

Capitalising on opportunities

The megatrends are shaping demand for travel and public transport and the opportunities ahead.

Economic environment



The propensity to travel is generally affected by levels of economic activity, as represented by GDP growth. Although levels of transportation and mobility remain relatively stable through the economic cycle, periods of GDP growth generate additional volume demand and pricing benefit.

Opportunity

North America continues to grow, while the Spanish economy has strengthened over the last couple of years, with levels of tourism also very strong – demand for public transport is likely to improve further as the economy grows and employment levels continue to rise.

Our response

We continue to look for opportunities to grow our businesses in North America and ALSA, both by organic means and through bolt-on acquisitions in complementary or adjacent markets. In 2017, we made nine acquisitions: three in North America, three in Spain and three in Switzerland.

Deregulation, liberalisation and outsourcing



Our markets are created when state provision of public transport is transferred to the private sector. There are different models for this, with examples ranging from the deregulated markets of our UK bus and coach operations, through the concessions and franchises of Spain, Morocco and German rail, to the school bus and transit contracts of North America.

This is supported by a trend towards market liberalisation, such as European Union directives focused on opening up bus and rail networks. In addition, selective countries around the world are opening up their markets to foreign operators in order to raise standards in their domestic public transport markets. Cost saving is increasingly a factor too, through recognition of the superior efficiency of privately operated services.

Opportunity

The current size of the European public transport market is estimated to be approximately €150 billion*. Liberalisation of the German and Spanish rail and Nordic rail and bus markets present opportunities for growth. (*OECD data.)

Our response

We continue to look for opportunities around the world where we can add value through our expertise and focus on operational excellence, while achieving attractive returns.

Urbanisation and demographic changes



Our services benefit from increasing urbanisation around the world, in particular driving demand for bus operations. Existing towns and cities are expanding, in addition to the creation of new centres of population. In 2014, 54% of the world's population lived in urban centres and this is projected to grow to 66% by 2050, while 73% of the population in Europe and 82% of the population in North America already live in urban centres. These trends are driving the requirement for additional transportation services, both within and between locations. In addition, population growth in the UK, Europe and North America will drive further demand for public transport services.

Opportunity

The growth in the urban populations* of the US, UK and Spain are forecast to increase by 10%, 8% and 2% respectively over the next decade, driving the need for further public transport services, while the combination of an ageing and increasingly social and ethnically diverse population will drive the need for new products and services to meet changing customer needs in all of our markets. (*The World Bank DataBank – Population estimates and projections.)

Our response

We are growing our presence in urban areas in North America and Europe and in additional services such as Charter services, transit and occasional services. We are also targeting further urban contracts in Spain and Morocco.

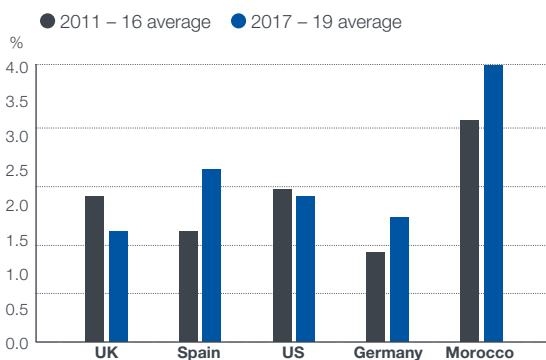
Link to strategic priorities

➤ Growing our business through acquisitions and market diversification, **p11**

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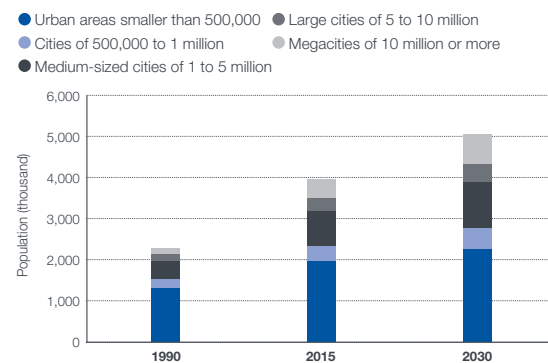
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Average GDP growth



Source: IMF

Global urban population growth is propelled by the growth of cities of all sizes



Source: United Nations – World Urbanisation Prospects 2014.

Modal shift



Modal shift is the move by individuals from one form of transport to another. For National Express, the relevant move is from the private car to bus, coach and rail travel. The biggest reason for this is an increase in the cost of motoring, such as higher fuel prices and cost of insurance, and the increasing use of mobile devices, such as tablets and smartphones, while travelling, although other factors such as environmental concerns and congestion can also be important.

Opportunity

New low-price entrants into the market over the last few years, such as Uber and BlaBlaCar, are resulting in fewer drivers' licences and lower car ownership amongst millennials, with demand for public transport and coaches likely to increase over time in both the UK and Spain.

Our response

We look to offer our customers easy to use, safe, reliable and great value services where we will continue to look to launch new products and services to meet our customers' needs and aspirations.

» Delivering operational excellence, **p10**

Environment and congestion



Environmental concerns continue to have an influence on customer behaviour. Bus, coach and rail services are significantly more environmentally friendly forms of transport than the private car or air travel, reducing both the level of carbon emissions per person travelling and travel congestion. Society as a whole and individuals are becoming increasingly concerned about the effect of emissions on the environment and are explicitly choosing public transport as an alternative.

Opportunity

Improved access to city centre locations, such as priority bus lanes for environmentally friendly transport and lower congestion. Move to electric and hybrid buses to lower emissions.

Our response

We work hard with our Alliance partners, Transport for West Midlands and the Metro Mayor, to deliver more environmentally friendly transport, easing congestion with faster journey times from priority bus lanes and lowering emissions with Euro six compliant buses. We are also investing in hybrid and electric buses in the UK, Spain and US.

» Delivering operational excellence, **p10**

Technology



Technology and innovation are playing their part, with travel apps providing real-time information as well as customised targeted offers helping to generate incremental demand for journeys on public transport. Digital platforms are increasingly providing customers with end to end journey planning, ticketing tools and additional services which are delivering greater convenience and speedier boarding for passengers, with innovations such as contactless payment, mobile ticketing and seat reservations.

Technology can also be used to provide more efficient planning and real-time scheduling for transport services.

Opportunity

The proliferation of real-time travel information and mobile devices improves the customer experience, making public transport increasingly more attractive compared with the car, while the proliferation of smartcards, m-ticketing and contactless payment not only provides greater convenience for customers but helps to build stronger customer relationships.

Our response

We continue to develop new apps with additional functionality and content, while introducing further innovative and convenient payment methods such as contactless payment and m-ticketing in our UK bus operations and online seat reservations in our coach operations.

We are already deploying real-time dynamic scheduling and route planning in our North America transit business and are looking to extend this to other parts of our business.

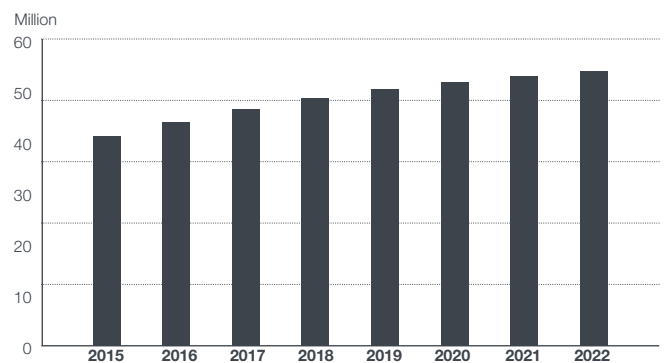
» Deployment of technology, **p11**

Average speed during peak travel times on urban roads (in England in year to June 2017)



Source: DfT

Forecast trend in Smartphone usage in the UK



Source: Statista 2017