Maintaining momentum

Ignacio Garat
Group Chief
Executive Officer

I am delighted to report our full year results for 2021 which demonstrated continued sequential improvement, and delivered financial results at the top end of expectations. Indeed, we have delivered a steadily improving performance in revenue, EBITDA, operating profit and cash over the year, with the result that:

- revenue rose by 15.5% in constant currency to £2.17 billion;
- EBITDA rose by 60.8% to £300.0 million, an improvement of £113.4 million over 2020;
- Underlying Operating Profit improved by £137.8 million to £87.0 million;
- Underlying PBT improved by £145.8 million to £39.7 million;
- statutory loss before tax improved by £359.8 million to £84.9 million; and
- we delivered £123.4 million of free cash flow in the year, an improvement of nearly £320 million year on year, fuelling the rapid reduction in Gearing from 6.6 times at the end of 2020 to 3.6 times.

This performance has been driven by a number of factors. We have seen strong recovery in demand for our services as economies emerged from lockdown restrictions, with vaccination programmes allowing economies to reopen further and mobility increasing. We have benefitted from the management actions taken in 2020, with around £100 million of annualised structural costs permanently removed across the business. The ongoing support of customers and authorities has also contributed towards the improved performance in the year.

I am extremely proud of our colleagues across the Group who have continued to navigate through what has been another complex stop-start year, always ready to adjust to the varying restrictions in place in each of the territories in which we operate. I am also proud of the strong relationships with our customers across every division and how we have worked together to provide service as far as possible, allowing for the restrictions in place.

Evolve strategy

During the pandemic we saw a short-term shift in transport use back to the private car. If this were to continue as growth normalises, we would see over 400 billion more passenger kilometres per year in North America and the UK alone. Over and above this, demand for transport is expected to increase by up to 30% by 2030, putting more pressure on roads, and increasing congestion and air pollution. At the same time, the world needs to cut carbon emissions to achieve our shared climate goals. Private cars are the primary driver of carbon emissions: pre-pandemic, cars generated 70% of surface transport emissions in the EU. Modern diesel cars each produce more nitrogen dioxide than a modern diesel bus full of passengers. More importantly, as we transition to a Zero Emission Vehicle future, a passenger taking a journey on an electric bus rather than in an electric car can save well over 10 times total lifetime carbon emissions, and that bus can take 70 cars off the road, significantly reducing congestion and freeing up liveable spaces.

Modal shift from private cars to public transport therefore remains the single most important driver of reduced emissions and congestion. Governments around the world are increasingly aware of this and are adjusting policy towards greater use of public transport to meet their decarbonisation and clean air targets.

In 2021 we launched our Evolve strategy, rooted in our vision to be the world's premier shared mobility operator with leading levels of safety, reliability and environmental standards that customers trust and value. This, in turn, is embedded in our purpose, to lead the modal shift from cars to shared mobility. A 1% modal shift from cars to buses would increase bus passenger journeys by 23% and Evolve provides clarity in terms of both the significant potential growth ahead and the path towards it. At our Capital Markets Day in October we set ambitious targets for the years ahead:

- A further £1 billion of revenue growth by 2027 compared with 2022.
- Operating profit margin averaging around 9% over the coming years, with more than £100 million of additional profit in 2027 compared with 2022.

– Cash conversion averaging over 80% a year, with a target to generate at least £1.25 billion of free cash between 2022 and 2027 inclusive.

Core to Evolve are five compelling customer propositions, each enabled by our focused application of technology, delivering superior outcomes for all our stakeholders. We have already made progress in 2021 in each of the five customer propositions as the examples below demonstrate.

Reinvigorating public transport: Rebuilding confidence in the public transport system by offering high quality operations that passengers want to use.

In ALSA, we have substantially completed the mobilisation of Casablanca, our largest contract in Morocco, with the delivery of new fleet, transforming quality and the safety of our customers, as well as significantly improving opportunities for social mobility in the city. At the same time, we have been able to cascade fleet to other cities to support growth in services, which in some cities, such as Tangier, are now running ahead of pre-pandemic levels. We have also started the mobilisation of our contracts in Portugal, where we expect services to commence in Lisbon in the second quarter of this year. In the UK, our partnership model with Travel for West Midlands is widely recognised at both central and local government levels for delivering for all stakeholders. In 2021, our UK Bus operations have delivered the lowest fares in England, with innovative and flexible ticketing options such as contactless capping, helping to boost growth in passenger demand and revenue.

Multi-modal expansion: Expanding the breadth of our product offering, based on global know-how and local relationships.

In the UK, we expanded our transport solutions business, launching services in the West Midlands, leveraging the existing infrastructure, thereby extending our offer to private hire, contract coach work and a full range of transport solutions in the region. In Spain, we have connected passengers in Leon to last-mile services, with the introduction of bike rental services.

Operational transformation: Driving growth by delivering more efficient transport solutions.

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In 2021, we rolled out the first phase of our quality management process through the ‘Driving Excellence’ programme in our North America School Bus business, standardising and improving a number of operational processes and locking them in with a new technology platform ensuring automated flow-through to billing. By focusing on small and detailed improvements, we are not only delivering improved performance for the customer, but are also eliminating waste and reducing costs. Once fully implemented, we expect our ‘Driving Excellence’ programme to deliver annualised benefits of $40 million. In the UK, we have commenced the roll-out of an engineering transformation programme, which has already delivered a 12% reduction in breakdowns versus 2019 and permanent cost savings of over £1 million a year, through measures such as more efficient use of parts and data to identify and address repeat defects.

Fill the transit gap: Helping businesses and cities transition from the private car in places that are not well served by existing mass public transit.

We continued to win new contracts in our North American Shuttle business in the year, worth around $20 million of annualised revenue. We successfully mobilised operations for two new customers and also extended a large existing account, which is now providing the opportunity for us to grow with one of our largest customers in other cities and regions across the USA. In the UK, our Transport Solutions business has won new shuttle contracts including with NEXT and the Ministry of Defence, as well as providing team transport for the inaugural Cricket Hundred tournament.

Consolidate and compound fragmented markets to bring the benefits of scale and consistent service.

In 2021, ALSA acquired an urban bus business in Granada, building on our existing urban business in Almeria and regional services, consolidating our leadership position in Andalusia. We have also consolidated our existing business; for example, the business review in our North American Transit business driving the exit from, or significant price increases on, low margin and loss making contracts and delivering a significant improvement in profitability in the year.

All of this has driven significant progress across each of the Evolve outcomes in 2021.

The safest
Safety remains a top priority across the business. In Casablanca, we have delivered a 48% reduction in at-fault road accidents versus 2019, the year in which we first started operating services in the city. Across ALSA, driver behaviour and the risk score, as measured by Lytx through deployment of DriveCam technology, have improved by 50% versus 2019, and by 24% versus 2020. Similarly, in North America, we have seen a 42% improvement in driver behaviour/risk score versus 2019 and a 12% improvement in preventable accidents over the same period. In the UK, both our Bus and Coach businesses have been re-awarded a five-star British Safety Council audit.

The most reliable
By being the most reliable, we give ourselves a competitive edge, driving customer retention and powering growth. A prime example of this is the largest emergency award ever in the German Rail market, where two rail contracts were awarded to our German rail operations after the incumbent operator handed back the services to the Passenger Transport Authorities (PTAs). This award is a direct result of the reputation as a trusted partner and reliable operator we have built up over the last few years with the PTAs.

The environmental leader
Following our previously announced zero emission fleet targets for our UK Bus and Coach businesses (2030 and 2035 respectively), we announced ambitious targets for a completely zero emission fleet across the Group: Spain bus by 2035; Spain coach, Morocco and North America by 2040. The plans supporting these targets underpin the firm commitment that Group as a whole will achieve a net zero target for Scope 1 and 2 emissions by 2040.

We have made good progress in 2021, most notably in our UK Bus operations, where we have started operating 20 hydrogen buses, in partnership with Birmingham City Council, with the ambition to scale up to over 200 buses next year. As lead operator in the UK's first all-electric city, Coventry, we have placed orders for the first tranche of 176 electric vehicles, with services starting in early 2023. In addition, we have signed our first 'availability' contract in the UK with Zenobe. This effectively provides the Group with 'ZEVs as a service' providing buses and charging infrastructure without the requirement for upfront capital expenditure and with the availability provider accepting risk transfer for issues such as battery performance and charging technology. This will enable us to transition our fleet faster than we could otherwise do and we are aiming to replicate similar structures in North America and ALSA.

The most satisfied customers
Satisfied customers are less likely to put contracts out to tender. In 2021, our North American business recorded its highest ever customer satisfaction score, with 66% of customers rating our services as five-star (highly satisfied), a significant increase from 55% in 2019. This record rating is a direct result of the improvements our teams have delivered through the 'Driving Excellence' programme. Our best in class rating in Morocco was key to us winning the contract in Casablanca.

The employer of choice
We remain committed to paying the real Living Wage or 10% above the national minimum wage, but our ambition goes beyond this, to becoming the employer of choice across all our markets. Building on strong foundations, our refreshed people strategy will focus on sector-leading employee engagement; and creating a diverse and inclusive workplace. In 2022 we will undertake our first consistent global employee engagement survey that will allow us to track our improvement across all of our markets. In 2021 we have focused on our diversity, inclusion and wellbeing agenda, through our D&I Council that was established in 2019. Initiatives include unconscious bias training to promote an inclusive workforce, for example, in the UK we launched our Stronger Together Campaign.

Strong financial returns
National Express has always been focused on cash generation and return on investment. I am pleased to see the return to strong free cash generation in 2021 and, as we said at our recent Capital Markets Day, we expect free cash flow conversion averaging over 80% a year over the coming years. Over time, our business will become more asset-light, and we have made an important move towards that in 2021 through signing the first of potentially many 'availability arrangements' which reduce the capital burden on the Group's balance sheet as well as removing the residual value and technology change risk. Our capital allocation discipline remains unchanged: we will utilise the Group's strong free cash flow generation to invest for growth, targeting investments that deliver 15% returns; to pay a dividend, with targeted cover of at least 2 times; and to maintain Gearing in a range of 1.5 to 2 times. Gearing improved significantly in the year to 3.6 times, towards our range of 1.5 to 2 times which we expect to reach within the next two years. The Board intends to reinstate payment of a dividend in respect of full year 2022, based on our current expectations for the year.

Outlook

National Express had a track record of delivering strong and sustainable financial outcomes in the years before the pandemic and we expect to continue to deliver strongly over the coming years. We have seen consistently that as restrictions are lifted, demand recovers. The majority of our businesses rapidly returned to 80% or more of pre-pandemic patronage at peak last year. We will inevitably see some unevenness over the year ahead, but we now have six quarters of increasingly positive demand trajectory to build from. Whilst the impact on the Group is expected to be limited, we note the tragic events unfolding in Ukraine and our sympathies go to those affected. Fuel prices have risen significantly in recent days, but we had already fully hedged our fuel requirements for 2022 and the increased cost of operating a private car has the potential to drive modal shift into public transport.

We expect to continue to rebuild our revenue base during 2022 as we position the business for accelerated growth going forwards, and anticipate delivering revenue close to 2019 levels in 2022.

As set out at the launch of Evolve at our Capital Markets Day, we expect an average profit margin of 9% in the period 2022 to 2027, and to have fully recovered to pre-pandemic margin levels of around 10% in the later stages of that period. However, in the short term we expect the recovery in profitability to lag our revenue recovery, and hence for margins initially to be below our target 2022 to 2027 average, due to the additional investment required to rebuild patronage; the current shortage of drivers we are experiencing in our North America School Bus operations; and an elevated level of cost inflation that has partially offset the structural cost reductions we have made.

We remain focused on return on investment and cash generation, and anticipate free cash flow conversion in 2022 at around the pre-pandemic average of at least 60%, with ongoing actions to minimise maintenance capex and utilise availability arrangements to source vehicles. Over the medium term we are targeting an average free cash flow conversion of at least 80% for 2022 to 2027, as set out at our Capital Markets Day.

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Group CEO
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