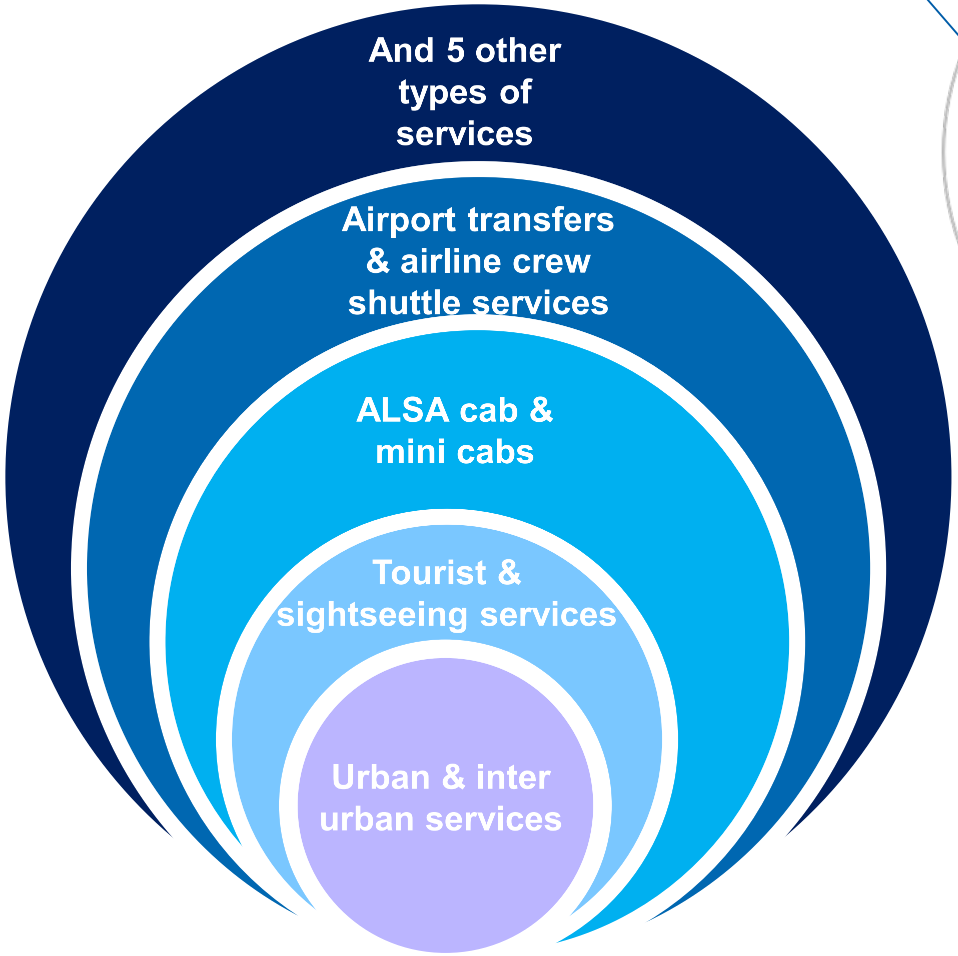
Note: Survey responses came from contracts covering over half of US School Bus revenue

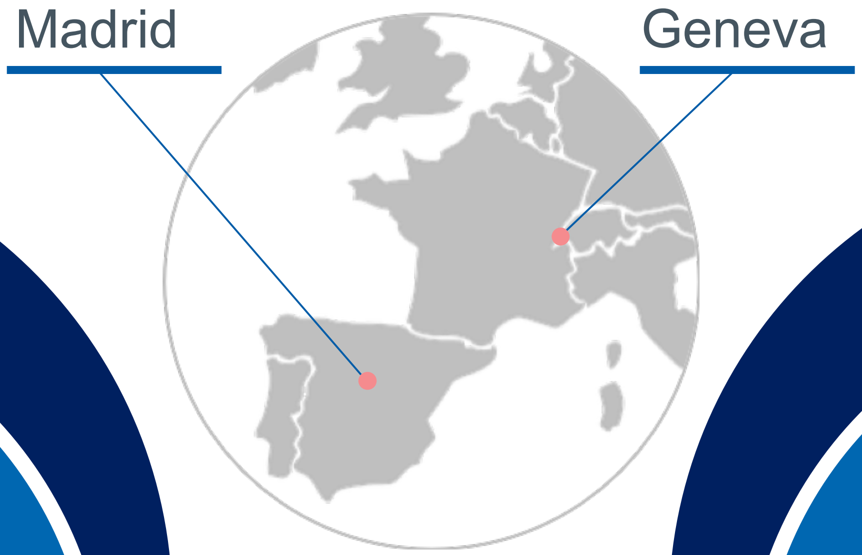
Acquisitions in 2018

- Returns continue to exceed 15% in first year of acquisition
- More even distribution of spending on acquisitions in 2018: 56% (NA); 34% (ALSA); 10% (UK)
- 99% of business acquired in North America still retained
- Early acquisitions now paying back, e.g. Petermann: made in 2012 for $245m will pay back this year
- Acquisitions providing:
  - Good financial returns
  - Strategic diversification, e.g. Transit now over $350m annual revenue, offering excellent return characteristics
  - Access to good management teams
  - Springboards in to new products and cities

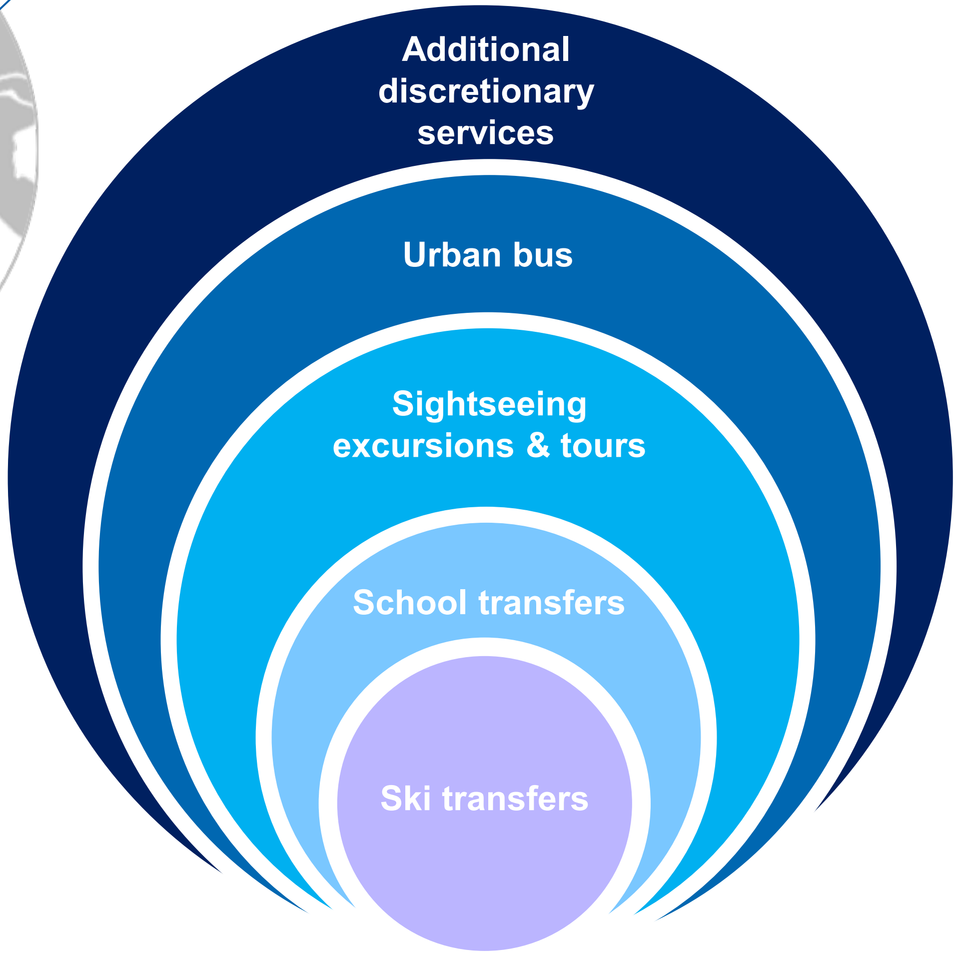
Consistent execution
Building multi-modal hubs - ALSA

€108m to €152m rev in 4 years



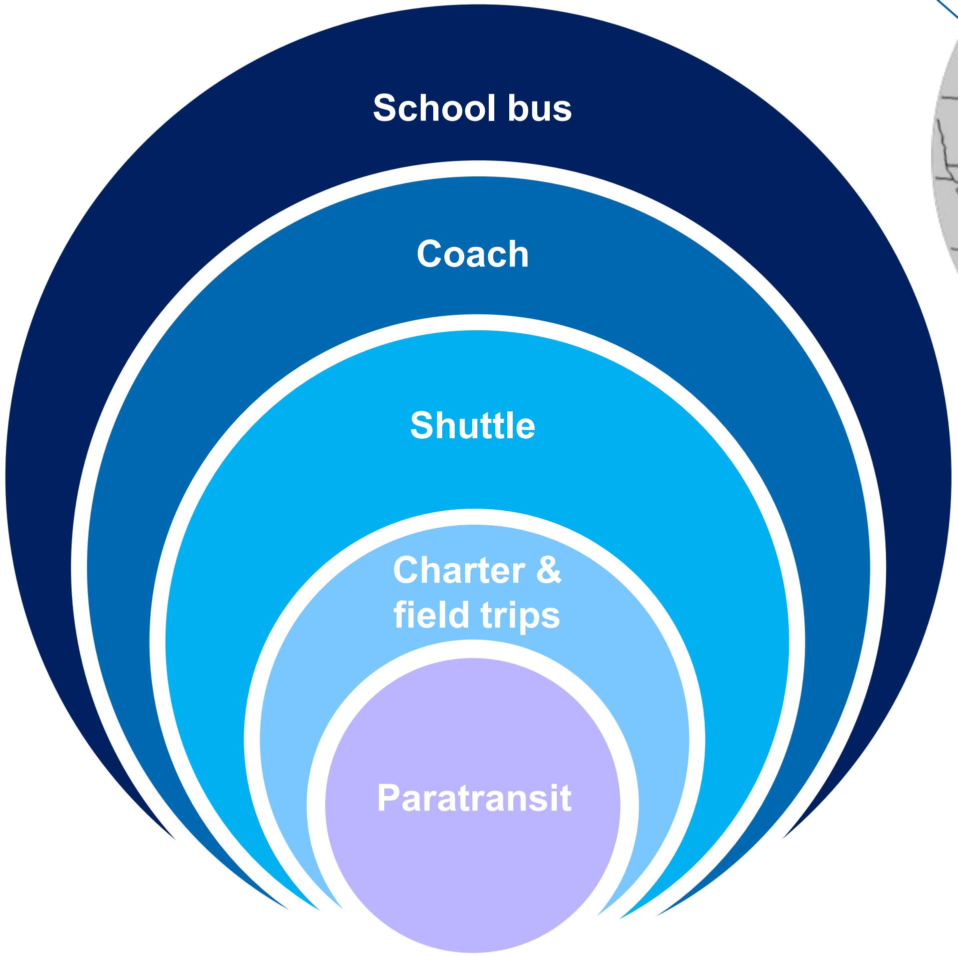


€0 to €15m rev in 3 years

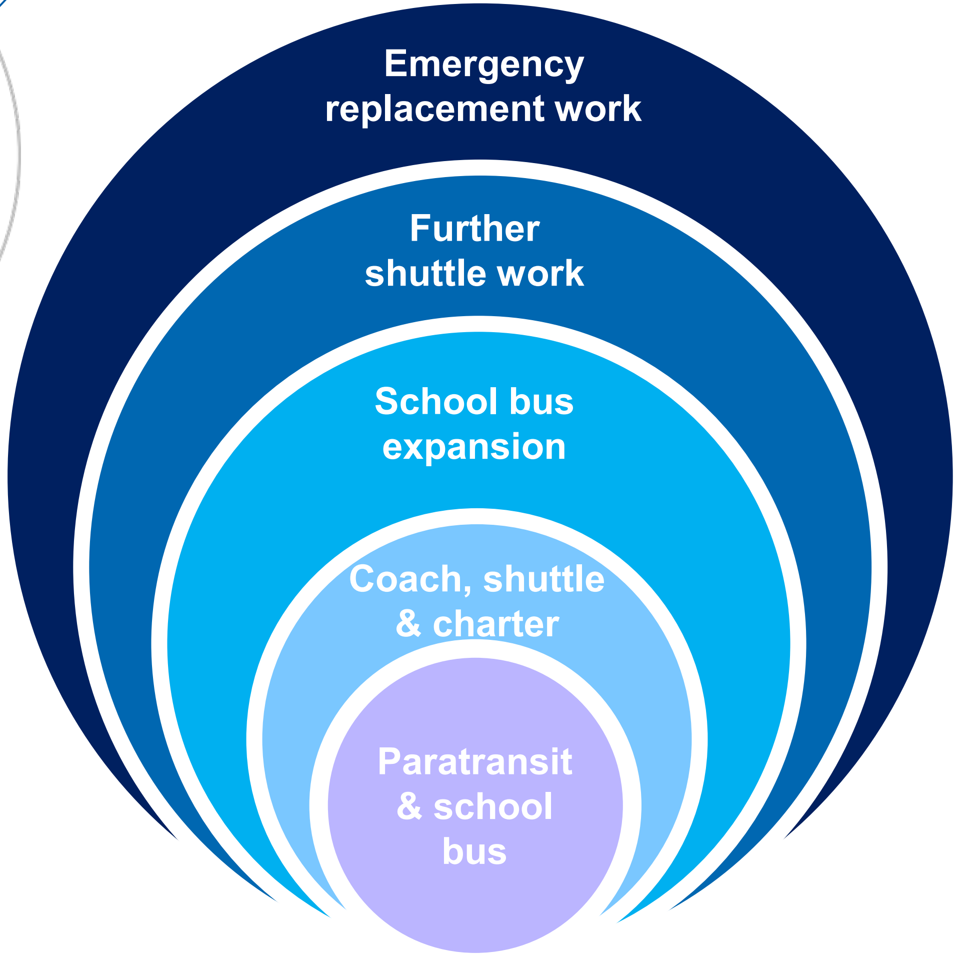


Consistent execution
Building multi-modal hubs – North America

$0 to $51m rev in 2 years



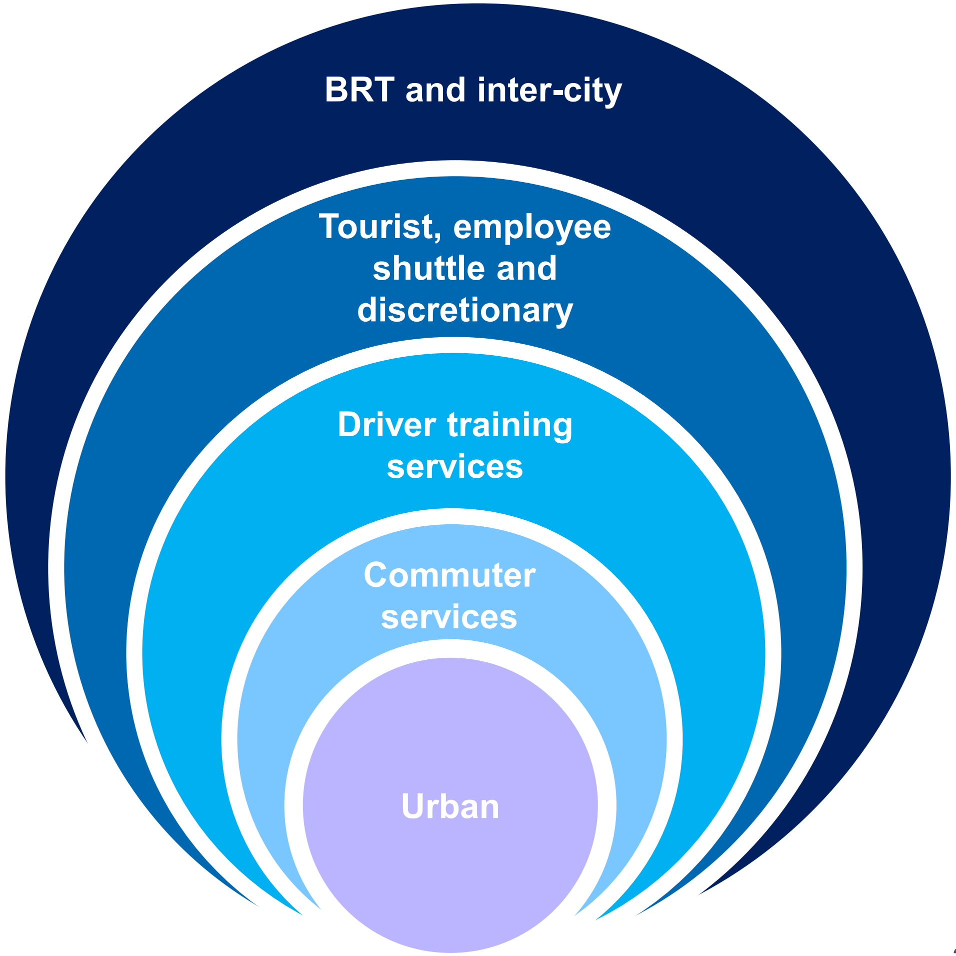
$0 to $96m rev in 4 years



ALSA's record year

- Record revenue, profit and passengers
- Concession renewal not resumed
- Organic growth across all parts
- Best ever customer satisfaction (76%)
- Load factors up 2% to nearly 51%
- Strong growth in Morocco, with passengers up 2.1%
- Ancillaries up 15.1%
- Mini-cab launched in Madrid
- Strong growth in digital to 42% of revenue, boosted by new app
- App score of 4.4 (vs less than 3, 2 years ago)

Marrakech: €0 to €24m rev in 20 years



Outlook

- Spanish concession renewals may be further delayed by General Election
- Rabat & RRX will launch over the summer – both €1bn revenue contracts
- Good pipeline of M&A opportunities
- Continue to deploy technology to drive operational improvements, driving faster customer growth & better margins, providing underlying momentum to the business
- Building multi-modal hubs in key cities - enhancing & making easier to use with technology - becoming the Go To provider
- Continued strong cash generation
- Good pipeline of M&A: discipline in capital allocation
- Dividend up 10%

Q&A


BULLRING
national express
national express West Midlands
times, fares & latest info nxbus.co.uk
MoneyGram money transfer
SEND MONEY ANYWHERE, FROM ANYWHERE, WITH MONEYGRAM.CO.UK
evening5
unlimited travel up to 5 people together from 6pm
£5
buy from the driver
4528
Debbie
Cyclists Beware of passing this vehicle on the inside
SUMMER SOLVED
national express West Midlands

Full Year Results

For the year ended
31 December 2018

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