national express

Half Year Results

For the period ended 30 June 2020

13 August 2020

Cautionary statement

This Review is intended to focus on matters which are relevant to the interests of shareholders in the Company. The purpose of the Review is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose.

Forward looking statements are made in good faith, based on a number of assumptions concerning future events and information available to Directors at the time of their approval of this report. These forward looking statements should be treated with caution due to the inherent uncertainties underlying any such forward looking information. The user of these accounts should not rely unduly on these forward looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside of the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

For a full list of definitions, please refer to the Glossary of Alternative Performance Measures on page 18 of the Half Year results statement.

Strategic review

Very strong start to the year

- National Express entered the year in strong operational and strategic position
- Outstanding January and February revenue growth of 17%:
  - Building on two consecutive years of record results;
  - A decade of progress included an 88% reduction in FWI safety metric 2011-2020
- Before lockdown every division of the Group was trading strongly:
  - Passenger growth across the Group in January and February
  - Significant new contracts operating well in Morocco; German Rail smooth mobilisation
- A refreshed Vision, Values and Purpose set new ambition to be the world's leading mass transit operator:
  - A greener future; trusted partner
- This Vision, Values and Purpose ever more important post-pandemic

Swift and decisive response to Covid-19

- An immediate and unprecedented impact on all businesses:
  - Patronage down 80%

- Took swift actions to cut variable operational costs:
  - Mileage down by nearly 80%
  - Included service suspensions in UK coach and near suspension in Spanish coach

- Leveraged strong customer relationships:
  - Secured contracted revenues, e.g. 60% School Bus revenue despite suspended service
  - Amended contract terms, e.g. Madrid Consortium moved to per kilometre basis
  - Negotiated exceptional governmental support, e.g. UK bus

- Safety and welfare of colleagues and customers remained a priority:
  - Enhanced cleaning regimes, altered vehicle layout and PPE
  - Welfare programme including colleagues on furlough

Protecting the Group's future

- Swift cost actions significant:
  - Over £100m cut in capital expenditure against plan
  - Over £300m operational costs removed in Q2
  - Over 40,000 employees furloughed or temporarily laid-off across the Group

- Cost action and strong customer relationships:
  - Limited revenue loss to 50%
  - Maintained positive EBITDA in the period
  - £270m cash inflow during Q2

- Group's financial position significantly improved with £1.5bn of new funds:
  - Liquidity: £800m, inc. £600m CCFF; £417m USPP draw-down:
    - £1.7bn of cash, committed facilities and the undrawn component of the CCFF
  - Covenants renegotiated out to 30 June 2021 tests
  - Balance sheet strengthened with successful £230m Placing

Safe and successful restart

- Customer and colleague safety remain focus; where restrictions eased demand returning:
  - WM bus patronage already c.53%
  - Rabat and Casablanca higher than pre-Covid-19
  - Matching service to demand

- Working closely with customers:
  - Proactive communication with school boards on a changing restart picture:
    - Some schools already back; engagement so we can vary service and save cost
  - Mayor of West Midlands Andy Street: "National Express have done a great job managing demand throughout the pandemic."

- Welcome government commitments to public transport:
  - Exceptional support demonstrates crucial role:
    - UK key worker bus network; federal funding in US; Spanish transport fund
  - UK bus funds: £3bn in England; £500m in Scotland; £260m prioritisation fund in WM
  - Spanish and UK government commitment to public transport campaigns

Financial highlights

2020 interim financial review

Covid-19 significantly impacts performance

Underlying £m	**2020**	2019	Change
Revenue	**1,031.5**	1,334.5	(22.7%)
EBITDA	**88.3**	243.0	(63.7%)
Group operating profit	**(30.6)**	139.3	(£169.9m)
EPS	**(9.9p)**	16.9p	

Statutory £m	**2020**	2019	Change
Group operating profit	**(89.7)**	113.1	(£202.8m)
Group PAT	**(91.0)**	69.2	(£160.2m)
Statutory EPS	**(17.3p)**	13.1p	
Free cash flow	**(£193.0m)**	£95.6m	(£288.6m)
Net debt	**£1,340.3m**	£1,276.3m	+£64.0m

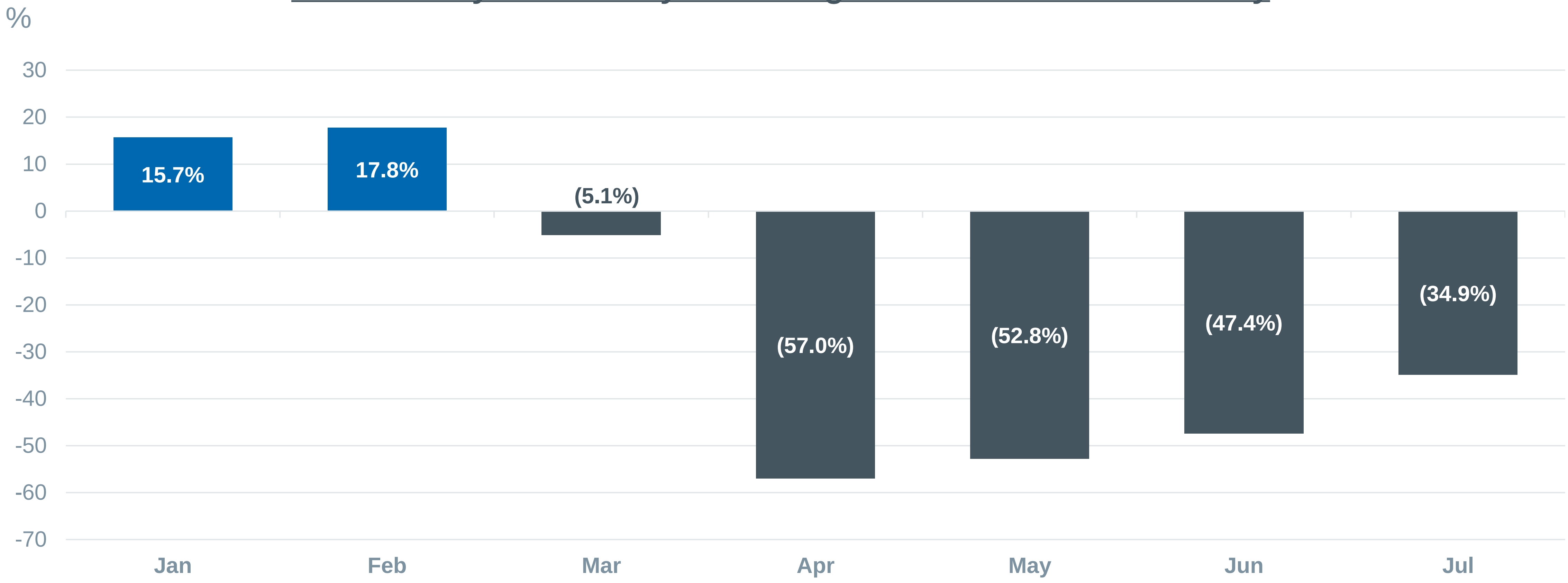
Separately reported Covid- related costs

	£m
One-off costs, cancellation charges and compensation payments	(33.4)
Discontinuation of fuel trades	(10.6)
Onerous contract provisions and impairment	(19.5)
Re-measurement of WeDriveU put liability	34.5
Total	**(29.0)**

Underlying operating profit excludes amortisation of acquired intangibles of £30.1m and Covid-related costs of £29.0m

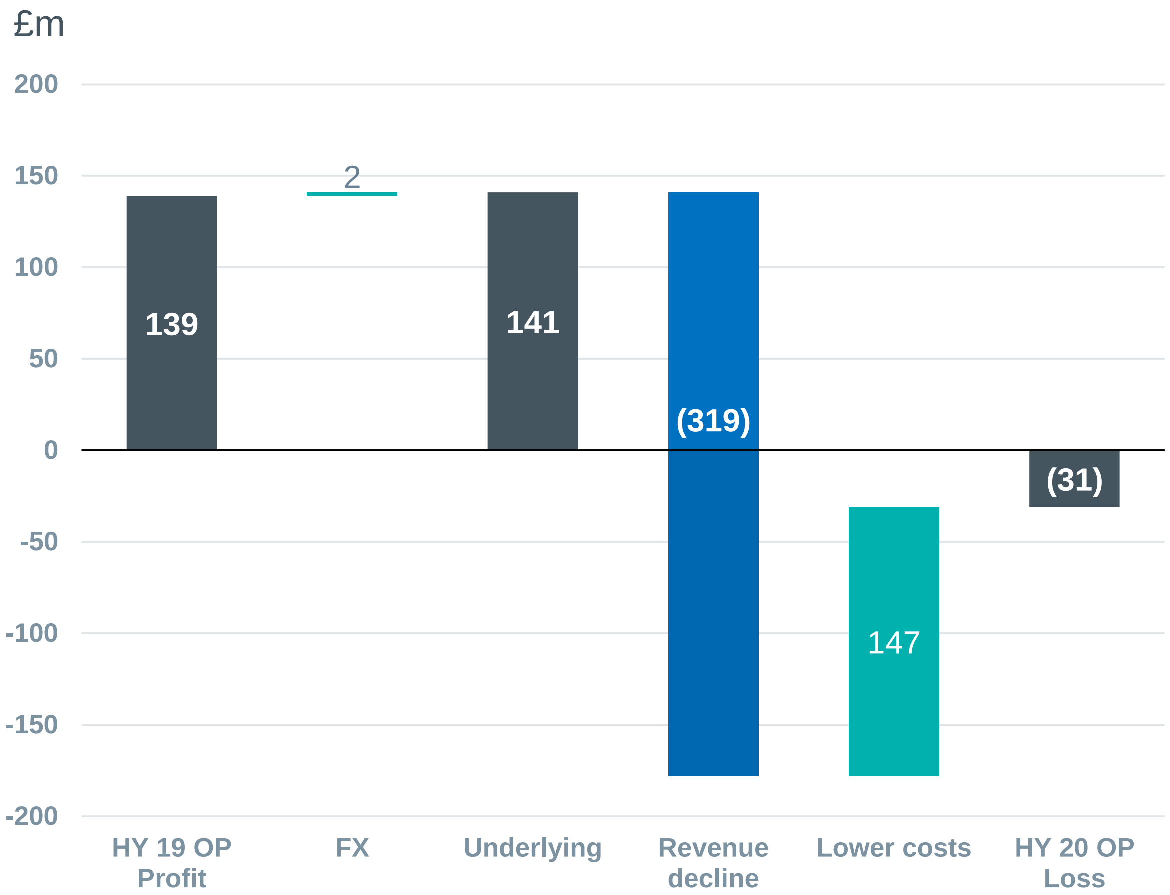
Strong start to the year pre-Covid

% Year-on- year monthly revenue growth in constant currency



Significant operational cost savings delivered

Underlying Operating profit bridge



Cost savings

- Budgeted costs to increase in line with growing business
- Decisive action to reduce operating costs by c.£100million per month relative to budgeted levels through Q2
- All variable costs reduced in line with service reductions
- All discretionary expenditure halted
- Salary sacrifices for Board and senior management, with salary deferrals across the Group
- Temporary laying off of staff utilising government income protection schemes where available
  - At the peak >40,000 staff laid off or furloughed

2020 interim financial review

Income statement

£m

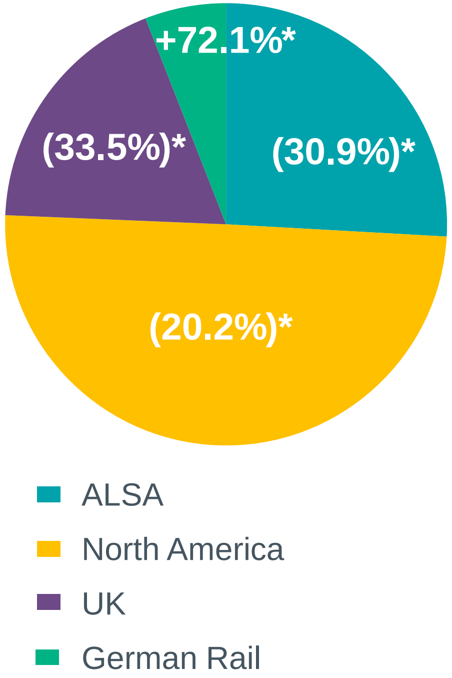
	H1 2020	H1 2019	Change
Underlying operating profit	**(30.6)**	**139.3**	**(169.9)**
Share of results of associates and JVs	(0.9)	0.3	(1.2)
Net finance costs	(29.2)	(25.0)	(4.2)
Underlying profit before tax	**(60.7)**	**114.6**	**(175.3)**
Tax	9.6	(25.9)	
Underlying profit after tax	**(51.1)**	**88.7**	**(139.8)**
EPS	**(9.9p)**	**16.9p**	

- Finance costs increased by £4.2 million driven by the partial double-carry of Sterling bonds following the refinancing activity of late 2019
- Tax credit of £9.6m with effective tax rate of 16%

2020 interim financial review

Divisional summary

Revenue (YOY change*)



ALSA
£267m

North America
£514m

UK
£190m

German Rail
£61m

Underlying Operating profit

	HY 2020	Change
ALSA	(€8.1m)	(€62.9m)
North America	$9.6m	($73.7m)
UK	(£15.5m)	(£52.1m)
Germany	(€7.2m)	(€9.9m)
Central	(£9.3m)	£2.6m
Group	**(£30.6m)**	**(£168.1m)**

**Year-on-year change shown in constant currency*

Capex and working capital outflow pre-lockdown

£m	H1 2020	H1 2019	FY 2019
EBITDA	**88.3**	**243.0**	**510.1**
Working capital	(139.6)	(40.3)	(42.0)
Net maintenance capex	(113.0)	(76.7)	(211.4)
Pension deficit	(3.8)	(3.7)	(7.6)
Operating cash flow	**(168.1)**	**122.3**	**249.1**
Tax and interest	(24.9)	(26.7)	(70.4)
Free cash flow	**(193.0)**	**95.6**	**178.7**

- Cost saving actions mean that only half of the Covid-driven revenue decline flows to EBITDA
- Maintenance capex incurred in January/February and subsequently frozen
- Increase in working capital outflow driven by a longer receivables cycle (passenger revenue replaced by Covid grants) and a decrease in payables
- Free cash outflow expected to largely reverse in the second half with minimal capex and a working capital inflow

2020 interim financial review

Small increase in net debt

£m

	H1 2020	H1 2019	FY 2019
Cash flow available for growth and dividends	**(193.0)**	**95.6**	**178.7**
Net growth capital expenditure	(9.1)	(13.6)	(42.2)
Net acquisitions	(39.6)	(135.7)	(144.7)
Proceeds from share issue	230.1	-	-
Dividends	-	(51.9)	(78.3)
Exceptional items	(40.1)	-	(7.3)
Forex[1]	(47.1)	(8.6)	(4.1)
Net funds flow	**(98.8)**	**(114.2)**	**(76.3)**
Net debt	**(1,340.3)**	**(1,276.3)**	**(1,241.5)**

- Growth capex reflects new contract in Casablanca and mobilisation of RRX in German Rail
- Acquisition strategy put on hold to conserve cash through the crisis
- Net proceeds of £230.1m from share placing underpins funding of new contracts in North America and Morocco
- £40.1m of exceptional cash costs primarily associated with Covid-19

1. Includes some other immaterial items

Gearing and interest cover within covenants

Gearing Ratios	HY 2020	Dec 2019	Covenant
Net debt/EBITDA	**3.8x**	2.4x	n/a
Interest cover	**5.9x**	9.6x	>3.5x

Ratings	Grade	Outlook
Moodys	Baa2	Negative
Fitch	BBB	Negative

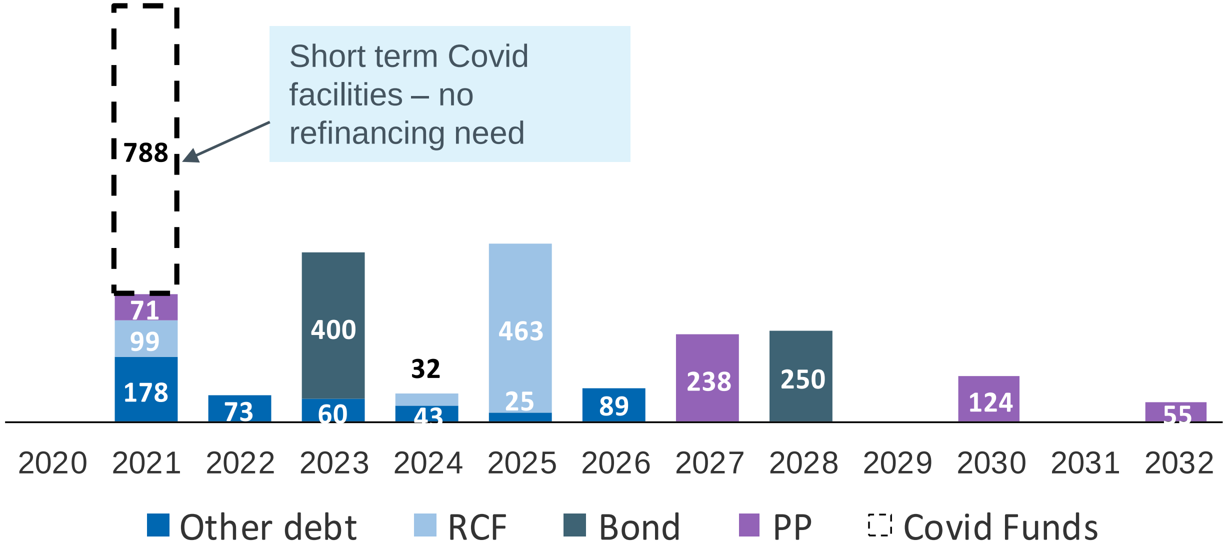
- Gearing increased to 3.8x driven by significant EBITDA reduction due to Covid-19

- Pre-emptive covenant amendments and waivers in place:
  - Gearing covenant has been waived until December 2021
  - Interest cover covenant has been amended to 1.5x for December 2020 and 2.5x for June 2021
  - New quarterly minimum liquidity tests and bi-annual maximum net debt tests for next 12 months

- Remain committed to a robust financial strategy:
  - Strong commitment to Investment Grade debt rating
  - Medium term commitment to reduce gearing to 1.5 – 2.0x EBITDA
  - Prudent risk planning – rolling fuel hedge and pension deficit plan in place

Significant liquidity headroom

Extended debt maturity profile



- £1.7bn cash and committed headroom:
  - RCF undrawn £0.8bn
  - Cash £0.6bn
  - CCFF unutilised £0.3bn
- Average Maturity extended to 4.8 years[1]

1. Excluding short term COVID facilities

Financing Activity

- Secured £600m CCFF and £188m additional RCF as "insurance" at the start of lockdown
  - £300m CP issued in April ahead of USPP funding
- USPP drew down in Q2 providing £417m maturing between 2027 and 2032
- No requirement to refinance short-term Covid facilities under base case or reasonable worst case scenarios
- No material refinancing requirement before 2023

2020 interim financial review

In summary

We came into the crisis in great shape

- Record performance in 2019
- Double digit revenue growth in 2020 pre-Covid

We did the right things during lockdown

- £100m / month cost savings
- Customer support maintained 50% revenue
- £1.7bn in cash and undrawn committed facilities

Demand recovery as restrictions lifted

- Bus operations back to 50-80% patronage
- Coach operations back to 20-40% patronage
- Morocco and Germany ahead of last year
- Contract wins in NA and Spain

The shape and duration of recovery remains uncertain

- New lockdowns?
- Travel restrictions?
- Home-working?
- Social distancing?
- Fear of reinfection?
- School restart plans?

The fundamentals of our business model remain strong

- Solution to congestion and pollution
- Core is non-discretionary
- Clear government support
- Rationalisation of operators

Opportunity for the future

- Liquidity, renegotiated covenants and strengthened balance sheet
- Plan in place for next 12 months to respond to changing circumstances
- Significant wins and retentions worth over £650m in total over contract lives:
  - Madrid-Toledo and CalPita (outstanding technical scores):
    - Concession renewals likely delayed and potentially revised to reflect pandemic impact
  - Positive School Bus bid season
- Long term opportunity very strong to leverage reputation and balance sheet:
  - Increased emphasis on congestion reduction and clean and green cities in rebound
  - Approached by struggling smaller operators and school boards looking to outsource
  - Customers already placing greater emphasis on safety and financial robustness
- National Express' reputation & Vision provide unique opportunity to prosper post-pandemic

The world's premier mass transit operator: leading safety, reliability & environmental standards that customers trust and value

Appendix

North America
Contracted revenue providing support despite low activity levels

Covid impact & actions

– Strong start in first 2 months: Pre Covid revenue up 15.7% driven by Transit & Shuttle
– Closure of schools from late March onwards & significantly reduced service levels in Transit & Shuttle in Q2
– Strong support from customers: Q2 60% revenue in school bus; *c*.65% in Transit & 78% in Shuttle
– Significant cost savings through temporary laying off of staff where not receiving customer support
– 2020/21 School bid season: Average price increase of 3.4% across portfolio, up 4.4% on our contracts up for bid & renewal

New opportunities

– M&A paused/focus on organic
– Potential market share gains from weaker operators
– Previously insourced customers looking to outsource
– Employee & universities shuttle opportunities

Risk

– Delay to school start up & shorter school terms
– Further lockdowns

Returns

	2020	2019
Revenue	$647.3m	$811.0m
Op profit	$9.6m	$83.2m
Margin	1.5%	10.3%

Revenue: Down 20.2% in constant currency, reflecting school closures & lower service levels from March onwards, mitigated by strong customer support.

Profit: Down $73.7m, reflecting the decline in revenue of $165m, partially mitigated through cost actions, predominantly in payroll

ALSA
Contracted revenue providing support & growth in Morocco

Covid impact & actions

– Strong start in first 2 months: Pre Covid revenue up 23%
– Long haul operations significantly impacted
– Urban revenue protected – largely on a per KM basis: 40% service levels at low point c.40%, now back to 100%
– Strong revenue growth in Morocco, up 58%, driven by Casablanca & Rabat, more than offsetting reduced service levels
– Significant payroll cost savings through use of the ERTE scheme
– Restart of long haul services – 40% of network, 45% of passengers
– Retained Madrid-Toledo long haul concession & CalPita regional concession, both with outstanding technical scores

New opportunities

– Opportunities in intercity & further cities in Morocco

Risk

– Further lockdowns
– Intercity concession renewal – but no further tenders expected in 2020 & possibly longer

Returns

	2020	2019
Revenue	€305.4m	€442.1m
Op (loss)/profit	(€8.1m)	€54.8m
Margin	-	12.4%

Revenue: Down 30.9% at constant currency with long haul revenue particularly badly affected, down 58%.

Profit: Down €62.9m reflecting the €136.7m reduction in revenue, partially mitigated through cost savings predominantly in payroll.

UK
Government support for Bus demonstrating essential service

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Covid impact & actions

– Good start for first 2 months: Pre-Covid revenue up 4.4%
– Discretionary travel hit hardest:
  – Coach revenue down 57.6% & operations mothballed from 5th April with most staff furloughed
– Bus patronage fell by 86% at low point with c.40% of service levels
– Protection of EBIT in Bus through CBSSG
– Now operating 100% service levels & seeing patronage rise to >50%
– Coach – restart of services in July – currently 32% of mileage with around 17% occupancy due to 50% reduced capacity
– NEAT: shuttling NHS workers & delivery of food parcels during crisis

New opportunities

– Launch of National Express Travel Solutions – private hire, holidays & corporate contracts
– Medium term – new routes
– Birmingham Clean Air Zone 2021
– Accessible transport market

Risk

– Futher lockdowns
– Advanced fare discounting in rail
– Concession income

Returns

	2020	2019
Revenue	£189.8m	£285.3m
Op (loss)/profit	(£15.5m)	£36.6m
Margin	-	12.8%

Revenue: Revenue down 33.5% reflecting significant falls in patronage & suspension of coach operations for Q2.

Profit: Profit down £52.1m reflecting the £95.4m decline in revenue, partly mitigated by payroll savings through use of the CJRS, together with other cost actions.

German Rail
Strong growth with start up of new services

Covid impact & actions
- Strong revenue growth reflecting start-up of 2 new services in the RRX contract in 2019
- Government support for loss of income for train operators due to Covid related lower passenger demand: currently in negotiations with local PTAs
- Revenue partially protected: RRX contract being a gross cost contract
- Progressing with the third contract to mobilise in RRX, with services to commence in December 2020

New opportunities
- Pipeline of German rail opportunities

Risk
- Failure to win bids in Germany at acceptable rates
- Mobilisation of new contracts

Returns

	2020	2019
Revenue	€70.1m	€40.7m
Op (loss)/profit	(€7.2m)	€2.7m
Margin	-	6.6%

Revenue: Up 72.1% reflecting the mobilisation of 2 new services

Profit: Down €9.9m, largely reflecting the phasing of subsidies in the year.

Risk management

Fuel risk largely fixed until 2021

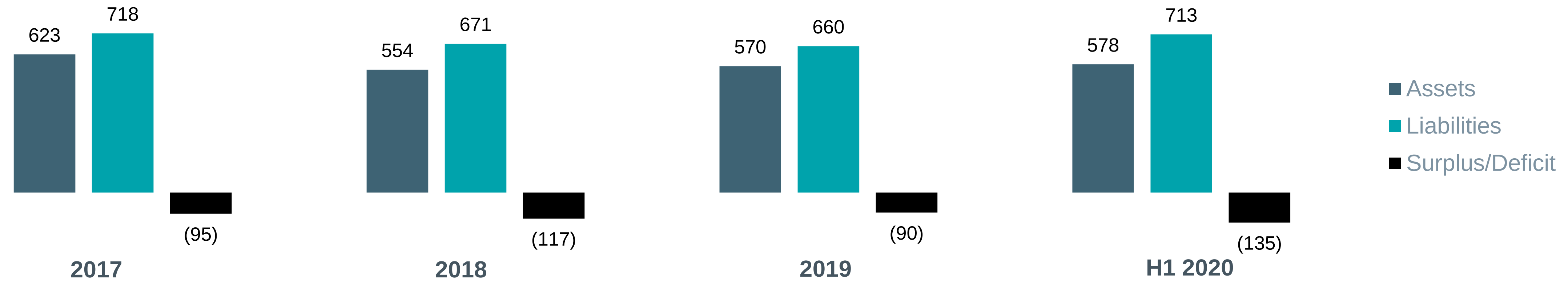
Fuel hedging

	2020	2021	2022	2023
% hedged	100%	*c*.80%	*c*.40%	*c*.15%
Price per litre	46.6p	37.0p	32.2p	30.0p

- Fuel costs represent around 6% of revenue
- £10.6m exceptional Covid-19 related charge for discontinuation of surplus fuel trades

Pension repayments fixed through to 2026, at £7m p.a.

Pensions £m (IAS19)



£m	Surplus /(Deficit) H1 2020	Surplus /(Deficit) 31 Dec 2019	Charge H1 2020	Charge 2019
UK Bus	(142.7)	(99.1)	(1.9)	(3.5)
UK Group	13.8	14.2	(0.3)	(0.4)

ESG

Our approach - part of the solution to the key challenges

Key challenges: carbon reduction, clean air, congestion & inclusive growth

– Public transport key to tackling climate change & provision of clean transport

– **Single most important thing we can do is to lead modal shift out of cars onto mass transit**

– Strong platform built over the last 10 years with new refreshed Vision & Purpose for the new era – with new ambitions & targets

- Commitment not to buy another diesel bus in the UK
- Ambition to be zero emission in UK bus by 2030 & in UK coach by 2035

– Backing our commitments with new environmental targets for LTIPs & science based KPIs

– Early adopter of the UN's Sectoral Decarbonisation Approach climate & aligning with 5 targets in 3 SDGs

– Strong record in safety improvements – 88% improvement in FWI since 2010 with 2019 being the first year with zero responsible fatalities

– Strong & ongoing engagement with our employees, communities & stakeholders

– Strong systems of internal controls to manage & mitigate risk

– External recognition – **Sustainalytics rating National Express as 'low risk'** - & in every sub category – top percentile of all the transport companies in their global universe, **MSCI AA ESG** rating & London Stock Exchange **Green Economy Mark**

Strong environmental credentials

Taking cars off the road, easing congestion, reducing emissions

– Public transport key to tackling climate change & provision of clean transport
  - Each coach takes up to a mile of traffic off the road
  - Each bus takes up to 75 cars off the road, reducing congestion & speeding up journey times
  - Euro VI bus less polluting than Euro 6 car on an absolute basis

Our commitment

– Investing in electric vehicles across each of our businesses
  - 29 new electric buses in UK in 2020
  - Commitment not to buy another diesel bus in the UK

– UK fleet 80% Euro VI compliant by year end; 100% by April 2021

– Our West Midlands bus fleet is the largest certified low-carbon fleet outside London

– Early adopter of the UN's Sectoral Decarbonisation Approach climate science based targets

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End slide

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