# Record results and growing momentum

**Dean Finch**
Group Chief Executive

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## Overview

We have again delivered another record-breaking set of results, with revenue, profit and free cash all growing strongly. Both of our international divisions delivered record revenue and profit performances, with our UK businesses also growing very strongly. Our diversified international portfolio of industry-leading businesses is combining organic revenue growth with strategic acquisitions to deliver increasing shareholder returns. We are delivering on our aim of being a market leader on service, price and customer relationships and growing our presence in the most affluent cities and regions.

Every division not only delivered organic revenue growth, but the Group also saw an accelerating trend in the second half of the year. This demonstrates the benefit of our focus on operational excellence and the investment in technologies that deliver improved and more efficient services. Ultimately, we are seeking to earn customers' trust by setting fares at prices they value on services that they can rely on to complete their journey in a punctual and safe way. It is pleasing, therefore, that as well as growing commercial patronage across the Group, our contract portfolio remains typically medium to long-term reflecting the loyalty we are seeking to secure and providing a diverse and secure earnings stream. Our largest single contract is less than 2% of Group revenue.

We have made important progress in three crucial areas during the year to help deliver on this agenda.

First, sophisticated digital booking and ticketing systems that allow us to serve old and attract new customers in compelling ways. Our Revenue Management Systems ('RMS') in the UK and Spain are industry-leading and are driving passenger and yield increases. West Midlands buses have the largest contactless ticketing network outside of London, and have daily price capping in place.

We continue to grow the proportion of sales made through digital channels (up over 13%) and are leveraging these increasingly sophisticated systems in new ways. For example, these systems enable the integration of third party sales channels into our booking processes, a key area for future growth in public transport. We saw 63% growth in this segment in 2018 and are investing to capture the significant further opportunities we believe exist in this area.

Second, we have also continued to invest to improve our operational performance, including the accelerated roll-out of Lytx DriveCam smart safety cameras as well as driver aid and monitoring technologies. We now have nearly 19,000 vehicles installed with DriveCam, and alongside speed monitoring and targeted driver training this is helping to reduce accident frequency. In North America alone, where over 15,000 vehicles now have DriveCam installed, we saw the average cost of injury claims from collisions reduce by 22.4% year on year, demonstrating the cost saving opportunity.

Third, we are using technology to improve management controls, drive service improvement and deliver efficiencies. We have invested in technology to enhance controls such as the real-time monitoring of on-time performance, sophisticated vehicle diagnostics and immediate feedback to the driver on their driving performance through a personalised app. These systems, augmented by new management processes, are driving improvements, such as: higher average bus speeds in the West Midlands, against the national trend; reduced vehicle breakdowns; and a reduction in accident frequency.

Our organic revenue growth and tight cost control are helping drive strong and sustainable cash flows, allowing us to increase shareholder returns whilst also pursuing value-enhancing investments and strategic acquisitions. In 2018, we continued to do this in a disciplined manner; targeted returns for acquisitions remain above 15%. We made a further 11 acquisitions in the year, maintaining our disciplined approach to securing the best returns. In North America we made seven acquisitions, ALSA added three new businesses and the UK one.

These new acquisitions often consolidate our existing presence to pursue growth efficiently and enable us to expand into new complementary markets. In North America alone, we won 20 small contracts in areas where we have existing operations, allowing us to grow our presence efficiently. In Geneva, building from our small international service depot, we purchased the AlpyBus ski-transfer business and then combined this with further acquisitions and contract wins in local transit services to build a successful multi-modal hub, operating in 10 market segments. In 2018, AlpyBus grew revenues nearly 30% and passengers by 13.6%.

This hub strategy, combined with the digital innovation outlined above, provides an important potential growth area in the coming years. We believe the successful operator of the future will need to combine a reputation for operational excellence with a sophisticated digital presence that either enables multi-modal integration that offers customers door-to-door journey options at a price they value, or is easily able to 'plug' their services into an existing platform that provides this capability.

Our strategy therefore remains focused on the three key pillars I have set out a number of times:

- Operational excellence, including organic growth, tight cost control, rigorous cash flow management and the disciplined allocation of capital to maximise returns;
- Investment in technology to drive customer-focused innovation and excellence, improved safety performance and greater cost efficiency; and
- Growth through targeted acquisitions and contract wins in the world's most affluent cities and regions.

Our sustained focus on these three areas is helping to underpin our consistent delivery of strong and growing shareholder returns. Our free cash flow performance was particularly strong, at £198.6 million (2017: £146.4m). Group Return on Capital Employed improved 50 basis points, to 12.4%. Normalised earnings per share again grew strongly, up 13.1% to 32.9 pence (2017: 29.1p). As a measure of our confidence in the future, we have proposed a 10% increase in the final dividend.

Equally, I was delighted we secured the accolade of Britain's Most Admired Transport Company in the 2018 Management Today awards. This award showed that we have managed to combine consistently strong financial performance with a reputation as a good company and employer. It is an achievement that employees across National Express feel rightly proud of.

Before I explain in more detail how each division has contributed to this record performance, I will set out the Group's financial highlights.

### Financial performance highlights

National Express had a very strong year across all key financial metrics. Group revenue increased by 6.9% on a constant currency basis (5.6% on a reported basis). This has been driven by strong growth in every division, with both North America and ALSA setting new revenue records.

German Rail saw a decline in revenue, down 15.1% in constant currency terms. This decline is due to the benefit of catch-up revenues not recognised in 2016 being realised in 2017 and a year-on-year change in presentation of revenue. Like-for-like revenues increased 5.4% in German Rail.

| Revenue in constant currency | **2018** | 2017 |
|---|---|---|
| ALSA (€m) | **842.3** | 757.4 |
| North America (US$m) | **1,416.1** | 1,311.3 |
| German Rail (€m) | **76.6** | 90.3 |

| Revenue in £m | | |
|---|---|---|
| ALSA | **745.1** | 663.5 |
| North America | **1,060.8** | 1,017.2 |
| UK | **577.0** | 561.5 |
| German Rail | **67.8** | 79.0 |
| Group | **2,450.7** | 2,321.2 |


## The contactless way to pay

The introduction of contactless payment to our West Midlands bus fleet in 2018 has proved popular with customers.

Less than a year after the payment system was launched, a customer has made the three millionth contactless payment on our West Midlands buses.

A quarter of all bus fares in the West Midlands are now paid for with contactless cards. Use of the card is capped at the adult day ticket rate, providing great flexibility for multiple journeys.

Contactless is not the only digital way of paying that has proved popular with bus passengers. National Express West Midlands has sold its four millionth ticket on a mobile. 17% of the region's bus revenue now comes from people using their phones to buy tickets.

Our profit performance was particularly strong. We set records for every Group profit metric. Group normalised operating profit increased by 7.7% to a new record of £257.7 million on a constant currency basis, up 6.7% on a reported basis (2017: £241.5m). Both North America and ALSA again set new records, with the UK achieving the highest rate of profit growth at 12.6%.

These results were adversely impacted by £3 million of currency translation, driven by the strengthening of Sterling against the US Dollar. Normalised profit before tax increased by 11.3% on a constant currency basis, and 10% on a reported basis, to a new record of £220 million (2017: £200m). Group statutory profit before tax also increased by 13.6% to another new record of £177.7 million (2017: £156.4m). Across the last five years, the compound annual growth rates of our Group profits reveal a strong and consistent delivery: statutory profit before tax has grown at a compound annual rate of 21.9% in that period, while normalised operating profit has grown at 8.2% compounded.

| Normalised operating profit in constant currency | 2018 | 2017 |
|---|---|---|
| ALSA (€m) | **119.1** | 108.3 |
| North America (US$m) | **129.4** | 121.6 |
| German Rail (€m) | **3.4** | 5.9 |

| Normalised operating profit in £m | | |
|---|---|---|
| ALSA | **105.3** | 94.9 |
| North America | **96.9** | 94.3 |
| UK | **79.9** | 70.9 |
| German Rail | **3.0** | 5.2 |
| Central functions | **(27.4)** | (23.8) |
| Normalised operating profit | **257.7** | 241.5 |
| Interest and associates | **(37.7)** | (41.5) |
| Normalised profit before tax | **220.0** | 200.0 |

## Outlook

While 2019 has many uncertainties, I believe National Express is well placed to continue to grow.

We have plans in place to capitalise further on the improvements in all our businesses that are underpinning these record results. For example: we are already progressing with further improvement to RMS in the UK and Spain that will help drive up load factors again; and, in North America we are improving asset utilisation and wage and hour controls, alongside further overhead cost reduction. When combined with the fact that Spanish concession renewals have still not resumed, we have a strong underlying momentum to build on further.

Our strong cash generation remains a focus and enables us to continue to invest in our existing businesses and new strategic acquisitions or market entries. This year sees the start of our Rabat urban bus contract and RRX German rail services, significant new additions to our portfolio. We believe there are also opportunities for strong growth in the Spanish mini-cab and US Charter School markets, as we leverage our presence in large cities to provide multi-modal services. Our pipeline of acquisitions remains very strong and we hope to continue to expand our presence in rich and growing urban areas this year.

So in 2019, we are again anticipating organic revenue and profit growth. While the political context, certainly in the UK, may be uncertain, we are determined to remain a consistent source of growth in shareholder value.

Dean Finch

**Dean Finch**
Group Chief Executive
28 February 2019


## Encouraging innovation

One of our strategic priorities is to utilise technology to improve the way we operate and facilitate growth.

During 2018, we launched a new innovation programme to explore and develop digital opportunities for the business.

National Express Innovation and Science ('NXIS') taps into the creativity of start-up enterprises to develop new solutions for the business.

Eight enterprises started with NXIS in Birmingham in December and are due to deliver proposals in Q2 2019. Other NXIS hubs are being created in Spain and the USA, and will begin work during 2019.