# Go-Ahead full year results

For the year ended 28 June 2014

4 September 2014




Go-Ahead

Go-Ahead London · Go North East · METROBUS · go southcoast · Brighton & Hove · oxford bus company · Thames Travel · carousel · Plymouth citybus · konectbus · anglianbus · hedingham · chambers · SOUTHERN · Gatwick Express · southeastern · london midland

# Highlights

**Strategic and operational progress**

- Won the UK's largest rail franchise Thameslink, Southern and Great Northern (TSGN)
- Sector leading customer satisfaction of 92% in deregulated bus
- Record passenger numbers in bus and rail
- Shortlisted for Northern and TransPennine Express rail franchises

**Delivering financially**

- Good progress towards bus operating profit target of £100m by 2015/16
- Profit before tax and exceptional items increased by 25.4% to £79.1m
- Adjusted earnings per share increased by 26.4% to 148.6p
- Strong free cashflow and reduced net debt despite increased investment in the business
- Proposed full year dividend raised to 84.5p per share in line with progressive policy

**Contributing to society**

- Only operator in the sector to achieve Carbon Trust triple standard for carbon, waste and water reduction
- First FTSE 350 company to be awarded the Fair Tax Mark
- Continued improvement in fleet quality and underlying environmental performance

# Keith Down

Group Finance Director

# Strong performance in bus and rail

| | Operating profit FY'13 £'m | Impact of IAS 19 (revised) FY'13 £'m | Operating profit FY'13 (restated) £'m | Like for like variance £'m | Operating profit FY'14 £'m |
|---|---|---|---|---|---|
| **Deregulated bus** | 37.9 | (1.5) | 36.4 | 5.5 | 41.9 |
| **Regulated bus** | 40.3 | (1.5) | 38.8 | 2.8 | 41.6 |
| **Total bus** | **78.2** | **(3.0)** | **75.2** | **8.3** | **83.5** |
| **Rail** | 24.3 | (12.8) | 11.5 | 8.2 | 19.7 |
| **Total** | **102.5** | **(15.8)** | **86.7** | **16.5** | **103.2** |

- Overall results for the Group slightly ahead of latest management expectations with Group revenue up 5.1%
- £2.0m of pension interest previously included in operating profit now reallocated to finance costs
- Current year impact of IAS 19 (revised) of £15.6m, net of £2.0m interest cost, absorbed in the results shown, bus impacted by £3.3m and rail £12.3m (analysed in appendix)
- Like for like operating profit up £16.5m with strong performance in all divisions
- Record full year bus profits, on track for Target 100



Unless otherwise stated, operating profit excludes amortisation and exceptional items

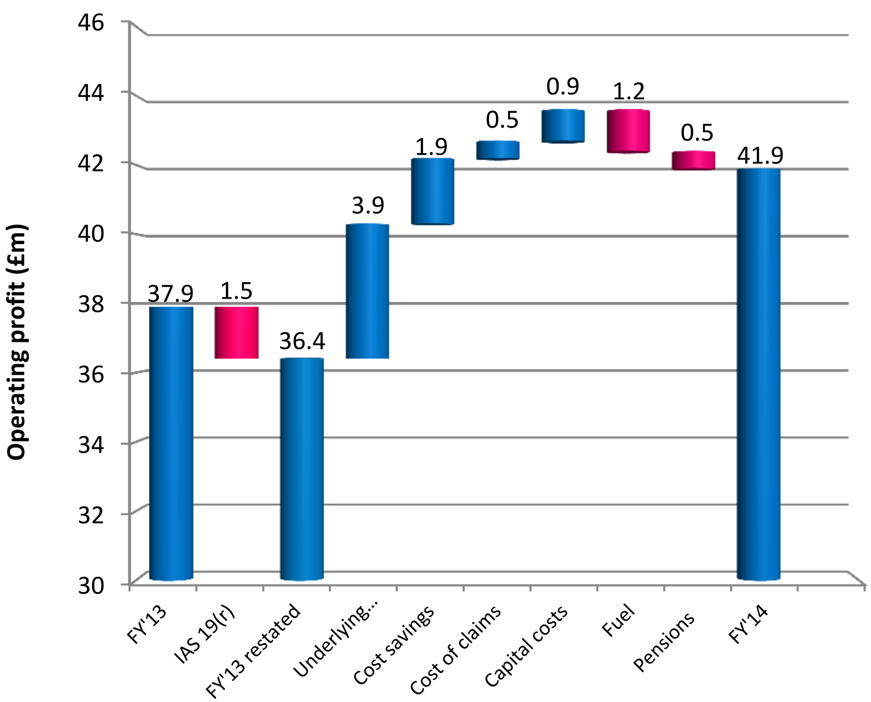
# Deregulated (regional) bus : Revenue

| **Total** | **FY'14** | **H1'14** | **H2'14** | **FY'13** |
|---|---|---|---|---|
| Revenue | 3.9% | 2.9% | 4.9% | 7.9% |
| Passengers | 1.9% | 1.4% | 2.4% | 3.1% |

| **Excluding Olympics** | **FY'14** | **H1'14** | **H2'14** | **FY'13** |
|---|---|---|---|---|
| Revenue | 4.3% | 3.7% | 4.9% | 4.3% |
| Passengers | 1.9% | 1.4% | 2.4% | 1.1% |

- Like for like revenue (exc Olympics) up 4.3%
- Actual revenue up 3.9%
- Like for like passenger growth of 1.9%
- Revenue growth in all our deregulated businesses
- Revenue and passenger growth in both commercial and concessionary overall
- Mileage growth of 1.8% which has resulted in higher associated costs

# Deregulated (regional) bus : Profit bridge




## Margin performance

| | FY'14 | H1'14 | H2'14 | FY'13 |
|---|---|---|---|---|
| Operating profit margin | 11.9% | 11.8% | 12.1% | 10.8% |

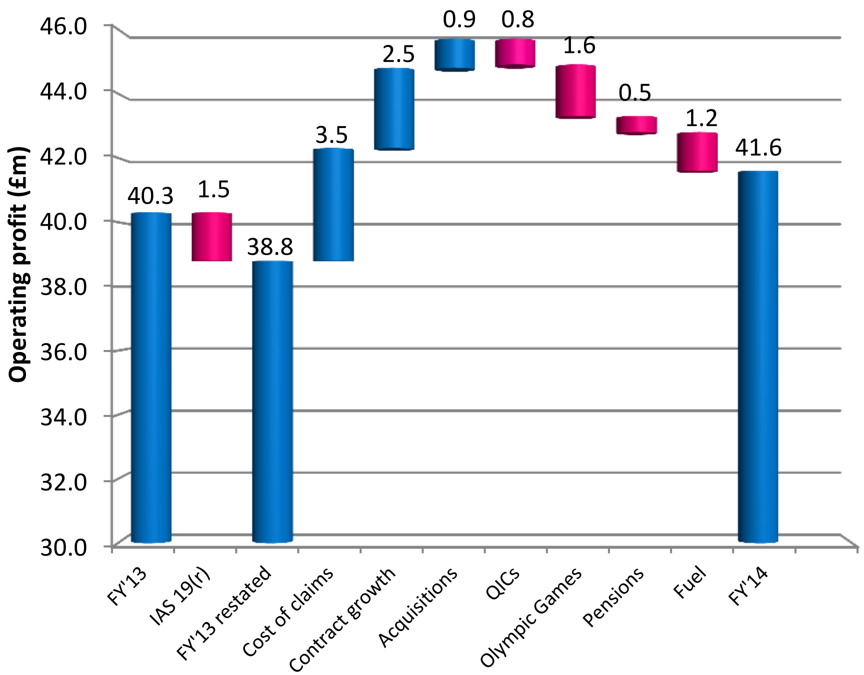
- Operating profit up £5.5m to £41.9m
- Cost savings remain ahead of schedule as part of £100m target but slower in second half as anticipated
- Continued focus on accident prevention and minimising claims but some reversal in second half
- Underlying organic growth reflects like for like revenue growth outstripping cost inflation and 1.8% network growth
- Fuel cost movements reflect increase in hedge price
- Increased pension costs due to one-off payments in H1 related to scheme closure
- Consistent margin performance across the year showing improvement on last year

# Regulated (London) bus: revenue

| Total | FY'14 | H1'14 | H2'14 | FY'13 | FY'13 exc acquisitions |
|---|---|---|---|---|---|
| Revenue | 6.1% | 5.1% | 7.1% | 12.0% | 6.5% |
| Mileage | 1.1% | 1.8% | 0.4% | 7.3% | 2.5% |
| **Excluding Olympics** | | | | | |
| Revenue | 7.5% | 7.9% | 7.1% | 10.5% | 5.0% |
| Mileage | 1.6% | 2.8% | 0.4% | 6.8% | 1.9% |
| QICs | £9.1m | £4.6m | £4.5m | £9.9m | £9.9m |

- Like for like revenue up 7.5% (FY'13: 5.0%)
- Re-allocation of BSOG from costs to revenue from Q2 onwards contributed 3.7% of FY'14 growth
- Like for like mileage up 1.6% (FY'13: 1.9%)
- Underlying mileage growth of 0.4% in H2 relatively stable as expected, with lower rail replacement revenue
- Expect contract mileage in FY'15 to be broadly flat

# Regulated (London) bus: Profit bridge




## Margin performance

| | FY'14 | H1'14 | H2'14 | FY'13 |
|---|---|---|---|---|
| Operating profit margin | 9.3% | 9.3% | 9.2% | 9.2% |

- Operating profit up £2.8m to £41.6m
- Continued focus on accident prevention and claims management
- Small prior year acquisition made very good contribution
- Comparative includes profit from Olympic contracts
- Fuel cost movements reflect increase in hedge price
- Increased pension costs due to one-off payments in H1 related to scheme closure
- Margin remains consistent year on year

# Bus: Fuel

| Fuel hedging prices | FY'13 | FY'14 | FY'15 | FY'16 | FY'17 |
|---|---|---|---|---|---|
| % hedged | Fully | Fully | Fully | Fully* | 25% |
| Price (pence per litre) | 49.2 | 50.5 | 48.5 | 45.8 | 44.3 |
| Usage (m litres pa) | 126 | 127 | 126 | 126 | 126 |
| £'m commodity cost | 62 | 64 | 61 | 58 | 56# |

- FY'14 - was fully hedged at 2.6% higher than FY'13
- FY'15 - fully hedged at 48.5ppl, 4.0% lower than FY'14
- FY'16 - special purchase of additional 50% requirement to lock in current lower rates for an additional year, further 5.6% lower than FY'15
- Following transfer of regulated BSOG to contract revenue and some deregulated BSOG to tendered contracts, remaining BSOG now down to c£20m



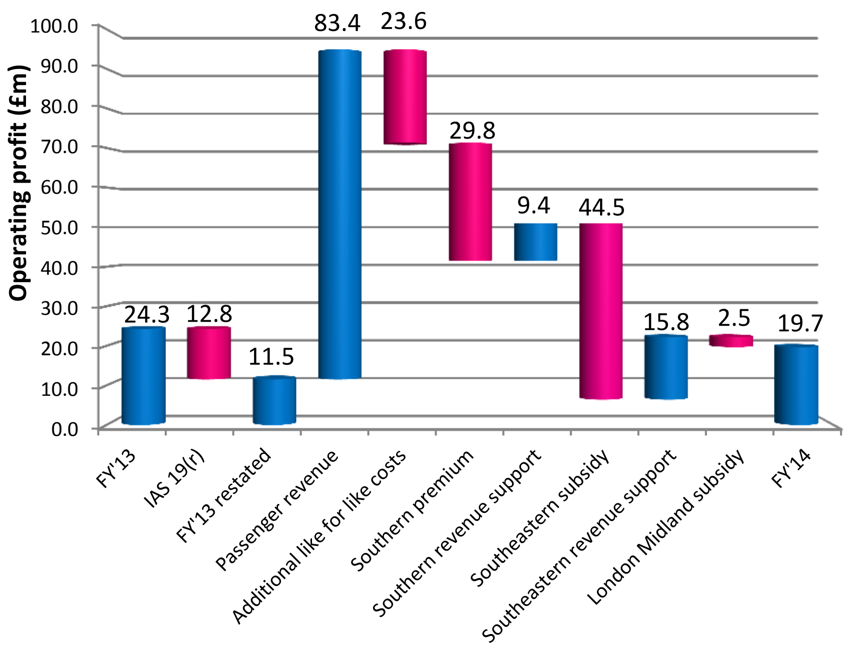
* Board approved special purchase on 11 July 2014
# Assuming hedging completed at latest transaction price

# Rail: Revenue

| Passenger revenue | FY'14 (inc Olympics) | **FY'14 (exc Olympics)** | H1'14 (inc Olympics) | **H1'14 (exc Olympics)** | **H2'14** | FY'13 (inc Olympics) | **FY'13 (exc Olympics)** |
|---|---|---|---|---|---|---|---|
| Southern | 5.8% | **6.1%** | 7.7% | **8.2%** | **4.1%** | 5.6% | **5.4%** |
| Southeastern | 4.3% | **5.6%** | 2.7% | **5.3%** | **5.9%** | 8.0% | **6.7%** |
| London Midland | 6.8% | **7.4%** | 8.9% | **10.1%** | **4.8%** | 12.1% | **11.5%** |
| **Passenger journeys** | | | | | | | |
| Southern | 3.9% | **4.1%** | 3.9% | **4.3%** | **4.0%** | 1.1% | **0.8%** |
| Southeastern | 3.8% | **5.3%** | 0.8% | **3.9%** | **6.8%** | 4.7% | **3.1%** |
| London Midland | 4.5% | **4.9%** | 4.7% | **5.4%** | **4.3%** | 2.4% | **2.1%** |

- Southern: trading remains in line with expectations. The franchise entered 80% revenue support during H2'14
- Southeastern: impacted by revenue recognition adjustment in Q4 otherwise in line with expectations. Remains in 80% revenue support until October 2014
- London Midland: increased competition impacting growth. No longer in revenue share
- Passenger journeys continue to be impacted by changes in DfT Travelcard allocations and increases in lower yield journeys
- As anticipated, yields lower in second half due to lower fare increases in January 2014 than last year (2014: 2.7%, 2013: 4.2%)

# Rail: Operating profit bridge




## Margin performance

| | FY'14 | H1'14 | H2'14 | FY'13 |
|---|---|---|---|---|
| Operating profit margin | 1.0% | 1.1% | 1.0% | 0.6% |

- Operating profit up £8.2m to £19.7m
- Total passenger revenue increased by 5.4% partially offsetting changes in subsidy/premium
- Net premium payments to DfT up £51.6m
- Overall a net contributor to DfT of £64.0m
- Margins remain at historically low levels
- Bid costs of £8.1m incurred (FY'13: £3.2m) including c£6m on TSGN
- GTR mobilisation costs of £0.5m included in intangible assets

# Summary income statement

| £'m | FY'14 | Exceptional items | FY'14 exc exceptional items | Restated FY'13 | Variance | |
|---|---|---|---|---|---|---|
| Revenue | 2,702.4 | - | 2,702.4 | 2,571.8 | 130.6 | |
| **Operating profit** | **103.2** | - | **103.2** | **86.7** | **16.5** | Slightly better than expectations |
| Net finance costs | (18.3) | - | (18.3) | (17.1) | (1.2) | |
| **Profit before tax*** | **84.9** | - | **84.9** | **69.6** | **15.3** | |
| Amortisation | (5.8) | - | (5.8) | (6.5) | 0.7 | |
| Exceptional items | 12.1 | (12.1) | - | - | 12.1 | |
| **Profit before tax** | **91.2** | **(12.1)** | **79.1** | **63.1** | **28.1** | |
| Tax | (13.6) | 2.4 | (11.2) | (13.1) | (0.5) | Effective tax rate 14.9% (FY'13: 20.8%) |
| **Profit for the year** | **77.6** | **(9.7)** | **67.9** | **50.0** | **27.6** | |
| Non-controlling interests | (7.3) | (0.8) | (8.1) | (3.8) | (3.5) | 35% Keolis rail holding |
| Profit attributable to members | **70.3** | **(10.5)** | **59.8** | **46.2** | **24.1** | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Adjusted, continuing EPS* (p)** | **148.6p** | | **148.6p** | **117.6p** | **31.0p** | EPS up 26.4% |
| **Total dividend per share (p)** | **84.5p** | | **84.5p** | **81.0p** | **3.5p** | Dividend increased by 4.3%. Payable 14 Nov (see appendix) |



*Excludes amortisation and exceptional items

# Finance costs

| £m | FY'14 | Restated FY'13 |
|---|---|---|
| **Finance revenue** | **1.5** | **1.6** |
| Interest payable on £200m bond | (11.1) | (11.1) |
| Interest payable on loans and overdrafts | (3.2) | (3.9) |
| IAS 19 (revised) interest | (2.0) | (0.8) |
| Other interest payable | (2.4) | (2.3) |
| Hedging ineffectiveness | - | 0.1 |
| Unwind of discount on provisions | (1.1) | (0.7) |
| **Finance costs** | **(19.8)** | **(18.7)** |
| **Net finance costs** | **(18.3)** | **(17.1)** |

- £200m 7.5 year 5.375% sterling bond issued in March 2010
- Average gross debt interest rate 4.3% (FY'13: 4.3%)
- Expect finance costs to be around £0.8m lower next year following July RCF refinancing, subject to no interest rate changes

# Tax

| £m | FY'14 | Restated FY'13 |
|---|---|---|
| Operating profit | 103.2 | 86.7 |
| Net finance costs | (18.3) | (17.1) |
| Amortisation | (5.8) | (6.5) |
| Exceptional items | 12.1 | - |
| Profit before tax | 91.2 | 63.1 |
| Tax | (13.6) | (13.1) |
| Effective rate | 14.9% | 20.8% |

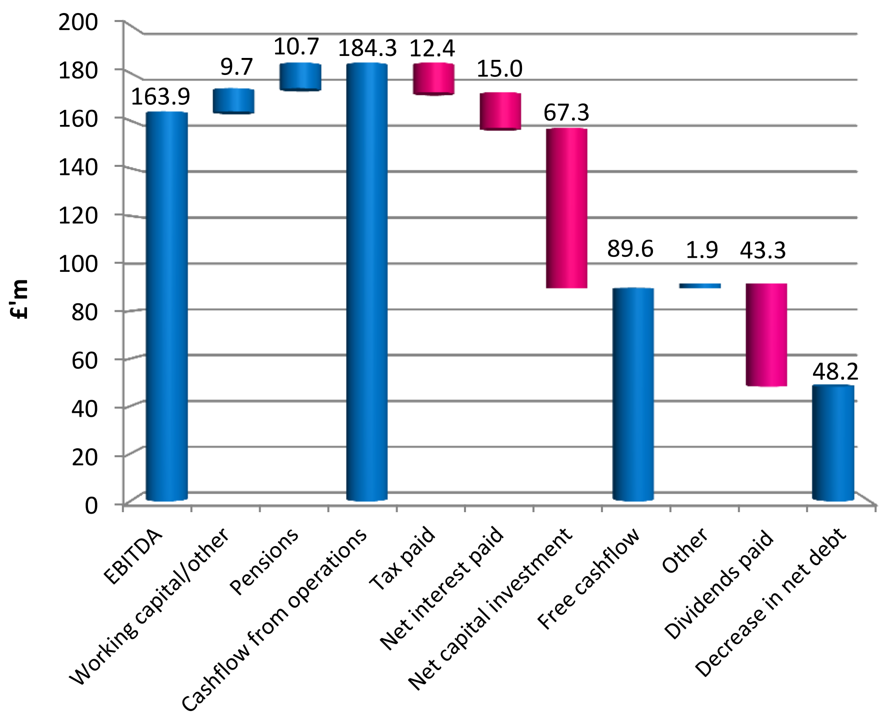
- Effective rate of 14.9%, below the UK statutory rate due to a £6.8m deferred tax credit (FY'13: £2.1m)
- Statutory rate of 20.75% expected next year, reducing to 20.0% in 2015/16
- Effective tax rate expected to be around 1% above the statutory rate in future years
- Tax paid of £12.4m (FY'13: £11.1m)

# Exceptional items

| £m | FY'14 | Restated FY'13 |
|---|---|---|
| Credit arising from pension scheme closure | 15.1 | - |
| London Midland restructuring costs | (3.0) | - |
| Total exceptional items | 12.1 | - |

- The pension plan curtailment gain of £15.1m arose on closure of the defined benefit scheme. This reduces the Group's exposure to further increasing benefits. Current members' existing benefits are preserved but no further benefits will accrue, resulting in an adjustment to the Group's future liabilities. This is non-cash and non-recurring.
- Rail restructuring costs were £3.0m. Against a backdrop of reduced subsidy receipts, more challenging trading conditions and higher operational costs, London Midland carried out a reorganisation to reduce the number of management and administrative staff, in order to reduce costs.

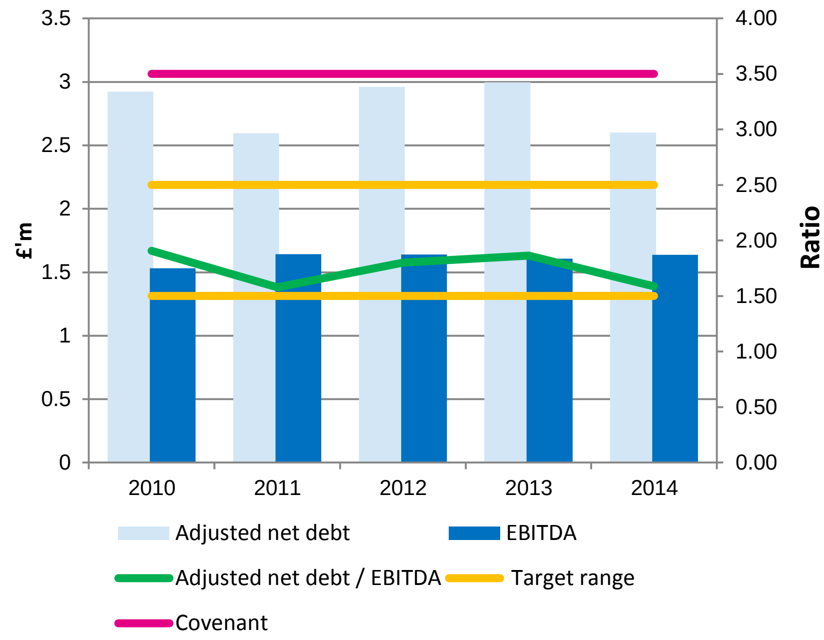
# Cashflow analysis




- Overall reduction in net debt in year of £48.2m, better than expectations
- Working capital better than expected due to franchise wins and extensions, not expected to reverse next year
- Pensions reflects add back of non-cash element of IAS 19 (revised)
- Free cashflow £89.6m (FY'13: £41.2m) despite £67.3m of capital expenditure
- Expect c£45m of working capital inflow from GTR offset by restricted cash
- Including GTR benefit, net debt expected to move to a cash positive position of c£50m in FY'15

# Balance sheet

- Full year net debt of £42.7m less than anticipated due to better than expected working capital
- Adjusted net debt / EBITDA 1.45x now slightly below target range* of 1.5x - 2.5x. EBITDA is adjusted for IAS 19 (revised) for covenant purposes until new facility starts
- BBB- / Baa3 (stable) rating
- New five year £280m bank facility signed in July 2014




| As at 28 June 2014 | £'m |
|---|---|
| Five year syndicated facility 2016 | 275 |
| 7.5 year £200m sterling bond 2017 | 200 |
| **Total core facilities** | **475** |
| Amount drawn down | 320 |
| **Total headroom** | **155** |

| As at 28 June 2014 | £'m |
|---|---|
| Restricted cash | 217.3 |
| Net debt | 42.7 |
| Adjusted net debt | 260.0 |
| EBITDA | 163.9 |
| Adjusted net debt/EBITDA[1] | 1.45x |



* Targets and covenant refer to adjusted net debt to EBITDA
[1] Adjusted net debt to EBITDA is calculated after reversing the impact of IAS 19 (revised) of £15.6m

# Pensions

**Net bus pension scheme liabilities:**

| £m | FY'14 | FY'13 |
|---|---|---|
| **Assets** | 603.5 | 569.6 |
| **Liabilities** | 663.3 | 617.3 |
| **Net deficit** | (59.8) | (47.7) |
| **Less tax** | 12.0 | 11.0 |
| **Post tax deficit** | (47.8) | (36.7) |

**Rail pensions:**

- Net operating cost of £47.1m (FY'13 restated: £43.5m)
- Net deficit £nil (FY'13: £nil). DfT guarantee any deficit at franchise end

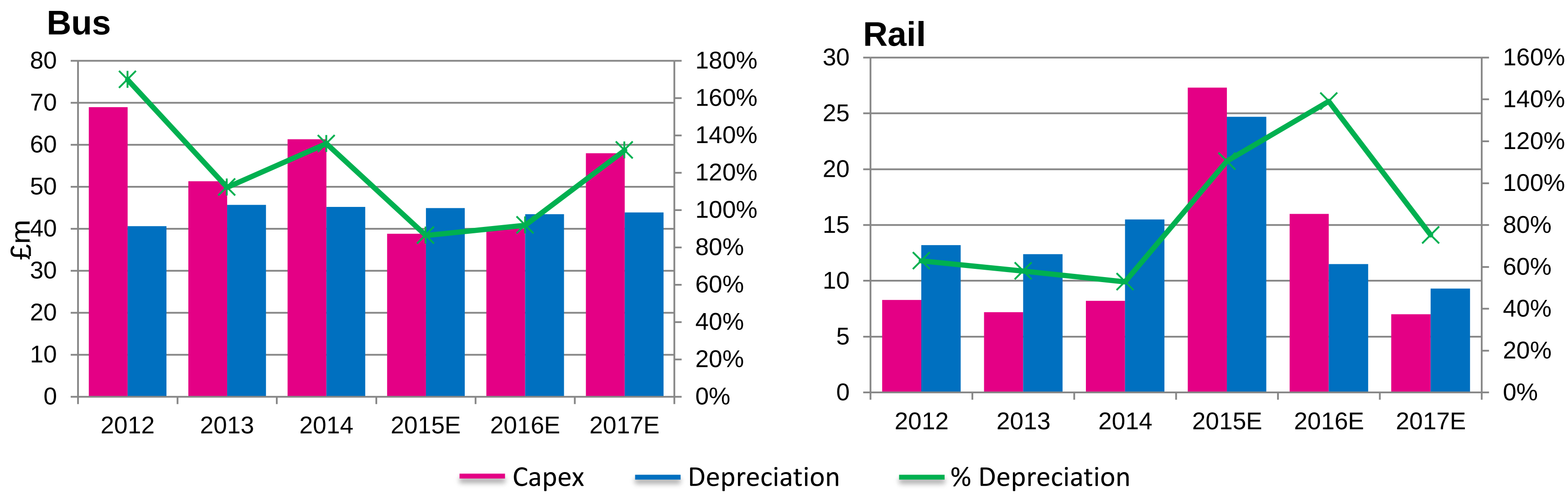
**IAS 19 (revised):**

- A summary of the impact of IAS 19 (revised) is included in the appendix

**Bus final salary pensions:**

- Net operating cost £6.7m (FY'13 restated: £7.8m)
- Discount rate: 4.3% (FY'13: 4.7%)
- +/- 0.1% discount rate = -/+ c£11.3m
- Different assumptions applied on actuarial valuation compared to accounting valuation above
- Scheme closed to future accrual with effect from 1 April 2014
- Asset backed funding (ABF) in place to give pension scheme interest in Group properties
- Expect lower cash contributions going forward

# Capital expenditure




- Bus capex of £61.3m slightly lower than expected due to timing of bus purchases
- Rail capex of £8.2m slightly higher than expected
- Expect rail capex to increase with GTR franchise win and expected Southeastern extension
- Expect FY'15 bus capital spend of c£40m and rail capital spend of c£25m
- Expect similar level of bus spend in FY'16 of £40m, increasing to c£60m in FY'17 due to timing of London contracts

# David Brown

Group Chief Executive

# Deregulated (regional) bus

## HIGHLIGHTS

- Record operating profit - up 15.1%
- Margins up to 11.9%
- Sector leading passenger satisfaction of 92%

| | FY'14 | FY'13 |
|---|---|---|
| Operating margin | **11.9%** | 10.8% |
| Revenue growth (lfl)* | **4.3%** | 4.3% |
| Passenger growth (lfl) | **1.9%** | 1.1% |

*Excluding Olympic Games impact

- Strongest ever performance – good revenue growth and continued cost efficiencies
- Mobile ticketing making good progress – 100,000 more people using our bus apps than a year ago
- Around 550,000 smartcards now in issue
- Introduced 244 new buses through £43.2m capital investment
- Fleet of alternative vehicles now over 200
- Responded to Tyne & Wear's ITA third consultation – believe partnership working is the right outcome
- Continue to look for opportunities to grow through acquisition

# Regulated (London) bus

## HIGHLIGHTS

- Record operating profit – up 7.2%
- Continued mileage growth

| | FY'14 | FY'13 |
|---|---|---|
| Operating margin | **9.3%** | 9.2% |
| Revenue growth (lfl)* | **7.5%#** | 5.0% |
| Mileage growth (lfl)* | **1.6%** | 1.9% |

*Excluding Olympic Games impact and acquisitions
# Reallocation of BSOG accounts for 3.7%

- Strong performance - good underlying revenue growth and consistent mileage growth
- Largest London bus operator with 24% of a mature market
- Continued focus on cost efficiency – significant improvement in cost of claims
- Good QICs performance - down slightly from levels around Olympic Games period
- Further success in gaining automatic two year performance-based contract extensions
- Continued investment in green fleet

# Target 100

- On course to achieve £100m of bus operating profit by 2015/16
- Steady progress towards target – bus operating profit of £83.5m
- Like for like regional revenue growth of 4.3% – ahead of three year guideline of 3.5% – helped by mileage growth of 1.8%
- Like for like London revenue growth of 7.5%, including 3.7% BSOG reallocation and helped by mileage growth of 1.6% – underlying growth in line with three year guideline of 2.5%
- Cost inflation broadly in line with three year guideline of 2.5 - 3.5%. Some costs rising proportionately with the additional regional and London mileage growth
- Cost savings of £5.9m, including insurance savings of £4.0m. Cumulative cost savings of £6.9m

# Rail

## HIGHLIGHTS

- Awarded TSGN franchise – mobilisation on track
- Operating profit significantly ahead of initial expectations

| | FY'14 | FY'13 |
|---|---|---|
| Operating margin | **1.0%** | 0.6% |
| Passenger revenue growth (lfl)* | **6.1%** | 6.9% |
| Passenger growth (lfl)* | **4.8%** | 2.0% |

*Excluding Olympic Games impact

**Southern**

- Consistent revenue performance
- Continued focus on improving customer experience - 'the key' smartcard is now multi modal
- Partnered with the DfT on its train procurement programme
- Will be incorporated into GTR in July 2015

# Rail continued

**Southeastern**

- Results in line with expectations
- Continues operating seven month extension period until October  2014 on original terms
- Negotiating terms with the DfT for extension to June 2018

**London Midland**

- Revenue has slowed due to increased competition on West Coast
- Reorganisation carried out in the year
- Improved punctuality performance
- Seven month extension to March 2016 on original terms
- Continue discussions with the DfT regarding proposed extension  to June 2017

# Rail: Govia Thameslink Railway (GTR)

- Won on both price and quality
- Short mobilisation period almost complete
- Begin operating Great Northern and Thameslink routes on 14 September
- Small number of Southeastern routes incorporated in December
- Southern and Gatwick Express incorporated in July 2015
- £6.5bn Thameslink Programme due to finish in late 2018
- The franchise will run until September 2021

# Rail: GTR continued

- Bid focused on customer experience
  - Increasing passenger capacity by 50%
  - 10,000 additional seats into London in morning peak
  - Three new train fleets being introduced
- Operated as a management contract
  - DfT takes revenue risk
  - Govia takes cost and ancillary revenue risk
  - Performance regimes may enhance revenue
- Around £40m capital investment over franchise life
- Expected Franchise payments of:

| | |
|---|---|
| Year 1 | £0.35 bn |
| 2 | £1.1 bn |
| 3 | £1.2 bn |
| 4 | £1.3 bn |

# Northern/TransPennine Express (TPE) shortlists

- **Northern**
  - Shortlisted as Govia (65% Go-Ahead/35% Keolis)
  - Annual revenue c£600m
  - Eight to ten year contract term
- **TransPennine Express (TPE)**
  - Shortlisted as Keolis Go-Ahead Ltd (65% Keolis/ 35% Go-Ahead)
  - Annual revenue c£300m
  - Seven to nine year contract term
- **For both Northern and TPE**
  - ITT expected in December 2014
  - Contract expected to be awarded in October 2015
  - Contract start date February 2016

# Summary

- Strong set of results – significantly ahead of initial expectations
- Good progress towards Target 100 on bus
- Won the TSGN contract and mobilisation almost complete ahead of launch on 14 September
- Shortlisted for Northern and TransPennine Express franchises
- Opportunities for growth in both bus and rail
- Continue our focus on our key strengths of providing high quality, locally focused transport services for our bus and rail customers
- Similar rail performance and bid costs expected along with steady progress on bus for FY’15
- The Group remains in a good financial position with strong cash generation and a solid balance sheet, supporting our progressive dividend policy and allowing flexibility to pursue value-adding opportunities in and outside our traditional markets
- FY’15 started well – trading in line with expectations

# Q&A

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# Appendix

# IAS 19 (revised)

- IAS 19 (revised) became effective for the Group in the current financial year
- The table shows the impact on the financial results for FY'14 and on the restated results for FY'13.
- The effect of applying the revised standard to is a reduction in profit before tax for the year of £14.2m (FY'13: £12.8m), £8.6m of which is attributable to equity holders of the parent (FY'13: £7.5m)
- This results in a reduction in basic earnings per share of 20.1p (FY'13: 17.5p) and a reduction to adjusted earnings per share of 24.0p (FY'13: 22.0p), of which 9.6p (FY'13: 6.8p) relates to the bus division
- Applying the revised standard has no effect on cash, credit rating or bank covenants

| | FY'14 £m | FY'13 £m |
|---|---|---|
| Profit adjustment – bus | **(3.3)** | (3.0) |
| Profit adjustment – rail | **(12.3)** | (12.8) |
| Total operating profit effect | **(15.6)** | (15.8) |
| Amortisation | **3.4** | 3.8 |
| Net finance costs | **(2.0)** | (0.8) |
| Profit before tax | **(14.2)** | (12.8) |
| Tax | **3.2** | 2.9 |
| Profit for the period | **(11.0)** | (9.9) |
| Attributable to: | | |
| Equity holders of the parent | **(8.6)** | (7.5) |
| Non controlling interests | **(2.4)** | (2.4) |
| | **(11.0)** | (9.9) |
| Reduction in basic EPS | **(20.1)p** | (17.5)p |
| Reduction in adjusted EPS | **(24.0)p** | (22.0)p |
| Reduction in EPS attributable to bus | **(9.6)p** | (6.8)p |

# Dividend

Dividend policy: progressive dividend growth whilst maintaining dividend cover of approximately two times adjusted earnings, on a pre IAS 19 (revised) basis through economic cycle.

| £m | 2014<br>proposed dividend | 2014<br>based on prior year dividend |
|---|---|---|
| **Earnings per share** | 148.6p | 148.6p |
| **IAS 19 (revised) adjustment** | 24.0p | 24.0p |
| **Revised earnings per share** | 172.6p | 172.6p |
| **Dividend** | 84.5p | 81.0p |
| **Dividend cover** | 2.04x | 2.13x |

- Company maintained dividend over last few years despite being below 2 times dividend cover
- Earnings have been impacted by non cash IAS 19 (revised) adjustment
- Dividend cover should therefore be calculated on a pre-IAS 19 (revised) basis
- Dividend increased to 84.5p, up 3.5p and 4.3%