

# North America

7 April 2011



# Introduction

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Business Recovery

Catalyst for Growth

Strategic Initiatives

## North America: Investment summary

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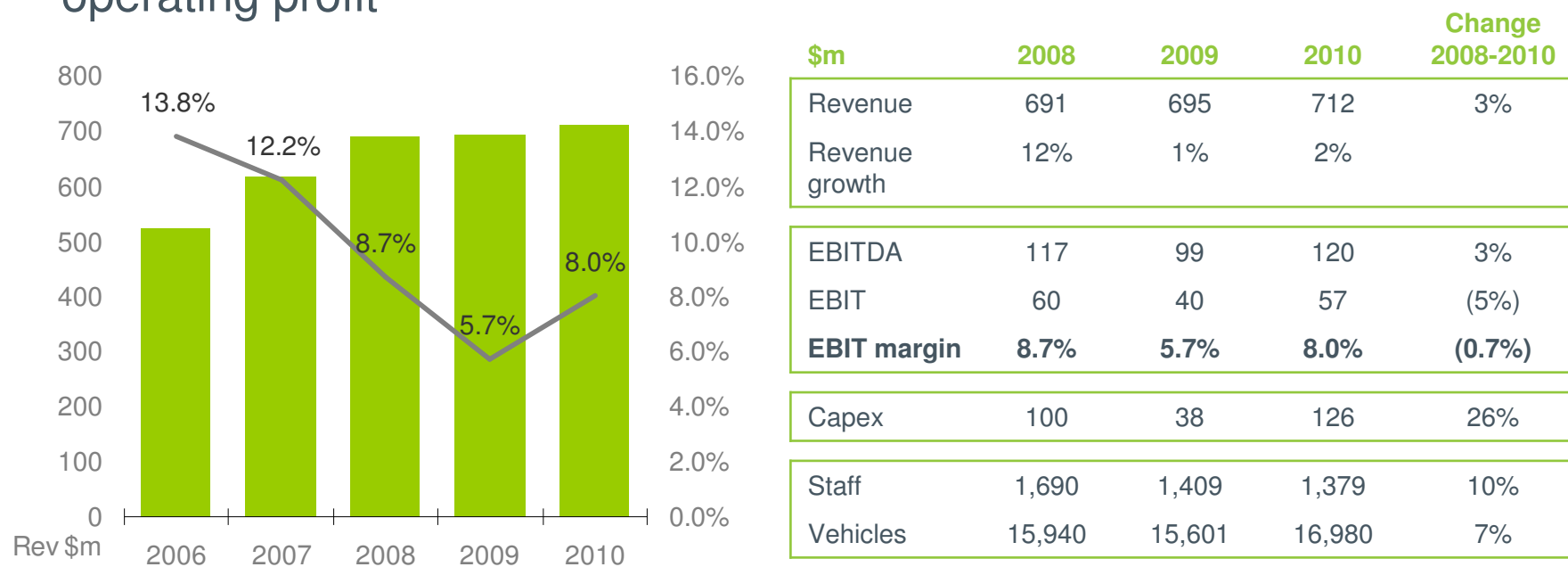


- Long-term stable contract model
- Medium term contract duration: \$2.7 billion order book
- Business recovery well under way: now achieving cost of capital
- Significant further recovery value to deliver
- Good conversion and consolidation opportunities: ROCE key focus
- Platform for future market expansion within North America

# Recent performance



- Margins fell significantly in 2009, but initiatives in 2010 improved operating profit



- Progressive margin decline to 2009 as division lost direction and BT drove cost increases
- First stage of margin improvement delivered in 2010 through:
  - Ending BT and reversing cost growth
  - \$25m of cost reduction secured
  - Management and organisational change
  - Successful contract bidding season

# Market attractiveness

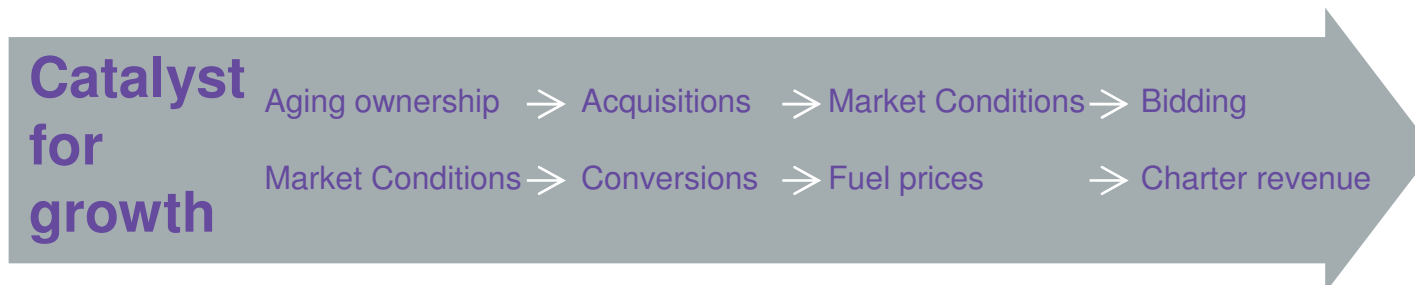
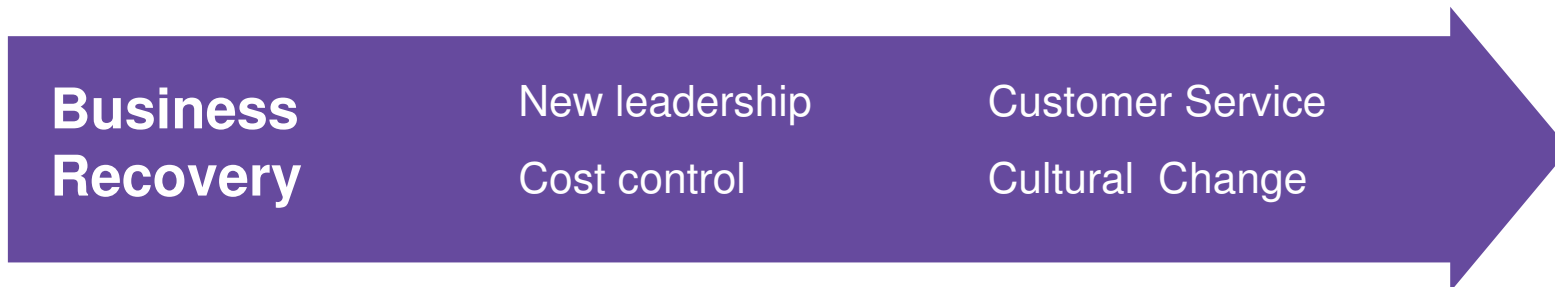


- The market is large with expectations of further growth, but requires capital investment

Structure	Market size		<ul style="list-style-type: none"> <li>\$24 billion of revenues</li> <li>32% is outsourced; 68% remains in house</li> </ul>
	Market growth		<ul style="list-style-type: none"> <li>6% nominal revenue CAGR over past decade</li> <li>Driven by CPI, plus conversion rate (to outsourced), and population growth</li> </ul>
	Composition		<ul style="list-style-type: none"> <li>Top 5 players have nearly 50% of contracted market</li> <li>40 companies operate 200+ buses; rest of market split between 4000 players</li> </ul>
	Barriers to entry		<ul style="list-style-type: none"> <li>Low barriers to entry as used vehicles available for a few thousand dollars</li> <li>Local relationships important, making entry more difficult for scale players</li> </ul>
Conduct	Regulatory environment		<ul style="list-style-type: none"> <li>Tightening environmental and safety standards; variation by state</li> <li>National healthcare reforms may affect labour costs</li> </ul>
	Customers		<ul style="list-style-type: none"> <li>Customers are local school boards, funded largely by property taxation</li> <li>Transport is 20-40% of non-payroll spending</li> </ul>
	Competition		<ul style="list-style-type: none"> <li>Aggressive, price driven approach</li> <li>Several second tier players potentially for sale</li> </ul>
	Labour		<ul style="list-style-type: none"> <li>32% of NX staff now unionized</li> </ul>
Financials	EBIT margin		<ul style="list-style-type: none"> <li>Historical industry range is 10-15% over past decade</li> <li>11% was best in 2009 (First Student). NX achieved 14% five years ago</li> </ul>
	Capital requirement		<ul style="list-style-type: none"> <li>NX needs to spend &gt;\$80m per year on new buses</li> <li>Buses very lightly utilized (10-15k miles per year)</li> </ul>

● Unattractive ● Attractive

# 1. Platform for Growth





## Business Recovery – Leadership

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- New CEO and Executive team
- Strengthened organization structure and regional operations management
- New Commercial Director and team
- New General Counsel and in-house legal team
- New heads of Maintenance, Procurement, Safety and Finance
- Robust performance management against key metrics



# Business Recovery – Cost Control



## 2010 Delivered

- Facilities Consolidation
- HQ Cost Review
- Organization Structure
- 2010 CSC Admin Cost Reduction
- Rewards Package Deployment
- Strategic Fleet Assessment
- Integrated PMO
- IT Organizational Design
- Systems Stabilization

\$25m Op. Profit

## 2011 Initiatives

- Strategic Sourcing / Procurement
- Maintenance
- Growth Strategy
- Contract Management / Profitability
- GPS
- Asset Utilization
- Administrative / Organizational Structure
- Finance Control & Systems
- Business Analytics / KPIs

\$15m Op. Profit

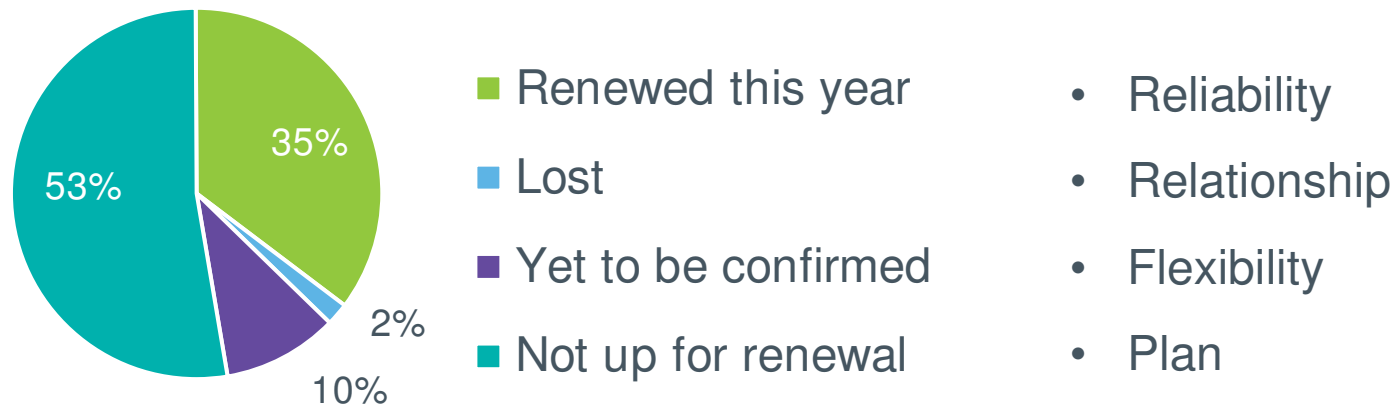




## Business Recovery – Customer



### Retention – No. of Buses



Good Customer retention is the basis for achieving target growth



## Business Recovery – Culture

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### Customer

- Customer Surveys
- Customer Advisory Board
- Top tier Customer & Executive alignment/contact

### Employee

- Monthly events
- Recognition
- Learning and continuous development
- Right hire
- Performance management

### Safety

- Awareness
- Zero tolerance
- Challenge

## 2. Catalysts for Growth





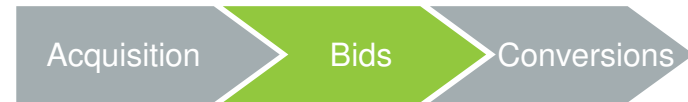
## Catalyst for growth – Acquisitions

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Acquisition opportunities if the fit is right..

- Highly fragmented market
- Aging of ownership offers multiple opportunities for acquisition
- Selective about who and where we buy:
  - Tucks into our existing footprint
  - Excellent operational, safety and customer service record
  - Good financial case



## Catalyst for Growth – Bids

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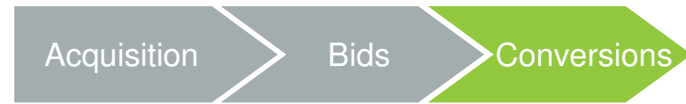
- Opportunistic approach
- New team and direction
- Value and cost driven

### 2010/2011 School year

- 1600 new routes
- 860 routes lost
- 23 new contracts
- 3 conversion

### 2011/2012 School year (YTD)

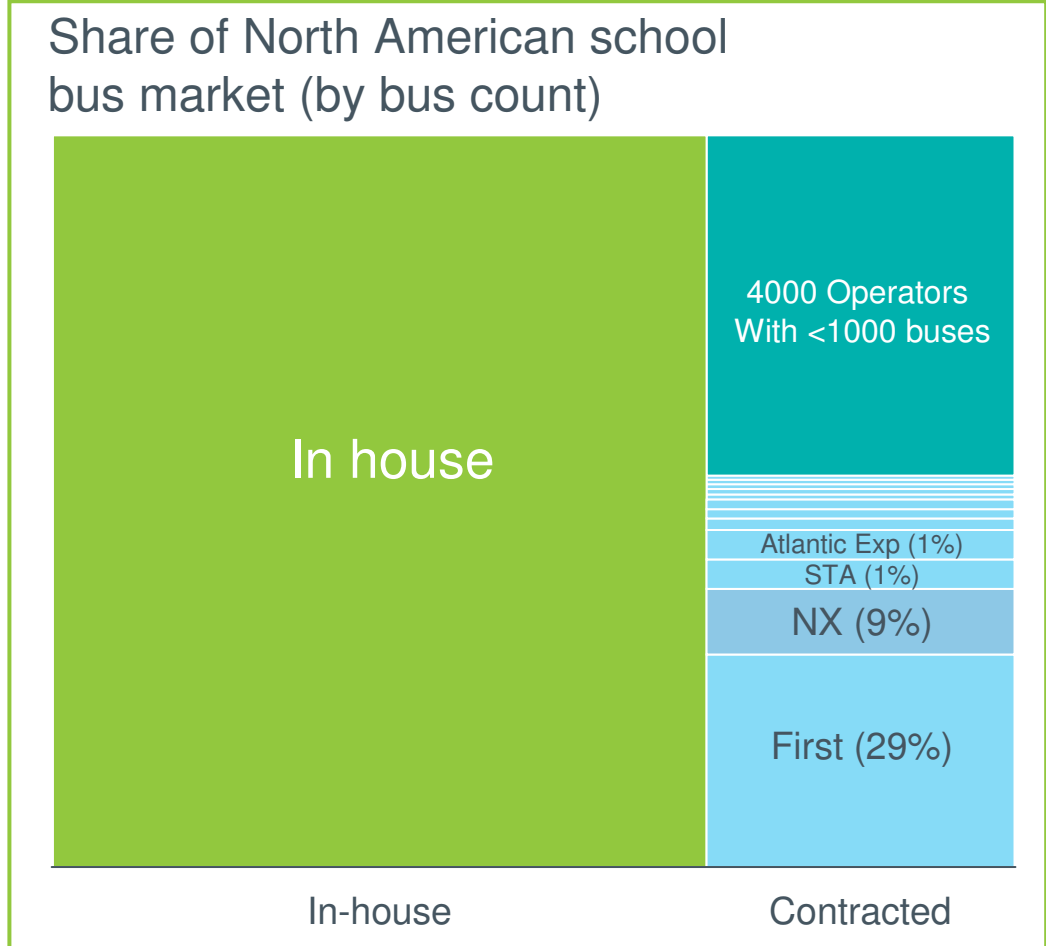
- 570 new routes
- 300 routes lost
- 10 new contracts
- 3 conversion



# Catalyst for Growth – Conversions



- North America School bus market - \$24 billion
- 32% outsourced
- In House Operations - 367k buses
- Approx. 187K buses are candidate for outsourcing
- 47% buses are run by small operators

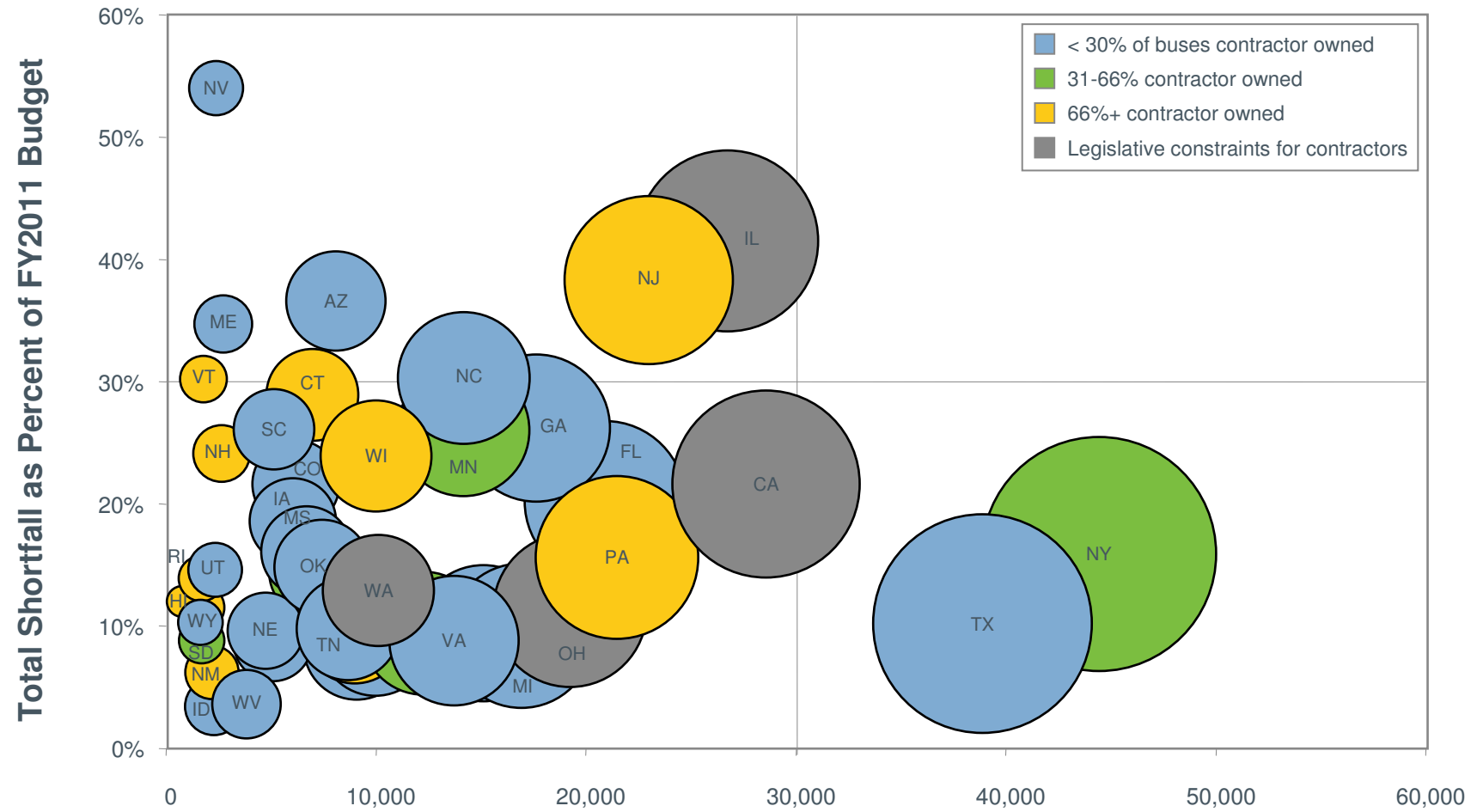




# Catalyst for Growth – Conversions



- Current market economic conditions are driving the prospects of higher conversions



# Catalyst for Growth – Conversions



## States' financial issues are....

- “Texas senate backs funding cuts of nearly **6%** (\$2bn pa) for public schools” (17/03/11)
- “Illinois senators proposed \$725m cuts (**c.10%**) in school budgets” (17/03/11)
- “Pennsylvania Governor Corbett’s proposed 2011-12 budget cuts funding for public schools by \$1.5 billion, or **15 %**”. (18/03/11)
- “Desperate to fill a **\$40m hole** in his school budget, mayor of Providence, Rhode Island, issued letters firing every one of the city’s 1,900 teachers”. (10/03/11)
- California: “State Schools Chief warns of \$4.5bn (**10%**) schools cuts” (11/03/11)
- New York: “Governor Cuomo cuts education budget by \$1.5bn – **2.7%** average across school districts and targets waste and inefficiency” (17/03/11)



## .... driving a policy change towards outsourcing

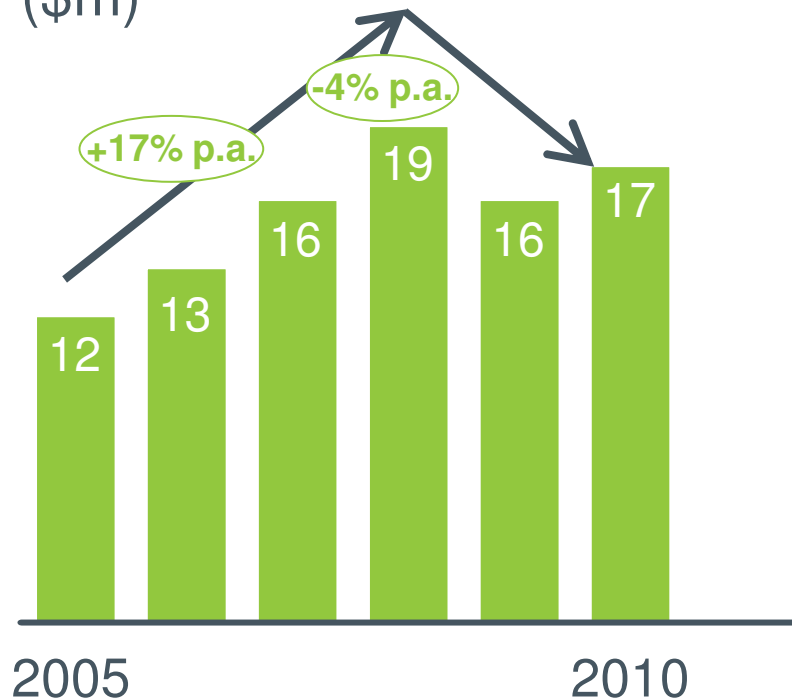
- North Carolina: Governor Perdue eliminates state funding for school bus replacement and encourages outsourcing of services.
- Florida: Marion County school board Chairwoman Judi Zanetti: “We want to keep cuts out of the classroom”
- Connecticut: Gary Mala, Superintendent of RSD17 : “Outsourcing frees up capital funds previously earmarked for bus maintenance and purchases,”
- South Carolina: Nikki Haley – Governor : “We must use private companies to meet school bus needs in South Carolina and use School bus contracting as a way to alleviate the state’s budget crisis and allow the state to modernise the fleet with newer and cleaner buses for the benefit of state’s school children”



# Catalyst for Growth – Charter revenues



## Charter Revenue Trend (\$m)



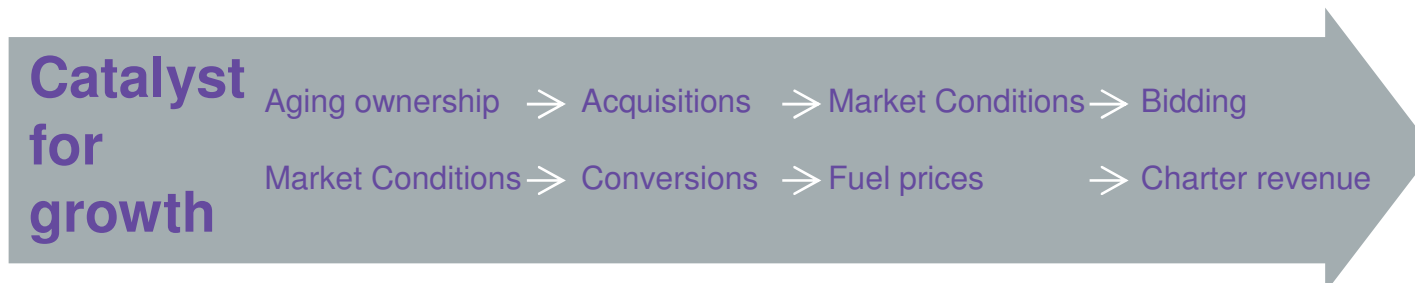
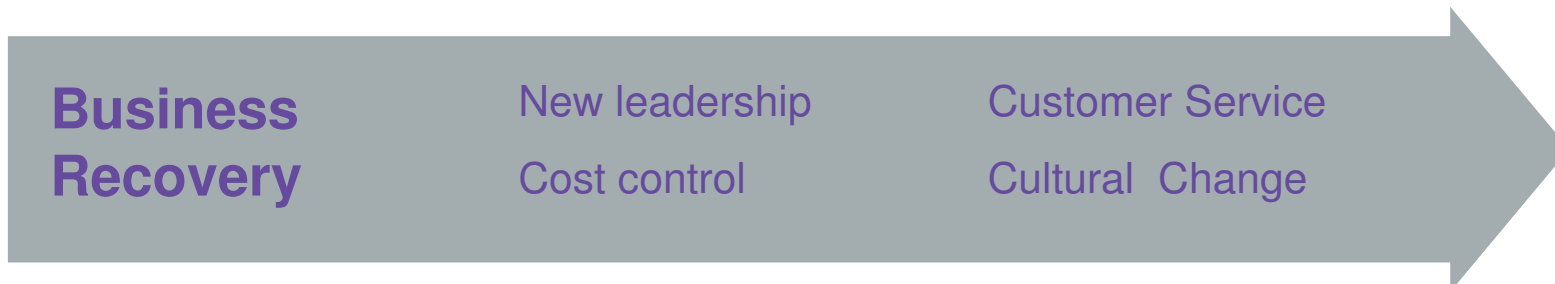
## % of total revenue



## Charter growth action plan for 2011:

- Toolkit
- Incentive plan
- National sales manager
- New sales-focused website,
- Relationship marketing
- Targeted program for university and college societies, clubs, field trips etc.

### 3. Strategic Initiatives



# Strategic Initiatives



## Operating Platform

- Install GPS in all buses
  - Integrated operating platform application
  - Implement Data Warehouse
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- Reduce Driver wages
  - Reduce vehicle idling
  - Improve Safety / Asset Utilization
  - Improve Customer Service

## Exploring New Market Segments

- Transit Operations
- Coach
- Rail Operations
- Para Transit
- Shuttle

## Asset Utilization

- Modify Contract terms – Bus life
- Cascading existing buses
- Charter Use
- Mid-life bus refurbishment
- Improved maintenance regime
- Efficient fuel additives

## Industry Relations

- Engage Lobbying firms
  - Engage like industry partnerships
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- Understanding of Political process
  - Influence change in laws / regulations
  - Create defensive measures

## Conclusions

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- The business is back
- New energy throughout the business
- Focus on service delivery
- Major structural reductions in the cost base
- Current economic environment is an opportunity
- The transport market more widely is large and attractive