Operating review

Ignacio Garat
Group Chief Executive Officer

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Summary

Revenue for the year declined 29% vs. 2019 driven by the extreme travel restrictions in response to the pandemic. After significant cost reduction activity, this flowed to EBITDA of £186.6 million, at the higher end of guidance, with the trajectory of both revenue and EBITDA delivery improving each quarter. This means that after last year's record £295.3 million Underlying Operating Profit, the Group delivered an Underlying Operating Loss in 2020 of £50.8 million and a statutory loss after tax of £326.7 million (2019: £148.3m profit). The Balance Sheet was strengthened with £1.5 billion of new equity and committed borrowing facilities and net debt has been reduced by over £280 million year-on-year with £1.9 billion in cash and undrawn committed facilities available at the year end.

Performing strongly before Covid

The year started very strongly, with revenue up 17% in the first two months of the year and with all businesses performing well. In ALSA, revenue grew by 23%, driven by underlying growth of 6% boosted by the new contracts in Rabat and Casablanca; in North America revenue was up 16%, largely driven by growth in our transit and shuttle businesses, where the renewal of our two largest transit contracts in the fourth quarter of 2019 flowed through and the acquisition of WeDriveU in April 2019 boosted growth; and our UK businesses saw revenue grow by over 5%, with broad-based underlying growth in both our bus and coach businesses augmented by the acquisition of National Express Accessible Transport (NEAT) in August 2019.

Navigating the crisis

Covid-19 had an immediate and unprecedented impact on all our businesses from March onwards, with an 80% drop in passenger demand following the introduction of lockdown measures. We took swift action to protect the safety and wellbeing of customers and colleagues, with PPE promptly distributed, cleaning regimes enhanced, and vehicle layouts reconfigured to enable social distancing. Wherever possible colleagues have been encouraged to work from home, with technology and processes rapidly deployed, while employee welfare programmes have been enhanced. Across the Group services were repurposed to meet community needs such as food parcel delivery, health worker shuttles and medical transport.

We proactively engaged with customers and authorities in order to secure support and limit revenue loss, and we took swift and decisive action to adjust the cost base to limit the flow-through of revenue decline. While revenue declined by around £790 million, only around 40% of this flowed to reduced EBITDA as a result of a number of wide-ranging cost reduction measures. At the peak, 40,000 employees across the Group were either furloughed or temporarily laid off, helping to drive out over £300 million of operating costs from the business in the second quarter.
We have also sought to ensure that the Group had sufficient liquidity and a strengthened Balance Sheet to navigate the crisis. During the year liquidity was boosted with over £1.5 billion of new facilities including the equity raise, and covenants have been renegotiated with the gearing covenant test waived by lenders until June 2022.

All of these measures have served not only to protect our business but will also assist in the return to normal levels of service across each of the businesses. Momentum has built throughout the second half of the year and we have seen an improving trajectory, with revenue, EBITDA and cash generation at their strongest levels in the fourth quarter of the year.

Positioning for the future

As a result of the actions we have taken and the learnings we have developed through 2020, the business is now well placed to react to future changes to the operating environment and is poised to return to sustainable growth. In particular, I would note four areas in which this has manifested itself:

Firstly, we have developed a greater agility to respond rapidly to changing restrictions. This has been most evident in our long-distance operations in the UK and Spain where discretionary travel has seen the greatest impact in terms of revenue decline. As the first lockdown hit, we mothballed our UK coach network and significantly reduced services in our Spanish long-haul operations.
As restrictions were lifted over the summer, services were promptly scaled back up in both the UK and Spain and pleasingly we

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saw demand returning rapidly. Both networks have been subsequently scaled up and back down in response to changing patterns of local lockdowns. Vehicles in our National Express Transport Solutions (NETS) business were repurposed to provide extra capacity in our UK bus operations as customer demand for buses combined with social distancing measures drove network requirements to a peak of 103% of pre-Covid levels. In North America we have had to be fleet of foot in responding to rapidly changing patterns of school returns, flexing staffing levels up and down depending on the levels of payments forthcoming from school boards.

Secondly, we have reduced fixed costs and improved processes that will continue to benefit the Group as restrictions are lifted. We are taking out a significant portion of structural costs from across the business as well as improving the efficiency of a number of operating processes, for example through the 'Driving Excellence' programme of process optimisation across our portfolio of school bus depots in North America. Each division has made permanent reductions to central costs, redesigning and relocating support operations for lasting benefit. These are significant restructuring programmes, delivering annualised cost savings of c.£100 million when fully implemented.

Thirdly, we are continuing to win business through the crisis, securing nearly £900 million of contracted revenue. We won new contracts in Portugal in Lisbon and Porto (awarded on a provisional basis), worth nearly £270 million, gaining access to a new market for us. Both of these contracts are set to start operating in the fourth quarter of this year and run for seven years. In North America, we have won significant school bus contracts in Idaho, Alaska and California, and in Transit we won a capital-light paratransit contract for up to five years in California. In the UK, our NETS business secured a major contract to run employee shuttle services for the world's largest online retailer, while NEAT secured its first accessible transport contracts outside of the West Midlands.

Finally, good progress has been made in the year on our environmental ambitions, with 29 electric buses now running across our networks in the West Midlands and more to come. Looking ahead, Coventry is set to become the first electric bus city with significant funding secured for up to 170 EVs over the next two to three years; and our UK bus business won the bid to operate the new hydrogen-powered bus service in Birmingham, with our first 20 vehicles ordered, funded by Birmingham City Council, and entering service later in 2021.

We were delighted to welcome the Prime Minister to our operations in Coventry this week, and show him our electric buses in action. Last year we committed to never again buy a diesel bus in the UK, and we are well on track to deliver our target of a fully zero emission bus fleet by 2030. We fully embrace the national bus strategy and the proposals for operators to work in partnership with local authorities to deliver cleaner, greener public transport solutions. This is exactly the partnership approach that has worked so well for many years across the West Midlands, where we have continually improved services while keeping fares down.

Outlook

I have been impressed by the overall stability and resilience of the business in the face of unprecedented challenge. Strong customer relationships have enabled revenue to perform well ahead of the significant reductions in patronage driven by travel restrictions, and disciplined cost management has limited the extent to which this revenue decline has flowed to profit and cash. However, the situation we find ourselves in is not one that we can ultimately control and the timing of full recovery remains uncertain as we are still subject to lockdowns and related restrictions in every market we operate in.

I believe that the trajectory is improving, with the fourth quarter of 2020 our strongest of the year and the global vaccination roll-out accelerating. We have seen this momentum continuing into 2021 with slowly improving revenue trends and positive EBITDA in January and February. Further, we have sufficient liquidity to see us through our most pessimistic scenarios and have further strengthened our Balance Sheet in 2020.

Given the unprecedented financial implications of the pandemic, the Board has not recommended a dividend in 2020. We understand the importance to shareholders of reinstating dividend payments as soon as economic conditions allow. It is clear that 2021 will represent a 'transition year' to a post-pandemic future and much will depend on the effectiveness of mass vaccination programmes to enable travel restrictions to be lifted. Against that backdrop the Board has determined the Group will resume dividend payments as soon as it is prudent to do so.

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Group CEO
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