

ALSA



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Chief Executive, 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

£745.1m

2017: £663.5m

NORMALISED OPERATING PROFIT

£105.3m

2017: £94.9m

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.

Growth drivers

- 175 concessions: 121 intercity coach concessions, 38 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

€4.0bn

CONCESSIONS

175

Year ended 31 December	2018 £m	2017 £m
Revenue	£745.1	£663.5
Normalised operating profit	£105.3	£94.9

Revenue	€842.3	€757.4
Normalised operating profit	€119.1	€108.3
Operating margin	14.1%	14.3%

Overview

ALSA had a very strong year, breaking records for revenue, profit and passengers carried. The business delivered organic growth and augmented this with the contribution of three acquisitions which are all performing ahead of expectations.

Long haul concession renewal has still not resumed, and with a General Election called for 28 April, we do not now expect any material impact on earnings before 2021. As the industry leader, ALSA remains well placed to emerge stronger from the renewals programme. The rest of our Spanish portfolio contains multi-year contracts: many regional contracts have at least five years to run; and, most urban contracts only expire around 2030. During 2018, ALSA has been continuing its market diversification strategy, with acquisitions and contract wins helping to develop new sources of growth. This business remains a prime asset in a strong market.

	€m
2017 normalised operating profit	108
Growth in the continuing business	12
2018 acquisitions	7
Net cost inflation	(9)
Other	1
2018 normalised operating profit	119





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Operational excellence: driving organic growth

ALSA has delivered another year of record performances. Revenue has increased by 11.2% in constant currency to €842.3 million; normalised operating profit grew to €119.1 million (up 9.9% in constant currency); and, passengers carried was up 3.9% to over 326 million. These record figures were delivered through all sectors of the business growing, including the long haul segment which reported a slight year-on-year decline at the half year. Across the full year, the long haul segment grew.

This growth in long haul was achieved with our increasingly sophisticated RMS again helping to drive increased revenue, passengers and yield. RMS has been both extended (to 304 routes) and developed with the application of machine learning and artificial intelligence. Machine learning is being used to improve our demand prediction models and also extend the time the market is closely monitored in an efficient manner. These system enhancements will be extended this year, as an 'always on' (365 days a year) RMS combining machine learning and our analysts, is implemented.

Indeed, the average occupancy of vehicles on routes with RMS has again increased this year, by 1.5% to nearly 51%. Our focus on service excellence is being complemented by the sophisticated RMS and good marketing, driving passenger growth in an efficient manner. ALSA has achieved its highest ever customer satisfaction score of 76%, up 3.5%, demonstrating that it is not only an industry-leading choice, but also managing growth in a positive way.

Our Moroccan business also enjoyed a record year, with revenue up 5.9% in constant currency and passenger growth of 2.1%. It also achieved an increase in the average ticket price of 2.9%. New regional and sightseeing services were launched in Tangier and Marrakech, respectively.

Equally, we have seen our AlpyBus business in Geneva grow strongly in the year: revenue was up 29% in constant currency and passenger numbers grew by 13.6%. We have further consolidated our position in Geneva, with additional acquisitions and new contract wins so that we now operate a number of services across many segments. We have grown this business from a small international service depot with an initial entry into the local ski transfer market through acquisition, to now also incorporating services in many segments: urban bus, sightseeing and city tour, tourist, charter and discretionary services including for local schools and companies. This business has also recently added some international services from Geneva as part of a partnership with OuiBus, and also operates a travel agency.

Technology investment to underpin excellence, efficiency and innovation

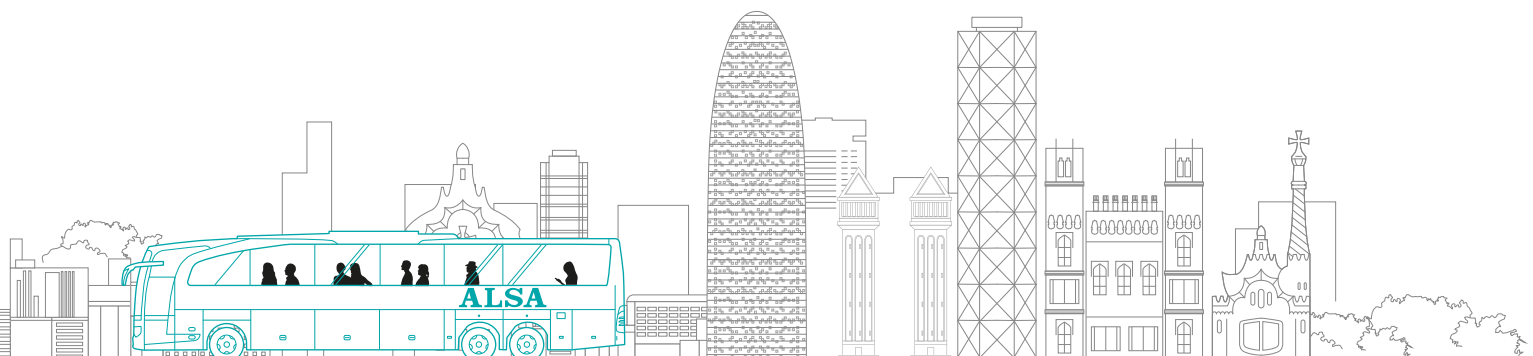
As the example of RMS demonstrates above, investment in technology is at the heart of our strategy. During 2018 ALSA also invested heavily in DriveCam smart safety camera technology, with now nearly 1,000 vehicles fitted across the fleet. This industry-leading safety technology is being combined with enhanced speed monitoring equipment and tailored driver training to continually improve standards. During 2019 every ALSA driver will receive a personalised summary of their driving performance at the end of their shift.

This information will also be used by managers to discuss improvements.

Across the Group as a whole, we are increasingly using detailed data and analytics to drive improvement in operational performance. This drives both an improved service to customers and cost savings through more efficient operations. As well as its application to safety and revenue management, the benefits of improved fuel consumption (down nearly 1% year-on-year, per kilometre driven) and a reduction in vehicle breakdown frequency during 2018 are other examples of the successful use of this data and analytically-led approach.

Again in line with the trends across the Group, the proportion of digital sales made in ALSA grew during 2018, up 4.2% to over 42% of all revenue. A new Moroccan website and an improved Spanish website and app have all helped drive this continued shift towards digital channels. Improved download times and payment engines, alongside more targeted marketing, have helped drive greater customer visits to our digital channels (up 2.2% year on year) as well as driven the growth in revenue secured.

Within this figure, we are also seeing interesting growth segments enabled by the more sophisticated digital booking process. For example, customers are now offered on-board entertainment and the option to choose their seat on some services. These ancillary revenues have grown 15% during the year. A digitised booking process also enables the inclusion of third party agents' sales channels much more easily, broadening the reach to new customers and driving growth. This area saw growth of 11% during 2018.



As part of the Group-wide National Express Innovation and Science ('NXIS') programme, ALSA has created an investment fund to support entrepreneurial start-up companies as well as staff within the company to identify new approaches that will address business challenges or create new growth opportunities. ALSA expects the first outputs from this new fund to be realised this year, demonstrating our determination to continue learning and innovating to drive growth and efficiency.

Targeted growth through strategic acquisition and market diversification

During 2018, ALSA consolidated its position in leading markets through acquisition and new market wins, and expanded into interesting new growth markets. This will help drive organic growth in the coming year, as ALSA is opening new market growth in an efficient manner.

For example, in securing a nearly 500 vehicle Rabat urban bus contract, where we will be the majority partner in a joint venture, ALSA has become the largest private operator of public transport in Morocco. This contract will start later this

year. In 2019 ALSA hopes to build upon this strong platform in five Moroccan cities and enter the inter-city market.

A similar strategic rationale underpinned our ArgaBus and Cal Pita acquisitions in 2018. In acquiring ArgaBus, a 77 bus operator of commuter and school services, ALSA became the second largest operator within the Madrid Consortium, consolidating our position within this large, wealthy city. The acquisition of Cal Pita, a Galician regional and urban bus operator, opened a new region of Spain to ALSA, positioning the business for an upcoming round of concession renewals.

ALSA also made an acquisition – BC Tours – to open a new market to the business, as part of our strategic diversification. BC Tours is Spain's largest operator of transport and logistics in the cruise industry. As well as providing market entry in to a growing sector, there are synergy benefits through the use of existing ALSA vehicles for tourist services. After successfully integrating the new company during the second half of 2018, ALSA is

exploring expansion opportunities, including at large ports outside of Spain.

ALSA has also diversified into an expanded mini cab business, linking up with local taxi companies mainly in Madrid to operate Uber and Cabify concessions. This is an interesting new source of revenue diversification – and one that other cities in Spain may also open up in the near future. But it is also a new strand of ALSA's strategy to offer door-to-door journeys in major Spanish cities, as these services can also be bought alongside bus and coach tickets in the booking process. With the increasingly sophisticated digital sales channels outlined above, this is a very interesting area of future growth and one that ALSA is looking to develop further.



Cruise market offers opportunity

ALSA entered a new area of business during the year through an alliance with BC Tours, an established Spanish provider of tourist services. BC Tours has particular strengths in serving the cruise ship market.

With bases in Barcelona, Cádiz and Palma de Mallorca, BC Tours provides excursions for cruise passengers as well as transfers to ships. It also provides ground services for cruise operators and arranges the provisioning of ships.

The alliance with BC Tours opens up opportunities to increase tourism work and provides synergies with ALSA's existing presence in the Balearic and Canary Islands.