

# UK Bus

7 April 2011



## UK Bus: Investment summary

---



- Long-established leading provider of core public service network in largest deregulated UK Bus market
- Highly cash generative
- Excellent asset utilisation drives good ROCE
- Improvement plan already delivering industry average margin with further improvement expected
- Selective revenue growth opportunities

# Contents

---



**Our asset**

**Current focus**

**Future opportunities**

## Our asset: Overview

---



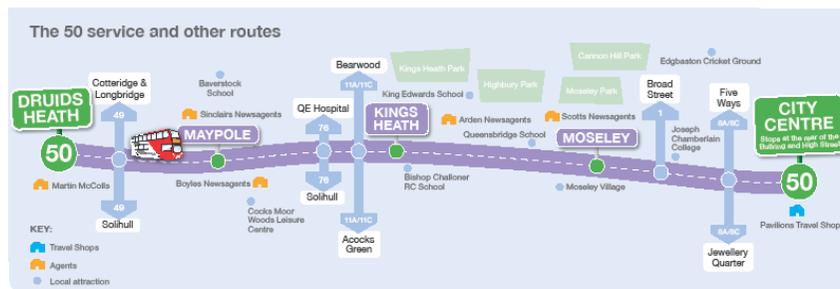
- Structurally attractive market that lost operational focus
- Recovery plan delivering margin improvement
- Focus on core network in Birmingham to drive yield
- Investment programme for new vehicles
- New management team to drive best in class performance
- Key operational priorities:
  - Enhanced safety;
  - Responsiveness to customer

# Our asset: a top quality business



## Market

-  Market size: Total UK market approx £4.8bn
-  Composition: largest five operators represent around 70% of the UK market
-  Trends: short term economic pressures, longer term urban regeneration opportunities, fuel prices and environmental concerns may encourage modal shift
-  Market: De-regulated, but strong vehicle and scheduling oversight
-  Customers: over 98% of W. Midlands network is commercial
-  Competition: active competition from international, national and local operators
-  Labour: good industrial relations through long-standing local agreements with unions



### No. 50 route in Birmingham

Frequency: every 3 minutes, peak times

Busiest NEX corridor, one of the busiest in Europe

Average age of fleet on route: 3.1 yrs

# Our asset: the marketplace



## West Midlands

- Conurbation of 2.2m people, centred on Birmingham
- Strong market share in a competitive marketplace:
  - 77% of all bus services are operated by NX
  - Higher bus usage than most PTEs
- Unrivalled network coverage:
  - Strong “core” network of frequent services radiating out from central Birmingham
  - 90% of people within 250m of bus stop
- Good mix of passenger types:
  - 21% of journeys are senior citizens; nearly half of passengers have travelcards

## Coventry

- City of 300,000 people
- Major operator and long established city bus network Pro-public transport local authority with over £30m invested in infrastructure and bus priority measures over the last five years
- 2012 Olympic city (football)

## Dundee

- City of 150,000 residents in north east Scotland
- NX is long established operator of the urban bus network
- Excellent relationships with local authority
- Working with City Council and local universities to introduce commercial smartcards during 2011

## The Metro

- 20km light rail system linking Birmingham and Wolverhampton
- Operated by NX under a concession until 2018
- 5 million annual passengers
- Birmingham city centre extension approved by government in late 2010

# Our asset: issues being addressed

---



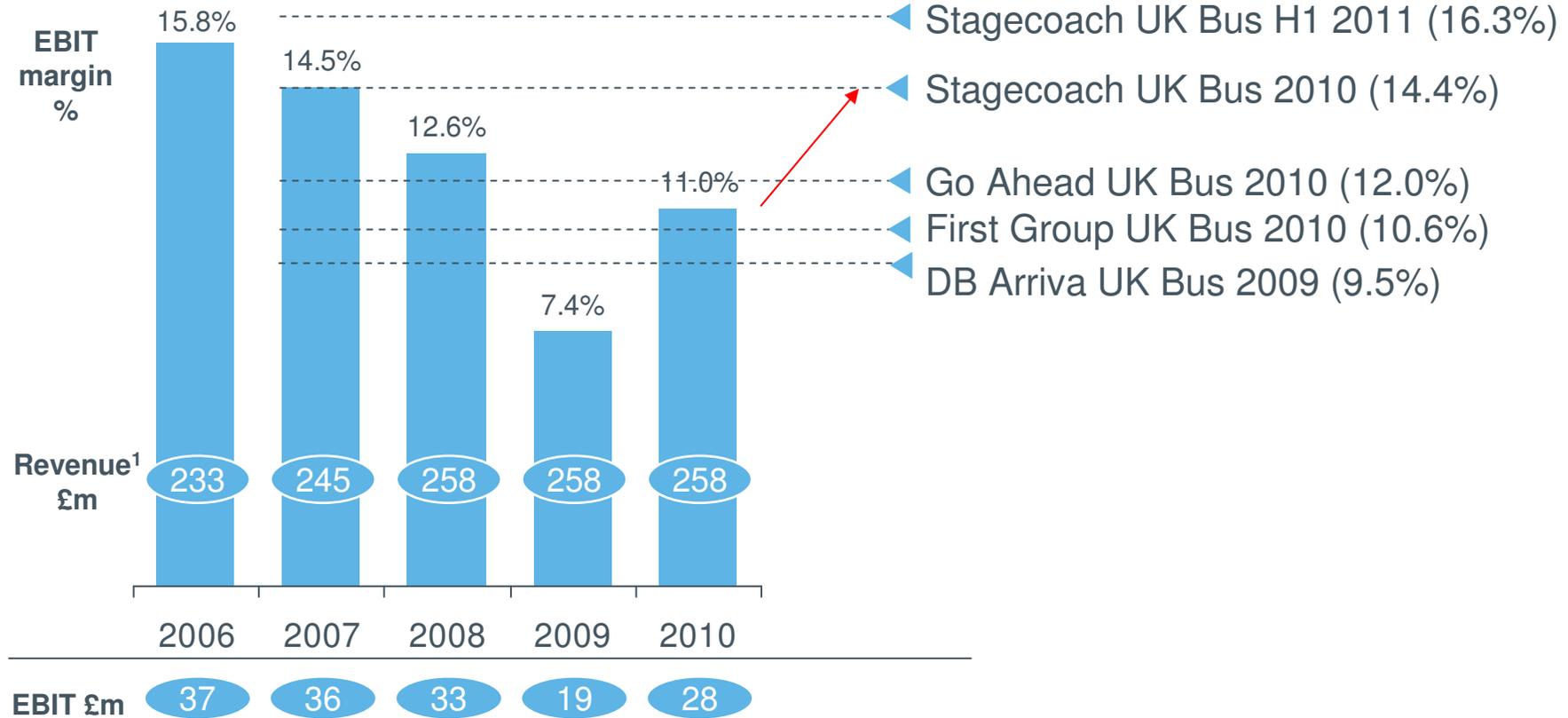
- BSOG
  - 20% reduction in April 2012: £4m impact 2012, £5m from 2013
  - Continue to manage the network to suit passenger demand, only operating services that contribute
- Concessionary funding
  - Many councils and PTAs have not adopted DfT guidelines as a whole, mainly due to political importance of travel
  - We have a proposed settlement with Centro
- Competition commission:
  - Draft summary is due to be received in April
  - No material impact expected, due to:
    - Not owning bus stations; 54 local competitors; pre-existing multi-operator ticket
- Wages
  - We have agreed 2 year pay awards with all drivers, admin staff, Metro staff

# Our asset: returned to industry average margins in 2010; targeting industry leading profitability by 2012



UK Bus<sup>1</sup> revenue and EBIT 2006–10

Competitor's EBIT margins



<sup>1</sup> Excludes Altram

# Contents

---



**Our asset**

**Current focus**

**Future opportunities**

# Current focus: continue with 5 initiatives launched in 2010



Initiative	2011 →	2012 →
<b>1</b> <b>Fares</b>	<ul style="list-style-type: none"> <li>• Maximise yields and rebalance fare basket</li> <li>• Adjust multi-fare tickets</li> </ul>	<ul style="list-style-type: none"> <li>• Cash fares: eliminate short-hop fares</li> </ul>
<b>2</b> <b>Optimise network and service</b>	<ul style="list-style-type: none"> <li>• Deliver service reductions</li> </ul>	<ul style="list-style-type: none"> <li>• Optimise network to save £3m to compensate for equivalent loss of BSOG</li> </ul>
<b>3</b> <b>Drive engineering efficiency</b>	<ul style="list-style-type: none"> <li>• Improve engineering staff productivity - eliminate overtime and save 10% of FTEs</li> </ul>	
<b>4</b> <b>Simplify depot footprint</b>	<ul style="list-style-type: none"> <li>• Further evaluation of depot footprint</li> </ul>	<ul style="list-style-type: none"> <li>• Centralise maintenance activity</li> </ul>
<b>5</b> <b>Wages</b>	<ul style="list-style-type: none"> <li>• Bring all depots up to top quartile driver utilisation (on average a 2.1% improvement)</li> </ul>	<ul style="list-style-type: none"> <li>• Wage rate increase agreed with union at 2%</li> </ul>

2010 recovery programme

# Current focus: enhanced by 5 further initiatives



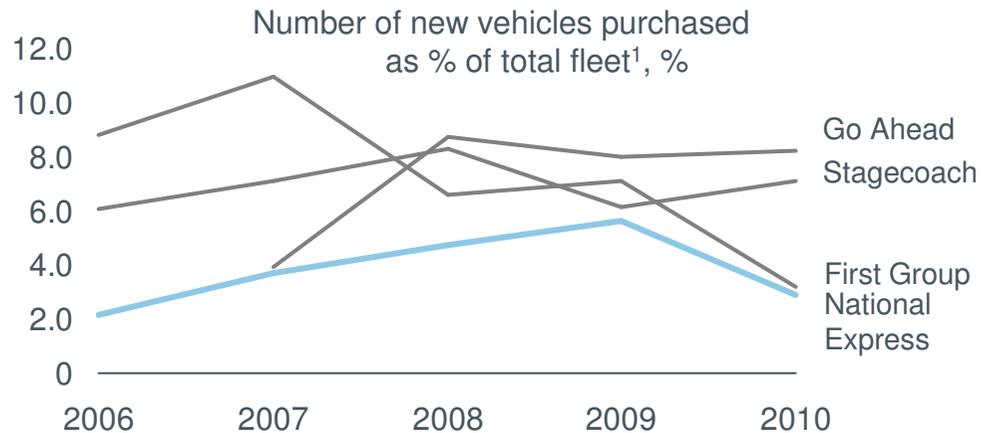
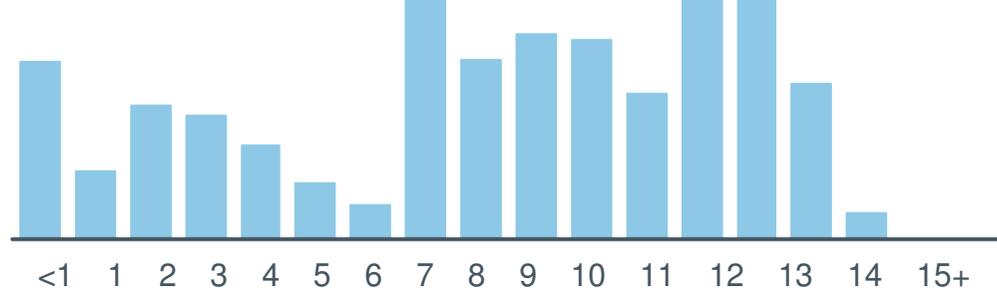
Initiative	2011 →	2012 →	
New/ 2011 recovery actions	⑥ Improve service to drive ridership	<ul style="list-style-type: none"> <li>• Bring depots up to top quartile lost mileage rates (a 38% improvement)</li> </ul>	
	⑦ Optimise marketing spend	<ul style="list-style-type: none"> <li>• Focus expenditure</li> <li>• Customer research</li> </ul>	<ul style="list-style-type: none"> <li>• High ROI campaigns, e.g. corporate sales and student campaigns</li> </ul>
	⑧ Renew fleet	<ul style="list-style-type: none"> <li>• 120 new vehicles to replace those with highest maintenance &amp; fuel costs</li> </ul>	<ul style="list-style-type: none"> <li>• Further fleet renewal</li> <li>• Purchasing/sourcing</li> <li>• Drive out maintenance costs</li> </ul>
	⑨ Improve safety	<ul style="list-style-type: none"> <li>• Bring all depots to top quartile 2010 safety levels (a 12% improvement)</li> </ul>	
	⑩ Streamline depot overheads	<ul style="list-style-type: none"> <li>• Manage depot admin staff back to 2006 levels (when vehicle km was 7% higher)</li> </ul>	

# Current focus: Fleet investment



Our fleet age distribution is skewed toward older vehicles (particularly in single decks) as investment has lagged that of peers in last 5 years

UK Bus fleet by age



1 For competitors, fleet includes coaches and local/regional buses  
SOURCE: NEX analysis; Company annual reports

## Implications

- Fleet requires a multi-year renewal programme
- On average, UK Bus has renewed 4% of its fleet each year since 2006 – compared with 8% at its competitors
- Older vehicles have higher operating costs

Commitment to increased capex over the next 5 years

Newer buses drive an increase in ridership

# Current focus: Driving operational performance



KPIs tracked as part of a balanced scorecard

## Deliver Service

- Lost Mileage
- Ensure sufficient available vehicles (PVR)
- Punctuality
- Matching vehicle types to routes

## Manage cost

- Lost Time Incidents
- Staff Accidents
- Passenger Injuries
- Collisions

## Everyday control

- Revenue
- Driver Payroll
- Engineering Spend
- Driver Sickness
- Driver Turnover
- MOT Pass Rate
- Prohibition Notices

# Contents

---



**Our asset**

**Current focus**

**Future opportunities**

# Future opportunities



Existing customers	Improve service delivery Increase the core network Tactical marketing Focus on value, frequency and reliability
New Customers	Identified target groups: students, corporate Social media – speak to a new audience Internet and mobile: ticket purchases and information Improve customer service Fleet investment for cleaner, more comfortable buses
Technology	Smartcards: – Improve revenue by non-cash transactions – Simplify travel for non-users GPS for fuel, route and wage improvements
Partnership with Centro	Integrated transport system that encourages modal shift Shared funding on socially beneficial projects
New bids and tenders	Extend existing services – e.g. Midland Metro contract Expand tenders - currently only ~2% of UK Bus revenues Some bolt-on opportunities

# Summary

---



- Underlying fundamentals for the best bus business in the UK:
  - location, demographic, route network, depots, PTE, management
- Robust plan to deliver industry-leading margins from:
  - Top line growth at very low incremental cost
  - Fleet replacement programme
  - Depot strategy
  - Lean engineering
  - Service delivery and quality
- Highly cash generative, providing opportunities for shareholder value creation
  - Investment in growth elsewhere in the Group
  - Dividend payments
- Asset Utilisation: productivity of fleet and depots drives good ROCE
- Growth:
  - Growing the existing business through marketing and sales
  - Improvement in economic cycle and local employment conditions