RMS driving strong performance

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Bus and Coach
ALSA

ALSA is the leading company in the Spanish road passenger transport sector, and was acquired by National Express in 2005.

With over 100 years' experience, it operates long-distance, regional and urban bus and coach services across Spain and in Morocco and Switzerland. Apart from its bus and coach services, the business also operates service areas and other transport-related businesses, such as fuel distribution.

Revenue
£663.5m
2016: £597.3m

Normalised operating profit
£94.9m
2016: £84.7m

Market overview

ALSA holds the market-leading position in the regulated and highly segmented bus and intercity coach market in Spain and also operates in four cities in Morocco. Three levels of government regulation apply in Spain: national (long-distance coach), regional (regional coach) and city (urban bus). Each concession is exclusive to the operator, based on compliance with the public service obligation. Intercity competition comes from state-backed rail and low-cost airlines. Bus and coach concessions are awarded through competitive public tender, typically every ten years.

- 176 concessions: 125 intercity coach concessions, 35 urban bus contracts, 16 others
- Concessional renewal process restarting
- New contract wins in Spain
- Revenue management generating passenger and revenue growth in Spain
- Continuing urbanisation of the Moroccan economy with rapid migration to the major cities
- Building scale and services in Switzerland
- Further bolt-on acquisition opportunities

Market size
€3.9bn

Concessions
176

Year ended 31 December	2017 m	2016 m
Revenue	£663.5	£597.3
Normalised operating profit	£94.9	£84.7
Revenue	€757.4	€731.2
Normalised operating profit	€108.3	€103.7
Normalised operating margin	14.3%	14.2%

ALSA has delivered another strong performance, growing normalised operating profit to €108.3 million (up 4.4% in constant currency), increasing its margin and carrying more passengers (313.8 million, up 2.1%) while at the same time improving its customer satisfaction score (up 4.8% year-on-year).

Technology investment has again underpinned these results, with our sophisticated, real-time Revenue Management System (RMS) particularly important. We will continue to invest in RMS as it becomes more sophisticated through time, and complement this with the roll out of Lytx DriveCam, speed monitoring and further customer service improvements.

Concession renewal is a key challenge over the next few years, but with our technology investment and industry-leading customer service, the announced scoring methodology changes which place greater emphasis on quality over price, means we are well-placed. The main concession renewal process has been further delayed and we now do not expect any profit impact in 2018 at all, and a minimal impact in 2019. However, we anticipate the renewal process will resume shortly, with some smaller contracts due for re-bid first and a larger contract delayed at least until later this year. While we expect margins will be compressed as new franchises begin, we believe that ALSA is very well placed to compete effectively through the concession renewal process and grow revenues and earnings through the medium and long term.

ALSA is also an increasingly diversified business. There are already clear benefits from the acquisitions made in 2016, with AlpyBus in particular performing very well, and they are opening new growth markets for us. We have augmented these opportunities with further acquisitions in 2017 and again see a strong pipeline of further opportunities to come.

	€m
2016 normalised operating profit	104
Growth	9
Acquisitions	2
Other cost inflation	(13)
Cost efficiencies	6
2017 normalised operating profit	108

Operational excellence

Already widely recognised as the industry leader, ALSA consolidated its reputation with a number of important awards to complement its record customer satisfaction score. Among other awards in 2017, ALSA received: IZO's 'Best Customer Experience for the Transport Sector'; and the 'International Safety Award' and 'Best Initiative in the Prevention of Accidents' from the MAPFRE Foundation. ALSA's Spanish operations also received a five-star accreditation from the European Foundation for Quality Management.

Our excellence has also importantly been recognised in concession renewals during 2017. ALSA won the Madrid-Guadalajara contract on quality, not price: scoring 34 out of 35 on quality while finishing third on price. This is both pleasing in itself and significant given the transport ministry's announced changes to the concession renewal methodology that emphasises quality over price.

ALSA also reversed Morocco's revenue decline in the first half of the year by – among other actions – offering innovative new fares and products, to deliver growth in the year as a whole.

Deployment of technology

RMS is allowing ALSA to target its pricing to the market in a much more granular and accurate manner. On the long haul routes where it is operational we have seen revenues increase by 3.9%, passenger numbers grow by 1.9% and average ticket prices increase by 1.9%, in 2017. It has also helped drive efficiency, with occupancy rates across ALSA up two percent. ALSA project that RMS will also deliver incremental revenue growth of around one percent in 2018.

ALSA also continues to grow significantly its proportion of sales made through digital channels – they now account for over 40% of sales (up over 9% year-on-year). Continuing to draw on best practice across the Group, ALSA has invested further in targeted, digital marketing and also launched a number of foreign language apps to serve the in-bound tourist market.

ALSA is also using technology to drive up standards and has started installing DriveCam smart safety cameras, aiming to have over 1,000 (around 45% of the Spanish fleet) by the end of 2018. Additionally, by the end of March, all their vehicles will have speed monitoring technology installed, supporting a Group-wide campaign to reduce its incidence and enhance driving standards and training.

ALSA successfully piloted a new service – ALSACab – in Madrid where a customer buying a bus ticket through digital channels could also order a cab trip to complete their journey. The pilot has been successful with the service already expanded to Santander and ALSA looking to launch it in other cities soon.

Creating new opportunities

ALSA has also benefited from the acquisitions made in 2016, during 2017. AlpyBus is in particular performing very well and three further acquisitions have been made to augment this and extend our operations in the Geneva area. This has included both new business acquired in the ski-transfer market and also in school bus and discretionary travel, as we seek to develop a larger presence in this market.

A further three acquisitions were made in 2017, adding new services in Madrid and Granada to our expanding portfolio. Our strategy remains the same: remain disciplined and target returns above 15%. We saw a number of new contracts start in 2017: an up to seven year bus and sightseeing train contract in Tenerife; new urban bus services in Lorca, Murcia; and bus rapid transit services and sightseeing tours in Marrakech, Morocco.

ALSA has recently established a joint venture – which also involves our UK coach business as well as Ouibus – to offer new international services across selected European countries. They have also submitted a bid with a local joint venture partner for a 400 bus contract in Rabat, to consolidate our presence in Morocco.

We will continue to look to drive organic revenue growth in 2018, as RMS and our marketing become ever-more sophisticated. There remain good opportunities to complement this through further acquisitions and growth in Morocco and Geneva. While we do not expect any impact on profits in 2018 and only a marginal effect in 2019 from the concession renewal process, it is very likely to put pressure on margins as it progresses. However, through our increasingly sophisticated pricing and market diversification, we believe we are well placed to compete strongly for our own – and other contract – renewals and can manage the pressure on margins to grow revenue and earnings in the medium and long term.